SAPIENS INTERNATIONAL CORP N V
Form 20-F
April 04, 2012

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, 2011

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)

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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, 2011, the issuer had 39,680,630 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:

£ U.S. GAAP £ International Financial Reporting Standards as issued £ Other

by the International Accounting Standards Board

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 £

TABLE OF CONTENTS

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 “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, 2009, 2010 and 2011 and the balance sheet data as of December 31, 2010 and 2011 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, 2007 and 2008 and the balance sheet data as of December 31, 2007, 2008 and 2009 are derived from our audited financial statements not included in this annual report. Certain financial data for previous years set forth below was reclassified to conform to later years' presentation. You should read the selected consolidated financial data together with our audited consolidated financial statements included elsewhere in this annual report and with Item 5, "Operating and Financial Review and Prospects." Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

	Year Ended December 31,				
Selected Financial Data:	2007	2008	2009	2010	2011
	(In thousands, except share and per share data)				
Revenues	42,395	43,534	45,695	52,235	69,927
Cost of revenues	25,583	26,457	26,571	29,921	40,067
Gross profit	16,812	17,077	19,124	22,314	29,860
Operating Expenses:					
Research and development, net	3,502	3,884	2,735	3,293	5,008
Selling, marketing, general and administrative	12,513	10,708	11,048	12,310	18,113
Acquisition-related and restructuring costs	-	-	-	-	1,115
Total operating expenses	16,015	14,592	13,783	15,603	24,236
Operating income	797	2,485	5,341	6,711	5,624
Financial income (expenses), net	(2,798)	(2,236)	(880)	(364)	104
Other expenses (income), net	109	(32)	-		-
Income (loss) before taxes on income	(2,110)	281	4,461	6,347	5,728
Taxes on income (benefit)	338	584	260	177	(230)
Net income (loss)	(2,448)	(303)	4,201	6,170	5,958
Attributable to non-controlling interest	96	41	-	18	61
Net income (loss) attributable to Sapiens	(2,544)	(344)	4,201	6,152	5,897
	$(0.14)	$(0.02)	$0.19	$0.28	$0.21

Basic net earnings (loss) per share attributable to Sapiens' shareholders					
Diluted net earnings (loss) per share attributable to Sapiens' shareholders	$(0.14)	$(0.02)	$0.19	$0.28	$0.19
Weighted average number of shares used in computing basic net earnings (loss) per share	18,218	21,532	21,573	21,583	28,460
Weighted average number of shares used in computing diluted net earnings (loss) per share	18,218	21,532	21,574	22,181	30,764

2

Balance Sheet Data:	At December 31, 2007 (In thousands)	2008	2009	2010	2011
Cash and cash equivalents	$13,125	$7,938	$11,172	$16,182	$21,460
Working capital (deficit)	(567)	(4,506)	925	4,868	7,736
Total assets	55,307	47,867	48,731	58,719	153,468
Accrued severance pay [1]	3,544	3,826	3,895	4,446	10,711
Other long-term liabilities	6,698	296	34	299	617
Capital stock	132,310	132,562	132,821	133,418	208,464
Total equity	21,943	21,876	26,415	34,118	110,247

(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 liability for all of our Israeli employees is fully provided for by monthly deposits with insurance policies and by an accrual.

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

The software solutions market that we address is expected to continue to evolve, and 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. Nevertheless, estimates of the market's expected growth resulting from the changing conditions and requirements are inherently uncertain and are subject to many risks and assumptions. 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, it can be used in different environments or it can comply with regulatory requirements to which our customers are subject. 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.

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 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 revenues (which include customers of our newly-acquired businesses from August 21, 2011 when we acquired these businesses, as described below). 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.

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 employees 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 our efforts will produce any sales.

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.

In August 2011, we acquired IDIT I.D.I. Technologies Ltd. (“IDIT”) and FIS Software Ltd. (“FIS”). In April 2010 we acquired Harcase Software Limited ("Harcase"). We have commenced the integration of IDIT and FIS into our current business, including adding their solutions to our product line and integrating their employees, including developers, technical support providers and sales and marketing personnel into our business. We expect that this process will continue through 2012, but there is no assurance that we will be able to successfully integrate the businesses of IDIT and FIS into our business and achieve anticipated synergies.

As part of our growth strategy, we 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 such acquisitions, our existing shareholders may 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.

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 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-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.

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 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 beyond our control. 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.

6

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 software 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 software itself is increasingly complex.

If we fail to meet upfront estimates and the expectations of our customers for the implementation of our products we could lose customers and be subject to negative publicity regarding us and our solutions, which could adversely affect our ability to attract new customers and sell additional products and services to existing customers.

In addition, 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 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.

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.

7

If our products experience data security breaches, and 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 our 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.

Our future results could be adversely affected by an impairment of the value of certain intangible assets and goodwill.

As a result of our acquisitions of IDIT and FIS, our intangible assets and goodwill increased significantly. Our assets as of December 31, 2011 include, among other things, goodwill amounting to approximately $67 million, capitalized software development costs, net, amounting to approximately $17 million, customer relationship amounting to approximately $8 million, developed technology and in process R&D amounting to approximately $5 million. The applicable accounting standards require that (a) goodwill be tested for impairment at least annually, and written down when impaired and (b) capitalized software, customer relationship and developed technology costs be assessed for recoverability on a regular basis, to determine whether the amortization of the asset over its remaining life can be recovered through undiscounted future operating cash flows from the specific software product sold, in accordance with ASC 985 "Software." If our goodwill, capitalized software development costs, customer relationship or developed technology were deemed to be impaired in whole or in part due to adverse changes in the income we receive from our products, we could be required to reduce or write off such assets, thus having to recognize additional expense in our statements of operations and to reduce our shareholders’ equity.

Weakened global economic conditions may adversely affect the financial services industry generally and the insurance industry in specific, including the rate of information technology spending, which could cause our customers to defer or forego purchases of our products or services.

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. 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 recent recovery in some of the financial markets, many companies are still cutting back expenditures or delaying plans to add additional personnel or systems. Our customers have and may suffer from reduced operating budgets, which could cause them to defer or forego purchases of our products or services. Continued challenging economic conditions in many of our markets, or a reduction in information technology spending even if economic conditions improve, could adversely impact our business, results of operations and financial condition in a number of ways, including longer sales cycles, lower prices for our products and services, material default rates among our customers, reduced sales of our products and services and lower or no growth.

Risks Relating to Our International Operations

Our international operations involve inherent risks, such as foreign currency fluctuations and compliance with various regulatory and tax regimes.

Most of our revenues are derived from international operations that are conducted in local currencies as well as dollars. Changes in the value of such local currencies or the dollar relative to such local currencies may affect our financial position and results of operations. Gains and losses on translations to dollars of assets and liabilities may contribute to fluctuations in our financial position and results of operations. 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 transaction 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.

Other potential risks that may impact our international business activities include the burdens of complying with a wide variety of foreign laws and changes in regulatory requirements, although such factors have not had a material adverse effect on our financial position or results of operations to date.

We face currency exchange risks, as changes in exchange rates between the US dollar and other currencies, especially the NIS, may negatively impact our earnings.

Exchange rate fluctuations 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.

The depreciation of the NIS in relation to the U.S. Dollar in 2011 and the exchange rate fluctuations between the U.S. Dollar and other currencies which we and our subsidiaries use, did not cause any significant change in our foreign currency translation differences.

We cannot predict any future trends in the US dollar/ NIS exchange rate or the US dollar/GBP exchange rate. We cannot assure you that we will not be materially affected in the future by currency exchange rate fluctuations. See Item 11- "Quantitative and Qualitative Disclosures about Market Risk - Foreign Currency Risk."

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

Our corporate headquarters and 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.

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 into 2012. There was an escalation in violence among Israel, Hamas, the Palestinian Authority and other groups, as well as extensive hostilities in December 2008 and January 2009 along Israel’s border with the Gaza Strip, which resulted from missiles being fired from the Gaza Strip into Southern Israel. There were also extensive hostilities along Israel’s northern border with Lebanon in the summer of 2006. Ongoing and revived hostilities or other Israeli political or economic factors could harm our operations and cause our revenues to decrease. Any future armed conflict, political instability or violence in the region, including acts of terrorism, may have a negative effect on our business condition, harm our results of operations and adversely affect our share price.

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 citizens with certain occupations). 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.

There is limited trading volume for our Common Shares, which causes 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, 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 Market (under the trading symbol: FORTY) and whose shares trade on the TASE (under the trading symbol: FORT), directly owned as of March 1, 2012 approximately 52% of our outstanding Common Shares. Asseco Poland SA, whose shares trade on the Warsaw Stock Exchange ("Asseco"), directly owns 51.7% 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. While Formula currently has only one representative on our Board of Directors, Formula may nevertheless in the future 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 2011 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 2011. 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, 2011 or in a 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, 2012.

Capital Expenditures and Divestitures since January 1, 2009

On April 27, 2010, we completed the acquisition of all of the issued and outstanding shares of Harcase, a company engaged in the development, implementation and marketing of software solutions and provision of related professional services for property and casualty insurance carriers. Under the terms of the share purchase agreement (the "SPA") we paid approximately $4 million to the selling shareholders of Harcase (the "Selling Shareholders") consisting of approximately $3 million in cash ($750,000 of which was placed into an escrow account to be released to the selling shareholders in accordance with the terms of the SPA) and 454,546 Common Shares (which were placed into an escrow account to be released to the Selling Shareholders in accordance with the terms of the SPA). Each Selling Shareholder was granted a put option to sell to us the Common Shares held by such Selling Shareholder for a price of $1.54 per share during a period of six months following the release of such Common Shares from escrow, if such Common Shares are so released.

On August 21, 2011, we completed the acquisition of all of the share capital of each of FIS and IDIT, for a consideration that consisted of $6.75 million in cash, 10,016,875 of our Common Shares and warrants to purchase 1,000,000 of our Common Shares for FIS and 7,483,125 of our Common Shares for IDIT. The aggregate shares issued upon completion of the foregoing transactions constituted, immediately upon such completion, 44.2% of our issued and outstanding share capital. In addition, options to purchase shares of IDIT and FIS were replaced at the closing with options to purchase an aggregate of 1,938,844 of our Common Shares. An aggregate of 1,750,000 of our Common Shares that were issued as consideration in these transactions were deposited in escrow for 12 months, in connection with certain indemnification arrangements.

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 $324 in 2009, $662 in 2010 and $482 in 2011.

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 the following:

- Solutions for Property & Casualty/General Insurance (“P&C”) and Life, Pensions and Annuities (“L&P”) core software solutions

13

- Field-tested project delivery and implementation methodologies for the implementation of our mission critical, complex solutions deployed at over 100 customers, including by 70 customers using our insurance software solutions
- Insurance best practices from across the globe, backed by more than 700 employees including many insurance and technology experts

Our portfolio of products includes the following solutions:

- Solutions for P&C/General Insurance
  - *Rapidsure* – A component-based software solution designed for the P&C market with the focus on the North American market
  - *IDIT* - A component-based software solution, designed for the P&C market, with a focus on Europe and Asia Pacific markets
  - *Insight for Reinsurance* - a software solution designed to enable P&C insurance carriers to manage their reinsurance programs
- Solutions for L&P
  - *ALIS* - a software solution for individual, group and worksite life and pension insurance products
  - *Insight for Reinsurance* - a software solution designed to enable L&P insurance carriers to manage their reinsurance programs
- *Decision* - a business decision management solution for the financial services market
- *eMerge* – an application development platform, for fast deployment of tailor-made complex solutions.

We also continue to provide support for our other legacy solutions, such as Insight for P&C and Insight for L&P.

Our Strategy

Our primary goal is to become a market leader in the global insurance software solutions marketplace. Our strategy is to continue our growth while retaining profitability. We plan to achieve this by focusing on the following principles:

- **Expanding our market share** via organic growth and acquisitions of insurance software vendors with sound customer bases

- **Continuing to enhance our insurance software solutions** to ensure their leading functional and technical edge for the benefit of our customers

- **Sharing our knowledge and field-tested best practices** to ensure successful roll-out and implementation of our software solutions

- **Developing long-term relations with our customers** by providing support services, maintenance and assistance and develop additional functionality to fully exploit our insurance software solutions in the future and strengthen our recurring revenue model

14

We market our solutions globally through our direct sales force, and partner with technology and service providers to optimize our offerings and extend market reach, where applicable.

We have been working closely with IBM for over 20 years at what IBM refers to as a “Premier Business Partner” level. This cooperation is executed through close technology, project delivery, sales and marketing cooperation. We are qualified as a Microsoft Gold certified partner. These alliances enable us to reach a broader target market, enhance our delivery capabilities and leverage best technologies.

We work together with additional technology and standards providers, such as ISO and ACORD to further complement our portfolio, and offer our customers a comprehensive and innovative solution that addresses the entire breadth of their business needs.

Industry Background

Insurance Industry

Life Insurance, Pensions and Annuities. L&P providers offer their customers a wide range of products for long-term savings and insurance to assist policyholders in financial planning, including life insurance, retirement, pensions and investment products. Life insurance products can take on many forms, including term life, universal life, variable universal life, income protection, payment protection, critical illness, whole life, and endowment products. Many individuals purchase these products and they are often provided by employers as well. In addition, pension providers offer various types of retirement plans including individual and group personal pensions, stakeholder pensions, transfer plans, group additional voluntary contribution plans, defined contribution plans, annuities and group self-invested pension plans. L&P providers are highly regulated, particularly in the United States.

Among the key functions needed by providers to administer their products are Quotation & Illustration, New Business, Policy Servicing, Underwriting, Billing & Collection, Claims Processing, Agency & Commission, Reinsurance and Document Management.

Property & Casualty/General Insurance. P&C insurance (known in the UK as General Insurance, or “GI”) protects policyholders against a range of losses on items of value including homes, vehicles, jewelry and commercial property, as well as from unforeseen events including burglary, bodily injury, natural disaster and litigation. P&C insurance is pervasive and is purchased by nearly all businesses and individuals. While some forms of P&C insurance are optional, others, such as automobile insurance, workers’ compensation insurance and medical malpractice insurance, are obligatory.

The key functional areas in P&C insurance are underwriting and policy administration, claims management and billing. Reinsurance ensures appropriate risk management and processes to recover reinsurers' portions of claim payments. Each of these functions involves multiple touch points and information exchanges between individuals and systems.

15

Reinsurance. Reinsurance is insurance that is purchased by an insurance company from another insurance company 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. The main reason for insurers to buy reinsurance is to transfer risk from the insurer to the reinsurer. Insurers’ key functions to analyze and manage their reinsurance coverage are premium and claims calculation and allocations, claims processing, financial accounting and reporting.

Insurance Software Solutions

The existing systems used by many insurance carriers are outdated and their technical and functional limitations have held back insurance carriers from growth and innovation through creation of new products, reaching new distribution channels and competing in the changing insurance market. These systems also subject these insurance carriers to financial and operational risk because of their age and inadequacy. In addition, these systems do not have the capabilities to support the many different types of products and product lines offered by large insurance carriers.

In order for carriers to manage their insurance products, their systems must be able to integrate with other internal systems, be highly configurable and have the ability to control the entire workflow process. In addition, regulatory requirements throughout the world and in various states in the United States require specialized data and business rules, which makes development of software solutions for insurers with a national or global presence particularly challenging. In addition, many IT providers have found it difficult to comply with the regulatory analysis and recordkeeping requirements imposed on insurers. These factors pose particular challenges to insurers seeking to update their solutions in order to meet these regulatory requirements and customer needs.

The needs of insurance carriers can change rapidly as business and marketing models and insurance products evolve. The insurance carriers must adapt rapidly to the shifting needs and behaviors of the consumer and to keep up with the needs of customers of various types, including individual, corporate and government. For example, today’s private purchasers and agents compare insurance products and prices via Internet research, as well as through traditional phone and in-person channels. Therefore, insurance carriers require systems that allow customers and agents to access price quotes based on particular circumstances and requests and updated information regarding their policies and claims.

Insurers have begun to expect system solutions like Sapiens’ to incorporate and participate in their business more broadly. At the same time, to support their current and past customers and claims, the insurance carriers must maintain their legacy systems and integrate them into the new systems to allow the insurance carriers to innovate while maintaining records of customer history. This challenge is faced by the majority of insurance carriers using legacy software yet seeking to keep pace with the changing insurance industry.

Furthermore, insurers are increasing their global reach through acquisitions and business initiatives. These insurers in turn are seeking sole providers who can deliver solutions that the insurers can use across markets which by meeting local regulatory requirements and customer needs across the globe.

Our Business Solutions for the Insurance Industry

We have focused our resources on delivering solutions to help the insurance industry become more agile in the face of the new and changing business environment, while simultaneously reducing IT costs.

For each of our target markets for our insurance solutions, we have sought to adapt our solutions to the specific market needs, focusing on market standards and regulations. These solutions can be further customized to match specific legacy systems and business requirements, while providing pre-configured functionality. These solutions can also be expanded and modified, using our knowledge of insurance best practices.

Our solutions are based on a model-driven architecture (incorporate “Service Oriented Architecture - SOA”) and are engineered to provide streamlined secure processing, while maintaining total platform independence and system reliability. Our solutions are component-based and scalable in order to help our customers implement our software into their environments to better serve their clients and quickly respond to insurance regulatory changes that result in a rapid time to market. Our component-based solutions allow our customers to use our solutions and expand them across different markets and regulatory regimes as they expand their businesses using our components customized for local requirements and integrated through the common base platform.

Key Benefits of our Solutions to our Customers

Sapiens offers a broad range of insurance software solutions intended to address all of the core systems IT needs of insurance companies.

Our expanded insurance solutions offer a broad range of advantages to the operational environment of our customers' organizations. We believe that these advantages, some of which are listed below, coupled with our ability to support the customer’s legacy systems based on our 30 years of experience in deploying core solutions for the large enterprises, create real added-value for our customers.

- Rapid deployment of new insurance products to create a clear competitive advantage in the P&C and L&P market
- Expansion of business globally while leveraging a single solution to support all operations

- Complying with regulatory requirements by introducing best practices in decision management systems

- Supporting multiple innovative channels to the customers, including social media and internet

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

17

- Meeting business goals of time to market and market reach while improving total cost of ownership

Our Solutions

Property & Casualty/General Insurance

RapidSure

RapidSure is a component-based software solution, designed specifically to meet the business requirements of P&C insurance providers, mainly in North America. Utilizing leading edge technologies, RapidSure provides insurance carriers with a flexible, comprehensive and advanced software solution. 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.

RapidSure is built on SOA, which facilitates ease of integration with existing corporate and external systems such as ACORD and ISO.

RapidSure also offers a unique, modern user experience which allows insurance carriers to improve efficiency through ease of operation.

Rapidsure provides a broad set of applications to support the P&C insurance core operations lifecycle. This includes:

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

We expect to add a billing application to RapidSure during 2012.

Rapidsure’s rules-based Policy Administration, along with its robust Product Configuration engine are intended to enable market agility and rapid deployment of insurance products. Rapidsure’s Point of Sale Portal was developed to assist insurers in offering their products through multiple distribution channels, including directly through the internet and through insurance agents, to allow insurers to keep up with market trends.

Other components of RapidSure include:

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

18

IDIT

IDIT is a component based software solution, addressing the specific needs of general insurance carriers for traditional insurance, direct insurance, banc assurance and brokers markets, primarily in Europe and in the Asia-Pacific markets. IDIT integrates multiple front office and back office processes, including insurance product design, policy administration, underwriting, call center, remote users and partners, backed by fully secured internet-based capabilities.

IDIT supports a broad range of general, personal and commercial lines of business, including homeowners, fleet insurance, health insurance, medical insurance and term-life insurance products.

IDIT provides a full set of applications to support insurance core operations lifecycle. This includes:

- 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
- Workflow Management
- Insurance Accounting
- Document Management
- Business Intelligence

Insight for Reinsurance

Insight for 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, Insight for Reinsurance provides full financial control of the reinsurance practice, including support for all auditing requirements and regulatory reporting – Schedule F, P.

Insight for 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

Insight for P&C

Insight for P&C is a software solution used by P&C carriers, in certain states in the United States. Insight for P&C can be customized to meet the particular business demands at the insurer level and the regulatory needs at the state level.

Life, Pension and Annuity

ALIS

ALIS is a comprehensive L&P software solution for individual, group and worksite insurance products. ALIS incorporates all activities along the life, pensions and annuities lifecycle - from marketing through underwriting, insurance billing and servicing, to claims workbench and exit processing.

ALIS supports the following product lines:

- Individual Annuity Products
- Group/Worksite Life & Protection Products
- Individual Life & Protection Insurance Products
- Worksite Group & Voluntary Benefit Products
- Hybrid Products
- Retirement Plans

ALIS is a modular system and its functional components include all of those necessary for L&P insurers to manage their business:

- Quotation & Illustration
- New Business
- Policy Servicing
- Underwriting
- Billing & Collection
- Claims Processing
- Agency & Commission
- Document Management

ALIS has been developed specifically to meet the needs of L&P insurance carriers, who are highly regulated.

Insight for Reinsurance

Insight for Reinsurance, enables L&P carriers and brokers to handle all L&P reinsurance activities on a single platform, with the capabilities described above.

Insight for L&P

Insight for L&P enables L&P carriers in Israel to handle a wide range of L&P activities, particularly in Israel, which has specific regulatory requirements.

20

eMerge

Our eMerge is a rules-based model-driven architecture that enables the creation of mission critical core enterprise applications with little or no coding using agile methodologies. Our technology is intended to allow customers to achieve legacy modernization and enterprise application integration.

DECISION

DECISION is a business decision management solution developed for the financial services market, including mortgage banks, investment banks and insurers. DECISION automatically structures business logic and then maps it directly to the organization’s rules engine data. By separating the business logic from the business process, the organization benefits from more efficient, fully audited and standardized policies.

DECISION can elicit, organize and manage business logic including all related business decisions & business rules. Decision seamlessly integrates with any business process management system (BPM) or business rules engine (BRE) and features a comprehensive graphical modeling component and robust enterprise grade software architecture.

In addition, DECISION enables business users to take full control of the entire process of decision management, including data quality management, allowing them to easily develop and deploy new policies and methodologies for optimal decision making.

DECISION is powered by The Decision Model which is a business logic framework developed by Knowledge Partners International ("KPI"), that connects business and technology and is rapidly becoming the standard for business decision management. We have a long term agreement with KPI that allows us to embed The Decision Model in our DECISION solution in exchange for royalty payments to KPI.

Our Services

We provide implementation and integration services to help our customers realize benefits from our software solutions. Our implementation teams assist customers in building implementation plans, integrating our software solutions with their existing systems and defining business rules and specific requirements unique to each customer and installation. We also partner with several leading system integration consulting firms to achieve scalable, cost-effective implementations for our customers. We have developed an efficient, repeatable methodology that is closely aligned with the unique capabilities of our solutions.

Our service teams are experienced in both technology and insurance and the level of service and business understanding they provide contributes to the long term success of our customers. This approach increasingly helps us develop strategic relationships with our customers, enhances information exchange and deepens our understanding of the needs of companies within the industry.

Additional IT services that we provide include custom-made solutions that help leading organizations meet the complex business challenges they are facing quickly and cost-effectively while extending and leveraging existing assets. Leveraging the knowledge we have obtained designing and implementing products such as RapidSure Policy Administration for P&C and IDIT Software Suite for General Insurance, INSIGHT for Reinsurance and ALIS for Life & Pension, we offer innovative legacy modernization solutions, mobile application solutions, as well as a full range of application delivery services.

Geographical Distribution of Revenues

The following is a breakdown of our revenues by geographical areas based on our geographic markets, both in thousands of dollars and as a percentage of total revenues for the years indicated:

	2009		2010		2011	
Israel	14,922	33 %	19,554	38 %	21,470	31 %
North America	7,759	17 %	8,991	17 %	20,889	30 %
UK and rest of Europe	13,064	28 %	12,610	24 %	19,542	28 %
Asia	9,950	22 %	11,080	21 %	8,026	11 %
Total	45,695	100%	52,235	100%	69,927	100%

Following our acquisition of IDIT and FIS, we anticipate that the percentage of our revenues from customers in North America and the UK and the rest of Europe will continue to increase relative to our revenues from customers in Israel.

Competition

The market for enterprise software solutions for the insurance industry is highly competitive and characterized by rapidly changing technologies, evolving industry standards and customer requirements, and frequent innovations. The following is a breakdown of the competition that we face in each of our primary markets:

*Insurance***.** Our competitors in the market for insurance software solutions differ based on the size, geography and line of business in which we operate. Some of our competitors offer a full suite, others only one module; some operate in specific (domestic) geographies, while others operate on a global basis; and their delivery model will vary with some competitors keeping delivery in house or using IT Outsourcing (ITO) or BPO.

The entrance barriers to this market of insurance software solutions are very high, and maintaining a leading-edge position is challenging, due to several aspects:

- Development of new core insurance solutions requires heavy R&D investments
- Innovation in technology is mandatory to win new business
- Global presence and ability to support global insurance operations

22

- Regulatory requirements, which can be burdensome and require specified IT solutions

- Continued support and development of the solutions requires a critical mass of customers that will support the on-going R&D investment

- Know-how of insurance system requirements, and ability to bridge between new systems and old existing technologies that in many cases must be maintained

These requirements have led to a marked increase in acquisitions in the insurance software solutions vendor space, as small, local vendors cannot sustain growth without the ability to continue and fund their R&D developments and support the globalization trend.

We are well positioned to leverage our modern solutions, customer base and global presence to compete in this market. In addition, the years of accumulated experience and expert teams allow us to provide a comprehensive response to the IT challenges of this market.

Examples of our competitors are:

- Global software providers, with their own IP, such as Accenture-Duck Creek, Oracle Admin Server or Guidewire

- Local/domestic software vendors, such as CCS in the Netherlands, BSB in West Europe, OneShield in the US or TIA in the Nordics and certain Central European Countries

In addition, we face competition from internal IT departments, who often prefer to develop solutions in-house.

We differentiate ourselves from our competitors through the following key factors:

- Our products are award-winning innovative and modern software solutions, with rich functionality and advanced intuitive user interface, using model driven architecture that allows rapid deployment of the system while reducing the total cost of ownership. Our architecture allows customers to implement the full solution or parts of it, and readily integrate it into existing “legacy” systems.

· Our L&P solutions are updated for compliance with relevant regulations, particularly in the U.S., where L&P carriers are highly regulated

· Our P&C solutions are fully compliant with many country-specific regulations and legislations, from the U.S., across Western and Eastern Europe, through Southeast Asia and Australia

· We have a clear recognition of the technology trends and invest in adjusting our solutions to meet this rapid pace

· Thanks to the large and growing customer base, we are able to secure and justify future funding of R&D investments

- Our delivery methodology is based on years of insurance industry experience and cooperation with large insurance companies globally

- We leverage our proven track record of successful delivery to help our customers deploy the modern solutions while integrating with their legacy environment that must remain supported

eMerge. Our eMerge technology offers our clients flexibility to develop tailor-made solutions to meet their business challenges. Our competitors in the business rules engines and management marketplace include, among others, Fair Isaac (Blaze), Pegasystems, iLOG, Computer Associates, Haley, Corticon, Versata, RuleBurst and ESI. These competitors may seek to replace our eMerge technology that has been implemented by our customers. We believe eMerg is differentied since whereas most competing business rules engines are characterized by delivery of specialized, decision support capabilities that must be later framed into an enterprise’s overall architecture at additional investment costs we have been able to deliver a comprehensive IT solution to our customers, including an automatically generated Web presentation layer and interfaces with various databases, legacy systems and third party software,

DECISION. Our DECISION is an early-stage product, which to a large extent drives an innovative approach in the market of business decision management systems. We believe that, since we believe we have developed an innovative approach which is not being used by other companies, we have not been able to identify a direct competitor in this market.

Some internal IT companies develop business decision management systems. We differentiate ourselves through the following key factors:

- Our DECISION is the first proven (already in production) true separation of the business logic in a decision management system

- Our track record of delivering complex, mission-critical solutions plays a key role in our success

- Our license from KPI together with our innovative technology creates a unique proposition in the market, which is otherwise handled with complex spreadsheets that do not provide the adequate regulatory control

Sales and Marketing

To reach the broadest potential customer base, we use multiple distribution channels, mainly through direct sales force as well as relationships with system integrators and, in certain geographic areas, local and regional distributors. Our sales team is located at our offices in North America, the United Kingdom, Belgium, Israel, Australia and Japan. The direct sales force is geared to large organizations within the financial services with a focus on the insurance industry.

In 2011 and the beginning of 2012, we expanded our investment in sales and marketing, through integration of the IDIT and FIS sales forces and recruitment of additional resources. We intend to further expand our sales and marketing efforts in North America and Europe, taking advantage of our current customer base and the investment in development of solutions that meet the requirements of insurance carriers in those markets. We intend to have our sales and marketing teams focused on more specific markets within those regions to better serve our customers in those markets and enhance our understanding of the needs of those customers in order to grow our business.

We are seeking to focus our marketing efforts on several areas, enhancing our relationships with our existing customers to create a strong reference base and engage in more recurring projects; generating new business opportunities; and creating brand awareness.

We invest in major industry trade shows to improve our visibility and our market recognition. We are improving traffic to our website and using the internet and social media to generate new leads and enhance our presence. We invest resources to improve our relationship within the global analyst community.

We are also investing in strengthening our existing partnerships with IBM, Microsoft, HP and others. These partnerships are key for both market recognition and market reach, leveraging their global presence to create additional business opportunities for us. Simultaneously, we invest in exploring new partnerships with leading system integrators in the financial services and the insurance market in particular.

We believe that a high level of post-contract customer support is important to the successful marketing and sale of our solutions. We have account managers who are focused on building ongoing relationships with existing customers to maintain a high level of customer satisfaction and identify up-selling opportunities within these organizations. In addition, we employ a team of technical specialists who provide a full range of maintenance and support services to our customers.

The typical direct sale to a client includes license, implementation, customization integration services and training services. In addition, substantially all of our clients for which we have deployed our solutions elect to enter into an ongoing maintenance and support contract with us. The term of such a contract is usually twelve months. A maintenance contract entitles the customer to technology upgrades, when made generally available, and technical support. In addition, we offer introductory and advanced classes and training programs available at our offices and at customer sites.

Seasonality

Traditionally, the first and third quarters of the fiscal year have tended to be slower quarters for us and the industries that we target. The first quarter is usually slow, following an active fourth quarter (when companies tend to complete deals and utilize budgets before the end of the fiscal year). The slowdown in the third quarter reflects the summer months, during which activities in many of the regions where our customers are located slow down.

Intellectual Property

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 an unpublished copyright work, although in some cases, we agree to place our source code into escrow. We also rely on security and copy protection features in our proprietary software. We distribute our products under software license agreements which 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 agreements with employees, consultants and distributors. We do not believe that patent laws are a significant source of protection for our products and we do not hold any patents.

Our trademark rights include rights associated with our use of our trademarks, and rights obtained by registration of our trademarks. Our use and registration of our trademarks do not ensure that we have superior rights to others that may have registered or used identical or related marks on related goods or services. We have registrations for the mark “Sapiens” in Benelux, Germany, Italy and Switzerland, the name “RapidSure” in the USA and Canada and the name ALIS, E-ALIS, CORE-ALIS and certain other related marks and the ALIS design. The initial terms of protection for our registered trademarks range from 10 to 20 years and are renewable thereafter.

Regulatory Impact

The global insurance industry is heavily subject to government regulation, and is constantly changing as a result of regulatory changes. Insurance companies must comply with regulations such as the Sarbanes-Oxley Act, Solvency II, Retail Distribution Review (known as RDR) in the United Kingdom and other directives regarding transparency. In addition, many individual countries have increased supervision over local insurance companies.

In Europe, regulators and insurers have been very active, motivated by past financial crises and the need for pension restructuring. Distribution of policies is being optimized with the increasing use of Bank Assurance (selling of insurance through a bank’s established distribution channels), supermarkets and kiosks (insurance stands). Such increased activity would generally tend to have a positive impact on the demand for our software solutions and services; nevertheless, insurers are cautiously approaching spending increases, and while many companies have not taken proactive steps to replace their software solutions in the past two years, many of them are now looking for innovative, modern replacements to meet the regulatory changes and the demanding market trends.

For further information, please see Item 5.D below, "Trend Information."

C. Organizational Structure.

Sapiens International Corporation N.V. ("Sapiens N.V.") is the parent company of the Sapiens group of companies. Our significant subsidiaries are as follows:

26

Sapiens International Corporation B.V. (“Sapiens B.V.”): incorporated in the Netherlands and 100% owned by Sapiens N.V.

Unless otherwise indicated, the other significant subsidiaries of Sapiens listed below are 100% owned by Sapiens B.V.:

Sapiens Israel Software Systems Ltd.: incorporated in Israel
Sapiens Technologies (1982) Ltd.: incorporated in Israel
Sapiens Americas Corporation: incorporated in New York, US
Sapiens North America Inc.: incorporated in Ontario, Canada.

Sapiens (UK) Limited: incorporated in England
Sapiens France S.A.S.: incorporated in France
Sapiens Deutschland GmbH: incorporated in Germany
Sapiens Japan Co.: incorporated in Japan and 90% owned by Sapiens B.V.

IDIT I.D.I. Technologies Ltd.: incorporated in Israel (owned 100% by Sapiens Technologies (1982) Ltd.)

IDIT Europe N.V.: incorporated in Belgium (owned 100% by IDIT)

IDIT APAC PTY. Limited: incorporated in NSW, Australia (owned 100% by IDIT)

IDIT Singapore PTE. Ltd.: incorporated in Singapore (owned 100% by IDIT)

FIS Software Ltd.: incorporated in Israel (owned 100% by Sapiens Technologies (1982) Ltd.)

FIS –EU Limited: incorporated in the UK (owned 100% by FIS)

FIS Software Inc.: incorporated in Delaware, US (owned 100% by FIS)

FIS France: incorporated in France (owned 100% by FIS-EU Limited)

FIS- AU Pty Ltd.: incorporated in Australia (owned 100% by FIS-EU Limited.)

Neuralmatic Ltd.: incorporated in Israel (owned 66% by FIS)

We are a member of the Formula Systems (1985) Ltd. Group (NASDAQ: FORTY and TASE: FORT).

Formula is a holding and managing company of publicly traded companies and their subsidiaries which provide IT solutions worldwide, developing and implementing innovative, proprietary software, services and solutions, turnkey projects and outsourcing services as well as software distribution and support. As of March 1, 2012, Formula beneficially owned approximately 52.1% of our outstanding Common Shares.

As of March 1, 2012, Asseco beneficially owned 50.2% of the outstanding share capital of Formula.

Based on Formula’s beneficial holding of over 50% of the outstanding Common Shares of the Company, and based on Asseco's beneficial holding of over 50% of the outstanding share capital of Formula, both Formula and Asseco are considered to control us.

27

D. Property, Plants and Equipment.

We lease office space in Israel, the United States, Canada, the United Kingdom, Belgium and Japan. The lease terms are generally five to ten years. In Israel, we lease approximately 80,000 square feet of office space; in the United States, approximately 9,200 square feet; in Canada, approximately 8,900 square feet; in the United Kingdom, approximately 12,000 square feet, in Belgium, approximately 3,400 square feet and in Japan, approximately 4,400 square feet. In 2011, our rent costs totaled $2.4 million in the aggregate for all of our leased offices. Our corporate headquarters are located in Israel and our core research and development activities are performed at our offices across Israel. Our lease of our corporate headquarters in Israel continues until July 2015 with an option to terminate earlier on 180 days prior notice on each of July 31, 2012, 2013 and 2014. The leases of our other locations in Israel continue until February 2013 and January 2018. Our sales, marketing and general and administrative activities are performed in each of our offices. We believe that our existing facilities are adequate for our current needs.

Item 4A. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis by our management of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere herein.

Overview

We are a global provider of a software solutions for the financial services market, with a focus on insurance. Within the insurance industry we offer our customers L&P and P&C core software solutions, using our field-tested project delivery and implementation methodologies for the delivery of mission critical, complex solutions and incorporating insurance best practices from across the globe, backed by over 700 employees, including many insurance and technology experts. Our solutions are supplemented by our consulting services, which address the complex issues related to the lifecycle of enterprise business applications. Our commitment to innovation is at the core of our business, and drives us to offer additional innovative solutions to large enterprises.

We derive our revenues principally from the sale, implementation, maintenance and support of our solutions and from the provision of consulting and other services in the Property & Casualty (P&C) and Life & Pension (L&P) insurance markets, as well as our eMerge customers. Revenues are comprised primarily of revenues from services, including systems integration and implementation and product maintenance and support and from licenses of our products. In each of 2011, 2010 and 2009, our revenues from licenses to our products represented less than 10% of our total revenues for such years. See "Critical Accounting Policies and Estimates" below for a discussion of how we account for our revenues and their associated costs.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and result of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of our financial statements required us to make estimations and judgments that affect the reporting amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities within the reporting period. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. More detailed descriptions of these policies are provided in Note 2 to our consolidated financial statements.

We believe that the following critical accounting policies affect the estimates and judgments that we made in preparing our consolidated financial statements:

- Revenue Recognition
- Business Combination
- Goodwill, long lived assets and other identifiable intangible assets
- Taxes on Income

Revenue Recognition

We generate revenues from sales of software licenses which normally include significant implementation services that are considered essential to the functionality of the software license. In addition, we generate revenues from post implementation consulting services and maintenance services.

Sales of software licenses are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable, and collectability is probable. We consider all arrangements with payment terms extending beyond six months from the delivery of the elements, not to be fixed or determinable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer, provided that all other revenue recognition criteria have been met.

We usually sell our software licenses as part of an overall solution offered to a customer that combines the sale of software licenses which normally include significant implementation and that is considered essential to the functionality of the license. We account for the services (either fixed price or T&M -Time and Materials) together with the software under contract accounting using the percentage-of-completion method in accordance with ASC 605-35, "Construction-Type and Production-Type Contracts". The percentage of completion method is used when the required services are quantifiable, based on the estimated number of labor hours necessary to complete the project, and under that method revenues are recognized using labor hours incurred as the measure of progress towards completion. In the years ending December 31, 2011, 2010 and 2009 our revenues from licenses represented less than 10% of our revenues.

The use of the percentage-of-completion method for revenue recognition requires the use of various estimates, including among others, the extent of progress towards completion, contract completion costs and contract revenue. Profit to be recognized is dependent upon the accuracy of estimated progress, achievement of milestones and other incentives and other cost estimates. Such estimates are dependent upon various judgments we make with respect to those factors, and some are difficult to accurately determine until the project is significantly underway. Progress is evaluated each reporting period. We recognize adjustments to profitability on contracts utilizing the percentage-of-completion method on a cumulative basis, when such adjustments are identified. We have a history of making reasonably dependable estimates of the extent of progress towards completion, contract revenue and contract completion costs on our long-term contracts. However, due to uncertainties inherent in the estimation process, it is possible that actual completion costs may vary from estimates.

If we do not accurately estimate the resources required or the scope of work to be performed, or do not manage the project properly within the projected periods of time or satisfy our obligations under the contract, project margins may be significantly and negatively affected, which may result in losses on existing contracts. Any such resulting reductions in margins or contract losses in a large, fixed-price contract may have a material adverse impact on our results of operations. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are first determined, in the amount of the estimated loss on the entire contact.

In accordance with ASC 985-605, we established Vendor Specific Objective Evidence ("VSOE") of fair value of maintenance services (PCS) based on the Bell-Shaped approach and determined VSOE for PCS, based on the price charged when the element is sold separately (that is, the renewal rate). Our process for establishing VSOE of fair value of PCS is through performance of VSOE compliance test which is an analysis of the entire population of PCS renewal activity for its installed base of customers.

Provisions for estimated losses on contracts in progress are made in the period in which they are first determined, in the amount of the estimated loss on the entire contact. Provisions for estimated losses are presented in accrued expenses and other liabilities.

In addition, we derives significant portion of our revenues from post implementation consulting services provided on a time and materials ("T&M") basis which are recognized as services are performed.

Maintenance revenue is recognized ratably over the term of the maintenance agreement. Deferred revenues include unearned amounts received under maintenance and support agreements and amounts received from customers, for which revenues have not yet been recognized.

We perform ongoing credit evaluations on our customers and to date we did not experienced any material losses. In certain circumstances, we may require prepayment. An allowance for doubtful accounts is determined with respect to those amounts that we determined to be doubtful of collection. Provisions for doubtful accounts were recorded in general and administrative expenses.

Business Combination

According to ASC 805 “Business Combination” we are required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. In connection with our acquisition of FIS and IDIT, we recorded $19.6 million of intangible assets, relating principally to customer related intangible assets and acquired technology. In addition, we recorded a liability in the amount of $2.2 million relating to FIS' long term contracts. In allocating the purchase price of the acquired companies to the tangible and intangible assets acquired and liabilities assumed, we developed the required assumptions underlying the valuation work. Critical estimates in developing such assumptions underlying the valuing of certain of the intangible assets include but are not limited to: future expected cash flows from customer contracts, acquired developed technologies and discount rates. Management’s estimates of fair value are based upon assumptions believed to be reasonable, utilizing a market participant approach, but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur. We were assisted by third party valuators in applying the required economic models (such as income approach), in order to estimate the fair value of assets acquired and liabilities assumed in the business combination.

Goodwill, long lived assets and other identifiable intangible assets

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Under ASC 350," Intangibles—Goodwill and Other" goodwill is subject to an annual impairment test or more frequently if impairment indicators are present. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. Following the acquisition of FIS and IDIT, we started to operate in two reporting units: Sapiens and IDIT. In connection with our acquisition of FIS and IDIT, we recorded an additional $60.9 million as goodwill.

In September 2011, the FASB issued ASU 2011-08 which amends the rules for testing goodwill for impairment. Under the new rules, an en