

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)

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(Address of principal executive offices)

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(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

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

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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 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 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 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

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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 statements 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

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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

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

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.

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.

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.

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.

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.

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.

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.

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.

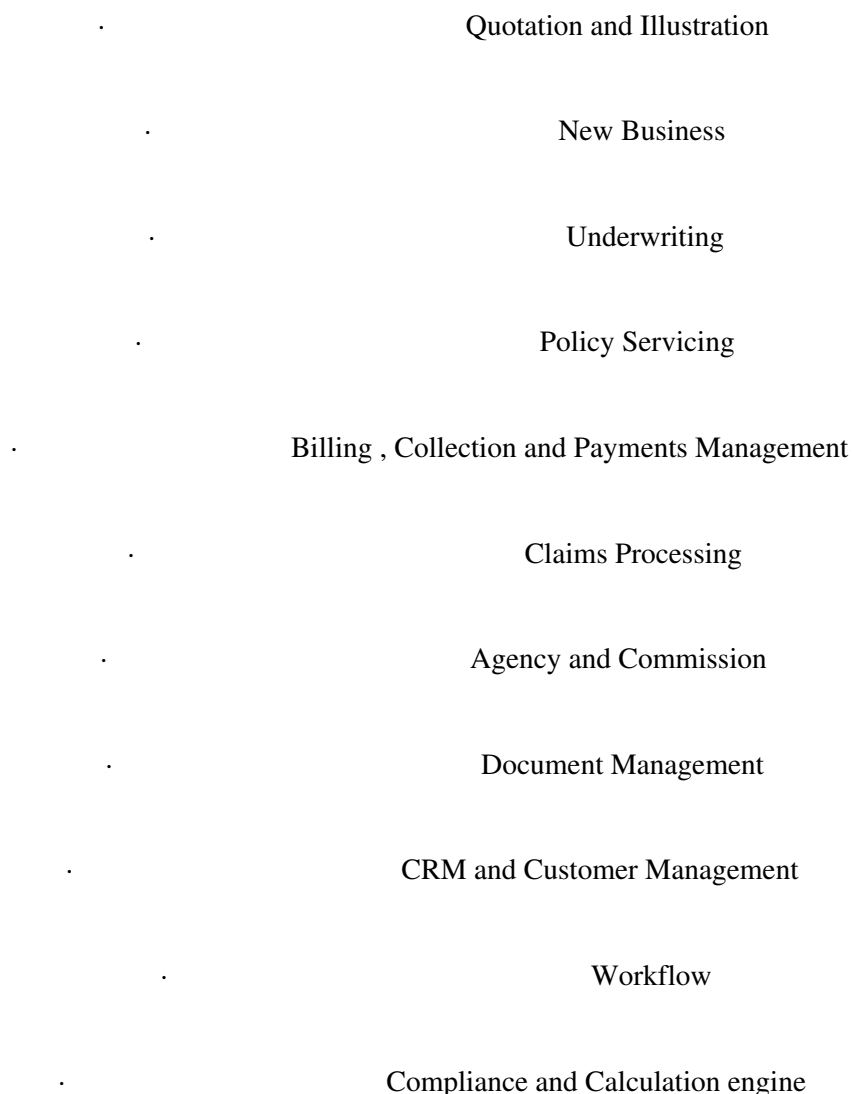
Sapiens ALIS supports a wide range of insurance product lines across multiple territories, including:

- 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:



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 who can create, change and validate all business logic themselves

- Improved efficiency through the ability to re-use business logic across multiple applications

- Testing and validating capabilities allow all changes to be validated before being deployed in the system to avoid disruption and conflicts.

We are currently focusing on the development and marketing of Sapiens DECISION in the financial services market in North America and West Europe, and we are building best practices to be used by these markets.

Mortgage Banking. We have begun to roll out DECISION for mortgage banking clients and are continuing to develop models and best practices, including in cooperation with the Mortgage Industry Standards Maintenance Organization (MISMO), the leading technology standards development body for the residential and commercial real estate finance industries.

Retail banking. We are currently developing DECISION for retail banking, to help cope with risk, compliance and efficiency challenges as they operate in a very tight and constantly changing regulatory environment

We also intend to develop and market Sapiens DECISION for the insurance industry and leverage our industry knowledge and close relationships with our existing customers and partners.

Legacy Software Solutions:

Insight for P&C

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

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.

Insight for Closed Blocks

Insight for Closed Blocks is a solution for life and pension insurance companies that enables them to efficiently and more effectively administer policies and claims relating to closed books of business, where products are no longer open to new business.

eMerge

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.

Sapiens' Global Professional Services

Sapiens provides implementation and integration services to help our customers fully realize benefit from our software solutions. Some of the key advantages of our professional services are outlined below:

Project Delivery Experience. 30 years of field-proven project delivery of core system solutions for the insurance industry, based on best practices and accumulated experience.

Customer Integration: Using our know-how to help our customers deploy modern solutions while integrating these solutions with their legacy environment that must be supported.

Global Presence: Insurance and technology domain experts provide bandwidth of global professional services.

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.

Most of our clients in whose sites 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 and is renewed every year. 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.

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

We provide a wide scope of services and consultancy around our core solutions, both in the stage of the initial project implementation as well as on-going additional services. Many of our customers use our services and expertise on an on-going basis to assist them with various aspects of daily maintenance, on-going system administration and additions of new enhancements to the solutions - and are considering Sapiens as a strategic partner for such services.

Such services include, among others:

- Adding new Lines of Business and functional coverage to existing solutions running in production
 - On-going support services for managing and administrating the solutions
 - Creating new functionalities per specific requirements of our customers
 - Assisting to add new regulations and legal requirements

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 ALIS, IDIT, RapidSure, Reinsurance and Sapiens DECISION, 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:

	2010		2011		2012	
North America	8,991	17 %	20,889	30 %	35,519	31 %
Israel	19,554	38 %	21,470	31 %	23,100	20 %
UK	11,995	23 %	14,672	21 %	26,630	24 %
Rest of Europe	615	1 %	4,870	7 %	16,140	14 %
Asia Pacific	11,080	21 %	8,026	11 %	12,520	11 %
Total	52,235	100 %	69,927	100 %	113,909	100 %

Competitive Landscape

The market for core 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 Software Solutions

Our competitors in the insurance software solutions market differ based on the size, geography and line of business in which we operate. Some of our competitors offer a full suite and 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 business process outsourcing (BPO).

The insurance software solutions market is highly demanding. Maintaining a leading-edge position is challenging, for several reasons:

- Development of new core insurance solutions requires heavy R&D investments and an in-depth knowledge of complex insurance environments

- Innovation in technology is mandatory to gain new customers
- A global presence and an ability to support global insurance operations is required
- Regulatory requirements can be burdensome and require specific IT solutions

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

Know-how of insurance system requirements and an ability to bridge between new systems and legacy technologies must be maintained in many cases

These requirements have led to a marked increase in acquisitions in the insurance software solutions sector since small, local vendors have not been able to sustain growth without continuing to fund their R&D departments and follow the globalization trend of their customers.

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

Some examples of our competitors are:

Global software providers with their own IP

Local/domestic software vendors with their own IP, operating in a designated geographic market and/or within a designated segment of the insurance industry

BPO providers who offer end-to-end outsourcing of insurance carriers business, including core software administration (although BPO providers want to buy comprehensive software platforms to serve as part of the BPO proposition from vendors and may seek to purchase our solutions for this purpose).

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 interfaces, 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 components, and readily integrate the solution or individual components into their existing IT landscape.

Our L&P solutions are updated for compliance with relevant regulations in the regions we operate, and provide easy and rapid capabilities to introduce and adjust for changes in regulations on an on-going basis

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 recognize technology trends and invest in adjusting our solutions to meet this rapid pace

We are able to fund R&D investments and maintain the competitive advantage of our products because of our large and growing customer base

Our delivery methodology is based on extensive insurance industry experience and cooperation with large insurance companies globally

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

Business Decision Management Solutions

Our BDM solution, Sapiens DECISION, reflects an innovative approach in the market of business decision management systems. Since the introduction to the market of our innovative approach to enterprise architecture, we have identified a small number of competitors.

We differentiate ourselves through the following key factors:

We believe that Sapiens DECISION is the only solution that offers a true separation of the business logic in a decision management system and that is currently generally available and already in production

Our track record of delivering complex, mission-critical solutions which we believe we can apply to Sapiens DECISION

Our innovative technology solution, that is based on our knowledge with business rules, that integrate the Decision Model methodology creates a unique market offering, which is otherwise handled with complex spreadsheets that do not always provide adequate regulatory control

Legacy Software Solutions

Sapiens' legacy technology, eMerge, offers our clients flexibility to develop tailor-made solutions to meet their business challenges. Our competitors may seek to replace our eMerge technology that has been implemented by our customers. We believe that what differentiates eMerge is that whereas most competing business rule 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, eMerge provides 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.

Sales & Marketing

To reach the broadest potential customer base, we use multiple distribution channels, mainly through our 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, France, Israel, Australia and Japan. The direct sales force is geared to large organizations within the financial services industry with a focus on insurance.

In 2012, we expanded our investment in sales and marketing, through integration of the IDIT, ALIS and Reinsurance sales forces and through recruitment of additional sales people. We intend to further expand our sales and marketing efforts in North America, UK and Europe, taking advantage of our current customer base and the investment in development of solutions that meet the requirements of our target markets.

We attend major industry trade shows to improve our visibility and our market recognition. Additionally, we host client conferences intended to strengthen our relationship with our existing customer base. We are improving traffic to our website and using the internet and social media networks to enhance our presence across the Web and generate new leads. We invest in tightening our working relationship and advisory services within the global analyst community.

We are strengthening our existing partnerships with IBM and Microsoft as well as with other key market leaders. These partnerships are key for both market recognition and market reach, leveraging their global presence to create additional business opportunities for us.

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 also 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 other technology and standards providers, such as ACORD and MISMO to further enrich our offering and provide our customers with a comprehensive and innovative solution that addresses the entire breadth of their business needs.

Simultaneously, we are 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 to help them fully exploit the capabilities of our solutions.

As part of our sales process, we typically sell a package which includes license, implementation, customization integration services, and training services. Substantially all of our clients for whom we have deployed our solutions elect to enter into an ongoing maintenance and support contract with us.

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. As of today, 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 USA, Benelux, Germany, Italy Switzerland and Israel the name "RapidSure" in the USA and Canada and the names ALIS, E-ALIS, CORE-ALIS and certain other related marks as well as the ALIS design in the USA and Israel. The initial terms of protection for our registered trademarks range from 10 to 20 years and are renewable thereafter.

We have entered into a long term teaming agreement with Knowledge Partners International LLC ("KPI") and a long term license agreement with the Decision Model Licensing LLC, pursuant to which we were granted the right to integrate The Decision Model methodology, which is patented in the US, as part of Sapiens DECISION solution, subject to payment of royalties on our Sapiens DECISION license revenues.

Regulatory Impact

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

For example, 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). Increased activity such as that in Europe 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 recent 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:

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.

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

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

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

Sapiens (Singapore) Insurance Solution.: incorporated in Singapore (owned 100% by Sapiens IDIT)

Sapiens Software Solution (Life and Pension) Ltd. ("Sapiens L&P") : incorporated in Israel (owned 100% by Sapiens Technologies (1982) Ltd.)

Sapiens (UK) Insurance Software Solutions Limited: incorporated in the UK (owned 100% by Sapiens L&P)

Sapiens NA Insurance Solutions Inc.: incorporated in Delaware, US (owned 100% by Sapiens L&P)

Formula Insurance Solutions (FIS) France: incorporated in France (owned 100% by Sapiens (UK) Insurance Software Solutions Limited)

FIS- AU Pty Limited: incorporated in Australia (owned 100% by Sapiens (UK) Insurance Software Solutions Limited.)

Neuralmatic Ltd.: incorporated in Israel (owned 66% by Sapiens L&P)

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 10, 2013, Formula beneficially owned approximately 56.6% of our outstanding Common Shares.

As of March 10, 2013, 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.

D. Property, Plants and Equipment.

We lease office space in Israel, the United States, Canada, the United Kingdom, Belgium and Japan. The lease terms for the space we are currently occupying are generally five to ten years. In Israel, based on our current occupancy, we lease approximately 85,000 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 14,000 square feet, in Belgium, approximately 3,400 square feet and in Japan, approximately 4,400 square feet. In 2012, our rent costs totaled \$3.0 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, 2013 and 2014. The leases of our other locations in Israel continue until July 2013 and February 2014. Our sales, marketing and general and administrative activities are currently performed in each of our offices. During 2012, we entered into a lease for 75,000 square feet in which we plan to consolidate all of our operations in Israel. The lease is for a term of eleven years and we have option to extend the term for an additional five years. We expect to occupy this space during the course of 2013. We believe that our existing facilities and the facilities we expect to occupy during 2013 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 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 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 of (i) core software solutions for the insurance industry, including Property & Casualty/General Insurance (“P&C”) and Life, Annuities, Pensions and Retirement (“L&P”) products, (ii) business decision management solutions for the financial services industry, including insurance, banking and capital markets and (iii) project delivery and implementation of our mission critical solutions using best practices.

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 P&C and L&P insurance markets and our Decision and eMerge solutions for the financial services market. Revenues are comprised primarily of revenues from services, including systems integration and implementation and product maintenance and support and from licenses of our products. 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, 2012, 2011 and 2010 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 our actual results turn out to be materially different to our estimates, or we 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 reductions in margins or contract losses in a large, fixed-price contract may have a material adverse impact on our results of operations.

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 actual 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 contract. Provisions for estimated losses are presented in accrued expenses and other liabilities.

In addition, we derive a 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 and customer advances 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 experience any material losses. In certain circumstances, we may require prepayment. An allowance for doubtful accounts is determined with respect to those amounts that we determine 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 allocating the purchase price of 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 valuers 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 in August 2011, we started to operate in two reporting units: Sapiens and IDIT.

In September 2011, the FASB issued ASU 2011-08 which amends the rules for testing goodwill for impairment. Under the new rules, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary.

We adopted the provisions of ASU 2011-08 for our annual impairment test in the fourth quarter of each year. This analysis determined that no indicators of impairment existed primarily because (1) our market capitalization has consistently exceeded our book value by a sufficient margin, (2) our overall financial performance has been stable since the acquisition, and (3) forecasts of operating income and cash flows appear sufficient to support the book values of the net assets of each reporting unit.

Nevertheless, it is possible that our determination that goodwill for a reporting unit is not impaired could change in the future if current economic conditions deteriorate or remain difficult for an extended period of time. We continue to monitor the relationship between our market capitalization and book value, as well as the ability of our reporting units to deliver current and income and cash flows sufficient to support the book values of the net assets of their respective businesses.

As of December 31, 2012, our intangible assets were \$29.2 million, primarily comprised of capitalized software as well as core technology and customer relationship mainly from the acquisitions of IDIT and FIS in August 2011.

In accordance with ASC 360, "Property, Plant and Equipment" our long-lived assets are reviewed for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. In measuring the recoverability of assets, we are required to make estimates and judgments in assessing our forecast and cash flows and compare that with the carrying amount of the assets. Additional significant estimates used by management in the methodologies used to assess the recoverability of our long-lived assets include estimates of future cash-flows, future short-term and long-term growth rates, market acceptance of products and services, and other judgmental assumptions, which are also affected by factors detailed in our Risk Factors section in this annual report (see Item 3, "Key Information – Risk Factors"). If these estimates or the related assumptions change in the future, we may be required to record impairment charges for our long-lived assets.

We evaluate our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, in accordance with ASC 360 (see above). In evaluating potential impairment of these assets, we specifically consider whether any indicators of impairment are present, including, but not limited to whether there:

- has been a significant adverse change in the business climate that affects the value of an asset;
- has been a significant change in the extent or manner in which an asset is used; and/or
- is an expectation that the asset will be sold or disposed of before the end of its originally estimated useful life.

If indicators of impairment are present, we compare the estimated undiscounted cash flows that the specific asset is expected to generate to its carrying value. These estimates involve significant subjectivity. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value.

Our policy for capitalized software costs determines the timing of our recognition of certain development costs. Software development costs incurred from the point of reaching technological feasibility until the time of general product release are capitalized. We define technological feasibility as the completion of a detailed program design. The determination of technological feasibility requires the exercise of judgment by our management. Since we sell our products in a market that is subject to rapid technological changes, new product development and changing customer

needs, changes in circumstances and estimations may significantly affect the timing and the amounts of software development costs capitalized and thus our financial condition and results of operations.

Capitalized software development costs are amortized commencing with general product release by the straight-line method over the estimated useful life of the software product (between 3-7 years). We assess the recoverability of this intangible asset on a regular basis by determining 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.

Taxes on Income

We account for income taxes in accordance with ASC 740 "Income Taxes". ASC 740 prescribes the use of the asset and liability method, whereby deferred tax assets and liability account balances are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future realization of our deferred tax assets ultimately depends on the existence of sufficient taxable income within the available carryback or carryforward periods. Sources of taxable income include future reversals of existing taxable temporary differences, future taxable income, taxable income in prior carryback years and tax planning strategies. We record a valuation allowance to reduce our deferred tax assets to an amount we believe is more likely than not to be realized. Changes in our valuation allowance impact income tax expense in the period of adjustment. Our deferred tax valuation allowances require significant judgment and uncertainties, including assumptions about future taxable income that are based on historical and projected information.

ASC 740 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740, a company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We assess our income tax positions and record tax benefits based upon management's evaluation of the facts, circumstances, and information available at the reporting date. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, we record the largest amount of tax benefit with a greater than 50 percent likelihood of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit is recognized in the financial statements. We classify liabilities for uncertain tax positions as non-current liabilities unless the uncertainty is expected to be resolved within one year. We classify interest as financial expenses and penalties as selling, marketing, general and administration expenses.

As a global company, we use significant judgment to calculate and provide for income taxes in each of the tax jurisdictions in which we operate. In the ordinary course of our business, there are transactions and calculations undertaken whose ultimate tax outcome cannot be certain. Some of these uncertainties arise as a consequence of transfer pricing for transactions with our subsidiaries and tax credit estimates. In addition, the calculation of acquired tax attributes and the associated limitations are complex and although our income tax reserves are based on our best knowledge, we may be subject to unexpected audits by tax authorities in the various countries where we have subsidiaries, which may result in material adjustments to the reserves established in our consolidated financial statements and have a material adverse effect on our results of operations. We estimate our exposure to unfavorable

outcomes related to these uncertainties and estimate the probability for such outcomes.

Although we believe our estimates are reasonable, no assurance can be given that the final tax outcome will not be different from what is reflected in our historical income tax provisions, returns, and accruals. Such differences, or changes in estimates relating to potential differences, could have a material impact on our income tax provision and operating results in the period in which such a determination is made.

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income." Under ASU 2013-02, an entity is required to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income ("AOCI") by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in the financial statements. ASU 2013-02 is effective for the Company as of January 1, 2013. Since this standard only impacts presentation and disclosure requirements, its adoption will not have a material impact on our consolidated results of operations or financial condition.

A. Operating Results

Years ended December 31, 2012 and 2011

Revenues

Total revenues increased to \$113.9 million in 2012 from \$69.9 million in 2011. This increase of \$44 million, or 63%, was primarily due to the inclusion of a full year of revenues of the businesses we acquired in August 2011 compared to approximately four months of revenues from those businesses in 2011 and a net increase of \$16.2 million in new and ongoing implementation projects, primarily in North America and Europe, in 2012 compared to our pro forma revenue in 2011 assuming that we acquired the new businesses on January 1, 2011.

Our revenues in North America increased by a total of \$14.7 million to \$35.6 million in 2012 from \$20.9 million in 2011, primarily due to an increase in new and ongoing implementation of Life, Pension and Annuity solutions and the inclusion of a full year of revenues of the businesses we acquired in August 2011 compared to approximately four months of revenues from those businesses in 2011.

Our revenues in Europe, including the United Kingdom, increased by a total of \$23.2 million to \$42.8 million in 2012 from \$19.5 million in 2011 primarily due to the inclusion of a full year of revenues of the businesses we acquired in August 2011 compared to approximately four months of revenues from those businesses in 2011 and an increase in new and ongoing implementation projects in 2012 compared to 2011.

Our revenues in Asia Pacific increased by a total of \$4.5 million to \$12.5 million in 2012 from \$8 million in 2011 primarily due to the inclusion of a full year of revenues of the businesses we acquired in August 2011 compared to approximately four months of revenues from those businesses in 2011 and due to recovery of our offices in Japan from the 2011 crisis.

We expect our revenue to continue to increase in 2013 from ongoing projects and from new projects we expect to begin in 2013.

Cost of Revenues and Gross Profit

Cost of revenues increased to \$66.5 million in 2012 from \$40.1 million in 2011. This increase of \$26.4 million or 66% was due primarily to an increase in costs of revenues from the inclusion of a full year of costs of revenues of the businesses we acquired in August 2011 compared to approximately four months of costs of revenues from those businesses in 2011 and the increase in new and ongoing implementation projects in 2012 compared to 2011. Cost of revenues was comprised of salaries and other personnel-related expenses of software consultants and engineers of \$53 million, or 80% of our total costs of revenues in 2012 compared to \$31.6 million, or 79% of our total cost of revenues in 2011. Amortization of capitalized software development costs was \$3.8 million, or 6% of our total costs of revenues, in 2012 compared to \$4.5 million, or 11% of our total costs of revenues, in 2011.

Our gross profit in 2012 increased by 59% to \$47.4 million from \$29.9 million in 2011. The gross profit margin in 2012 decreased to 42% compared to 43% at 2011, primarily due to the increase in revenue from implementation of projects in 2012 which has a lower gross margin.

We expect our cost of revenues to continue to increase in line with the increase in revenues.

Research and Development, net

Research and development (“R&D”) costs are mainly comprised of labor costs, reduced by capitalization of software development costs.

Research and development costs, net, increased 103% to \$10.2 million in 2012 compared to \$5 million in 2011. Gross R&D expenses were \$13.6 million in 2012 compared to \$9.7 million in 2011. This increase of \$3.9 million or 40%

was due to increased R&D expenses resulting from the inclusion of a full year of R&D expenses related to the businesses we acquired in August 2011 compared to approximately four months of R&D expenses from those businesses in 2011 and increased R&D spending for development of our solutions including our Sapiens DECISION solution. Salaries and other personnel-related expenses of software consultants and engineers costs comprised 92% of the gross R&D expenses. Capitalization of software development costs were \$3.5 million in 2012 compared to \$4.7 million in 2011. Gross R&D expenses were equal to 12% of our revenue in 2012 compare to 14% in 2011.

Selling, Marketing, General and Administrative expenses

Selling, Marketing, General and Administrative expenses (“SG&A expenses”) include costs of salaries of sales, marketing, management and administrative employees, office expenses, communications, external consultants and other expenses.

SG&A expenses increased to \$25.2 million in 2012 from \$18.1 million in 2011. This increase of \$7.1 million, or 39%, was primarily due to increased headcount in our global sales team, marketing and management and administration and the inclusion of a full year of SG&A expenses related to the businesses we acquired in August 2011 compared to approximately four months of SG&A expenses from those businesses in 2011 offset by post-merger integration activities to optimize our management and administration teams. Salaries and other personnel-related expenses were \$14.8 million, or 58% of SG&A expenses, in 2012 compared to \$9.9 million or 54% of SG&A expenses, in 2011. The increase in salary and other personnel related expenses resulted primarily from the inclusion of a full year of salary and personnel related expenses and the addition of new sales and marketing personnel. SG&A expenses were equal to 22% and 26% of revenue in 2012 and 2011, respectively.

Acquisition-related and restructuring costs

There were no such costs in 2012. In 2011, acquisition-related and restructuring costs were \$1.1 million and consisted of \$0.5 million of restructuring charges relating primarily to our post-merger integration and \$0.6 million of other transaction-related costs including legal, due diligence, accounting and other costs, all in connection with our acquisition of IDIT and FIS.

Financial income (expenses), net

Financial income, net, was \$0.2 million in 2012 compared to \$0.1 million in 2011. This change was primarily due to the effect of changes in currency rates.

Taxes on Income

Taxes on income in 2012 were \$0.4 million compared to tax benefit of \$0.2 million in 2011. This change resulted from increase of current tax expenses in the amount of \$0.3 million and the decrease of net deferred tax income in the

amount of \$0.3 million.

Our provision for taxes on income relates to operations in jurisdictions other than Curaçao. The effective income tax rate varies from period to period as a result of the various jurisdictions in which we operate and where each one has its own system of taxation (not only with respect to the nominal rate, but also with respect to the allowance of deductions, credits and other benefits). We record a valuation allowance if we believe that it is more likely than not that the deferred income taxes regarding the loss carry forwards and other temporary differences, on which a valuation allowance has been provided, will not be realized in the foreseeable future. We did not recognize certain of the deferred tax assets relating to the net operating losses of our subsidiaries worldwide due to the uncertainty of the realization of such tax benefits in the foreseeable future.

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Net Income attributable to Sapiens shareholders

Net income attributable to Sapiens shareholders increased to \$11.8 million in 2012 from \$5.9 million in 2011. The increase of \$5.9 million, or 100%, was due to a \$6.4 million increase in operating income in 2012, from \$5.6 million in 2011 to \$12.0 million in 2012, which was driven by operational synergy and improved profitability of the acquired companies in 2012 and the increase in revenues from the sales and implementation of our solutions to our customers. The increase in operating income was offset by an increase in tax expenses of \$0.6 million.

Years ended December 31, 2011 and 2010

Revenues

Total revenues in 2011 increased to \$69.9 million in 2011 from \$52.2 million in 2010. This increase of \$17.7 million, or 34%, was due primarily to revenues of approximately \$16.3 million from the businesses we acquired in August 2011. Our revenues in North America increased by a total of \$11.9 million to \$20.9 million in 2011 from \$9.0 million in 2010, including \$8.1 million from new and existing customers and \$3.8 million from the businesses we acquired in August 2011.

Our revenues in Asia Pacific decreased by a net aggregate of \$3.1 million to \$8.0 million in 2011 from \$11.1 million in 2010 including a decrease of \$5.1 million, due primarily to the impact of the economic crisis in Japan in 2011, offset by \$1.7 million from the businesses we acquired in August 2011. Our revenues in Europe, including the United Kingdom, increased by a total of \$6.9 million to \$19.5 million in 2011 from \$12.6 million in 2010 primarily from revenues from the the businesses we acquired in August 2011.

Cost of Revenues and Gross Profit

Cost of revenues increased to \$40.1 million in 2011 from \$29.9 million in 2010. This increase of \$10.2 million or 34% was due primarily to an increase in costs of revenues from the businesses we acquired in August 2011 of \$11.6 million. Cost of revenues was comprised of salaries and other personnel-related expenses of software consultants and engineers of \$31.6 million, or 79% of our total costs of revenues in 2011 compared to \$23.0 million, or 77% of our total cost of revenues in 2010. Amortization of capitalized software development costs was \$4.5 million, or 11% of our total costs of revenues, in 2011 compared to \$5.9 million, or 20% of our total costs of revenues, in 2010.

Our gross profit in 2011 increased 34% to \$29.9 million from \$22.3 million in 2010. The gross profit margin in 2011 stayed flat at 42.7% compared to 2010.

Research and Development, net

Research and development (“R&D”) costs are mainly comprised of labor costs, reduced by capitalization of software development costs.

Research and development, net, increased 52% to \$5.0 million in 2011 compared to \$3.3 million in 2010. Gross R&D expenses were \$9.7 million in 2011 compared to \$8.7 million in 2010. This increase of \$1.0 million or 11% was primarily due to increased R&D expenses resulting from the acquisition of businesses in August 2011 and investment in development of our existing products. Labor costs comprised 94% of the gross R&D expenses. Capitalization of software development costs were \$4.7 million in 2011 compared to \$5.4 million in 2010. Gross R&D expenses were equal to 14% and 17% of revenue in 2011 and 2010, respectively.

Selling, Marketing, General and Administrative expenses

Selling, Marketing, General and Administrative expenses (“SG&A expenses”) include costs of salaries of sales, marketing, management and administrative employees, office expenses, communications, external consultants and other expenses.

SG&A expenses increased to \$18.1 million in 2011 from \$12.3 million in 2010. This increase of \$5.8 million, or 47%, was primarily due to increased headcount in our global sales team, marketing and management and administration, including \$3.9 million resulting from the acquisition of businesses in August 2011. Salaries and other personnel-related expenses were \$9.9 million, or 54% of SG&A expenses, in 2011 compared to \$6.9 million, or 56% of SG&A expenses, in 2010. The increase in salary and other personnel related expenses primarily resulted from an increase of \$2.5 million from the acquisition of new businesses in August 2011 as well as other costs associated with our sales and marketing efforts. SG&A expenses were equal to 26% and 24% of revenue in 2011 and 2010, respectively.

Acquisition-related and restructuring costs

Acquisition-related and restructuring costs were \$1.1 million in 2011 and consisted of \$0.5 million of restructuring charges relating primarily to our operational restructuring plan and \$0.6 million of other transaction-related costs including legal, due diligence, accounting and other costs, all in connection with our acquisition of new businesses in August 2011. There were no similar costs in 2010.

Financial income (expenses), net

Financial income, net, was \$0.1 million in 2011 compared to expenses, net of \$0.4 million in 2010. This change was primarily due to interest income from bank deposits which increased in 2011 and the effect of changes in currency rates and additional available cash.

Taxes on Income

Net tax benefit in 2011 was \$0.2 million compared to taxes on income of \$0.2 million in 2010. This change resulted from an increase in net deferred tax income of \$0.4 million.

Our provision for taxes on income relates to operations in jurisdictions other than Curaçao. The effective income tax rate varies from period to period as a result of the various jurisdictions in which we operate and where each one has its own system of taxation (not only with respect to the nominal rate, but also with respect to the allowance of deductions, credits and other benefits). We record a valuation allowance if we believe that it is more likely than not that the deferred income taxes regarding the loss carry forwards and other temporary differences, on which a valuation allowance has been provided, will not be realized in the foreseeable future. We did not recognize a majority of the deferred tax assets relating to the net operating losses of our subsidiaries worldwide due to the uncertainty of the realization of such tax benefits in the foreseeable future.

Net Income attributable to Sapiens shareholders

Net income attributable to Sapiens shareholders decreased to \$6.0 million in 2011 from \$6.2 million for 2010. The decrease of \$0.2 million, or 3%, was due to a \$1.1 million decrease in operational profit in 2011, from \$6.7 million in 2010 to \$5.6 million in 2011, which was driven by restructuring and other transaction costs associated with the acquisition of the new businesses in August 2011 of \$1.1 million offset by an increase of \$0.5 million in financial income, net and an increase in tax income of \$0.4 million. Our operational profit in 2011 also decreased as a result of the increase in gross profit of \$7.5 million which was offset by an increase in R&D expenses of \$1.7 million and an increase in SG&A expenses of \$5.8 million.

B. Liquidity and Capital Resources.

Our cash and cash equivalents at the end of 2012 were \$29.0 million, compared with \$21.5 million at the end of 2011. The increase in cash and cash equivalents was mainly due to our positive operating activities of \$18.8 million in 2012 offset by the cash used for investment activities in a total amount of \$4.9 million during 2012 and cash used by financing activities in a total amount of \$6.0 million during 2012.

Net cash provided by operating activities was \$18.8 million in 2012, compared with net cash provided by operating activities of \$8.4 million in 2011. The increase resulted primarily from an increase in net income by \$5.9 million to \$11.8 million in 2012 compared to \$5.9 million in 2011, an increase in trade payables of \$1.7 million in 2012 compared to a decrease of \$1.3 million in 2011 and an increase in trade receivable of \$1.6 million in 2012 compared to an increase of \$3.3 in 2011, offset by an increase in deferred revenues and customer advances of \$2.4 million in 2012 compared to an increase of \$0.4 million in 2011.

Net cash used in investing activities was \$4.9 million, compared to \$2.5 million in 2011. The increase of \$2.4 million resulted primarily from the net cash provided in 2011 by acquired businesses net of related payments in the net amount of \$2.8 million and an increase in our investments to purchase of property and equipment by \$0.8 million in 2012 compared to 2011, offset by a decrease in capitalized software development cost by \$1.2 million to \$3.5 million in 2012 compared to \$4.7 million in 2011.

Net cash used in financing activities was \$6 million in 2012, compared to net cash provided by financing activities of \$0.1 million in 2011. The change resulted primarily from the net cash used to buy the Company's shares in total consideration of \$7.0 million at 2012 offset by increase of \$1.0 million proceeds from exercised options to a total amount of \$1.2 million in 2012 compared to \$0.2 million in 2011.

Outlook

In 2012, we increased our cash and cash equivalents on an annual basis by \$13.6 million overall after elimination of the buyback of shares in the amount of \$7 million in 2012 and the increase from exercised options in the amount of \$1 million. Management believes that positive cash flow generated during 2010, 2011 and 2012 and our existing cash balances, following the payment of the one-time aggregate dividend of \$5.8 million in February 2013, will be sufficient for our present requirements, and at least until December 31, 2013, to support our operating and financing requirements. However, in the event that we consummate one or more acquisitions for consideration consisting of all or a substantial part of our then available cash, we might seek external financing for such acquisition or acquisitions.

C. Research and Development, Patents and Licenses, etc.

See the captions titled "Research and Development, net" in section A. "Operating Results" of this Item 5 above for a description of our R&D policies and amounts expended thereon during the last two fiscal years.

D. Trend Information

There are various sales and marketing trends that influence our business. Despite the global economic stagnation, low interest rates and persistently high unemployment, according to a recent report from CELENT, the annual IT spending of insurance companies, including internal IT, hardware, external software and external services, is expected to grow to \$157.5 billion by 2014, a 5.8% CAGR from 2012 to 2014. This spending relates to the core market for Sapiens software solutions and accompanying services.

CELENT also projects that IT spending in North America will climb to \$58.6 billion in 2014, a CAGR of 7.6% from 2012 to 2014, IT spending in Europe will climb to \$56.4 billion in 2014, a CAGR of 2.2% from 2012 to 2014 and that IT spending in the Asia Pacific region is expected to grow to \$29.6 billion in 2014 a CAGR of 6.1% from 2012.

According to CELENT, IT spending in external software and services, which is the market we address, is expected to grow to approximately \$59.5 billion by 2013 and \$63 billion by 2014, representing a CAGR of 7.3%. CELENT reports that growth in external software and services is driven both by pure growth in IT spending, but also from shift of IT spending from internal to external providers, like Sapiens. This is due to the move from in-house, home-grown solutions to packaged solutions, as IT departments recognize the value of buying software solutions from specialized vendors, rather than developing internal solutions that are hard to maintain and do not have the advantage of R&D investments at the rate that is invested by outside vendors.

In the insurance software industry, according to CELENT (Tracking the Progress in Global Insurance report, January 2013), over 50% of insurers are progressing with core system replacement, which could result in an increase in insurers looking to modernize their IT systems.

We believe we are well positioned to leverage our innovative software solutions, advanced technologies, customer base and global presence to address this market trend. Our rich portfolio of core software solutions for P&C and L&P products backed by the years of accumulated experience and expert teams allow us to provide a comprehensive response to the IT challenges of this market.

The global insurance industry is evolving in a number of areas, and insurance carriers require support from their software and their IT service providers to keep up. The primary areas of evolution include:

- Tighter competition
- Tougher regulations
- Customer Sophistication
- Globalization and M&A

With the growing need for insurance, as people accumulate more property and live longer, the insurance industry has become more competitive. The competition for the customer's business requires insurers to improve customer experience, be faster to market with new products and offer innovative channels such as social media and mobile. Innovative technology infrastructure is necessary to support these business initiatives.

In addition, insurers are faced with the increasing significance of regulatory changes to protect the policyholder in many markets, particularly large insurers which are considered important to the stability of the world economic system. Many insurers are integrating enterprise risk management as a standard operating procedure, while spreading ownership of risk throughout the strategic decision-making process.

As customers become more sophisticated, the support of innovative products and distribution channels is mandatory. Insurers are identifying growth opportunities by attracting new customers and retaining current customers by seeking to reinvent the customer experience and provide quote and policy information to their customers as they request.

The volume of mergers and acquisitions among insurance companies is expected to increase in 2013. According to a survey by PwC (Despite the Uncertainty - Momentum Building in M&A in 2013, Feb. 21st, 2013), the insurance sector was actually the most active one in the Financial Services M&A in 2012 and the momentum in the final quarter of 2012 is expected to continue in 2013. With more strategic transaction activity expected in 2013, there will likely be

additional opportunities for IT providers with the need to integrate multiple systems.

E. Off-Balance Sheet Arrangements

We have not engaged in nor been a party to any off-balance sheet transactions.

F. Contractual Obligations

The following table sets forth information on our short-term and long-term contractual obligations as at December 31, 2012 (in thousands of dollars).

Payments due by period

	Total	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years
Accrued severance pay, net ⁽¹⁾	\$ 1,339				\$ 1,339
Operating leases	\$ 16,996	\$ 4,037	\$ 6,237	\$ 4,730	\$ 1,992
Liability to the OCS ⁽²⁾	\$ 596	\$ 596			
Total Contractual Cash Obligations	\$ 18,931	\$ 4,633	\$ 6,237	\$ 4,730	\$ 3,331
Uncertain Income Tax Position ⁽³⁾	\$ 510				

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.

(1) Does not include contingent liabilities to the OCS of approximately \$8.4 million as described in Note 9(a) of our consolidated financial statements contained elsewhere in this report.

(2) See Note 10(i) of our consolidated financial statements contained elsewhere in this annual report, as of December 31, 2012. Due to the uncertainties related to those tax matters, we are currently unable to make a reasonably reliable estimate of when cash settlement with a relevant tax authority will occur.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth certain information regarding the current executive officers and directors of the Company as of February 25, 2013.

Name	Age	Position
Guy Bernstein (1)	45	Chairman of the Board of Directors
Roni Al Dor	52	President, Chief Executive Officer and Director
Naamit Salomon (1)	49	Director
Yacov Elinav (2)	68	Director
Uzi Netanel (2)	77	Director
Eyal Ben Chlouche (2)	51	Director
United International Trust N.V. (3)		Director
Roni Giladi	42	Chief Financial Officer

(1) Member of Compensation Committee

(2) Member of Audit Committee

United International Trust N.V. or UIT, is a corporate body organized under the laws of Curaçao. Mr. Gregory (3) Elias exercises decision making authority for UIT. The Articles of Incorporation of the Company provide that a corporate body may be a member of the Board of Directors.

Guy Bernstein has served as a director of the Company since January 1, 2007 and was appointed Chairman of the Board of Directors on November 12, 2009. Mr. Bernstein has served as the chief executive officer of Formula Systems, our parent company, since January 2008. From December 2006 to November 2010, Mr. Bernstein served as a director and the chief executive officer of Emblaze Ltd. or Emblaze, our former controlling shareholder. From April 2004 to December 2006, Mr. Bernstein served as the chief financial officer of Emblaze. He also served as a director of Emblaze from April 2004 until November 2010. Prior to joining Emblaze, Mr. Bernstein served as Chief Financial and Operations Officer of Magic Software Enterprises Ltd. ("Magic") (NASDAQ: MGIC), a position he held since 1999. He also acted as the Interim CEO for Magic's subsidiaries: MSE Israel Ltd. and Coretech Consulting Group. Mr. Bernstein joined Magic from Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, where he acted as senior manager from 1994 to 1997. Mr. Bernstein also serves as Chief Executive Officer of Magic and Chairman of the Board of Matrix IT Ltd. Mr. Bernstein is a Certified Licensed Public Accountant and holds a BA in Accounting and Economics from Tel Aviv University.

Roni Al Dor joined the Company as President and Chief Executive Officer in November 2005 and has served as a director of the Company since November 2005. Prior to joining the Company, Mr. Al Dor was one of the two founders of TTI Team Telecom International Ltd. ("TTI"), a global supplier of operations support systems to communications service providers and from August 1996 until 2004, Mr. Al Dor served as President of TTI. Prior to

that, Mr. Al Dor served as TTI's Co-President from November 1995 until August 1996 and its Vice President from September 1992 to November 1995. During his service in the Israeli Air Force, Mr. Al Dor worked on projects relating to computerization in aircrafts. Mr. Al Dor is a graduate of the military computer college of the Israeli Air Force, studied computer science and management at Bar Ilan University and attended the Israel Management Center for Business Administration.

Eyal Ben-Chlouche has served as a director of the Company since August 15, 2008. Mr. Ben-Chlouche served as the Commissioner of Capital Market Insurance and Savings at the Israeli Ministry of Finance from 2002 through 2005, where he was responsible for implementation of fundamental reforms in pension savings. Prior to that, he served as a Deputy Commissioner of Capital Market Insurance and Savings and as a Senior Foreign Exchange and Investment Manager in the Foreign Exchange Department of the Bank of Israel. He also served as an Investment Officer in the Foreign Exchange Department of the Bank of England, in London. Mr. Ben-Chlouche served as Chairman of the Board of Directors of the Shahar Group, Chairman of the Advisory Board of Directors of the Shekel Group until the end of 2007 and serves as a director of Matrix IT Ltd. and Migdal Holding Ltd. Mr. Ben-Chlouche also serves on the Board of Directors of several other private companies. Mr. Ben-Chlouche also serves as Chairman of the Advisory Board of the Caesarea Center for Capital Markets and Risk Management. In 2005, Mr. Ben-Chlouche served as a member of the Bachar Committee on Capital Market Reform in Israel. Mr. Ben-Chlouche is an independent director.

Naamit Salomon has served as a director of the Company since September 2003. She held the position of Chief Financial Officer of Formula from August 1997 until December 2009. Since January 2010 Ms. Salomon has served as a partner in an investment company. Ms. Salomon also serves as a director of Magic Software Enterprises ("Magic") (NASDAQ: MGIC). From 1990 through August 1997, Ms. Salomon was a controller of two large, privately held companies in the Formula Group. Ms. Salomon holds a BA in economics and business administration from Ben Gurion University and an LL.M. from the Bar-Ilan University.

Yacov Elinav has served as a director of the Company since March 2005. For over 30 years, Mr. Elinav served in various positions at Bank Hapoalim B.M., which is listed on the London and Tel Aviv Stock Exchanges, including over 10 years as a member of the Board of Management, responsible for subsidiary and related companies. From 1992 through 2006, Mr. Elinav served as Chairman of the Board of Directors of Diur B.P. Ltd., the real estate subsidiary of Bank Hapoalim. From August 2004 until 2009, Mr. Elinav has served as Chairman of the Board of Directors of DS Securities and Investments, Ltd. From August 2004 through 2008, Mr. Elinav served as Chairman of the Board of Directors of DS Provident Funds Ltd. and Golden Pages Ltd. Mr. Elinav also serves on the Board of Directors of several other public and private companies. Mr. Elinav is an independent director.

Uzi Netanel has served as a director of the Company since March 2005. He has served as Chairman of the Board of Directors of Maccabi Group Holdings Ltd. since 2005. From 2004 through 2007, Mr. Netanel served as Chairman of the Board of Directors of MLL Software & Computers Industries Ltd. and as Chairman of the Executive Committee of Carmel Olephines. From 2001 through 2003, Mr. Netanel served as a partner in the FIMI Opportunity Fund. From 1993 through 2001, he served as Active Chairman of Israel Discount Capital Markets and Investments Ltd. From 1997 to 1999, Mr. Netanel served as Chairman of Poliziv Plastics Company (1998) Ltd. Mr. Netanel also serves on the Board of Directors of, The Maman Group, Acme Trading, Scope Metals Ltd. (external director), Gadot Biochemicals and Assuta Health Centers. Mr. Netanel is an independent director.

United International Trust N.V. ("UIT") is a corporate body organized and existing under the laws of the Netherlands Antilles. It, or one of its predecessor entities, has provided the Company with corporate-related services since April 1990, including serving as the Company's transfer agent and registrar, maintaining the corporate-related records of the Company, and filing various corporate documents and the annual corporate tax return with the governmental authorities in the Netherlands Antilles. In January 1, 2007, UIT was established by former shareholders of Intertrust (Curacao) N.V., including Mr. Elias which subsequently operated under the names of MeesPierson Intertrust (Curacao) N.V. and Fortis Intertrust (Curacao) N.V. Between 2005 and June 2009, Mr. Elias acted as a Supervisory Board Member of Banco di Caribe and currently acts as Of Counsel thereto. Mr. Elias also serves as special counsel to the Government of Curaçao, in international finance / tax matters. He holds board positions in several organizations of a social, economic, (e)-commercial and charitable nature. Mr. Elias holds two Masters degrees in Law from the University of Amsterdam, the Netherlands.

Roni Giladi joined the Company as Chief Financial Officer in July 2007. Prior to joining the Company, Mr. Giladi served as the Director of Finance at Emblaze from January 2007. Prior to joining Emblaze, Mr. Giladi served as Chief Financial Officer of RichFX, from August 2003 until November 2006, after serving as Corporate Controller from June 2002. Prior to RichFX, Mr. Giladi worked at Ernst & Young Israel, from 1997-2002, as a manager in the high-tech practice group. From July 2007 until July 2010, Mr. Giladi served as a director of MediRisk Solutions Ltd., as the nominee of the Company. Mr. Giladi is Certified Licensed Public Accountant and holds a BA in Business Management and Accounting from the College of Management in Israel.

The Board of Directors must have a minimum of three, and may have a maximum of 24, directors. Directors of the Company are appointed by our General Meeting of Shareholders and hold office until the expiration of the term of their appointment by our General Meeting of Shareholders, or until they resign or are suspended or dismissed by the General Meeting of Shareholders. The Board of Directors may appoint up to four directors in addition to the directors elected by the General Meeting of Shareholders, subject to the maximum number of directors permitted, and any such appointment shall be effective until the next General Meeting of Shareholders. The Board of Directors may fill any vacancies on the Board of Directors, whether as a result of the resignation or dismissal of a director, or as a result of a decision of the Board of Directors to expand the Board of Directors.

Our executive officers are appointed by, and serve at the discretion of, our Board of Directors.

Our Chairman, Guy Bernstein, serves as the Chief Executive Officer of Formula. In addition, Ms. Salomon, another Board member of ours, who served as an executive officer of Formula until December 2009, is a member of the Board of Directors of our affiliate Magic Software Enterprises Ltd. Formula directly owns (as of March 10, 2013) approximately 56.6% of our currently outstanding Common Shares, and, since November 2010, Asseco holds a controlling interest in Formula (50.2% of the outstanding share capital of Formula as of March 10, 2013).

B. Compensation of Directors and Officers

The aggregate amount of compensation paid by us, or accrued by us, during the fiscal year ended December 31, 2012 with respect to such year, to all directors and executive officers as a group for services in all capacities was \$1.9 million. This amount does not include amounts expended by us for automobiles made available to our officers or expenses (including business travel and professional and business association dues) reimbursed to such officers. The aggregate amount set aside or accrued by us during our fiscal year ended December 31, 2012 to provide pension, retirement severance, vacation accrual and similar benefits for directors and executive officers of the Company was \$38,000. The foregoing amounts also exclude stock option grants to our directors and officers pursuant to our 1992 Stock Option and Incentive Plan, our 2003 Share Option Plan, our 2005 Special Incentive Share Option Plan and our 2011 Share Incentive Plan, which are described below.

We have employment agreements with our officers. We, in the ordinary course of our business, enter into confidentiality agreements with our personnel and have entered into non-competition and confidentiality agreements with our officers and high-level technical personnel. We do not maintain key person life insurance on any of our executive officers.

Board Fees and Expenses

We reimburse all members of our Board of Directors for reasonable out-of-pocket expenses incurred in connection with their attendance at Board of Directors or committee meetings.

We grant to each of our independent directors a fee for attending or participating in Board of Directors meetings and committee meetings, and participating in unanimous written consents.

We pay the fees to our independent directors according to the rates paid to outside directors under the Israeli Companies Law 5759-1999, even though we are not an Israeli company and are not subject to the Israeli Companies Law (as we deem the standards of such body of law relevant to a company such as ours that has a substantial percentage of Israeli operations and Israeli employees).

In 2005, we granted to two of our independent directors options to purchase 4,000 Common Shares annually. The options were granted at an exercise price equal to the fair market value of the Company's Common Shares on the date of grant. The term of the options was set at 10 years and the options become exercisable in four equal, annual installments, beginning with the first anniversary of the grant date.

In 2010, we granted to three of our independent directors and another director options to purchase 15,000 Common Shares each. The options were granted at an exercise price equal to the fair market value of the Company's Common Shares on the date of grant. The term of the options was 6 years and the options become exercisable in four equal, annual installments, beginning with the first anniversary of the grant date.

Stock Option and Incentive Plans

1992 Stock Option and Incentive Plan, 2003 Share Option Plan and 2005 Special Incentive Share Option Plan

In 1992, our Board of Directors and shareholders approved the 1992 Stock Option and Incentive Plan (the “1992 Stock Plan”) pursuant to which our officers, directors and employees are eligible to receive awards of stock options and restricted stock. In February 2003, the Board of Directors authorized the extension of the 1992 Stock Plan until April 2012 and our shareholders approved that extension. In 2003, our Board of Directors and shareholders approved the 2003 Share Option Plan (the “2003 Option Plan”), pursuant to which our officers, directors, employees, consultants and contractors are eligible to receive awards of stock options. In the following description, the 1992 Stock Plan and 2003 Option Plan will be referred to together as the “Prior Incentive Plans” and each may be referred to individually as a “Prior Incentive Plan.”

Options granted under the 1992 Stock Plan may be “incentive stock options” (“ISOs”), within the meaning of section 422 of the Internal Revenue Code of 1986, as amended (the “Code”), or non-qualified stock options (“non-Qualified Stock Options”). Restricted stock may be granted in addition to or in lieu of any other award granted under the 1992 Stock Plan. Option grants under the 2003 Option Plan are intended to comply with, and benefit from, applicable tax laws and regulations in Israel.

Each of the Prior Incentive Plans is administered by the Compensation Committee of our Board of Directors (the “Committee”). Subject to the provisions of each Incentive Plan, the Committee determines the type of award, when and to whom awards will be granted and the number of shares covered by each award. The Committee also determines the terms, provisions, and kind of consideration payable (if any), with respect to awards. The Committee has discretionary authority to interpret the Incentive Plans and to adopt rules and regulations related thereto. In determining the persons to whom awards shall be granted and the number of shares covered by each award, the Committee takes into account the contribution to the management, growth and/or profitability of the business of the Company by the respective persons and such factors as the Committee shall deem relevant, including the length of employment of the respective persons, the nature of their responsibilities to the Company, and their flexibility with regard to location of their employment and other employment-related factors.

An option may be granted on such terms and conditions as the Committee may approve, and generally may be exercised for a period of up to 10 years from the date of grant. In 2008, certain grants were limited to an exercise period of 6 years. Options granted under the Prior Incentive Plans become exercisable in four equal, annual installments, beginning with the first anniversary of the date of the grant, or pursuant to such other schedule as the Committee may provide in the option agreement. The exercise price of such options generally will be not less than 100% of the fair market value per share of the Common Shares at the date of the grant. In the case of ISOs, certain limitations will apply with respect to the aggregate value of option shares which can become exercisable for the first time during any one calendar year, and certain additional limitations will apply to “Ten Percent Stockholders” (as

defined in the 1992 Stock Plan). The Committee may provide for the payment of the option price in cash, by delivery of other Common Shares having a fair market value equal to such option exercise price, by a combination thereof or by any method in accordance with the terms of the option agreements. The Incentive Plans contain special rules governing the time of exercise of options in the case of death, disability, or other termination of employment. Options are not transferable except by will or pursuant to applicable laws of descent and distribution upon death of the employee.

The 1992 Stock Plan also provides for the granting of restricted stock awards, which are awards of Common Shares that may not be disposed of, except by will or the laws of descent and distribution, for such period as the Committee determines (the “restricted period”). The Committee may also impose such other conditions and restrictions on the shares as it deems appropriate, including the satisfaction of performance criteria. The Committee may provide that such restrictions will lapse with respect to specified percentages of the awarded shares on successive anniversaries of the date of the award. During the restricted period, the grantee is entitled to receive dividends with respect to, and to vote the shares awarded to him or her. If, during the restricted period, the grantee’s continuous employment with the Company terminates for any reason, any shares remaining subject to restrictions will be forfeited. The Committee has the authority to cancel any or all outstanding restrictions prior to the end of the restricted period, including cancellation of restrictions in connection with certain types of termination of employment.

In 2005, our Board of Directors authorized a new Incentive Stock Option Plan (the “Special Plan”) and our shareholders approved the Special Plan in 2006. The number of Common Shares available for grants pursuant to the Special Plan was set at 2,000,000 shares. The Special Plan is intended to be used solely to attract or retain senior management and/or members of the Board of Directors. Unless otherwise determined by the Committee, options granted pursuant to the Special Plan have an exercise price of \$3.00 per share. In addition, shares issued upon exercise are locked up for up to five years following the grant date, and the right to obtain shares is contingent upon the optionee providing services to the Company throughout the entire five year period. In the event of a change of control of the Company, any unvested options will be accelerated.

The Special Plan is administered by the Committee. Subject to the provisions of the Special Plan, the Committee determines the type of award, when and to whom awards will be granted and the number of shares covered by each award. The Committee also determines the terms and provisions with respect to awards. The Committee has discretionary authority to interpret the Special Plan and to adopt rules and regulations related thereto.

Pursuant to the Special Plan, in November 2005, the Company’s President and Chief Executive Officer was granted options to purchase 1,000,000 Common Shares at an exercise price of \$3.00 per share.

During 2009, under the Prior Incentive Plans and the Special Plan, we granted to our directors and executive officers a total of 57,892 options to purchase Common Shares at an exercise price of \$1.50 per Common Share, which options have a term of six years.

During 2010, under the Prior Incentive Plans and the Special Plan, we granted to our directors and executive officers a total of 210,000 options to purchase Common Shares at an exercise price of \$1.60 per Common Share, as applicable, which options have a term of six years.

As of December 31, 2012, options to purchase 2,386,852 Common Shares, 1,475,346 of which were held by officers and directors, were outstanding under the Prior Incentive Plans and the Special Plan. As of that date, there were 6,471 shares of restricted stock that the Company had granted to employees and other eligible grantees (none of which were held by current or former officers and directors), and all of which had vested (prior to 1998) under the restricted stock awards.

New Incentive Stock Option Plan

Upon the approval of our 2011 Share Incentive Plan, which is described below, our board of directors determined that no further awards would be issued under the Prior Incentive Plans and the Special Plan.

2011 Share Incentive Plan

In 2011, in connection with the acquisition of IDIT and FIS, our board of directors approved our 2011 Share Incentive Plan (the “2011 Plan”) pursuant to which our employees, directors, officers, consultants, advisors, suppliers, business partner, customer and any other person or entity whose services are considered valuable are eligible to receive awards of share options, restricted shares, restricted share units and other share-based awards. The number of Common Shares available under the 2011 Plan was set at 4,000,000.

Options granted under the 2011 Plan may be “incentive stock options” (“ISOs”), within the meaning of section 422 of the Internal Revenue Code of 1986, as amended (the “Code”), or non-qualified stock options (“non-Qualified Stock Options”). Restricted shares may be granted in addition to or in lieu of any other award granted under the 2011 Plan. In addition, the Company may grant restricted share units and other share-based compensation. Option grants under the 2011 Plan are intended to comply with, and benefit from, applicable tax laws and regulations in Israel to the extent applicable the recipient of the grant.

The 2011 Plan is administered by the Committee. Subject to the provisions of the 2011 Plan, the Committee determines the type of award, when and to whom awards will be granted and the number of shares covered by each award. The Committee also determines the terms, provisions, and kind of consideration payable (if any), with respect

to awards. The Committee has discretionary authority to interpret the 2011 Plan and to adopt rules and regulations related thereto. In determining the persons to whom awards shall be granted and the number of shares covered by each award, the Committee takes into account their present and potential contributions to the success of the Company and such other factors as the Committee shall deem relevant in connection with accomplishing the purpose of the 2011 Plan.

An option may be granted on such terms and conditions as the Committee may approve, and generally may be exercised for a period of up to 6 years from the date of grant. Options granted under the 2011 Plan become exercisable in four equal, annual installments, beginning with the first anniversary of the date of the grant, or pursuant to such other schedule as the Committee may provide in the option agreement. The exercise price of such options generally will be not less than 100% of the fair market value per share of the Common Shares at the date of the grant. In the case of ISOs, certain limitations will apply with respect to the aggregate value of option shares which can become exercisable for the first time during any one calendar year, and certain additional limitations will apply to “Ten Percent Shareholders” (as defined in the 2011 Plan). The Committee may provide for the payment of the option price in cash, by delivery of other Common Shares having a fair market value equal to such option exercise price, by a combination thereof or by any method in accordance with the terms of the option agreements. The Incentive Plans contain special rules governing the time of exercise of options in the case of death, disability, or other termination of employment. Options are not transferable except by will or pursuant to applicable laws of descent and distribution upon death of the employee, unless otherwise approved by the Company’s Board of Directors.

The 2011 Plan also provides for the granting of restricted share awards, which are awards of Common Shares that may not be disposed of, except by will or the laws of descent and distribution, for such period as the Committee determines (the “restricted period”). The Committee may also impose such other conditions and restrictions on the shares as it deems appropriate, including the satisfaction of performance criteria. The Committee may provide that such restrictions will lapse with respect to specified percentages of the awarded shares on successive anniversaries of the date of the award. During the restricted period, the grantee is entitled to receive dividends with respect to, and to vote the shares awarded to him or her. If, during the restricted period, the grantee’s continuous employment with the Company terminates for any reason, any shares remaining subject to restrictions will be forfeited. The Committee has the authority to cancel any or all outstanding restrictions prior to the end of the restricted period, including cancellation of restrictions in connection with certain types of termination of employment.

The 2011 Plan also provides for the granting of restricted share units, which are awards that are settled by the issuance of a number of Common Shares. The grantee has no rights with respect to such Common Shares until they are actually issued to the grantee. The Committee may also grant other share-based awards, such as share appreciation rights.

Upon the consummation of the acquisition of IDIT and FIS, 1,938,844 share options with a weighted average exercise price of \$2.09 were issued under the 2011 Plan to former employees of IDIT and FIS in exchange for the share options which had been granted to them by IDIT and FIS, which were cancelled upon the closing of the acquisition.

During 2011 we granted to the Company’s directors and officers options to purchase 300,000 Common Shares, at an exercise price of \$3.00 per Common Share, which options have a term of six years.

During 2012 we granted to the Company’s directors and officers options to purchase 60,000 Common Shares, at an exercise price of \$3.84 per Common Share, which options have a term of six years.

As of December 31, 2012, options to purchase 1,861,957 Common Shares, 360,000 of which were held by our directors and officers, were outstanding under the 2011 Plan. As of December 31, 2012, 1,410,270 shares were available for future grant under the 2011 Plan.

C.

Board Practices

Members of the Company's Board of Directors are elected by a vote at the annual general meeting of shareholders and serve for a term of one year from the date of the prior year's annual meeting. Directors may serve multiple terms and are elected by a majority of the votes cast at the meeting. The Chief Executive Officer serves until his removal by the Board of Directors or resignation from office. Our non-employee directors do not have agreements with the Company for benefits upon termination of their service as directors.

Audit Committee

The Audit Committee of our Board of Directors is comprised of three independent directors (such independence determination having been made by our Board of Directors, in accordance with the NASDAQ Listing Rules), who were nominated by the Board of Directors: Yacov Elinav, Uzi Netanel and Eyal Ben Chlouche. The Board of Directors has determined that Mr. Elinav meets the definition of an audit committee financial expert (as defined in Item 16A (b) of Form 20-F promulgated by the SEC). The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing financial information, internal controls and the audit process. In addition, the Committee is responsible for oversight of the work of our independent auditors. The Committee meets at regularly scheduled quarterly meetings.

Compensation Committee

The Compensation Committee of our Board of Directors is comprised of two directors, nominated by the Board of Directors: Naamit Salomon and Guy Bernstein. The Compensation Committee is responsible for the review and approve the grants of options to our employees and other compensation matters as requested by the Board from time to time.

NASDAQ Exemptions for a Controlled Company

We are a controlled company within the meaning of NASDAQ Listing Rule 5615(c)(1) since Formula holds more than 50% of our voting power.

Under Rule 5615(c)(2), a controlled company is exempt from the requirements of NASDAQ Listing Rules 5605(b), (d) and (e) listed below:

The majority of the company's board of directors must qualify as independent directors, as defined under NASDAQ Listing Rule 5605(a)(2).

The compensation of the chief executive officer and all other executive officers must be determined, or recommended to the board of directors for determination, either by (i) a majority of the independent directors or (ii) a compensation committee comprised solely of independent directors (subject to limited exceptions).

Director nominees must either be selected or recommended for the board of directors' selection, either by (a) a majority of independent directors or (b) a nominations committee comprised solely of independent directors (subject to limited exceptions).

The company must certify that it has adopted a formal written charter or board resolution, as applicable, addressing the nominations process and such related matters as may be required under US federal securities laws.

NASDAQ Opt Out for a Foreign Private Issuer

We are a foreign private issuer within the meaning of NASDAQ Listing Rule 5005(a)(18), since we are governed by the laws of Curaçao and we meet the other criteria set forth for a "foreign private issuer" under Rule 3b-4(c) under the Exchange Act.

Pursuant to NASDAQ Listing Rule 5615(a)(3), a foreign private issuer may follow home country practice in lieu of certain provisions of the NASDAQ Listing Rule 5600 series and certain other NASDAQ Listing Rules. Please see Item 16G below ("Corporate Governance") for a description of the manner in which we rely upon home country practice in lieu of NASDAQ Listing Rules. We rely on home country practice with respect to a number of matters for which we would otherwise be exempt under the controlled company exemption described above under "NASDAQ Exemptions for a Controlled Company"

D. Employees

As of December 31, 2012, we had a total of 791 employees, a 15% increase from the end of 2011.

The following table sets forth the number of employees in (1) research and development, (2) consulting, delivery and technical support and (3) SG&A at the end of each of the past three years, as well as their geographic area of employment:

	Total Employees	Research & Development	Consulting, Delivery & Technical Support	SG&A
2012	791	168	525	98
2011	688	128	469	91
2010	361	80	230	51

Geographic Area	Total Number of Employees, in All Categories of Activities		
	2010	2011	2012
Israel	254	464	540
UK and Europe	41	126	150
North America	45	71	75
Asia Pacific	23	37	26
Total Employees	361	688	791

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E. Share Ownership

The number of our Common Shares beneficially owned by each of our directors and executive officers individually, and by our directors and executive officers as a group, as of March 10, 2013, is as follows:

	Shares Beneficially Owned			
	Number		Percent (1)	
Roni Al Dor	1,299,781	(2)	3.1	%
All directors and executive officers as a group (7 persons, including Roni Al Dor)(3) (4)	1,523,572		3.6	%

Unless otherwise indicated below, the persons in the above table have sole voting and investment power with respect to all shares shown as beneficially owned by them. The percentages shown are based on 38,679,505 (1) Common Shares outstanding as of March 10, 2013 plus such number of Common Shares as the indicated person or group had the right to receive upon exercise of options which are exercisable within 60 days of March 10, 2013.

Includes options to purchase 189,504 Common Shares under the Prior Incentive Plans at an exercise price of \$1.50 per share expiring no later than September 2015, and options to purchase 935,277 Common Shares under the Special Plan at an exercise price of \$1.50 per share expiring no later than September 2015 and options to purchase 75,000 Common Shares under the Incentive Plans at an exercise price of \$1.60 per share expiring no later than (2) March 2016, which are vested or will become vested within 60 days of March 10, 2013. In addition Mr. Al Dor has options to purchase 225,000 Common Shares with exercise prices between \$1.60 and \$3.00 per share which are not vested or becoming vested within 60 days of March 10, 2013). See Item 6 - "Directors, Senior Management and Employees - Compensation of Directors and Officers.

Each of our directors and executive officers who is not separately identified in the above table beneficially owns (3) less than 1% of our outstanding Common Shares (including options held by each such party and which are vested or will become vested within 60 days of March 10, 2013) and has therefore not been separately identified.

Includes options to purchase 1,523,572 Common Shares at exercise prices ranging from \$1.50 to \$2.24 per share, (4) which are vested or will become vested within 60 days of March 10, 2013, and none of such options expires before 2015.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders.

The following table sets forth, as of March 10, 2013, certain information with respect to the beneficial ownership of the Company's Common Shares by each person known by the Company to own beneficially more than 5% of the outstanding Common Shares, based on information provided to us by the holders or disclosed in public filings with the Securities and Exchange Commission.

We determine beneficial ownership of shares under the rules of Form 20-F promulgated by the SEC and include any Common Shares over which a person possesses sole or shared voting or investment power, or the right to receive the economic benefit of ownership, or for which a person has the right to acquire any such beneficial ownership at any time within 60 days.

Name and Address	Shares Beneficially Owned	
	Number	Percent (1)
Formula Systems (1985) Ltd. (2) 5 HaPlada Street Or Yehuda 60218, Israel	21,900,035	56.6 %
KCPS Technology Investments (2006) Ltd. (3) One Azrieli Center, Round Tower, 30th Floor Tel Aviv 67021, Israel	3,759,806	9.7 %

Unless otherwise indicated below, the persons in the above table have sole voting and investment power with respect to all shares shown as beneficially owned by them.

(1) The percentages shown are based on 38,679,505 Common Shares outstanding as of March 10, 2013.

(2) Based on Amendment No. 21 to the Schedule 13D filed by Formula on December 3, 2012. As of March 10, 2013, Asseco beneficially owns 50.2% of the outstanding share capital of Formula. As such, Asseco is deemed to be the beneficial owner of the aggregate 21,900,035 Common Shares held directly by Formula. The address of Asseco is Olchowa 14 35-322 Rzeszow, Poland.

Based on Amendment No. 2 to the Schedule 13G filed by KCPS Technology Investments (2006) Ltd. (“KCPS Technology”), KCS Private Equity Partners I L.P, KCPS Private Equity Partners I (Cayman), L.P, KCS Private Equity Partners 1 L.P, KCS Private Equity Partners MP L.P, KCS Partners, LP and KCPS PE Investment Management (2006) Ltd. (“KCPS PE”) on January 14, 2013 with respect to holdings as of December 31, 2012.

KCPS PE is the general partner of KCS Partners, LP, which in turn is the general partner of each of KCS Private (3)Equity Partners I L.P, KCPS Private Equity Partners I (Cayman), L.P, KCS Private Equity Partners 1 L.P and KCS Private Equity Partners MP L.P (the “Shareholders”), which are significant shareholders of KCPS Technology. By reason of KCPS PE's control over KCS Partner LP, by KCS Partner LP's control of each of the Shareholders and by the Shareholders' control of KCPS Technology Investments (2006) Ltd., each of KCPS PE, KCS Partner LP and the Shareholders may be deemed to beneficially own, and share the power to vote and dispose of, the Common Shares beneficially owned by KCPS Technology.

Significant changes in holdings of major shareholders

From time to time, Formula has increased its beneficial shareholding in our Company through market purchases of additional Common Shares. From January 2010 through July 10, 2011, Formula increased its holding of our Common Shares by approximately 1,198,431 additional Common Shares through purchases on the public market and in private transactions. See the Schedule 13D/As filed by Formula with the SEC on July 26, 2010, June 14, 2011 and July 13, 2011 with respect to such purchases.

On August 21, 2011, KCPS Technology Investments (2006) Ltd. acquired 3,759,806 Common Shares in connection with our acquisition of IDIT and FIS. See the Schedule 13G filed by KCPS Technology Investments (2006) Ltd. with the SEC on July 25, 2011 with respect to such acquisition. On August 21, 2011, Kardan acquired shared beneficial ownership of 7,536,243 Common Shares and Formula Vision Technologies (F.V.T.) Ltd. ("FVT") and Dan Goldstein acquired shared beneficial ownership of 9,638,337 Common Shares. See the Schedule 13D filed by Kardan and other parties with the SEC on July 29, 2011 with respect to such acquisition.

Between July 11, 2011 through August 25, 2011, Formula purchased 356,555 Common Shares in private transactions. See the Schedule 13D/As filed by Formula with the SEC on August 18, 2011 and August 25, 2011 with respect to such purchases. Between September 28, 2011 and November 14, 2011, Formula purchased 1,891,885 Common Shares from FVT. See the Schedule 13D/As filed by Formula with the SEC on October 4, 2011 and November 22, 2011 with respect to such purchases. From December 28, 2011 through January 29, 2012, Formula purchased an aggregate of 2,005,738 Common Shares in private transactions. Of such Common Shares, 1,600,000 were purchased from FVT and Kardan. See the Schedule 13D/A filed by Formula with the SEC on January 31, 2012 with respect to such purchases.

On August 16, 2012, Formula purchased 1,000,000 Common Shares from Kardan in a private transaction. See the Schedule 13D/A filed by Formula with the SEC on August 21, 2012 with respect to such purchase.

Between September 28, 2012 and November 28, 2012, Kardan sold an aggregate of 2,065,733 Common Shares. Of such Common Shares, 2,000,000 were repurchased by the Company from Kardan on November 28, 2012. See the Schedule 13D/A filed by Kardan with the SEC on November 29, 2012 with respect to such sale.

Voting rights of major shareholders

The major shareholders disclosed above do not have different voting rights than other shareholders with respect to the Common Shares that they hold.

Holders of Record

As February 25, 2013 there were 100 holders of record of the Company's Common Shares, including 53 holders of record with addresses in the United States who hold a total of 30,367,619 (out of which 30,312,562 Common Shares are held of record by CEDE & Co), representing approximately 74% of our issued and outstanding Common Shares. The number of record holders in the United States is not representative of the number of beneficial holders, nor is it representative of where such beneficial holders are resident, because many of these Common Shares were held of record by nominees (including CEDE & Co., as nominee for a large number of banks, brokers, institutions and underlying beneficial holders of our Common Shares).

Control of the Company

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 50.2% of the outstanding share capital of Formula, both Formula and Asseco may be considered to control the Company. We are unaware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

B. Related Party Transactions.

The description of the Share Purchase Agreement and Registration Rights Agreement set forth in Item 10.C "Material Contracts" are incorporated herein by reference.

On November 28, 2012, the Company and Kardan Technologies Ltd. entered into a Share Purchase Agreement pursuant to which Kardan Technologies Ltd. sold to Sapiens 2,000,000 Common Shares for a purchase price of \$3.50 per Common Share, or an aggregate purchase price of \$7,000,000.

C. Interests of Experts and Counsel.

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information.

Financial Statements

See the Consolidated Financial Statements and related notes in Item 18.

Export Sales

In 2012, 77% of our revenues originated from customers located outside of Israel. For information on our revenues breakdown by geographic market for the past three years, see Item 4, “Information on the Company – Business Overview - Geographical Distribution of Revenues.”

Legal Proceedings

In July 2010, one of our subsidiaries, Sapiens Americas, was served with a claim submitted to the Court of Arbitration at the Polish Chamber of Commerce in Warsaw by Powszechny Zaklad Ubezpieczen SA ("PZU"), a former customer in Poland, claiming an amount of approximately €3.4 million. The claim relates to a dispute regarding Sapiens Americas' performance of its contractual duties in a project for PZU in 2008.

In November 2011, we entered into a settlement agreement with PZU, pursuant to which Sapiens paid PZU Euro 1.1 million and PLN 102,719.73 for full and final settlement of the claim. On December 12, 2011, the Court of Arbitration approved the settlement agreement and withdrawal of the claim. We received an amount of \$1.2 million from our insurance company in connection with this case.

In addition, we are a party to various other legal proceedings and claims that arise in the ordinary course of business.

Dividend Policy

Upon review of our consolidated results of operations, financial condition, cash requirements, future prospects and other factors, on January 15, 2013, our Board of Directors determined, subject to shareholder approval, to declare and pay a one-time cash dividend of \$0.15 per Common Share (or \$5.8 million in the aggregate). Our Board of Directors has not yet made a determination as to whether the Company would pay additional dividends in the future. For more information about distribution of dividends and various tax implications, see Item 10, “Additional Information - Memorandum and Articles of Association;” Item 10, “Additional Information – Exchange Controls,” and Item 10, “Additional Information – Taxation.”

None

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ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details.

The Company's Common Shares are quoted on the NASDAQ Capital Market and on the TASE under the symbol "SPNS".

NASDAQ:

The table below sets forth the high and low market prices (in US dollars) for our Common Shares on the NASDAQ Capital Market on an annual basis for the years 2008 through 2012, and on the NASDAQ Capital Market on a quarterly basis for 2010, 2011, 2012, and the first two months of 2013.

	HIGH	LOW
2008 (Annual)	2.40	0.82
2009 (Annual)	2.00	0.76
2010 (Annual)	3.20	1.33
2011 (Annual)	4.74	2.31
2012 (Annual)	4.33	3.03
2013 (through February 28, 2013)	5.62	3.93
2010		
First Quarter	\$2.20	\$1.33
Second Quarter	3.20	1.91
Third Quarter	3.14	1.68
Fourth Quarter	2.90	2.21
2011		
First Quarter	4.74	2.31
Second Quarter	4.07	2.96
Third Quarter	4.37	2.67
Fourth Quarter	4.20	2.72
2012		
First Quarter	4.33	3.03
Second Quarter	4.48	3.25
Third Quarter	4.07	3.40
Fourth Quarter	4.17	3.16

The table below sets forth the high and low market prices for our Common Shares on the NASDAQ Capital Market on a monthly basis during the most recent six-month period.

	HIGH	LOW
September 2012	3.95	3.50
October 2012	3.80	3.20
November 2012	3.76	3.16
December 2012	4.17	3.63
January 2013	5.62	3.93
February 2013	5.07	4.62

The closing price of our Common Shares on the NASDAQ Capital Market on February 28, 2013, being the last practicable date prior to publication of this annual report, was \$4.83.

TASE:

Our Common Shares began trading on the TASE effective March 6, 2003. Under current Israeli law, the Company will satisfy its reporting obligations in Israel by furnishing to the applicable Israeli regulators those reports which the Company is required to file or submit in the United States. The table below sets forth the high and low market prices, in US dollars, for our Common Shares on the TASE on an annual basis for the years 2008 through 2012 and on a quarterly basis for the years 2011 and 2012, and the first two months of 2013. The conversion from NIS into US dollars for the following two tables is based on the average monthly representative rate of exchange published by the Bank of Israel then in effect for the month in which such high or low price per share was recorded.

	HIGH	LOW
2008 (Annual)	2.31	0.88
2009 (Annual)	2.06	0.92
2010 (Annual)	3.30	1.30
2011 (Annual)	4.45	2.35
2012 (Annual)	4.17	2.98
2013(through February 28, 2013)	5.16	4.01
2011		
First Quarter	4.43	2.33
Second Quarter	4.18	3.17
Third Quarter	4.27	3.09
Fourth Quarter	4.18	2.69
2012		
First Quarter	4.22	3.04
Second Quarter	4.17	3.16
Third Quarter	3.96	3.49

Fourth Quarter

4.19 3.30

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The table below sets forth the high and low market prices for our Common Shares on TASE during the most recent six-month period:

	HIGH	LOW
September 2012	3.79	3.63
October 2012	3.89	3.29
November 2012	3.78	3.30
December 2012	4.26	3.76
January 2013	5.10	3.96
February 2013	5.12	4.61

The closing price of our Common Shares on the TASE on February 28, 2013, being the last practicable date prior to publication of this annual report, was \$4.90.

B. Plan of Distribution.

Not applicable.

C. Markets.

The Company's Common Shares are listed on the NASDAQ Capital Market and on the TASE under the symbol "SPNS".

D. Selling Shareholders.

Not applicable.

E. Dilution.

Not applicable.

F. Expenses of the Issue.

Not applicable.

Item 10. Additional Information

A. Share Capital.

Not applicable.

B. Memorandum and Articles of Association (the “Articles”).

1. *Registration and Purposes.* The Company is organized and existing under the laws of Curaçao. Its registered number is 53368.

The objects and purposes of the Company, which are itemized in Article II of the Articles, may be summarized as follows:

to establish, participate in or have any other interest in business enterprises concerned with the development and commercial operation of software;

to finance directly or indirectly the activities of the Company, its subsidiaries and affiliates;

to borrow and to lend moneys;

to engage in the purchase and sale of securities, futures, real estate, business debts, commodities and intellectual property;

to undertake, conduct and promote research and development;

to guarantee, pledge, mortgage or otherwise encumber assets as security for the obligations of the Company or third parties; and

to do all that may be useful or necessary for the attainment of the above purposes.

Board of Directors. A member of the Board of Directors may vote on a proposal or transaction in which he/she has a material interest if the material facts as to the director's self-interest are disclosed to the Board of Directors. Neither the Articles nor Curaçao law requires a majority of the disinterested directors to authorize the proposal or transaction. Members of the Board of Directors have the power to vote compensation to themselves, even if they lack an independent quorum.

The Articles do not grant borrowing powers to directors; nor do they require directors to resign at a certain age or to purchase a certain number of Common Shares.

Rights and Preferences. The Company has only one class of shares of common stock, the Common Shares, currently outstanding. All previous issuances of preferred shares have been converted into Common Shares. The rights and preferences of the holders of Common Shares are summarized below. The Articles authorize a class of undefined preferred shares (the "Blank Preferred Shares"). There are no rights associated with the Blank Preferred Shares and none have been issued.

(a)

Common Shares

Holders of the Common Shares are entitled to one vote for each whole share on all matters to be voted upon by shareholders, including the election of directors. Holders of the Common Shares do not have cumulative voting rights in the election of directors. All Common Shares are equal to each other with respect to liquidation and dividend rights. Holders of the Common Shares are entitled to receive dividends, subject to shareholder approval, out of funds legally available under Curaçao law. See “Dividend Policy” below. In the event of the liquidation of the Company, all assets available for distribution to the holders of the Common Shares are distributable among them according to their respective holdings, subject to the preferences of any shares having a preference upon liquidation that may be then outstanding. Holders of the Common Shares have no preemptive rights to purchase any additional, unissued Common Shares. The foregoing summary of the Common Shares does not purport to be complete and is subject to, and qualified in its entirety by, the provisions of the Articles.

(b)

Dividend Policy

Upon review of our consolidated results of operations, financial condition, cash requirements, future prospects and other factors, on January 15, 2013, our Board of Directors determined, subject to shareholder approval, to declare and pay a one-time cash dividend of \$0.15 per Common Share (or \$5.8 million in the aggregate). Our Board of Directors has not yet made a determination as to whether the Company would pay additional dividends in the future. Any determination in the future to pay dividends will be dependent upon the Company's financial condition, cash requirements and other factors. In addition, the ability of the Company to pay dividends is subject to the limitations of the Curaçao Civil code, which provides, among other things, that dividends, while permitted to be paid periodically during a fiscal year, are subject to being proposed by the Board of Directors of the Company and approved thereafter at the General Meeting of Shareholders. The Curaçao Civil code also provides that a distribution of dividends can only occur if, at the moment of distribution, the equity of the Company equals at least the nominal capital of the Company and, as a result of the distribution, will not fall below the nominal capital. Nominal capital is the sum of the par values of all of the issued shares of the Company's capital stock at any moment in time.

(c)

The Blank Preferred Shares

There are no preferences or any rights whatsoever associated with the Blank Preferred Shares. These shares are unissued and are not owned by any of the current shareholders of the Company. Any issuance of these preferred shares is solely within the discretion of the Company's Board of Directors. The Company has undertaken toward the TASE that so long as its Common Shares are listed for trading on the TASE, the Company shall not issue or grant any shares of a different class of shares than those that are listed for trading on the TASE. This undertaking does not apply to Preferred Shares as defined in Section 46B(b) of the Israel Securities Law, on the condition that such Preferred Shares are issued in accordance with the conditions set forth in Section 46A(1) therein.

Changing the Rights of the Shareholders. The general meeting of shareholders decides upon any change in the 4. Articles. A resolution to amend the Articles requires the approval of the absolute majority of all shares outstanding and entitled to vote.

General Meetings. At least one general meeting of shareholders must be held each year. General meetings must be held in Curaçao. Special general meetings of shareholders may be called at any time by the Chairman of the Board or by the Board of Directors upon no less than 12 nor more than 60 days' written notice to the Company's shareholders. Every shareholder has the right to attend any meeting of shareholders in person or by proxy and to address the meeting. No action may be taken at any meeting of shareholders unless a quorum consisting of holders of at least one-half of the shares outstanding and entitled to vote are present at the meeting in person or by proxy.

6. **Limitations to Own Securities.** The Articles contain no limits on the right to own securities.

7. **Change of Control.** The Articles contain no provisions that would prevent or delay a change of control of the Company.

8. **Disclosure of Ownership.** By-laws do not exist under Curaçao law. The Articles contain no provisions requiring a shareholder to disclose his or her interest at a certain time; however, holders of our shares are subject to the reporting provisions of the Securities and Exchange Commission.

C. Material Contracts

Share Purchase Agreement

On July 21, 2011, we, Sapiens Technologies (1982) Ltd., our Israeli wholly-owned subsidiary ("Purchaser"), IDIT, the shareholders of IDIT (the "IDIT Selling Shareholders"), Amit Ben-Yehuda, as the IDIT Shareholder Representative, FIS, the shareholders of FIS (the "FIS Selling Shareholders") and Dan Goldstein as the Shareholders Representative, entered into a Share Purchase Agreement (the "Share Purchase Agreement"). Under the terms of the Share Purchase Agreement, the Purchaser agreed to purchase all of the share capital (on a fully diluted basis) of each of IDIT and FIS (each, an "Acquisition" and together, the "Acquisitions").

The consideration paid under the Share Purchase Agreement to the FIS Selling Shareholders was composed of \$6.75 million in cash (payable to two of the FIS Selling Shareholders), 10,016,875 newly issued Common Shares and warrants to purchase an aggregate of 1,000,000 newly issued Common Shares (issuable to two of the FIS Selling Shareholders). The consideration to be paid under the Share Purchase Agreement to the IDIT Selling Shareholders is composed of 7,483,125 newly issued Common Shares.

In addition to the purchase of IDIT's and FIS' share capital, we agreed to replace all options to purchase ordinary shares of IDIT and FIS that were outstanding as of the closing of the respective Acquisition with options to purchase Common Shares under our new 2011 option plan, according to conversation ratios set forth in the Share Purchase Agreement. See Item 6(B) "2011 Share Incentive Plan" above.

The Share Purchase Agreement includes customary representations, warranties and covenants of the parties, as well as certain indemnification and escrow arrangements. The parties have agreed on the terms pursuant to which a representative of Kardan is to be appointed to our board of directors.

The Acquisitions were consummated on August 21, 2011.

Pursuant to the Share Purchase Agreement, upon consummation of the IDIT Transaction, 10% of the Common Shares issued to the IDIT Selling Shareholders were placed in escrow with an escrow agent for a period of 12 months after the closing to secure the indemnification and other obligation of the IDIT Selling Shareholders to the Purchaser pursuant to the Share Purchase Agreement.

In connection with the Share Purchase Agreement, we entered into a Registration Rights Agreement (the "Registration Rights Agreement") with the IDIT Selling Shareholders and the FIS Selling Shareholders (together, the "Holders"). Pursuant to the Registration Rights Agreement, the Holders are entitled to piggyback registration rights in connection with any registration statement we file (subject to customary exceptions). The Holders also agreed to execute a lock-up agreement if requested by the representative of the underwriters in any underwritten offering.

Agreement with Menora

In 2011, we entered into a new agreement with Menora Insurance, an Israeli insurance and financial services provider (the "Menora Agreement"). The term of the Menora Agreement is 4 years. Under the Menora Agreement, the services provided are based upon an annual budget provided to us by Menora pursuant to which Menora purchases from us mainly consulting services, which are to be provided over the course of the relevant year. The agreement includes fixed time and material billing rates for consulting services, maintenance services for the licensed software, an escrow arrangement and also a royalty payment arrangement in favor of Menora in case we outlicense a similar solution (that includes all the specific features developed in the course of the Menora Agreement) to other third parties in the future. Under the Menora Agreement, Menora will have to compensate us if it did not meet the targeted budget during the course of the 4 year term.

D.

Exchange Controls

Although there are Curaçao laws which may impose foreign exchange controls on the Company and may affect the payment of dividends, interest or other payments to non-resident holders of the Company's securities, including the Common Shares, the Company has been granted an exemption from such foreign exchange control regulations by the Central Bank of Curaçao. Other jurisdictions in which the Company conducts operations may have various currency or exchange controls. In addition, the Company is subject to the risk of changes in political conditions or economic policies which could result in new or additional currency or exchange controls or other restrictions being imposed on the operations of the Company. As to the Company's securities, Curaçao law and the Articles impose no limitations on the right of non-resident or foreign owners to hold or vote such securities.

E.

Taxation

Israeli Tax Considerations and Government Programs

The following is a general discussion only and is not exhaustive of all possible tax considerations. It is not intended, and should not be construed, as legal or professional tax advice and should not be relied upon for tax planning purposes. In addition, this discussion does not address all of the tax consequences that may be relevant to purchasers of our Common Shares in light of their particular circumstances, or certain types of purchasers of our Common Shares subject to special tax treatment. Examples of this kind of investor include residents of Israel and traders in securities who are subject to special tax regimes not covered in this discussion. Each individual/entity should consult its own tax or legal advisor as to the Israeli tax consequences of the purchase, ownership and disposition of our Common Shares.

To the extent that part of the discussion is based on new tax legislation, which has not been subject to judicial or administrative interpretation, we cannot assure you that the tax authorities or the courts will accept the views expressed in this section.

The following summary describes the current tax structure applicable to companies in Israel, with special reference to its effect on us. The following also contains a discussion of the material Israeli tax consequences to holders of our Common Shares.

General Corporate Tax Structure

Generally, in 2012, Israeli companies were subject to a corporate tax at the rate of 25% of their taxable income for such year. However, the effective tax rate payable by a company that derives income from an Approved Enterprise, a Benefited Enterprise or Preferred Enterprise, as further discussed below, may be considerably less. See “Law for the Encouragement of Capital Investments” in this Item 10.E below. Beginning as of 2010, Israeli companies are subject to regular corporate tax rate for their capital gains.

Besides being subject to the general corporate tax rules in Israel, certain of our Israeli subsidiaries have also, from time to time, applied for and received certain grants and tax benefits from, and participate in, programs sponsored by the Government of Israel, as described below.

Law for the Encouragement of Industry (Taxes), 1969

The Law for the Encouragement of Industry (Taxes), 5729-1969 (the “**Industry Encouragement Law**”) provides several tax benefits for an “Industrial Company”. Pursuant to the Industry Encouragement Law, a company qualifies as an Industrial Company if it is an Israeli resident and at least 90% of its income in any tax year (other than income from certain government loans) is generated from an “Industrial Enterprise” that it owns. An “Industrial Enterprise” is defined as an enterprise whose major activity, in a given tax year, is industrial production.

An Industrial Company is entitled to certain tax benefits, including:

Deduction of the cost of the purchases of patents, or the right to use a patent or know-how used for the development or promotion of the Industrial Enterprise, over an eight year period commencing on the year in which such rights were first exercised;

§ Straight-line deduction of expenses related to a public offering in equal amounts over a three-year period commencing on the year of offering;

§ The right to elect, under certain conditions, to file a consolidated tax return with additional Israeli Industrial Companies controlled by it; and

§ Accelerated depreciation rates on equipment and buildings.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

We believe that certain of our Israeli subsidiaries currently qualify as Industrial Companies within the definition under the Industry Encouragement Law. We cannot assure you that we will continue to qualify as Industrial Companies or that the benefits described above will be available in the future.

Law for the Encouragement of Capital Investments, 1959

The Law for the Encouragement of Capital Investments, 5719-1959 (the “**Investment Law**”), provides certain incentives for capital investments in a production facility (or other eligible assets). Generally, an investment program that is implemented in accordance with the provisions of the Investment Law, referred to as an Approved Enterprise, a Benefited Enterprise or a Preferred Enterprise, is entitled to benefits as discussed below. These benefits may include cash grants from the Israeli government and tax benefits, based upon, among other things, the location of the facility in which the investment is made or the election of the grantee. In order to qualify for these incentives, an Approved Enterprise, a Benefited Enterprise or a Preferred Enterprise is required to comply with the requirements of the Investment Law.

The Investment Law has been amended several times over the last years, with the two most significant changes effective as of April 1, 2005 (the “**2005 Amendment**”), and as of January 1, 2011 (the “**2011 Amendment**”). Pursuant to the 2005 Amendment, tax benefits granted in accordance with the provisions of the Investment Law prior to its revision by the 2005 Amendment remain in force but any benefits granted subsequently are subject to the provisions of the amended Investment Law. Similarly, the 2011 Amendment introduced new benefits instead of the benefits granted in accordance with the provisions of the Investment Law prior to the 2011 Amendment, yet companies entitled to benefits under the Investment Law as in effect up to January 1, 2011 may choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead to forego such benefits and elect the benefits of the 2011 Amendment.

The following discussion is a summary of the Investment Law prior to its amendments as well as the relevant changes contained in the new legislation.

Tax benefits for Approved Enterprises approved before April 1, 2005.

Under the Investment Law prior to its amendment, a company that wished to receive benefits had to receive an approval from the Investment Center of the Israeli Ministry of Industry, Trade and Labor, which we refer to as the Investment Center. Each certificate of approval for an Approved Enterprise relates to a specific investment program in the Approved Enterprise, delineated both by the financial scope of the investment and by the physical characteristics of the facility or the asset.

An Approved Enterprise may elect to forego any entitlement to the grants otherwise available under the Investment Law and, instead, participate in an alternative benefits program. Certain of our Israeli subsidiaries have chosen to receive the benefits through the alternative benefits track with respect to their respective programs. Under the alternative benefits track, a company's undistributed income derived from an Approved Enterprise will be exempt from corporate tax for a period of between two and ten years from the first year of taxable income, depending upon the geographic location within Israel of the Approved Enterprise. The benefits commence on the date in which that taxable income is first earned. Upon expiration of the exemption period, the Approved Enterprise is eligible for the reduced tax rates otherwise applicable under the Investment Law for any remainder of the otherwise applicable benefits period. The benefits period under Approved Enterprise status is limited to 12 years from commencement of production, or 14 years from the date of the approval, whichever ends earlier. If a company has more than one Approved Enterprise program or if only a portion of its capital investments are approved, its effective tax rate is the result of a weighted combination of the applicable rates. The tax benefits from any certificate of approval relate only to taxable profits attributable to the specific Approved Enterprise. Income derived from activity that is not integral to the activity of the Approved Enterprise will not enjoy tax benefits. In our case, subject to compliance with applicable requirements stipulated in the Investment Law and its regulations and in the specific certificate of approval, as described above, the portion of certain of our Israeli subsidiaries' undistributed income derived from their Approved Enterprise programs will be exempt from corporate tax for a period of two to four years, followed by five to eight years with reduced tax rate of 25% on income derived from Approved Enterprise investment programs.

A company that has an Approved Enterprise program is eligible for further tax benefits if it qualifies as a Foreign Investors' Company, or FIC. An FIC eligible for benefits is essentially a company with a level of foreign investment, as defined in the Investment Law, of more than 25%. The level of foreign investment is measured as the percentage of rights in the company (in terms of shares, rights to profits, voting and appointment of directors), and of combined share and loan capital, that are owned, directly or indirectly, by persons who are not residents of Israel. The determination as to whether or not a company qualifies as an FIC is made on an annual basis. An FIC that has an Approved Enterprise program will be eligible for an extension of the period during which it is entitled to tax benefits under its Approved Enterprise status (so that the benefit periods may be up to ten years) and for further tax benefits if the level of foreign investment exceeds 49%. If a company that has an Approved Enterprise program is a wholly owned subsidiary of another company, then the percentage of foreign investment is determined based on the percentage of foreign investment in the parent company.

The tax rates and related levels of foreign investments with respect to an FIC that has an Approved Enterprise program are set forth in the following table:

Percentage of non-Israeli ownership Tax Rate

Over 25% but less than 49%	25	%
49% or more but less than 74%	20	%
74% or more but less than 90%	15	%
90% or more	10	%

A company that has elected to participate in the alternative benefits program and that subsequently pays a dividend out of the income derived from the portion of its facilities that have been granted Approved Enterprise status during the tax exemption period will be required to recapture the deferred corporate tax applicable to the amount distributed (grossed up to reflect such tax) at the rate that would have been applicable had such income not been tax-exempted under the alternative route. This rate generally ranges from 10% to 25%, depending on the extent to which non-Israeli shareholders hold such company's shares. Such company may also be required to record a deferred tax liability with respect to such tax-exempt income prior to its distribution.

In addition, dividends paid out of income generated by an Approved Enterprise (or out of dividends received from a company whose income is generated by an Approved Enterprise) are generally subject to withholding tax at the rate of 15%, or at the lower rate provided under an applicable tax treaty. The 15% tax rate is limited to dividends and distributions out of income derived during the benefits period and actually paid at any time up to 12 years thereafter. After this period, the withholding tax is applied at a rate of up to 30%, or at the lower rate under an applicable tax treaty. In the case of an FIC, the 12-year limitation on reduced withholding tax on dividends does not apply.

The Investment Law also provides that an Approved Enterprise is entitled to accelerated depreciation on its property and equipment that are included in an approved investment program. This benefit is an incentive granted by the Israeli government regardless of whether the alternative benefits program is elected.

The benefits available to an Approved Enterprise are subject to the fulfillment of conditions stipulated in the Investment Law and its regulations and the criteria in the specific certificate of approval with respect thereto, as described above. If a company does not meet these conditions, it may be required to refund the amount of tax benefits, together with consumer price index linkage adjustment and interest.

Tax benefits under the 2005 Amendment that became effective on April 1, 2005.

On April 1, 2005, the Israeli Parliament passed an amendment to the Investment Law, in which it revised the criteria for investments qualified to receive tax benefits. An eligible investment program under the 2005 Amendment will qualify for benefits as a Benefited Enterprise (rather than the previous terminology of Approved Enterprise). Among other things, the 2005 Amendment provides tax benefits to both local and foreign investors and simplifies the

approval process.

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The 2005 Amendment applies to new investment programs and investment programs commencing after 2004, and does not apply to investment programs approved prior to December 31, 2004. The 2005 Amendment provides that terms and benefits included in any certificate of approval that was granted before the 2005 Amendment came into effect will remain subject to the provisions of the Investment Law as in effect on the date of such approval. Pursuant to the 2005 Amendment, the Investment Center will continue to grant Approved Enterprise status to qualifying investments. However, the 2005 Amendment limits the scope of enterprises that may be approved by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise, such as provisions generally requiring that at least 25% of the Approved Enterprise's income be derived from export.

The 2005 Amendment provides that the approval of the Investment Center is required only for Approved Enterprises that receive cash grants. As a result, a company is no longer required to obtain the advance approval of the Investment Center in order to receive tax benefits. Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set forth in the 2005 Amendment. A company that has a Benefited Enterprise may, at its discretion, approach the Israeli Tax Authority for a pre-ruling confirming that it is in compliance with the provisions of the Investment Law.

Tax benefits are available under the 2005 Amendment to production facilities (or other eligible facilities) that derive more than 25% of their business income from export to specific markets with a population of at least 12 million. In order to receive the tax benefits, the 2005 Amendment states that a company must make an investment which meets all the conditions that are set out in the amendment for tax benefits and which exceeds a minimum amount specified in the Investment Law. Such investment entitles a company to a Benefited Enterprise status with respect to the investment, and may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to the Benefited Enterprise. Where a company requests to have the tax benefits apply to an expansion of existing facilities, only the expansion will be considered to be a Benefited Enterprise, and the company's effective tax rate will be the weighted average of the applicable rates. In such case, the minimum investment required in order to qualify as a Benefited Enterprise must exceed a certain percentage of the value of the company's production assets before the expansion.

The extent of the tax benefits available under the 2005 Amendment to qualifying income of a Benefited Enterprise are determined, among other things, by the geographic location of the Benefited Enterprise. Such tax benefits include an exemption from corporate tax on undistributed income for a period of between two to ten years, depending on the geographic location of the Benefited Enterprise within Israel, and a reduced corporate tax rate of between 10% to 25% for the remainder of the benefit period, depending on the level of foreign investment in the company in each year, as explained above.

Dividends paid out of income derived by a Benefited Enterprise (or out of dividends received from a company whose income is derived from a Benefited Enterprise) are generally subject to withholding tax at the rate of 15% or such lower rate as may be provided in an applicable tax treaty. The reduced rate of 15% is limited to dividends and distributions out of income derived from a Benefited Enterprise during the benefits period and actually paid at any time up to 12 years thereafter, except with respect to a qualified FIC, in which case the 12-year limit does not apply. A company qualifying for tax benefits under the 2005 Amendment which pays a dividend out of income derived by its Benefited Enterprise during the tax exemption period will be subject to corporate tax at a rate otherwise applicable to the company in the year the income was earned (*i.e.*, 25%, or lower in the case of an FIC which is at least 49% owned by non-Israeli residents) on an amount consisting of such divided amount, grossed up by the otherwise applicable corporate tax rate. Such company may also be required to record a deferred tax liability with respect to such tax-exempt income prior to its distribution.

The benefits available to a Benefited Enterprise are subject to the fulfillment of conditions stipulated in the Investment Law and its regulations. If a company does not meet these conditions, it may be required to refund the amount of tax benefits, together with consumer price index linkage adjustment and interest, or other monetary penalty.

To date, one of our Israeli subsidiaries has a Benefited Enterprise.

Tax benefits under the 2011 Amendment that became effective on January 1, 2011.

The 2011 Amendment canceled the availability of the benefits granted in accordance with the provisions of the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a “Preferred Company” through its Preferred Enterprise (as such term is defined in the Investment Law) effective as of January 1, 2011 and onward. A Preferred Company is defined as either (i) a company incorporated in Israel and not fully owned by a governmental entity or (ii) a limited partnership (a) that was registered under the Israeli Partnerships Ordinance and (b) all limited partners of which are companies incorporated in Israel, but not all of them are governmental entities, which, in the case of the company and companies referenced in clauses (i) and (ii)(b), have, among other things, Preferred Enterprise status and are controlled and managed from Israel. Pursuant to the 2011 Amendment, a Preferred Company is entitled to a reduced corporate tax rate of 15% with respect to its preferred income derived by its Preferred Enterprise in 2011-2012, unless the Preferred Enterprise is located in a certain development zone, in which case the rate will be 10%. Such corporate tax rate will be reduced to 12.5% and 7%, respectively, in 2013-2014 and to 12% and 6% in 2015 and thereafter, respectively. Income derived by a Preferred Company from a ‘Special Preferred Enterprise’ (as such term is defined in the Investment Law) would be entitled, during a benefits period of 10 years, to further reduced tax rates of 8%, or to 5% if the Special Preferred Enterprise is located in a certain development zone.

Dividends paid out of income attributed to a Preferred Enterprise are generally subject to withholding tax at source at the rate of 15% or such lower rate as may be provided in an applicable tax treaty. However, if such dividends are paid to an Israeli company, no tax will be withheld.

The 2011 Amendment also provided transitional provisions to address companies already enjoying current benefits. These transitional provisions provide, among other things, that: (i) terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, which chose to receive grants, before the 2011 Amendment came into effect, will remain subject to the provisions of the Investment Law as in effect on the date of such approval, while the 25% tax rate applied to income derived by an Approved Enterprise during the benefit period will be replaced with the regular corporate income tax rate (25% as of 2012), unless a request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011 (such request should have been made by way of an application to the Israeli Tax Authority by June 30, 2011 and may not be withdrawn); and (ii) terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, which had participated in an alternative benefits program, before the 2011 Amendment came into effect will remain subject to the provisions of the Investment Law as in effect on the date of such approval, provided that certain conditions are met. However, a company that has such Approved Enterprise can file a request with the Israeli Tax Authority, according to which its income derived as of January 1, 2011 will be subject to the provisions of the Investment Law, as amended in 2011; and (iii) a Benefited Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment came into effect, provided that certain conditions are met, or file a request with the Israeli Tax Authority according to which its income derived as of January 1, 2011 will be subject to the provisions of the Investment Law as amended in 2011. Our Israeli subsidiaries did not file a request to apply the new benefits under the 2011 Amendment.

Special Provisions Relating to Taxation under Inflationary Conditions

As of tax-year 2005, our Israeli subsidiaries elected to measure their taxable income and file their tax returns under the Israeli Income Tax Regulations (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income), 1986. Therefore, as of tax-year 2005, taxable income of each Israeli subsidiary is measured in terms of dollar. Each year we submit a request to the Israeli Tax Authority to extend the effect of the above tax regulations on our company for an additional year.

Tax Benefits for Research and Development

Israeli tax law allows, under specified conditions, a tax deduction for research and development expenditures, including capital expenditures, for the year in which they are incurred. Such expenditures must relate to scientific research and development projects, and must be approved by the relevant Israeli government ministry, determined by the field of research. Furthermore, the research and development must be for the promotion of the company's business and carried out by or on behalf of the company seeking such tax deduction. However, the amount of such deductible expenses is reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved by the relevant Israeli government ministry, but otherwise qualifying for deduction, are deductible over a three-year period.

Transfer Pricing

As part of the Israeli 2003 tax reform, the Israeli Income Tax Ordinance (New Version), 1961 (the “**Ordinance**”) was amended to include section 85A, dealing with international transactions transfer pricing. Section 85A provides that regardless of the actual conditions of an international transaction between related parties, the transaction shall be reported and taxed, based on the arm’s length standard, *i.e.*, based on market conditions in similar transactions between unrelated parties. On October 30, 2006, the Income Tax Regulations (Determination of Market Conditions) (the “**Regulations**”), which provide instructions for the implementation of section 85A, came into effect.

In accordance with the Regulations, a transaction shall be considered an international transaction if (i) one of the parties is a “foreign resident” as defined thereunder or if the income generated from such transaction, in all or in part, is taxed both in and outside of Israel; and (ii) there are special relations between the parties of the transaction. The Regulations establish acceptable methods for comparison between transactions, and methods for calculating the price range against which the transaction is measured.

Taxpayers are required to include in their yearly income tax returns a report regarding their international transactions at arm’s length prices. The transfer pricing regulations have not had a material effect on the Company.

Israeli Taxation Considerations for Our Shareholders

The following is a short summary of the material provisions of the tax environment to which shareholders may be subject. This summary is based on the current provisions of tax law. To the extent that the discussion is based on new tax legislation that has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the appropriate tax authorities or the courts.

The summary does not address all of the tax consequences that may be relevant to all purchasers of our common shares in light of each purchaser’s particular circumstances and specific tax treatment. For example, the summary below does not address the tax treatment of residents of Israel and traders in securities who are subject to specific tax regimes. As individual circumstances may differ, holders of our common shares should consult their own tax adviser as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of common shares. The following is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations. Each individual should consult his or her own tax or legal adviser.

Tax Consequences Regarding Disposition of Our Common Shares

Overview

Israeli law generally imposes a capital gains tax on the sale of capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The Ordinance distinguishes between the "Real Capital Gain" and the "Inflationary Surplus". The Inflationary Surplus is a portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index (CPI) or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The Real Capital Gain is the excess of the total capital gain over the Inflationary Surplus.

Israeli Resident Shareholders

Israeli Resident Individuals. Beginning as of January 1, 2006, the tax rate applicable to Real Capital Gain derived by Israeli individuals from the sale of shares which had been purchased on or after January 1, 2003, whether or not listed on a stock exchange, is 20%, retroactive from January 1, 2003, unless such shareholder claims a deduction for interest and linkage differences expenses in connection with the purchase and holding of such shares, in which case the gain will generally be taxed at a rate of 25%. However, if such a shareholder is considered a Substantial Shareholder (*i.e.*, a person who holds, directly or indirectly, alone or together with another, 10% or more of any of the company's "means of control" (including, among other things, the right to receive profits of the company, voting rights, the right to receive the company's liquidation proceeds and the right to appoint a director)) at the time of sale or at any time during the preceding 12-month period, such gain will be taxed at the rate of 25%. Individual shareholders dealing with securities in Israel are taxed at their marginal tax rates applicable to business income (up to 48% in 2012).

Notwithstanding the foregoing, pursuant to the Tax Burden Law, the capital gain tax rate applicable to individuals was raised from 20% to 25% from 2012 and onwards (or from 25% to 30% if the selling individual shareholder is a Substantial Shareholder at any time during the 12-month period preceding the sale and/or claims a deduction for interest and linkage differences expenses in connection with the purchase and holding of such shares). With respect to assets (not shares that are listed on a stock exchange) purchased on or after January 1, 2003, the portion of the gain generated from the date of acquisition until December 31, 2011 will be subject to the previous capital gains tax rates (20% or 25%) and the portion of the gain generated from January 1, 2012 until the date of sale will be subject to the new tax rates (25% or 30%).

Israeli Resident Corporations. Under present Israeli tax legislation, the tax rate applicable to Real Capital Gain derived by Israeli resident corporations from the sale of shares of an Israeli company is the general corporate tax rate. As described above, the corporate tax rate from 2012 and onwards is 25%.

Non-Israeli Residents Shareholders

Israeli capital gain tax is imposed on the disposal of capital assets by a non-Israeli resident if such assets are either (i) located in Israel; (ii) shares or rights to shares in an Israeli resident company; or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a tax treaty between Israel and the seller's country of residence provides otherwise. As mentioned above, Real Capital Gain derived by a company is generally subject to tax at the corporate tax rate (25% as of 2012) or, if derived by an individual, at the rate of 25% (for assets other than shares that are listed on stock exchange – 20% for the portion of the gain generated up to December 31, 2011) or 30% (for any asset other than shares that are listed on stock exchange – 25% with respect to the portion of the gain generated up to December 31, 2011), if generated from an asset purchased on or after January 1, 2003. Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income (a corporate tax rate for a corporation and a marginal tax rate of up to 48% for an individual in 2012).

Notwithstanding the foregoing, shareholders who are non-Israeli residents (individuals and corporations) are generally exempt from Israeli capital gain tax on any gains derived from the sale, exchange or disposition of shares publicly traded on the Tel Aviv Stock Exchange or on a recognized stock exchange outside of Israel, provided, among other things, that (i) such gains are not generated through a permanent establishment that the non-Israeli resident maintains in Israel, (ii) the shares were purchased after being listed on a recognized stock exchange, and (iii) with respect to shares listed on a recognized stock exchange outside of Israel, such shareholders are not subject to the Inflationary Adjustments Law. However, non-Israeli corporations will not be entitled to the foregoing exemptions if an Israeli resident (a) has a controlling interest of 25% or more in such non-Israeli corporation, or (b) is the beneficiary of or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. Such exemption is not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income.

In addition, a sale of securities may be exempt from Israeli capital gain tax under the provisions of an applicable tax treaty. For example, under the U.S.-Israel Tax Treaty, which we refer to as the U.S-Israel Treaty, the sale, exchange or disposition of shares of an Israeli company by a shareholder who is a U.S. resident (for purposes of the U.S.-Israel Treaty) holding the shares as a capital asset is exempt from Israeli capital gains tax unless either (i) the shareholder holds, directly or indirectly, shares representing 10% or more of the voting capital during any part of the 12-month period preceding such sale, exchange or disposition; (ii) the shareholder, being an individual, has been present in Israel for a period or periods of 183 days or more in the aggregate during the applicable taxable year; or (iii) the capital gains arising from such sale are attributable to a permanent establishment of the shareholder which is maintained in Israel. In either case, the sale, exchange or disposition of such shares would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Treaty, a U.S. resident would be permitted to claim a credit for the Israeli tax against the U.S. federal income tax imposed with respect to the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S-Israel Treaty does not provide such credit against any U.S. state or local taxes.

Payors of consideration for traded securities, like our common shares, including the purchaser, the Israeli stockbroker effectuating the transaction, or the financial institution through which the sold securities are held, are required, subject to any of the foregoing exemptions and the demonstration of a shareholder regarding his, her or its foreign residency, to withhold tax upon the sale of publicly traded securities from the consideration or from the Real Capital Gain derived from such sale, as applicable, at the rate of 25%.

Taxes Applicable to Dividends

Israeli Resident Shareholders

Israeli Resident Individuals. Israeli residents who are individuals are generally subject to Israeli income tax for dividends paid on our common shares (other than bonus shares or share dividends) at 25%, or 30% if the recipient of such dividend is a Substantial Shareholder at the time of distribution or at any time during the preceding 12-month period. However, dividends distributed from taxable income accrued during the period of benefit of an Approved Enterprise, Benefited Enterprise or Preferred Enterprise are subject to withholding tax at the rate of 15%, if the dividend is distributed during the tax benefit period under the Investment Law or within 12 years after that period. An average rate will be set in case the dividend is distributed from mixed types of income (regular and Approved/ Benefited/ Preferred income).

Israeli Resident Corporations. Israeli resident corporations are generally exempt from Israeli corporate tax for dividends paid on our common shares. However, dividends distributed from taxable income accrued during the period of benefit of an Approved Enterprise or Benefited Enterprise are subject to withholding tax at the rate of 15%, if the dividend is distributed during the tax benefit period under the Investment Law or within 12 years after that period.

Non-Israeli Resident Shareholders

Non-Israeli residents (whether individuals or corporations) are generally subject to Israeli withholding tax on the receipt of dividends paid for publicly traded shares, like our common shares, at the rate of 25% so long as the shares are registered with a Nominee Company) or 15% if the dividend is distributed from income attributed to our Approved Enterprises or Benefited Enterprise, unless a reduced rate is provided under an applicable tax treaty. For example, under the U.S-Israel Treaty, the maximum rate of tax withheld in Israel on dividends paid to a holder of our common shares who is a U.S. resident (for purposes of the U.S.-Israel Treaty) is 25%. However, generally, the maximum rate of withholding tax on dividends, not generated by our Approved or Benefited Enterprises, that are paid to a U.S. corporation holding at least 10% or more of our outstanding voting capital from the start of the tax year preceding the distribution of the dividend through (and including) the distribution of the dividend, is 12.5%, provided that no more than 25% of our gross income for such preceding year consists of certain types of dividends and interest. Notwithstanding the foregoing, dividends distributed from income attributed to an Approved Enterprise, a Benefited Enterprise or a Preferred Enterprise are subject to a withholding tax rate of 15% for such a U.S. corporation shareholder, provided that the condition related to our gross income for the previous year (as set forth in the previous sentence) is met. If the dividend is attributable partly to income derived from an Approved Enterprise, a Benefited Enterprise or a Preferred Enterprise, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income. U.S. residents who are subject to Israeli withholding tax on a dividend may be entitled to a credit or deduction for U.S. federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in United States tax legislation.

A non-Israeli resident who receives dividends from which tax was withheld is generally exempt from the obligation to file tax returns in Israel with respect to such income, provided that (i) such income was not generated from business conducted in Israel by the taxpayer, and (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed.

Payors of dividend on our common shares, including the Israeli stockbroker effectuating the transaction, or the financial institution through which the securities are held, are required, subject to any of the foregoing exemptions and the demonstration of a shareholder regarding his, her or its foreign residency, to withhold tax upon the distribution of dividend at the rate of 25%, so long as the shares are registered with a Nominee Company (for corporations and individuals).

Taxation of Investments

The following discussion is a summary of certain anticipated tax consequences of an investment in the Common Shares under Curaçao tax laws, US federal income tax laws and Israeli laws. The discussion does not deal with all possible tax consequences relating to an investment in the Common Shares. In particular, the discussion does not address the tax consequences under state, local and other (e.g., non-US, non-Curaçao, non-Israel) tax laws. Accordingly, each prospective investor should consult its tax advisor regarding the tax consequences of an investment in the Common Shares. The discussion is based upon laws and relevant interpretations thereof in effect as of the date of this annual report on Form 20-F, all of which are subject to change.

Curaçao Taxation

Under the laws of Curaçao as currently in effect, a holder of Common Shares who is not a resident of, and during the taxable year has not engaged in trade or business through a permanent establishment in, Curaçao, will not be subject to Curaçao income tax on dividends paid with respect to the Common Shares or on gains realized during that year on sale or disposal of such shares; Curaçao does not impose a withholding tax on dividends paid by the Company. Under Curaçao law, no gift or inheritance taxes are levied if, at the time of such gift or at the time of death, the relevant holder of Common Shares was not domiciled in Curaçao.

U.S. Federal Income Tax Considerations

Subject to the limitations described herein, this discussion summarizes certain U.S. federal income tax consequences of the purchase, ownership and disposition of our Common Shares to a U.S. holder. A U.S. holder is a holder of our Common Shares who is:

- an individual who is a citizen or resident of the U.S. for U.S. federal income tax purposes;

a corporation (or another entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any political subdivision thereof, or the District of Columbia;

an estate, the income of which may be included in gross income for U.S. federal income tax purposes regardless of its source; or

a trust (i) if, in general, a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (ii) an electing trust that was in existence on August 19, 1996 and was treated as a domestic trust on that date.

Unless otherwise specifically indicated, this discussion does not consider the U.S. tax consequences to a person that is not a U.S. holder (a “non-U.S. holder”) and considers only U.S. holders that will own our Common Shares as capital assets (generally, for investment).

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the “Code”), current and proposed Treasury Regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as currently in effect and all of which are subject to change, possibly with a retroactive effect. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder based on the U.S. holder’s particular circumstances. In particular, this discussion does not address the U.S. federal income tax consequences to U.S. holders who are broker-dealers, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, individual retirement and tax-deferred accounts, certain former citizens or long-term residents of the U.S., tax-exempt organizations, financial institutions, “financial service entities” or who own, directly, indirectly or constructively, 10% or more of our outstanding voting shares, U.S. holders holding our Common Shares as part of a hedging, straddle or conversion transaction, U.S. holders whose functional currency is not the U.S. dollar, U.S. holders that acquired our Common Shares upon the exercise of employee stock options or otherwise as compensation, and U.S. holders who are persons subject to the alternative minimum tax, who may be subject to special rules not discussed below.

Additionally, the tax treatment of persons who are, or hold our Common Shares through a partnership or other pass-through entity is not considered, nor is the possible application of U.S. federal estate or gift taxes or any aspect of state, local or non-U.S. tax laws.

You are advised to consult your tax advisor with respect to the specific U.S. federal, state, local and foreign tax consequences of purchasing, holding or disposing of our Common Shares.

Taxation of Distributions on Common Shares

Subject to the discussion below under “Tax Consequences if We Are a Passive Foreign Investment Company,” a distribution paid by us with respect to our Common Shares to a U.S. holder will be treated as dividend income to the extent that the distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes.

Dividends that are received in taxable years beginning before January 1, 2014 by U.S. holders that are individuals, estates or trusts generally will be taxed at the rate applicable to long-term capital gains, provided those dividends meet the requirements of “qualified dividend income.” Effective January 1, 2013, the American Taxpayer Relief Act raises the maximum long-term capital gains rate of 15% to 20% for individuals with annual taxable income over \$400,000. In addition, under the Patient Protection and Affordable Care Act, higher income taxpayers must pay an additional 3.8 percent tax on net investment income to the extent certain threshold amounts of income are exceeded. See “New Tax on Investment Income” in this Item below. For this purpose, qualified dividend income generally includes dividends paid by a foreign corporation if certain holding period and other requirements are met and either (a) the stock of the foreign corporation with respect to which the dividends are paid is “readily tradable” on an established securities market in the U.S. (e.g., the NASDAQ Capital Market) or (b) the foreign corporation is eligible for benefits of a comprehensive income tax treaty with the U.S. which includes an information exchange program and is determined to be satisfactory by the U.S. Secretary of the Treasury. The United States Internal Revenue Service (“IRS”) has determined that the U.S.-Netherlands Antilles income tax treaty is not a comprehensive income tax treaty for this purpose. Dividends that fail to meet such requirements and dividends received by corporate U.S. holders are taxed at ordinary income rates. No dividend received by a U.S. holder will be a qualified dividend (i) if the U.S. holder held the Common Share with respect to which the dividend was paid for less than 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend, excluding for this purpose, under the rules of Code Section 246(c), any period during which the U.S. holder has an option to sell, is under a contractual obligation to sell, has made (and not closed) a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to, such Common Share (or substantially identical securities); or (ii) to the extent that the U.S. holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the Common Share with respect to which the dividend is paid. If we were to be a “passive foreign investment company” (as such term is defined in the Code), or “PFIC”, for any taxable year, dividends paid on our Common Shares in such year or in the following taxable year would not be qualified dividends. See the discussion below regarding our PFIC status under “Tax Consequences if We Are a Passive Foreign Investment Company.” In addition, a non-corporate U.S. holder will be able to take qualified dividend income into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so; in such case the dividend income will be taxed at ordinary income rates.

The amount of any distribution which exceeds the amount treated as a dividend will be treated first as a non-taxable return of capital, reducing the U.S. holder’s tax basis in our Common Shares to the extent thereof, and then as capital gain from the deemed disposition of the Common Shares. Corporate holders will not be allowed a deduction for dividends received in respect of the Common Shares.

Distributions of current or accumulated earnings and profits paid in foreign currency to a U.S. holder will be includible in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate on the day the distribution is received. A U.S. holder that receives a foreign currency distribution and converts the foreign currency into U.S. dollars subsequent to receipt may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the U.S. dollar, which will generally be U.S. source ordinary income or loss.

Taxation of the Disposition of Common Shares

Subject to the discussion below under “Tax Consequences if We Are a Passive Foreign Investment Company,” upon the sale, exchange or other disposition of our Common Shares, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the amount realized on the disposition and the U.S. holder’s tax basis in our Common Shares. The gain or loss recognized on the disposition of the Common Shares will be long-term capital gain or loss if the U.S. holder held the Common Shares for more than one year at the time of the disposition and would be eligible for a reduced rate of taxation for certain non-corporate U.S. holders. Effective January 1, 2013, the American Taxpayer Relief Act raises the maximum long-term capital gains rate of 15% to 20% for individuals with annual taxable income over \$400,000. In addition, under the Patient Protection and Affordable Care Act, higher income taxpayers must pay an additional 3.8 percent tax on net investment income to the extent certain threshold amounts of income are exceeded. See “New Tax on Investment Income” in this Item below. Capital gain from the sale, exchange or other disposition of Common Shares held for one year or less is short-term capital gain and taxed as ordinary income. Gain or loss recognized by a U.S. holder on a sale, exchange or other disposition of our Common Shares generally will be treated as U.S. source income or loss. The deductibility of capital losses is subject to certain limitations.

A U.S. holder that uses the cash method of accounting calculates the dollar value of the proceeds received on the sale as of the date that the sale settles. However, a U.S. holder that uses the accrual method of accounting is required to calculate the value of the proceeds of the sale as of the trade date and may therefore realize foreign currency gain or loss. A U.S. holder that uses the accrual method may avoid realizing foreign currency gain or loss by electing to use the settlement date to determine the proceeds of sale for purposes of calculating the foreign currency gain or loss. In addition, a U.S. holder that receives foreign currency upon disposition of its Common Shares and converts the foreign currency into dollars after the settlement date or trade date (whichever date the U.S. holder is required to use to calculate the value of the proceeds of sale) may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the dollar, which will generally be U.S. source ordinary income or loss.

Tax Consequences if We Are a Passive Foreign Investment Company

We would be a passive foreign investment company, or PFIC, for a taxable year if either (1) 75% or more of our gross income in the taxable year is passive income; or (2) the average percentage (by value determined on a quarterly basis) in a taxable year of our assets that produce, or are held for the production of, passive income is at least 50%. Passive income for this purpose generally includes, among other things, certain dividends, interest, royalties, rents and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income. If we own (directly or indirectly) at least 25% by value of the stock of another corporation, we would be treated for purposes of the foregoing tests as owning our proportionate share of the other corporation’s assets and as directly earning our proportionate share of the other corporation’s income. As discussed below, we believe that we were not a PFIC for 2012.

If we were a PFIC, each U.S. holder would (unless it made one of the elections discussed below on a timely basis) be taxable on gain recognized from the disposition of our Common Shares (including gain deemed recognized if our Common Shares are used as security for a loan) and upon receipt of certain excess distributions (generally, distributions that exceed 125% of the average amount of distributions in respect to such shares received during the preceding three taxable years or, if shorter, during the U.S. holder's holding period prior to the distribution year) with respect to our Common Shares as if such income had been recognized ratably over the U.S. holder's holding period for the shares. The U.S. holder's income for the current taxable year would include (as ordinary income) amounts allocated to the current taxable year and to any taxable year prior to the first day of the first taxable year for which we were a PFIC. Tax would also be computed at the highest ordinary income tax rate in effect for each other taxable year to which income is allocated, and an interest charge on the tax as so computed would also apply. The tax liability with respect to the amount allocated to the taxable year prior to the taxable year of the distribution or disposition cannot be offset by any net operating losses. Additionally, if we were a PFIC, U.S. holders who acquire our Common Shares from decedents (other than nonresident aliens) would be denied the normally-available step-up in basis for such shares to fair market value at the date of death and, instead, would have a tax basis in such shares equal to the lesser of the decedent's basis or the fair market value of such shares on the decedent's date of death. .

As an alternative to the tax treatment described above, a U.S. holder could elect to treat us as a "qualified electing fund" (a "QEF"), in which case the U.S. holder would be taxed, for each taxable year that we are a PFIC, on its pro rata share of our ordinary earnings and net capital gain (subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge). Special rules apply if a U.S. holder makes a QEF election after the first taxable year in its holding period in which we are a PFIC. We have agreed to supply U.S. holders with the information needed to report income and gain under a QEF election if we were a PFIC. Amounts includable in income as a result of a QEF election will be determined without regard to our prior year losses or the amount of cash distributions, if any, received from us. A U.S. holder's basis in its Common Shares will increase by any amount included in income and decrease by any amounts not included in income when distributed because such amounts were previously taxed under the QEF rules. So long as a U.S. holder's QEF election is in effect with respect to the entire holding period for its Common Shares, any gain or loss realized by such holder on the disposition of its Common Shares held as a capital asset generally will be capital gain or loss. Such capital gain or loss ordinarily would be long-term if such U.S. holder had held such Common Shares for more than one year at the time of the disposition and would be eligible for a reduced rate of taxation for certain non-corporate U.S. holders. Effective January 1, 2013, the American Taxpayer Relief Act raises the maximum long-term capital gains rate of 15% to 20% for individuals with annual taxable income over \$400,000. The QEF election is made on a shareholder-by-shareholder basis, applies to all Common Shares held or subsequently acquired by an electing U.S. holder and can be revoked only with the consent of the IRS.

As an alternative to making a QEF election, a U.S. holder of PFIC stock that is “marketable stock” (e.g., “regularly traded” on the NASDAQ Capital Market) may, in certain circumstances, avoid certain of the tax consequences generally applicable to holders of stock in a PFIC by electing to mark the stock to market as of the beginning of such U.S. holder’s holding period for our Common Shares. Special rules apply if a U.S. holder makes a mark-to-market election after the first year in its holding period in which we are a PFIC. As a result of such an election, in any taxable year that we are a PFIC, a U.S. holder would generally be required to report gain or loss to the extent of the difference between the fair market value of the Common Shares at the end of the taxable year and such U.S. holder’s tax basis in such shares at that time. Any gain under this computation, and any gain on an actual disposition of our Common Shares in a taxable year in which we are PFIC, would be treated as ordinary income. Any loss under this computation, and any loss on an actual disposition of our Common Shares in a taxable year in which we are PFIC, would be treated as ordinary loss to the extent of the cumulative net-mark-to-market gain previously included. Any remaining loss from marking our Common Shares to market will not be allowed, and any remaining loss from an actual disposition of our Common Shares generally would be capital loss. A U.S. holder’s tax basis in its Common Shares is adjusted annually for any gain or loss recognized under the mark-to-market election. There can be no assurances that there will be sufficient trading volume with respect to our Common Shares for the Common Shares to be considered “regularly traded” or that our Common Shares will continue to trade on the NASDAQ Capital Market. Accordingly, there are no assurances that our Common Shares will be marketable stock for these purposes. As with a QEF election, a mark-to-market election is made on a shareholder-by-shareholder basis, applies to all Common Shares held or subsequently acquired by an electing U.S. holder and can only be revoked with consent of the IRS (except to the extent our Common Shares no longer constitute “marketable stock”).

Based on an analysis of our assets and income, we believe that we were not a PFIC for 2012. We currently expect that we will not be a PFIC in 2013. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to this determination. Accordingly, there can be no assurance that we will not become a PFIC in any future taxable years. U.S. holders who hold our Common Shares during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC, subject to certain exceptions for U.S. holders who made QEF, mark-to-market or certain other special elections. U.S. holders are urged to consult their tax advisors about the PFIC rules, including the consequences to them of making a mark-to-market or QEF election with respect to our Common Shares in the event that we qualify as a PFIC.

New Tax on Investment Income

For taxable years beginning after December 31, 2012, a U.S. holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from the tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. holder’s “net investment income” for the relevant taxable year and (2) the excess of the U.S. holder’s modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual’s circumstances). A U.S. holder’s net investment income generally will include its dividends on our ordinary shares and net gains from dispositions of our ordinary shares, unless those dividends or gains are derived in the ordinary course of the conduct of trade or business (other than trade or business that consists of certain passive or trading activities). Net investment income, however, may be reduced by deductions properly allocable to that income. A U.S. holder that is an individual, estate or trust is urged to consult its tax adviser regarding the applicability of the Medicare tax to its income and gains in respect of its investment in the Common

Shares.

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Non-U.S. holders of Common Shares

Except as provided below, a non-U.S. holder of our Common Shares will not be subject to U.S. federal income or withholding tax on the receipt of dividends on, or the proceeds from the disposition of, our Common Shares, unless, in the case of U.S. federal income taxes, that item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States and, in the case of a resident of a country which has an income tax treaty with the United States, such item is attributable to a permanent establishment in the United States or, in the case of an individual, a fixed place of business in the United States. In addition, gain recognized on the disposition of our Common Shares by an individual non-U.S. holder will be subject to tax in the United States if the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

Information Reporting and Backup Withholding

A U.S. holder generally is subject to information reporting and may be subject to backup withholding at a rate of up to 28% (through 2013) with respect to dividend payments on, or receipt of the proceeds from the disposition of, our Common Shares. Backup withholding will not apply with respect to payments made to exempt recipients, including corporations and tax-exempt organizations, or if a U.S. holder provides a correct taxpayer identification number, certifies that such holder is not subject to backup withholding or otherwise establishes an exemption. Non-U.S. holders are not subject to information reporting or backup withholding with respect to dividend payments on, or receipt of the proceeds from the disposition of, our Common Shares in the U.S., or by a U.S. payor or U.S. middleman, provided that such non-U.S. holder provides a taxpayer identification number, certifies to its foreign status, or otherwise establishes an exemption. Backup withholding is not an additional tax and may be claimed as a credit against the U.S. federal income tax liability of a holder, or alternatively, the holder may be eligible for a refund of any excess amounts withheld under the backup withholding rules, in either case, provided that the required information is furnished to the IRS.

New Information Reporting by Certain U.S. Holders

Under recently enacted legislation, U.S. citizens and individuals taxable as resident aliens of the United States that own “specified foreign financial assets” with an aggregate value in a taxable year in excess of \$50,000 (as determined under rules in new temporary Treasury regulations) and that are required to file a U.S. federal income tax return generally will be required to file an information report with respect to those assets with their tax returns. IRS Form 8938 has been issued for that purpose. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, foreign stocks held directly, and interests in foreign estates, foreign pension plans or foreign deferred compensation plans. Under those rules, our ordinary shares, whether owned directly or through a financial institution, estate or pension or deferred compensation plan, would be “specified foreign financial assets”. Under proposed Treasury regulations, the reporting obligation applies to certain U.S. entities that hold, directly or indirectly, specified foreign financial assets. Penalties can apply if there is a failure to satisfy this reporting obligation.

A U.S. Holder is urged to consult his tax adviser regarding his reporting obligation.

F.Dividends and Paying Agents.

Not applicable.

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G. Statement by Experts.

Not applicable.

H. Documents on Display.

We are currently subject to the information and periodic reporting requirements of the Exchange Act that are applicable to foreign private issuers. Although as a foreign private issuer we are not required to file periodic information as frequently or as promptly as United States companies, we generally do publicly announce our quarterly and year-end results promptly and file periodic information with the United States Securities and Exchange Commission under cover of Form 6-K. As a foreign private issuer, we are also exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements and our officers, directors and principal shareholders are exempt from the reporting and other provisions in Section 16 of the Exchange Act. Our SEC filings are filed electronically on the EDGAR reporting system and may be obtained through that medium. You may inspect without charge and copy at prescribed rates such filings, including any exhibits and schedules, at the public reference facilities maintained by the SEC, 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of such materials from the SEC at prescribed rates. The SEC also maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of this web site is <http://www.sec.gov>. You may call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. The Exchange Act file number for our Securities and Exchange Commission filings is 000-20181.

Information about Sapiens is also available on our website at <http://www.sapiens.com>. Such information on our website is not part of this annual report.

I. Subsidiary Information.

Not applicable.

Item 11. Quantitative and Qualitative Disclosure about Market Risk.

Market risks relating to our operations result primarily from changes in exchange rates, interest rates or weak economic conditions in the markets in which we sell our products and services. We have been and we are actively monitoring these potential exposures. To manage the volatility relating to these exposures, we may enter into various forward contracts or other hedging instruments. Our objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign currency rates and interest rates.

Foreign Currency Risk. We conduct our business in various foreign currencies, primarily those of Israel and the United Kingdom, and to a lesser extent of Japan, Europe and Canada. A devaluation of the NIS, GBP, Euro and the Japanese Yen in relation to the US Dollar has the effect of reducing the US Dollar amount of any of our expenses or liabilities which are payable in those currencies (unless such expenses or payables are linked to the US dollar) while reducing the US Dollar amount of any of our revenues which are payable to us in those currencies.

Because exchange rates between the NIS, GBP, Euro and the Japanese Yen against the US dollar fluctuate continuously, exchange rate fluctuations and especially larger periodic devaluations will have an impact on our profitability and period-to-period comparisons of our results. The effects of foreign currency re-measurements are reflected as financial expenses in our consolidated financial statements. A hypothetical 10% movement in foreign currency rates (primarily the NIS, GBP, Euro and Japanese Yen) against the US dollar, with all other variables held constant on the expected sales, would have resulted in a decrease or increase in 2012 sales revenues of approximately \$8 million.

We monitor our foreign currency exposure and, from time to time, may enter into currency forward contracts or put/call currency options to hedge balance sheet exposure. We may use such contracts to hedge exposure to changes in foreign currency exchange rates associated with balance sheet balances denominated in a foreign currency and anticipated costs to be incurred in a foreign currency.

Market Risk. We currently do not invest in, or otherwise hold, for trading or other purposes, any financial instruments subject to market risk.

Interest Rate Risk. We pay interest on our credit facilities based on the prime interest rate in Israel for some of our NIS-denominated loans. As a result, changes in the general level of interest rates directly affect the amount of interest payable by us under these facilities. However, we expect our exposure to risk from changes in interest rates to be minimal and not material. Therefore, no quantitative tabular disclosures are required.

Item 12. Description of Securities Other than Equity Securities.

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

None.

Item 15. Controls and Procedures

A. *Disclosure Controls and Procedures.* Our management, including our President and Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this annual report (the "Evaluation Date"). Based on such evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective.

B. *Management's Annual Report on Internal Control Over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our management, including our President and Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of the end of the period covered by this report. Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2012. Notwithstanding the foregoing, there can be no assurance that our internal control over financial reporting will detect or uncover all failures of persons within the Company to comply with our internal procedures, as all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements.

C. *Attestation Report of the Registered Public Accounting Firm.*

Not applicable.

D. *Changes in Internal Control Over Financial Reporting.* Based on the evaluation conducted by our President and Chief Executive Officer and our Chief Financial Officer pursuant to Rules 13a-15(d) and 15d-15(d) under the Exchange Act, our management has concluded that there was no change in our internal control over financial reporting that occurred during the year ended December 31, 2012 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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ITEM 16. RESERVED

Item 16A. Audit Committee Financial Expert.

Our Board of Directors has determined that Mr. Yacov Elinav, a member of our Audit Committee, meets the definition of an “audit committee financial expert,” as defined under the applicable rules promulgated by the SEC. All members of our Audit Committee, including Mr. Elinav, are "independent", as defined under the NASDAQ Listing Rules.

Item 16B. Code of Ethics.

We have adopted a Code of Ethics that applies to our principal executive officer, principal financial officer and corporate controller, as well as to our directors and other employees. The Code of Ethics is publicly available on our website at www.sapiens.com. Written copies are available upon request. If we make any substantive amendments to the Code of Ethics or grant any waivers, including any implicit waiver, from a provision of such Code to our principal executive officer, principal financial officer or corporate controller, we will disclose the nature of such amendment or waiver on our website.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Policies and Procedures

Our Audit Committee has adopted policies and procedures for the pre-approval of audit and non-audit services rendered by our independent auditors, Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global. The policies generally require the Audit Committee’s pre-approval of the scope of the engagement of our independent auditors or additional work performed on an individual basis. The policy prohibits retention of the independent auditors to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act of 2002 or the rules of the SEC and also provides that the Audit Committee consider whether proposed services are compatible with the independence of the public auditors.

Fees Paid to Independent Auditors

Fees billed or expected to be billed by Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global and other members of Ernst & Young Global for professional services for each of the last two fiscal years were as follows:

	Year ended December 31, 2011 2012 (in thousands)	
Audit Fees (1)	\$212	\$264
Tax Fees (2)	\$81	\$160
Total	\$293	\$424

(1) Audit Fees consist of fees billed for the annual audit and the quarterly reviews of the Company's consolidated financial statements and consist of services that would normally be provided in connection with statutory and regulatory filings or engagements, including services that generally only the independent auditors can reasonably provide.

(2) Tax Fees are for professional services rendered by our auditors for tax compliance, tax advice on actual or contemplated transactions, tax consulting associated with international transfer prices and global mobility of employees.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers

	(a) Total Number of Common Shares Purchased	(b) Average Price Paid per Common Share	(c) Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Common Shares that May Yet Be Purchased Under the Plans or Programs
November 2012	2,000,000	(1) \$ 3.50	(1) -	-

(1) On November 28, 2012, the Board of Directors of the Company approved the purchase by the Company of 2,000,000 Common Shares of the Company from a shareholder at a purchase price of \$3.50 per Common Share.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT.

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE.

We are exempt from a number of the requirements under the Nasdaq Listing Rules based on our status as a "controlled company." See Item 6.C above "Board Practices— NASDAQ Exemptions for a Controlled Company."

We have elected to follow our home country practice in lieu of the requirements set forth in NASDAQ Listing Rule 5250(d)(1) which require a domestic United States company to make available to its shareholders a copy of its annual report containing its audited financial statements in one of three specific ways. Instead of distributing copies of our annual report by mail, furnishing an annual report in accordance with Rule 14a-16 under the Exchange Act or posting our annual report on our website and undertaking to provide a hard copy thereof free of charge upon request, we simply make our annual report available to shareholders via our website (<http://www.sapiens.com/Annual-Reports/>).

We have also elected to follow our home country practice in lieu of the requirements of NASDAQ Listing Rules 5605(b), (d) and (e) which require:

- The majority of the company's board of directors must qualify as independent directors, as defined under NASDAQ Listing Rule 5605(a)(2) and that the independent directors have regularly scheduled meetings at which only independent directors are present.
- The compensation of the chief executive officer and all other executive officers must be determined, or recommended to the board of directors for determination, either by (i) a majority of the independent directors or (ii) a compensation committee comprised solely of independent directors (subject to limited exceptions).
- Director nominees must either be selected or recommended for the board of directors' selection, either by (a) a majority of independent directors or (b) a nominations committee comprised solely of independent directors (subject to limited exceptions).
- The company must certify that it has adopted a formal written charter or board resolution, as applicable, addressing the nominations process and such related matters as may be required under US federal securities laws.

We have also elected to follow our home country practice in lieu of the requirements set forth in of NASDAQ Listing Rule 5635 which require a domestic United States Company to obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain equity based compensation plans and arrangements, an issuance

that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company.

We have submitted to NASDAQ a written statement from our independent Curaçao counsel which certified that our practice of not making the annual report available in accordance with NASDAQ rules, but rather making it available on our website, our not complying with the requirements of NASDAQ Listing Rules 5605(b), (d) and (e) and not obtaining the shareholder approvals required under NASDAQ Listing Rule 5635 are not prohibited by Curaçao law.

ITEM 16H.MINE SAFETY DISCLOSURE.

Not applicable.

PART III

Item 17. Financial Statements.

We have elected to provide financial statements and related information pursuant to Item 18.

Item 18. Financial Statements.

The Consolidated Financial Statements and related notes required by this Item are contained on pages F-1 through F-40 hereof.

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Item 19. Exhibits

The exhibits filed with or incorporated into this annual report are listed immediately below.

1.1 Articles of Association of Sapiens International Corporation N.V., as amended on March 17, 2005 – incorporated by reference to Exhibit 1.1 to the Company’s Annual Report on Form 20-F, filed with the SEC on June 29, 2005.

1.2 Amendment to Articles of Association of Sapiens International Corporation, N.V.

4(a)1 Sapiens International Corporation N.V. 1992 Stock Option and Incentive Plan, as amended and restated – incorporated by reference to Exhibit 28.1 to the Company’s Registration Statement on Form S-8 (No. 33-64208), filed with the SEC on June 9, 1993, and to the Company’s Registration Statement on Form S-8 (No. 333-10622), filed with the SEC on July 22, 1999.

4(a)2 Sapiens International Corporation N.V. 2003 Share Option Plan - incorporated by reference to Exhibit 4(c)2 to the Company’s Annual Report on Form 20-F, filed with the SEC on June 28, 2007.

4(a)3 Sapiens International Corporation N.V. 2005 Special Incentive Share Option Plan - incorporated by reference to Exhibit 4(c)3 to the Company’s Annual Report on Form 20-F, filed with the SEC on June 28, 2007.

4(a)4 Sapiens International Corporation N.V. 2011 Share Incentive Plan - incorporated by reference to Exhibit 4.1 to the Company’s Registration Statement on Form S-8 (No. 333-177834), filed with the SEC on November 9, 2011.

4(b) Share Purchase Agreement, dated as of July 21, 2011, by and among Sapiens, Sapiens Technologies (1982) Ltd., IDIT I.D.I. Technologies Ltd., the shareholders of IDIT I.D.I. Technologies Ltd., Amit Ben-Yehuda, as the IDIT Shareholder Representative, FIS Software Ltd., the shareholders of FIS Software Ltd. and Dan Goldstein, as the FIS Shareholder Representative - incorporated by reference to Exhibit 4(b) to the Company’s Annual Report on Form 20-F, filed with the SEC on April 4, 2012.

8.1

List of Subsidiaries

10.1 Consent of Kost Forer Gabbay & Kasierer, Independent Registered Public Accounting Firm.

12.1 Certification by Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Exchange Act.

12.2 Certification by Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Exchange Act.

- 13.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Exchange Act and 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Exchange Act and 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

SAPIENS INTERNATIONAL CORPORATION N.V.

By: /s/ Roni Al Dor
Roni Al Dor
President & Chief Executive Officer

Date: March 11, 2013

SAPIENS INTERNATIONAL CORPORATION N.V.

AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012

IN U.S. DOLLARS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

SAPIENS INTERNATIONAL CORPORATION N.V.

We have audited the accompanying consolidated balance sheets of Sapiens International Corporation N.V. ("the Company") and its subsidiaries as of December 31, 2011 and 2012, and the related consolidated statements of income, statements of comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2011 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel KOST FORER GABBAY & KASIERER
March 11 , 2013 A Member of Ernst & Young Global

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SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****U.S. dollars in thousands**

	December 31,	
	2011	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$21,460	\$29,050
Restricted cash	456	536
Trade receivables (net of allowance for doubtful accounts of \$ 226 and \$ 165 at December 31, 2011 and 2012, respectively)	14,484	16,299
Other receivables and prepaid expenses	1,823	1,785
Deferred tax assets	1,406	2,750
<u>Total</u> current assets	39,629	50,420
LONG-TERM ASSETS:		
Other long-term assets	3,546	2,316
Severance pay fund	10,172	10,306
Capitalized software development costs, net	17,399	17,494
Other intangible assets, net	14,193	11,718
Goodwill	66,715	68,087
Property and equipment, net	1,814	2,243
<u>Total</u> long-term assets	113,839	112,164
<u>Total</u> assets	\$153,468	\$162,584

The accompanying notes are an integral part of the consolidated financial statements.

SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****U.S. dollars in thousands (except share data)**

	December 31,	
	2011	2012
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$2,559	\$4,382
Employees and payroll accruals	8,957	12,496
Accrued expenses and other liabilities	10,774	7,518
Deferred revenues and customer advances	9,603	7,301
<u>Total</u> current liabilities	31,893	31,697
LONG-TERM LIABILITIES:		
Other long-term liabilities	617	803
Accrued severance pay	10,711	11,645
<u>Total</u> long-term liabilities	11,328	12,448
COMMITMENTS AND CONTINGENT LIABILITIES		
EQUITY:		
Sapiens International Corporation N.V. Shareholders' equity:		
Share capital:		
Preferred shares of € 0.01 par value:		
Authorized - 1,000,000 shares at December 31, 2011 and 2012;		
Issued and outstanding: None at December 31, 2011 and 2012		
Common shares of € 0.01 par value:		
Authorized: 54,000,000 shares at December 31, 2011 and 2012;		
Issued: 40,008,926 and 41,007,801 shares at December 31, 2011 and 2012, respectively;		
Outstanding: 39,680,630 and 38,679,505 shares at December 31, 2011 and 2012, respectively	534	547
Additional paid-in capital	207,930	210,047
Treasury shares, at cost - 328,296 and 2,328,296 common shares at December 31, 2011 and 2012, respectively	(2,423)	(9,423)
Foreign currency translation adjustments	(6,277)	(4,870)
Accumulated deficit	(90,477)	(78,697)
<u>Total</u> Sapiens International Corporation N.V. shareholders' equity	109,287	117,604

Non-controlling interests	960	835
<u>Total</u> equity	110,247	118,439
<u>Total</u> liabilities and equity	\$153,468	\$162,584

The accompanying notes are an integral part of the consolidated financial statements.

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SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****U.S. dollars in thousands (except per share data)**

	Year ended December 31,		
	2010	2011	2012
Revenues	\$52,235	\$69,927	\$113,909
Cost of revenues	29,921	40,067	66,459
Gross profit	22,314	29,860	47,450
Operating expenses:			
Research and development, net	3,293	5,008	10,169
Selling, marketing, general and administrative	12,310	18,113	25,236
Acquisitions-related and restructuring costs	-	1,115	-
<u>Total</u> operating expenses	15,603	24,236	35,405
Operating income	6,711	5,624	12,045
Financial income (expenses), net	(364)	104	193
Income before taxes on income	6,347	5,728	12,238
Taxes on income (tax benefit)	177	(230)	435
Net income	6,170	5,958	11,803
Attributable to non-controlling interests	18	61	23
Net income attributable to Sapiens' shareholders	\$6,152	\$5,897	\$11,780
Net earnings per share attributable to Sapiens' shareholders			
Basic	\$0.28	\$0.21	\$0.29
Diluted	\$0.28	\$0.19	\$0.28

The accompanying notes are an integral part of the consolidated financial statements.

SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****U.S. dollars in thousands**

	Year ended December 31,		
	2010	2011	2012
Net income	\$6,170	\$5,958	\$11,803
Foreign currency translation adjustments	936	(5,623)	1,441
Comprehensive income	7,106	335	13,244
Comprehensive income attributable to non-controlling interests	21	58	57
Comprehensive income attributable to Sapiens' shareholders	\$7,085	\$277	\$13,187

The accompanying notes are an integral part of the consolidated financial statements.

SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****U.S. dollars in thousands**

	Common stock Shares	Additional paid-in Amountcapital	Treasury shares	Other Comprehensive Income	Accumulated deficit	Non-control interests	Total equity	
Balance as of January 1, 2010	21,573,006	\$ 276	\$ 132,545	\$(2,423)	\$(1,590)	\$(102,526)	\$ 133	\$26,415
Stock-based compensation	-	-	412	-	-	-	-	412
Stock-based compensation with respect to Harcase acquisition	454,546	6	155	-	-	-	-	161
Employee stock options exercised	17,282	-	24	-	-	-	-	24
Foreign currency translation adjustments	-	-	-	-	933	-	3	936
Net income	-	-	-	-	-	6,152	18	6,170
Balance as of December 31, 2010	22,044,834	282	133,136	(2,423)	(657)	(96,374)	154	34,118
Stock-based compensation	-	-	336	-	-	-	-	336
Stock-based compensation with respect to Harcase acquisition	-	-	240	-	-	-	-	240
Issuance of shares and options upon the acquisition of IDIT	7,483,125	108	31,336	-	-	-	-	31,444
Issuance of shares, options and assumption of non controlling interest upon the acquisition of FIS	10,016,875	143	42,778	-	-	-	882	43,803

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Issuance expenses relating to FIS and IDIT acquisition			(102)					(102)
Employee stock options exercised	135,796	1	206	-	-	-	-	207
Dividend to non-controlling interests	-	-	-	-	-	-	(134)	(134)
Foreign currency translation adjustments	-	-	-	-	(5,620)	-	(3)	(5,623)
Net income	-	-	-	-	-	5,897	61	5,958
Balance as of December 31, 2011	39,680,630	534	207,930	(2,423)	(6,277)	(90,477)	960	110,247
Stock-based compensation	-	-	690	-	-	-	-	690
Stock-based compensation with respect to Harcase acquisition	-	-	241	-	-	-	-	241
Repurchase of shares	(2,000,000)	-	-	(7,000)	-	-	-	(7,000)
Employee stock options exercised	998,875	13	1,186	-	-	-	-	1,199
Dividend to non-controlling interests	-	-	-	-	-	-	(182)	(182)
Foreign currency translation adjustments	-	-	-	-	1,407	-	34	1,441
Net income	-	-	-	-	-	11,780	23	11,803
Balance as of December 31, 2012	38,679,505	\$ 547	\$ 210,047	\$ (9,423)	\$ (4,870)	\$ (78,697)	\$ 835	\$ 118,439

The accompanying notes are an integral part of the consolidated financial statements.

SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****U.S. dollars in thousands**

	Year ended December 31,		
	2010	2011	2012
<u>Cash flows from operating activities:</u>			
Net income	\$6,170	\$5,958	\$11,803
Reconciliation of net income to net cash provided by operating activities:			
Depreciation and amortization	6,649	6,748	7,393
Stock-based compensation	417	336	690
Compensation associated with acquisition of subsidiary	605	755	128
Net changes in operating assets and liabilities, net of amount acquired:			
Trade receivables, net	267	(3,333)	(1,649)
Other operating assets	(477)	(480)	152
Deferred tax assets, net	(304)	222	(194)
Trade payables	195	(1,279)	1,746
Other operating liabilities	(635)	(804)	334
Deferred revenues and customer advances	(690)	(408)	(2,372)
Accrued severance pay, net	(172)	698	762
Net cash provided by operating activities	12,025	8,413	18,792
<u>Cash flows from investing activities:</u>			
Purchase of property and equipment	(662)	(482)	(1,327)
Capitalized software development costs	(5,387)	(4,735)	(3,464)
Issuance expenses relating to FIS and IDIT acquisition	-	(102)	-
Earn-out payment with respect to Harcase acquisition	-	(952)	-
Payments for business acquisitions, net of cash acquired	(1,416)	3,741	-
Restricted cash	-	-	(68)
Net cash used in investing activities	\$(7,465)	\$(2,530)	\$(4,859)

The accompanying notes are an integral part of the consolidated financial statements.

SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****U.S. dollars in thousands**

Year ended December 31,
2010 2011 2012

Cash flows from financing activities:

Proceeds from employee stock options exercised	\$24	\$207	\$1,199
Repurchase of shares	-	-	(7,000)
Dividend to non-controlling interests	-	(134)	(182)
Payments of long-term loans	(15)	-	-
Net cash provided by (used in) financing activities	9	73	(5,983)
Effect of exchange rate changes on cash	441	(678)	(360)
Increase in cash and cash equivalents	5,010	5,278	7,590
Cash and cash equivalents at beginning of year	11,172	16,182	21,460
Cash and cash equivalents at end of year	\$16,182	\$21,460	\$29,050

(a) Supplemental cash flow activities:

Cash paid during the year for:

Interest	\$115	\$16	\$2
Income taxes	\$494	\$162	\$1,752

The accompanying notes are an integral part of the consolidated financial statements.

SAPIENS INTERNATIONAL CORPORATION N.V.

AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1:

GENERAL

a.

General:

Sapiens International Corporation N.V. ("Sapiens") and subsidiaries (collectively - "the Company"), a member of the Formula Systems (1985) Ltd. Group, is a global provider of innovative software solutions for the financial services industry with a focus on insurance. The Company's offerings include a portfolio of software solutions and delivery, implementation and support and maintenance services. These products and services enable its customers to modernize business processes, rapidly launch new products, build multiple distribution channels, adhere with new regulations and respond quickly to changes in the industry.

On August 21, 2011 Sapiens completed the acquisition of FIS Software Ltd. ("FIS") and IDIT I.D.I. Technologies Ltd. ("IDIT") (See note 1(b) and 1(c) for further information).

The Company's target markets are primarily North America, Israel, United Kingdom, Europe, and Asia Pacific.

b.

Acquisition of FIS:

On August 21, 2011, the Company completed the acquisition of all of the outstanding shares of FIS, a provider of insurance software solutions for L&P, in consideration for \$ 49,671, composed of the following:

Sapiens' common shares	\$38,987
Cash paid	6,750
Warrants (i)	2,031
Options (ii)	1,903
Total purchase price	\$49,671

- (i) Sapiens issued 1,000,000 warrants. (See Note 11(e))

SAPIENS INTERNATIONAL CORPORATION N.V.

AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1:

GENERAL (Cont.)

Represents the fair value of the vested portion of 934,970 options of Sapiens granted upon consummation of the acquisition to the holders of partially vested options of FIS originally granted under the FIS Employee Share (ii) Option Plan. The fair value of these options was determined using a Binomial valuation model with the following assumptions: stock price of \$ 4.1, early exercise of 1.5-11, risk-free interest rate of 0.10%-2.07%, expected volatility of 70% and no dividend yield.

The acquisition of FIS allows Sapiens to offer an enhanced solution for the L&P market. In addition, the acquisition of FIS has grown Sapiens' customer base in the insurance market world-wide. The value of goodwill is attributed to synergies between Sapiens solutions and services and FIS's solutions and services which strengthen the Company's position in the market as a leading provider of L&P core software solutions. The entire goodwill was assigned to Sapiens' reporting unit.

The acquisition was accounted for by the acquisition method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of FIS. The results of FIS operations have been included in the consolidated financial statements since August 21, 2011.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed based on management's assessment with the assistance of a third party valuation:

Cash and cash equivalents	\$8,349
Restricted cash	239
Trade receivables	5,152
Other receivables and prepaid expenses	632
Property and equipment	451
Severance pay fund	4,182
Other intangible assets	11,724
Goodwill	35,523

Total assets acquired	66,252
Trade payables	(1,486)
Employees and payroll accruals	(3,461)
Deferred revenues	(1,706)
Accrued expenses and other liabilities	(1,914)
Deferred tax liabilities	(406)
Accrued severance pay	(4,487)
Long-term contracts	(2,239)
Non-controlling interest	(882)
Total liabilities assumed	(16,581)
Total assets acquired, net	\$49,671

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SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 1:

GENERAL (Cont.)

In performing the purchase price allocation, management considered, among other factors, analyses of historical financial performance, highest and best use of the acquired assets and estimates of future performance of FIS's business. In performing the purchase price allocation the fair value of intangible assets such as customer relationship was based on the income approach, core technology was valued using the relief from royalty method and long-term contracts were valued based on an exit price that would be paid or received in a transfer of all the rights and obligations of the contractor to a market participant.

The following table sets forth the components of intangible assets and liabilities associated with the acquisition and their annual amortization rates:

	Fair value	Weighted average rate	
Core technology	\$ 4,206	13	%
Customer relationships	7,518	14	%
Long-term contracts	(2,239)	67	%
Total	\$ 9,485	22	%

Revenues of FIS for the period since the acquisition date through December 31, 2011, which are included in the consolidated financial statements, amounted to \$ 11,207.

c.

Acquisition of IDIT:

On August 21, 2011, the Company completed the acquisition of all of the outstanding shares of IDIT, a provider of insurance software solutions which focuses on the P&C market in consideration for \$ 31,444, composed as follows:

Sapiens' common shares	\$29,052
Options (i)	2,392
Total purchase price	\$31,444

Represents the fair value of the vested portion of 1,003,874 options of Sapiens granted upon consummation of the acquisition to the holders of partially vested options of IDIT originally granted under the IDIT Employee Share (i) Option Scheme. The fair value of these options was determined using a Binomial valuation model with the following assumptions: stock price of \$ 4.1, early exercise factor of 1.5-11, risk-free interest rate of 0.10%-2.07%, expected volatility of 70% and no dividend yield.

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SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 1:

GENERAL (Cont.)

The acquisition of IDIT allows the Company to offer its customers and partners a more extensive product portfolio in the industry. Acquiring IDIT is expected to strengthen Sapiens' presence in the P&C insurance market by increasing its customer base. IDIT is considered as a separate reporting unit.

The acquisition was accounted for by the acquisition method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of IDIT. The results of IDIT's operations have been included in the consolidated financial statements since August 21, 2011.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed based on management's assessment with the assistance of a third party valuation:

Cash and cash equivalents	\$2,143
Restricted cash	216
Trade receivables	1,194
Other receivables and prepaid expenses	302
Other long term assets	90
Property and equipment	482
Severance pay fund	1,800
Other intangible assets	7,918
Goodwill	25,355
Total assets acquired	39,500
Trade payables	(807)
Employees and payroll accruals	(2,328)
Accrued expenses and other liabilities	(1,012)
Deferred revenues	(1,769)
Accrued severance pay	(2,140)

Total liabilities assumed	(8,056)
Total purchase price	\$31,444

In performing the purchase price allocation, management considered, among other factors, analyses of historical financial performance, highest and best use of the acquired assets and estimates of future performance of IDIT's business. In performing the purchase price allocation the fair value of intangible assets such as customer relationship was determined based on the income approach, core technology was valued using the relief from royalty method and long-term contracts were valued based on an exit price that would be paid or received in a transfer of all the rights and obligations of the contractor to a market participant.

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SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 1:

GENERAL (Cont.)

The following table sets forth the components of intangible assets associated with the acquisition and their annual amortization rates:

	Fair value	Weighted average rate	
Core technology	\$ 5,548	14	%
Customer relationships	1,389	16	%
Long-term contracts	981	74	%
Total intangible assets	\$ 7,918	22	%

Revenues of IDIT for the period since the acquisition date through December 31, 2011, which are included in the consolidated financial statements, amounted to \$ 5,105.

d. Acquisition of Harcase Software Ltd.

On April 27, 2010, the Company completed the acquisition of Harcase Software Ltd. ("Harcase"). The total fair value of the purchase consideration for the acquisition was \$3,092, which includes cash paid for common stock and estimated fair value of earn-out payment. In connection with this acquisition, the Company recorded intangibles and goodwill in the amounts of \$ 1,732 and \$ 981, respectively. In 2011 and 2012, the Company paid \$ 953 and \$ 0 with respect to earn out.

As part of the acquisition, the Company was obligated to pay additional consideration to the selling shareholders in consideration for their continued employment of two to three years, as defined in the agreement pursuant to which the Company acquired Harcase ("the Additional Consideration"). The Additional Consideration includes the following: (1) \$ 750 in cash to be held in escrow until released upon certain conditions, as described in the agreement, (2)

issuance of 454,546 Common shares of the Company to be held in escrow, as described in the agreement, (3) put options on the Company's shares described in (2) above for a price of \$ 1.54 per share, exercisable during a period of six months from the date the shares are released from escrow. The cash portion of the Additional Consideration was recognized over the employment period of the respective shareholders. The shares and the respective put options were accounted for in accordance with ASC 718 as an award with a liability and equity component. The compensation was measured based on the combined value of the shares and the respective put options in accordance with ASC 718. The total compensation costs related to the shares and the put options at the grant date was \$ 1,302, recognized over the employment period of the respective former shareholders of Harcase. During 2012, \$ 387 out of the cash held in escrow was released to the selling shareholders, and the remaining amount of \$ 363 was pulled back and returned to the Company. The put options on the Company's shares were forfeited and the shares held in escrow were released to the selling shareholders.

SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 1:

GENERAL (Cont.)

For the period from April 27, 2010 (the acquisition date) until December 31, 2010 and for the year ended December 31, 2011 and 2012, the Company recorded an amount of \$ 605, \$755 and \$128 respectively of compensation expense in respect of the above Additional Consideration

e.

Pro Forma information:

The following represents the unaudited pro forma condensed results of operations for the years ended December 31, 2010 and 2011, assuming that the acquisitions of FIS and IDIT occurred on January 1, 2010. The pro forma information is not necessarily indicative of the results of operations, which actually would have occurred had the acquisitions been consummated on those dates, nor does it purport to represent the results of operations for future periods.

	December 31,	
	2010	2011
	Unaudited	Unaudited
Revenues	\$95,289	\$ 97,679
Net income (loss)	\$1,775	\$ (414)
Basic net earnings (losses) per share	\$0.05	\$ (0.01)
Diluted net earnings (losses) per share	\$0.04	\$ (0.01)

NOTE 2:

SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in United States ("U.S. GAAP").

a.

Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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SAPIENS INTERNATIONAL CORPORATION N.V.

AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Financial statements in United States dollars:

The currency of the primary economic environment in which the operations of Sapiens and certain subsidiaries are conducted is the U.S. dollar ("dollar"); thus, the dollar is the functional currency of Sapiens and certain subsidiaries.

Sapiens and certain subsidiaries' transactions and balances denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured to dollars in accordance with ASC 830, "Foreign Currency Matters". All transaction gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statements of income as financial income or expenses, as appropriate.

For those subsidiaries whose functional currency has been determined to be their local currency, assets and liabilities are translated at year-end exchange rates and statement of income items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded as a separate component of accumulated other comprehensive income in shareholders' equity.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash, with original maturities of three months or less at acquisition.

e. Restricted cash:

The Company maintains certain cash amounts restricted as to withdrawal or use. On December 31, 2012, the Company maintained a balance of \$ 536 that represents security deposits with respect to leases, restricted due to the lease agreement and security deposits for credit lines from banks.

SAPIENS INTERNATIONAL CORPORATION N.V.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Property and equipment, net:

Property and equipment are stated at cost, net of accumulated depreciation using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%
Computers and peripheral equipment	33
Office furniture and equipment	6 - 15
Motor vehicles	14

Leasehold improvements are amortized by the straight-line method over the term of the lease (including option terms) or the estimated useful life of the improvements, whichever is shorter.

g. Research and development costs:

Research and development costs incurred in the process of software production before establishment of technological feasibility are charged to expenses as incurred. Costs incurred to develop software to be sold are capitalized after technological feasibility is established in accordance with ASC 985-20, "Software - Costs of Software to be Sold, Leased, or Marketed". Based on the Company's product development process, technological feasibility is established upon completion of a detailed program design.

Costs incurred by the Company between completion of the detailed program design and the point at which the product is ready for general release, have been capitalized.

Capitalized software development costs are amortized commencing with general product release by the straight-line method over the estimated useful life of the software product (between 3-7 years).

h. Other intangible assets, net:

Technology is amortized over its estimated useful life on a straight-line basis. The acquired customer relationships are amortized over their estimated useful lives in proportion to the economic benefits realized or the straight-line method. The weighted average annual rates for other intangible assets are as follows:

	%
Technology	15%
Customer relationships	14%

SAPIENS INTERNATIONAL CORPORATION N.V.

AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Impairment of long-lived assets:

The Company's long-lived assets and identifiable intangibles that are subject to amortization are reviewed for impairment in accordance with ASC 360 "Property, Plant, and Equipment", whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. During 2010, 2011 and 2012, no impairment losses have been identified.

j. Goodwill:

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. The Company operates in two reporting units: Sapiens and IDIT.

In September 2011, the FASB issued ASU 2011-08 which amends the rules for testing goodwill for impairment. Under the new rules, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary.

The Company early adopted the provisions of ASU 2011-08 for the Company's annual impairment test on the fourth quarter of 2011. This analysis determined that no indicators of impairment existed primarily because (1) the

Company's market capitalization has consistently exceeded the Company's book value by a sufficient margin, (2) the Company's overall financial performance has been stable since the acquisition, and (3) forecasts of operating income and cash flows generated by the Company's reporting units appear sufficient to support the book values of the net assets of each reporting unit.

SAPIENS INTERNATIONAL CORPORATION N.V.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company performed annual impairment tests during the fourth quarter of each of 2010, 2011 and 2012 and did not identify any impairment losses.

k. Revenue recognition:

The Company generates 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, the Company generates revenues from post implementation consulting services and maintenance services.

Revenues 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. The Company considers 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.

The Company usually sells its software licenses as part of an overall solution offered to a customer that combines the sale of software licenses which normally include significant implementation that is considered essential to the functionality of the license. The Company accounts for revenues from the services (either fixed price or Time and Materials (T&M)) 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 accordance with ASC 985-605, the Company establishes 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 actual renewal rate). The Company's 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.

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SAPIENS INTERNATIONAL CORPORATION N.V.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 contract. Provisions for estimated losses are presented in accrued expenses and other liabilities.

Maintenance revenue is recognized ratably over the term of the maintenance agreement.

Deferred revenues and customer advances include unearned amounts received under maintenance and support agreements and amounts received from customers, for which revenues have not yet been recognized.

In addition, the Company derives a significant portion of its revenues from post implementation consulting services provided on a "Time and Materials" ("T&M") basis which are recognized as services are performed.

1. Income taxes:

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". This topic prescribes the use of the asset and liability method, whereby deferred tax asset and liability account balances are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

The Company implements a two-step approach to recognize and measure uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative basis) likely to be realized upon ultimate settlement.

The Company classifies interest as financial expenses and penalties as selling, marketing, general and administration expenses.

m. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash, trade receivables and foreign currency derivative contracts.

The Company's cash and cash equivalents and restricted cash are invested in bank deposits mainly in NIS and dollars. Deposits in the U.S. may be in excess of insured limits and are not insured in other jurisdictions. Generally, these banks deposits may be redeemed upon demand and therefore bear minimal risk.

SAPIENS INTERNATIONAL CORPORATION N.V.

AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's trade receivables are generally derived from sales to large and solid organizations located mainly in North America, Israel, United Kingdom, Rest of Europe and Asia Pacific. The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses. In certain circumstances, the Company may require prepayment. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection. Provisions for doubtful accounts were recorded in general and administrative expenses.

The Company entered into forward contracts, and option contracts intended to protect against the increase in value of forecasted non-dollar currency cash flows. The derivative instruments hedge a portion of the Company's non-dollar currency exposure.

No off-balance sheet concentrations of credit risk exist.

n.

Accrued severance pay:

The Company's liability for severance pay for its Israeli employees is calculated pursuant to Israel's Severance Pay Law based on the most recent monthly salary of the employees multiplied by the number of years of employment as of the balance sheet date. Employees are entitled to one month's salary for each year of employment, or a portion thereof. The Company's liability is fully provided by monthly deposits with insurance policies and severance pay funds and by an accrual.

The deposited funds include profits (losses) accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or employment agreements. The value of the deposited funds is based on the cash surrendered value of these policies and recorded as

an asset in the Company's consolidated balance sheet

In addition, the Company signed on a collective agreement with certain employees, according to which the Company's contributions for severance pay shall be instead of severance compensation and that upon release of the policy to the employee, no additional payments shall be made by the Company to the employee. Generally, the Company, under its sole discretion, pays to these employees the entire liability, irrespective of the collective agreement described per above. Therefore, the net obligation related to those employees is stated on the balance sheet as accrued severance pay.

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SAPIENS INTERNATIONAL CORPORATION N.V.

AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's agreements with certain employees in Israel are in accordance with Section 14 of the Severance Pay Law, 1963, whereas, the Company's contributions for severance pay shall be instead of its severance liability. Upon contribution of the full amount of the employee's monthly salary, and release of the policy to the employee, no additional calculations shall be conducted between the parties regarding the matter of severance pay and no additional payments shall be made by the Company to the employee. Further, the related obligation and amounts deposited on behalf of such obligation are not stated on the balance sheet, as they are legally released from obligation to employees once the deposit amounts have been paid.

Severance expense for the years 2010, 2011 and 2012 amounted to \$ 790, \$ 1,514 and \$ 2,217, respectively.

- o. Basic and diluted net earnings per share:

Basic net earnings per share are computed based on the weighted average number of common shares outstanding during each year. Diluted net earnings per share are computed based on the weighted average number of common shares outstanding during each year plus dilutive potential equivalent common shares considered outstanding during the year, in accordance with ASC 260, "Earnings Per Share".

- p. Stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation - Stock Compensation", which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made. ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated income statements.

The Company uses the Binomial Lattice ("Binomial model") option-pricing model to estimate the fair value for any options granted. The Binomial model takes into account variables such as volatility, dividend yield rate, and risk free interest rate and also allows for the use of dynamic assumptions and considers the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of termination or retirement of the option holder in computing the value of the option.

The Company recognizes compensation expenses for the value of its awards, which have graded vesting, based on the straight-line basis over the requisite service period of the award, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

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SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)****NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The fair value of each option granted in 2010, 2011 and 2012 using the Binomial model, is estimated on the date of grant with the following assumptions:

	Year ended December 31,		
	2010	2011	2012
Contractual life	6 years	6 years	6 years
Expected exercise factor (weighted average)	2.5	2.5	2.8
Dividend yield	0%	0%	0%
Expected volatility (weighted average)	66%	70%	60%
Risk-free interest rate	2.3%-2.8%	0.1%-1.2%	0.2%-1.0%

The risk-free interest rate assumption is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term as of the Company's employee stock options. The dividend yield assumption is based on the Company's historical and expectation of future dividend payouts. The expected life of options granted is derived from the output of the option valuation model and represents the period of time the options are expected to be outstanding. The expected exercise factor is based on industry acceptable rates since no actual historical behavior by option holders exists. Expected volatility is based on the historical volatility of the Company.

Stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense on a straight-line basis over the requisite service period for each of the awards.

q. Fair value of financial instruments:

ASC 820, "Fair Value Measurements and Disclosures", defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

SAPIENS INTERNATIONAL CORPORATION N.V.

AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability.

Foreign currency derivative contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable approximate fair value due to the short-term maturities of such instruments.

r. Derivatives and hedging:

The Company enters into option contracts and forward contracts to hedge certain transactions denominated in foreign currencies. The purpose of the Company's foreign currency hedging activities is to protect the Company from risk that the eventual dollar cash flows from international activities will be adversely affected by changes in the exchange rates. The Company's option and forward contracts do not qualify as hedging instruments under ASC 815. Changes in the fair value of option strategies are reflected in the consolidated statements of income as financial income or expense.

In 2010, 2011 and 2012, the Company entered into option strategies contracts in the notional amounts of \$ 1,409, \$ 1,979 and \$ 10,408, respectively that converted a portion of its floating currency liabilities to a fixed rate basis for a twelve-month period, thus reducing the impact of the currency changes on the Company's cash flow. In addition, in 2011 and 2012 the Company entered into forward contracts in the notional amounts of \$5,750 and \$ 1,734, respectively, that converted a portion of its floating currency liabilities to a fixed rate basis for a twelve-month period, thus reducing the impact of the currency changes on the Company's cash flow.

As of December 31, 2011 and 2012, the Company had outstanding options and forward contracts, in the notional amount of \$3,900 and \$7,520, respectively.

SAPIENS INTERNATIONAL CORPORATION N.V.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In 2010, 2011 and 2012, the Company recorded a loss of \$ 67 and income of \$ 27 and \$ 97, respectively, with respect to the above transactions, presented in the statements of income as financial income or expense, net.

s. Treasury shares:

In prior years and in 2012 the Company repurchased certain of its common shares and holds such shares as treasury shares. The Company presents the cost to repurchase treasury stock as a reduction of shareholders' equity.

t. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC No. 220, "Comprehensive Income". Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders.

u. Impact of recently issued accounting standards:

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income." Under ASU 2013-02, an entity is required to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income ("AOCI") by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in the financial statements. ASU 2013-02 is effective for the Company as of January 1, 2013. Since this standard only impacts presentation and disclosure requirements, its adoption will not have a material impact on the

Company's consolidated results of operations or financial condition.

NOTE 3: OTHER LONG TERM ASSETS

	December 31,	
	2011	2012
Deferred tax assets	\$1,782	\$608
Government authorities	883	1,208
Other	881	500
	\$3,546	\$2,316

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SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 4: PROPERTY AND EQUIPMENT, NET

	December 31,	
	2011	2012
Cost:		
Computers and peripheral equipment	\$17,330	\$8,600
Office furniture and equipment	3,842	2,909
Motor vehicles	176	86
Leasehold improvements	1,275	1,581
	22,623	13,176
Accumulated depreciation:		
Computers and peripheral equipment	16,466	7,279
Office furniture and equipment	3,038	2,261
Motor vehicles	140	86
Leasehold improvements	1,165	1,307
	20,809	10,933
Depreciated cost	\$1,814	\$2,243

Depreciation expense totaled \$ 593, \$ 755 and \$ 903 for the years 2010, 2011 and 2012, respectively. As for pledges, see Note 9. In 2012 the Company disposed fully depreciated assets in the amount of \$ 11,462.

NOTE 5: CAPITALIZED SOFTWARE DEVELOPMENT COSTS

The changes in capitalized software development costs during the year ended December 31, 2011 and 2012 were as follows:

Year ended December 31,

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	2011	2012
Balance at the beginning of the year	\$ 13,822	\$ 17,399
Acquisition of core technology which considered as software development	4,659	-
Capitalization	4,735	3,464
Amortization	(4,544)	(3,758)
Functional currency translation adjustments	(1,273)	389
Balance at the year end	\$ 17,399	\$ 17,494

Amortization of capitalized software development costs for 2010, 2011 and 2012, was \$ 5,869, \$ 4,544 and \$ 3,758, respectively. Amortization expense is included in cost of revenues.

SAPIENS INTERNATIONAL CORPORATION N.V.

AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 6: OTHER INTANGIBLE ASSETS, NET

a. Other intangible assets, net, are comprised of the following:

**December 31,
2011 2012**

Original amounts:

Customer relationship	\$9,130	\$9,335
Technology	5,705	5,842
Long-term contracts	921	942
	15,756	16,119

Accumulated amortization:

Customer relationship	763	2,058
Technology	513	1,401
Long-term contracts	287	942
	1,563	4,401

Other intangible assets, net \$14,193 \$11,718

b. Amortization of other intangible assets was \$ 187, \$ 1,449 and \$ 2,732 for 2010, 2011 and 2012, respectively.

c. Estimated amortization expense for future periods:

For the year ended December 31,

2013	\$2,071
2014	2,133

2015	2,005
2016	1,644
2017	1,521
2018 and thereafter	2,343
	\$11,718

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SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 7:- GOODWILL

The changes in the carrying amount of goodwill for the year ended December 31, 2011 and 2012 are as follows:

	Year ended December 31,	
	2011	2012
Balance at the beginning of the year	\$ 9,604	\$ 66,715
Acquisitions	60,878	-
Functional currency translation adjustments	(3,767)	1,372
Balance at the year end	\$ 66,715	\$ 68,087

NOTE 8: ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2011	2012
Government authorities	\$2,543	\$1,668
Accrued royalties to the OCS (Note 9a)	1,591	596
Accrued contract costs	1,541	563
Accrued expenses	5,099	4,691
	\$10,774	\$7,518

NOTE 9: COMMITMENTS AND CONTINGENT LIABILITIES

Sapiens Technologies (1982) Ltd. ("Sapiens Technologies"), a subsidiary incorporated in Israel, was partially a. financed under programs sponsored by the Office of Chief Scientist ("OCS") for the support of certain research and development activities conducted in Israel.

In exchange for participation in the programs by the OCS, the Company agreed to pay 3%-3.5% of total net consolidated license and maintenance revenue and 0.35% of the net consolidated consulting services revenue related to the software developed within the framework of these programs based on an understanding with the OCS reached in January 2012. The understanding reached with the OCS resulted in a reversal of an accrual in the amount of \$ 922 which was recorded as a reduction of cost of revenues in 2011.

The royalties will be paid up to a maximum amount equaling 100%-150% of the grants provided by the OCS, linked to the dollar, and for grants received after January 1, 1999, bear annual interest at a rate based on LIBOR.

Royalties' expenses amounted to \$ 614, \$ 510 and \$574 in 2010, 2011 and 2012, respectively, and are included in cost of revenues.

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SAPIENS INTERNATIONAL CORPORATION N.V.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 9: COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

As of December 31, 2012, the Company had a contingent liability to pay royalties of approximately \$ 8,360.

b. Lease commitments:

The Company leases office space, office equipment and various motor vehicles under operating leases.

1. The Company's office space and office equipment are rented under several operating leases. Future minimum lease commitments under non-cancelable operating leases for the years ended December 31, were as follows:

2013	\$2,519
2014	2,391
2015	2,524
2016	2,452
2017	2,278
2018 and thereafter	1,992
	\$14,156

Rent expense for the years ended December 31, 2010, 2011 and 2012 was \$ 1,811, \$ 2,399 and \$ 3,051, respectively.

2. The Company leases its motor vehicles under cancelable operating lease agreements.

The minimum payment under these operating leases, upon cancellation of these lease agreements was \$ 378 as of December 31, 2012.

c.

Legal settlement:

In 2010, a former customer of the Company filed a claim in the arbitration court in Warsaw, Poland against the Company for damages allegedly caused by the Company with respect to a license and services contract with such former customer signed a number of years ago. A settlement was reached in October 2011 under which the Company paid 1,100 Euro (\$1,509) and recovered an amount of \$ 1,200 from the insurance company.

d. The Company has provided bank guarantees in the amount of \$ 993 as security for the rent to be paid for its leased offices. The lease is valid for approximately three years ending in October 2015.

As of December 31, 2012, the Company has provided bank guarantees in the amount of \$ 106 as security for the performance of various contracts with customers and suppliers.

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SAPIENS INTERNATIONAL CORPORATION N.V.

AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 10: TAXES ON INCOME

a. Parent taxation:

Sapiens is governed under the laws of Curaçao. In addition, Sapiens is registered as an Israeli corporation for tax purposes only.

b. Israeli taxation:

1. Corporate tax rates in Israel:

Taxable income of Israeli companies is subject to tax at the rate of 25% in 2010, 24% in 2011 and 25% in 2012 and onwards.

2. Tax benefits under the Israel Law for the Encouragement of Capital Investments, 1959 ("the Law"):

Certain of the Company's Israeli subsidiaries have been granted "Approved Enterprise" and "Privileged Enterprise" status, which provides certain benefits, including tax exemptions and reduced tax rates. Income not eligible for Approved Enterprise and Privileged Enterprise benefits is taxed at regular rates.

In the event of distribution of dividends from the said tax-exempt income, the amount distributed will be subject to corporate tax at the rate ordinarily applicable to the Approved Enterprise's income. The tax-exempt income attributable to the Approved Enterprise programs mentioned above can be distributed to shareholders without subjecting the Company to taxes, only upon the complete liquidation of the applicable Israeli subsidiary. Tax-exempt income generated under the Privileged Enterprise program will be subject to taxes upon dividend distribution (which includes the repurchase of the Company's shares) or liquidation. The benefit periods under the Law have not yet commenced.

The entitlement to the above benefits is conditional upon the fulfilling of the conditions stipulated by the Laws and regulations (see below). Should they fail to meet such requirements in the future, income attributable to its Approved Enterprise and Privileged Enterprise programs could be subject to the statutory Israeli corporate tax rate and they could be required to refund a portion of the tax benefits already received, with respect to such programs. As of December 31, 2012, management believes that the Company's Israeli subsidiaries are in compliance with all the conditions required by the Law.

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SAPIENS INTERNATIONAL CORPORATION N.V.

AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 10: TAXES ON INCOME (Cont.)

Effective January 1, 2011, the Knesset enacted the Law for Economic Policy for 2011 and 2012 (Amended Legislation), and among other things, amended the Law, ("the Amendment"). According to the Amendment, the benefit tracks in the Investment Law were modified and a flat tax rate applies to the Company's entire preferred income. The Company will be able to opt to apply (the waiver is non-recourse) the Amendment and from then on it will be subject to the amended tax rates as follows: 2011 and 2012 - 15%, 2013 and 2014 - 12.5% and in 2015 and thereafter - 12%.

3. Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969:

Management believes that Sapiens Technologies currently qualifies as an "industrial company" under the above law and as such, is entitled to certain tax benefits including accelerated depreciation, deduction of public offering expenses in three equal annual installments and amortization of other intangible property rights for tax purposes.

Commencing 2005, some of the Company's Israeli subsidiaries have elected to file their tax returns under the Israeli Income Tax Regulations 1986 (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income). Accordingly, commencing 2005, results for tax purposes are measured in U.S. dollars.

c. Income taxes on non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective country of residence. Neither Israeli income taxes, foreign withholding taxes nor deferred income taxes were provided in relation to undistributed earnings of the non-Israelis subsidiaries. This is because the Company intends to permanently reinvest undistributed earnings in the foreign subsidiaries in which those earnings arose. If these earnings were distributed in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and non-Israeli withholding taxes.

d. Net operating losses carryforward:

As of December 31, 2012, certain subsidiaries had tax loss carry-forwards totaling approximately \$ 54,400 which can be carried forward and offset against taxable income with expiration dates ranging from 2013 and onwards. Most of these carry-forward tax losses have no expiration date.

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SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 10: TAXES ON INCOME (Cont.)

e. Deferred tax assets and liabilities:

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Significant components of the Company deferred tax assets are as follows:

	December 31,	
	2011	2012
Deferred tax assets:		
Net operating losses carryforward	\$18,161	\$14,351
Research and Development assets for Israeli Tax Authorities	2,809	3,013
Other	816	1,016
Deferred tax assets before valuation allowance	21,786	18,380
Valuation allowance	(11,422)	(8,263)
Deferred tax assets	10,364	10,117
Deferred tax liabilities:		
Research and Development capitalization	(3,234)	(3,705)
Acquired intangibles	(4,624)	(3,905)
Deferred tax assets, net	\$2,506	\$2,507

	December 31,	
	2011	2012
Current deferred tax assets	\$1,406	\$2,750
Long-term deferred tax assets	1,782	608
Current deferred tax liabilities	(145)	(121)

Long-term deferred tax liabilities (537) (730)

Deferred tax assets, net \$2,506 \$2,507

Current and long-term deferred tax liabilities are included within other liabilities and other long-term liabilities, respectively, in the balance sheets. Long-term deferred tax assets are included within other long term assets.

The Company has provided valuation allowances in respect of certain deferred tax assets resulting from tax loss carry forwards and other reserves and allowances due to uncertainty concerning realization of these deferred tax assets.

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SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 10: TAXES ON INCOME (Cont.)

f. Income before taxes on income is comprised as follows:

	Year ended December 31,		
	2010	2011	2012
Domestic (Curaçao)	\$(13)	\$(236)	\$(745)
Foreign	6,360	5,964	12,983
	\$6,347	\$5,728	\$12,238

A reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate g. applicable to income for an Israeli company, and the actual tax expense as reported in the statements of income is as follows:

	Year ended December 31,					
	2010		2011		2012	
Income before taxes on income, as reported in the statements of income	\$6,347		\$5,728		\$12,238	
Statutory tax rate in Israel	25	%	24	%	25	%
Theoretical taxes on income	\$1,587		\$1,375		\$3,018	
Increase (decrease) in taxes resulting from:						
Effect of different tax rates	106		75		120	
Utilization of carryforward tax losses for which valuation allowance was provided	(186)		(66)		(2,690)	
Non-deductible expenses and tax exempt income	(302)		68		702	
Taxes in respect of previous years	236		21		35	
Recognition of deferred taxes during the year for which valuation allowance was provided in prior years	(1,471)		(2,040)		(1,206)	
Losses and temporary differences for which valuation allowance was provided	172		244		421	
Others	35		93		35	

Taxes on income, as reported in the statements of operations	\$177	\$(230)	\$435
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SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 10: TAXES ON INCOME (Cont.)

h. Taxes on income (benefit) are comprised as follows:

	Year ended		
	December 31,		
	2010	2011	2012
Current	\$427	\$470	\$738
Deferred	(250)	(700)	(303)
	\$177	\$(230)	\$435

The Company's entire provision for taxes on income relates to operations in jurisdictions other than Curaçao.

i. Uncertain tax positions:

A reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits is as follows:

	December 31,	
	2011	2012
Balance at the beginning of the year	\$400	\$1,566
Settlement with tax authorities	-	(925)
Increase in tax position due to the acquisition of FIS	925	-
Increase in tax positions	241	66
Decrease in tax positions	-	(197)
Balance at the end of the year	\$1,566	\$510

The entire balance of unrecognized tax benefits, if recognized, would reduce the Company's annual effective tax rate.

As of December 31, 2011 and 2012 accrued interest related to uncertain tax positions amounted to \$ 66 and \$ 184, respectively.

As of December 31, 2012, most of the Company's Israeli subsidiaries are subject to Israeli income tax audits for the tax years 2008 through 2012, to U.S. federal income tax audits for the tax years of 2009 through 2012.

SAPIENS INTERNATIONAL CORPORATION N.V.

AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 11: EQUITY

- a. The common shares of the Company are traded on the Tel-Aviv Stock Exchange and on the NASDAQ.

Common shares confer upon their holders voting rights, the right to receive cash dividends and the right to share in excess assets upon liquidation of the Company.

b. Stock option plans:

In 2011, in connection with the acquisition of IDIT and FIS, the Company's board of directors approved its 2011 Share Incentive Plan (the "2011 Plan") pursuant to which the Company's employees, directors, officers, consultants, advisors, suppliers, business partner, customer and any other person or entity whose services are considered valuable are eligible to receive awards of share options, restricted shares, restricted share units and other share-based awards. Options granted under the 2011 Plan may be exercised for a period of up to 6 years from the date of grant and become exercisable in four equal, annual installments, beginning with the first anniversary of the date of the grant, or pursuant to such other schedule as may provide in the option agreement.

The total number of Common Shares available under the 2011 Plan was set at 4,000,000. Upon the approval of the 2011 Plan, the board of directors determined that no further awards would be issued under the Company's previously existing share incentive plans.

Pursuant to the terms of the acquisitions of IDIT and FIS, the Company replaced unvested options with Sapiens options, based on the agreed exchange ratio applicable to the purchase of the outstanding shares of IDIT and FIS, respectively. Each replaced option is subject to the same terms and conditions, including vesting and timing of exercisability, as applied to any such option immediately prior to the acquisition.

As of December 31, 2012 1,410,270 common shares of the Company were available for future grant under the 2011 Plan. Any option granted under the 2011 Plan which are forfeited or cancelled before expiration, will become available for future grant under the 2011 Plan.

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SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 11: EQUITY (Cont.)

A summary of the stock option activities in 2012 is as follows:

	Year ended December 31, 2012			
	Amount of options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding at January 1, 2012	5,187,146	1.97	4.56	9,405
Granted	432,805	3.84		
Exercised	(1,244,679)	1.68		
Expired and forfeited	(154,463)	2.5		
Outstanding at December 31, 2012	4,220,809	2.21	3.91	7,562
Exercisable at December 31, 2012	2,954,488	1.88	3.35	6,265

In 2010, 2011 and 2012, the Company granted 789,000, 2,429,844 and 432,805 stock options to employees and directors, respectively.

The weighted average grant date fair values of the options granted during the years ended December 31, 2010, 2011 and 2012 were \$ 1.08, \$ 2.25 and \$ 1.96, respectively.

The total intrinsic value of options exercised during the years ended December 31, 2010, 2011 and 2012 was \$16, \$ 253 and \$ 2,668, respectively.

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The options outstanding under the Company's stock option plans as of December 31, 2012 have been separated into ranges of exercise price as follows:

Ranges of exercise price	Options outstanding as of December 31, 2012	Weighted average remaining contractual Term (Years)	Weighted average exercise price \$	Options Exercisable as of December 31, 2012	Weighted Average Exercise price of Options Exercisable \$
1-1.5	1,864,802	2.63	1.46	1,811,072	1.47
1.55-1.68	384,632	2.87	1.61	227,132	1.61
1.78	274,758	5.25	1.78	230,827	1.78
2-2.25	130,250	2.89	2.20	30,250	2.19
2.38-2.63	400,921	7.73	2.52	265,816	2.51
3	300,000	4.97	3	100,000	3
3.63-3.7	175,275	1.88	3.33	175,275	3.63
3.75	191,000	5	3.75	47,750	3.75
3.84	432,805	5.93	3.84	-	3.84
4.06-4.65	66,366	3.41	4.22	66,366	4.22
	4,220,809	3.91	2.21	2,954,488	1.88

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SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 11: EQUITY (Cont.)

c. The total stock-based compensation expenses related to all of the Company's equity-based awards recognized for the years ended December 31, 2010, 2011 and 2012 was, \$ 412, \$ 336 and \$ 690, respectively.

d. As of December 31, 2012, there was \$ 1,666 of total unrecognized compensation cost related to non-vested options granted under the Plan and the Special Plan, which is expected to be recognized over a period of up to four years.

e.

Warrants:

The following table summarizes information regarding outstanding warrants to purchase Common shares of the Company as of December 31, 2012:

Warrants to Common shares	Weighted average exercise price per share	Warrants exercisable	Exercisable through
1,000,000	\$ 3.82	1,000,000	August 2014
11,000	\$ 2.00	11,000	May 2015
17,000	\$ 2.24	17,000	February 2015
1,028,000	\$ 3.77	1,028,000	

f.

Repurchase of shares:

On November 28, 2012, the Company repurchased from one of its shareholders 2,000,000 common shares, representing approximately 5% of the total number of issued and outstanding common shares, at a price of \$ 3.50 per share, for a total consideration of \$7,000. The repurchased shares are held as treasury shares.

SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 12:- BASIC AND DILUTED NET EARNINGS PER SHARE

	Year ended December 31,		
	2010	2011	2012
Numerator:			
Net income attributed to Sapiens shareholders	\$6,152	\$5,897	\$11,780
Denominator:			
Denominator for basic earnings per share - weighted average number of common shares, net of treasury stock	21,583	28,460	39,953
Shares and related put options issued in Harcase acquisition	10	298	114
Stock options and warrants	588	2,006	1,604
Denominator for diluted net earnings per share - adjusted weighted average number of shares	22,181	30,764	41,671

The weighted average number of shares related to outstanding anti-dilutive options and warrants excluded from the calculations of diluted net earnings per share was 834,844, 1,308,212 and 1,675,521 for the years 2010, 2011 and 2012, respectively.

SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)****NOTE 13: GEOGRAPHIC INFORMATION**

The Company operates in a single reportable segment as a provider of software solutions. See Note 1 for a brief description of the Company's business. The data below is presented in accordance with ASC 280, "Segment Reporting".

b. Geographic information:

The following is a summary of operations within geographic markets.

	Year ended December 31,		
	2010	2011	2012
1. Revenues:			
North America	\$8,991	\$20,889	\$35,519
Israel	19,554	21,470	23,100
United Kingdom	11,995	14,672	26,630
Rest of Europe	615	4,870	16,140
Asia Pacific	11,080	8,026	12,520
	\$52,235	\$69,927	\$113,909

	December 31,	
	2011	2012
2. Long-lived assets:		
Israel	\$1,038	\$1,422
North America	197	266
Rest of the world	579	555
	\$1,814	\$2,243

c. Major customer data:

Revenues from a major customer accounted for 26%, 20% and 12% of total revenues for the years ended December 31, 2010, 2011 and 2012, respectively.

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SAPIENS INTERNATIONAL CORPORATION N.V.**AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)****NOTE 14: SELECTED STATEMENTS OF OPERATIONS DATA**

a. Research and development expenses, net:

	Year ended December 31,		
	2010	2011	2012
Total costs	\$8,680	\$9,743	\$13,633
Less - capitalized software development costs	(5,387)	(4,735)	(3,464)
Research and development expenses, net	\$3,293	\$5,008	\$10,169

b. Financial income (expenses), net:

Financial income:			
Interest	\$87	\$160	\$201
Foreign currency translation	39	530	501
	126	690	702
Financial expenses:			
Interest	105	189	169
Foreign currency translation	249	341	284
Bank charges and others	30	56	56
Re-measurement of earn-out payment	106	-	-
	(490)	(586)	(509)
Financial income (expenses), net	\$(364)	\$104	\$193

NOTE 15: SUBSEQUENT EVENT

On February 20, 2013, the Company's extraordinary general meeting of shareholders approved the distribution of cash dividend of \$ 0.15 per common share for a total amount of \$ 5,802 which was paid in February 22, 2013.

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