

SAPIENS INTERNATIONAL CORP N V
Form 20-F/A
February 03, 2011

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

FORM 20-F/A
Amendment No. 1

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

OR

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

For the fiscal year ended December 31, 2009

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)

NETHERLANDS ANTILLES
(Jurisdiction of incorporation or organization)

Landhuis Joonchi
Kaya Richard J. Beaujon z/n
P.O. Box 837
Curaçao, Netherlands Antilles
(Address of principal executive offices)

Roni Giladi, Chief Financial Officer

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Rabin Science Park

PO Box 4011

Nes Ziona 74140 Israel

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

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

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

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

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

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

As of December 31, 2009 the issuer had 21,591,088 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 ☒

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 proceeding 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 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 by the International Accounting Standards Board ☐ Other

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

Item 17 ☐ Item 18 ☐

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

Yes ☐ No ☒

EXPLANATORY NOTE

This Amendment No. 1 (the “Amendment”) to the Annual Report on Form 20-F for the year ended December 31, 2009, filed on April 29, 2010 with the Securities and Exchange Commission (the “Original Report”), is being filed by Sapiens International Corporation N.V. (“Sapiens” or the “Company”) to amend the Original Report for the sole purposes of: (i) expanding the disclosure in Item 3.D (“Risk Factors”) to address the risk that accompanies our election of exempt status from certain NASDAQ corporate governance requirements as a result of our being a “controlled company” under the NASDAQ Listing Rules; and (ii) expanding the “Overview” section of Item 5 (“Operating and Financial Review and Prospects”) to include an executive level discussion at the start of such section. Other than as expressly set forth herein, this Amendment does not, and does not purport to, amend or restate any other information contained in the Original Report, nor does this Amendment reflect any events that have occurred after the Original Report was filed. The filing of this Amendment shall not be deemed an admission that the Original Report, when filed, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

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, 2007, 2008 and 2009 and the balance sheet data as of December 31, 2008 and 2009 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, 2005 and 2006 and the balance sheet data as of December 31, 2005, 2006 and 2007 are derived from our audited financial statements not included in this annual report. Certain financial data for previous years set forth below was reclassified to conform to later years' presentation. You should read the selected consolidated financial data together with our audited consolidated financial statements included elsewhere in this annual report and with Item 5, "Operating and Financial Review and Prospects." Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

Selected Financial Data:

	Year Ended December 31,				
	2005	2006	2007	2008	2009
	(In thousands, except share and per share data)				
Revenues:					
Products	\$ 13,295	\$ 10,423	\$ 5,632	\$ 4,137	\$ 3,123
Consulting and other services	26,109	33,888	36,763	39,397	42,572
Total revenues	39,404	44,311	42,395	43,534	45,695
Cost of revenues:					
Products	8,809	6,302	3,277	2,482	1,874
Consulting and other services	16,037	22,499	22,306	23,975	24,697
Total cost of revenues	24,846	28,801	25,583	26,457	26,571
Gross profit	14,558	15,510	16,812	17,077	19,124
Operating Expenses:					
Research and development, net	2,723	2,451	3,502	3,884	2,735
Selling, marketing, general and administrative	16,245	13,558	12,513	10,708	11,048
Restructuring costs	1,113	758	-	-	-
Total operating expenses	20,081	16,767	16,015	14,592	13,783
Operating income (loss)	(5,523)	(1,257)	797	2,485	5,341
Financial expenses, net	1,788	2,230	2,798	2,236	880
Other expenses (income), net	(12)	-	109	(32)	-
Income (loss) before taxes on income	(7,299)	(3,487)	(2,110)	281	4,461
Taxes on income	1,798	325	338	584	260
Net income (loss)	(9,097)	(3,812)	(2,448)	(303)	4,201
Attributable to non-controlling interest	(2)	(13)	(96)	(41)	-
Net income (loss) attributable to Sapiens	(9,099)	(3,825)	(2,544)	(344)	4,201
Basic net earnings (loss) per share attributable to Sapiens' shareholders	\$ (0.76)	\$ (0.29)	\$ (0.14)	\$ (0.02)	\$ 0.19
Diluted net earnings (loss) per share attributable to Sapiens' shareholders	\$ (0.76)	\$ (0.29)	\$ (0.14)	\$ (0.02)	\$ 0.19

Weighted average number of shares used in computing basic net earnings (loss) per share	11,982	13,395	18,218	21,550	21,591
Weighted average number of shares used in computing diluted net earnings (loss) per share	11,982	13,395	18,218	21,550	21,592

Balance Sheet Data:	At December 31,				
	2005	2006	2007	2008	2009
	(In thousands)				
Cash and cash equivalents	\$ 6,699	\$ 3,108	\$ 13,125	\$ 7,938	\$ 11,172
Working capital (deficit)	(10,636)	(12,616)	(567)	(4,506)	925
Total assets	51,866	45,619	52,532	45,177	45,774
Long-term debt and other long-term liabilities	15,603	13,157	7,467	1,432	972
Capital stock	110,645	113,683	132,310	132,562	132,821
Total shareholders' equity	3,632	4,007	21,943	21,876	26,415

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 may incur future losses and be unable to achieve long-term profitability

We incurred net losses of approximately \$2.5 million and \$0.3 million for the years ended December 31, 2007 and December 31, 2008, respectively and in 2009, for the first time in 10 years, recorded net income of \$4.2 million. We cannot predict whether we will remain profitable on a sustained basis. Due to the possible decline in orders from existing customers, especially because of the current worldwide economic slowdown, we have no assurance that our revenues in the short to medium term will significantly increase, if at all, and they may decrease. At the same time, expenses may increase in the foreseeable future as we maintain our research and development and sales and marketing activities. Our research and development, sales and marketing efforts may prove more costly than we currently anticipate, and we may not succeed in the long term in increasing our revenues sufficiently to offset the expenses of those efforts. We must continue to increase our revenues in the future in order to achieve and maintain our profitability. If we fail to do so and our revenues fail to increase at a greater rate than our expenses, we may incur future losses and may be unable to achieve long-term profitability.

The current economic slowdown has adversely affected and may continue to adversely affect our results and financial condition.

The crisis of the financial and credit markets worldwide which took place beginning in 2008 led to an economic slowdown worldwide. This has impacted the insurance and financial sectors in which in excess of 50% of our customers operate. The slowdown has resulted in a reduction in demand in some or all of our major markets and downward pressure on pricing in many markets, which has adversely affected our business, results of operations and financial condition by negatively impacting our ability to maintain or increase revenues. Also, significant changes and

volatility in the equity, credit and foreign exchange markets, and in the competitive landscape, make it increasingly difficult for us to predict our revenues and earnings into the future. A continuation or worsening of unfavorable economic conditions could have an adverse impact on our financial results and financial condition.

Implementing our strategy of focusing on the market for software solutions in the insurance industry has taken longer than anticipated, and we may not succeed in gaining acceptance in that market.

Our goal is to rise to a position of global leadership in delivering strategic business software solutions to the insurance industry. Achieving this goal requires us, among other things, to design appropriate software solutions, maintain sufficient sales and marketing resources, recruit, train and hire sufficient professional services personnel and face intense competition. We have experienced delays in penetration of the insurance industry, and expect that additional time will be required to achieve our goal. Our future efforts to gain acceptance for our solutions may still not succeed, which could have a material adverse effect on our results.

Our working capital may once again decrease and we may need to raise capital again.

At December 31, 2009, we had positive working capital of \$0.9 million. Despite our positive cash flow from operations generated in 2008 and 2009, our overall positive cash flow in 2009 and the \$20 million (excluding finders' fees and out of pocket expenses) of capital that we were able to raise from investors in 2007, there is no assurance that we will not need to raise additional capital in the future. There is no assurance that we will be able to obtain additional financing, or if we do, that it will be on favorable terms. In addition, if we issue capital stock to investors in order to raise cash, our existing shareholders will experience dilution.

The software solutions market that we address is expected to evolve rapidly, and if we are not able to accurately predict and rapidly respond to market developments or customer needs, our competitive position will be impaired.

The market for our solutions is characterized by rapidly changing business conditions and customer requirements, yet estimates of its expected growth are inherently uncertain and are subject to many risks and assumptions. Many of our customers operate in markets characterized by rapidly changing technologies and business plans, which makes it difficult for us to predict their demands. The introduction of solutions embodying new technology and the emergence of new customer requirements can render existing technology obsolete and unmarketable. We are particularly susceptible to those changes since our software is used in a wide array of operating environments, which are constantly evolving. We may need to rapidly 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. The failure to anticipate changes in technology 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. We have experienced in the past, and anticipate experiencing in the future, delays in the timing of the introduction of new solutions and market acceptance of those solutions. Furthermore, substantial expenditures are required for research and development and the introduction of new, enhanced or modified products. There can be no assurance that we will have sufficient resources to make such investments, especially in light of the current worldwide financial and economic situation, or that these investments will bring the full advantages or any advantage as planned. To support our software development, enhancement or modification, we may also find it necessary to license or acquire new technologies, which may not be available to us on acceptable terms, if at all. In addition, there can be no assurance that we will not encounter technical or other difficulties that could delay introduction of new technologies or enhancements in the future. Various sectors of our market are served by competitors who may respond more effectively to market developments and customer needs. Our failure, for technological or other reasons, to timely develop and market products incorporating new technologies, or the development of the market for our solutions in a manner that we do not expect, could have a material adverse effect on our business prospects and competitive position, and, consequently, on our results of operations, financial condition and cash flows.

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

Our existing customers are a key asset of ours, and we depend on repeat product and service revenues from our base of customers. Our relationships with two large customers of our U.S. subsidiary – Texas Farm Bureau Insurance Companies and Occidental Fire & Casualty; a large customer of our subsidiary in the United Kingdom – Liverpool Victoria Friendly Services (“Liverpool Victoria”); one large customer of our subsidiary in Japan and one large customer of our subsidiary in Israel – Menora Mivtachim Insurance Ltd. (“Menora”), are the sources of a large portion of the revenues of those respective subsidiaries. During 2009, revenues from sales to the American customers specified above constituted 33.9% of the total revenues of the U.S. subsidiary (5.8% of our consolidated revenues); revenues from sales to the British customer specified above constituted 32.1% of the total revenues of the U.K. subsidiary (8.7% of our consolidated revenues); revenues from sales to the Japanese customer specified above constituted 44.4% of the total revenues of our Japanese subsidiary (9.7% of our consolidated revenues); and revenues from sales to the Israeli customer specified above constituted 71.9% of the total revenues of the Israeli subsidiary (23.5% of our consolidated revenues). There can be no assurance that our existing customers will enter into new project contracts with us or that they will continue using our enabling technologies. If our revenue stream from existing customers were to decline significantly, it would have a material adverse impact on our operating results. In light of the worldwide financial and economic situation, we have seen a delay and reduction in investments by our customers in the solutions that we offer. If this trend continues, it could negatively impact our financial results.

We compete against companies with significantly greater resources than our own.

The market for software solutions and related services, and for business solutions for the insurance industry, in particular, is highly competitive. Our principal competitors generally have significantly greater resources than we do. Our customers or potential customers could prefer suppliers that are larger than us and that have not experienced losses such as ours. There is no guarantee that our customers, present and future, will be confident in our financial stability going forward. Price reductions or declines in demand for our solutions and services, whether as a result of competition, technological change, economic downturn, changes in the level of application development, reengineering or maintenance performed internally by our customers or potential customers would have a material adverse effect on our results of operations, financial position and cash flows.

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, is relatively fixed. Therefore, a variation in the timing of the initiation, progress or completion of projects or engagements, especially at or near the end of any quarter, 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. 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. Some of our solutions may be priced in excess of \$1.0 million and 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 impact on our results of operations, financial position or cash flows. The sales cycle for our solutions is long and variable, typically ranging between nine months to eighteen months from initial contact with the potential client to the signing of a contract. Occasionally, sales require substantially more time. This variability may adversely affect our operating results in any particular quarter.

Defects in our technology would harm our business and divert resources.

The quality of our products, 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. Any errors or defects in our technology could result in:

- delayed or lost revenue;

- failure to attract new customers or achieve market acceptance;

- claims against us;
- diversion of development resources;
- increased service, warranty and insurance costs; and
- negative publicity resulting in damage to our reputation.

While we continually test our products for errors and work with customers to identify and correct them, errors in our technology may be found in the future. Testing for errors is complicated because it is difficult to simulate the breadth of operating systems, user applications and computing environments that our customers use and because our software is becoming increasingly complex itself. The costs we may incur in addressing technology errors could be substantial and could impair our results of operations.

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

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

Although we protect our intellectual property rights, 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.

Our Sapiens eMerge™ solution is proprietary to us and if we need to hire programmers, maintenance and professional services providers, we would incur training costs and delays due to training.

Our Sapiens eMerge™ solution was designed by us and its use requires special knowledge and training. If our current employees leave the Company or if a new project is undertaken by the Company and we need to hire new programmers or people to provide maintenance and professional services to our customers, we would have to train the

new employees and consultants in Sapiens eMerge™. As a result, we would incur training costs and would have to delay implementation of projects and services until such individuals were adequately trained. In addition, once these individuals are initially trained, they would still be inexperienced with Sapiens eMerge™ and would take additional time to develop efficiency and proficiency with Sapiens eMerge™. As a result of these costs and delays, there could be a negative impact on our results of operations, our financial condition, our cash flows and our relationships with our customers.

Some of our potential customers are reluctant to purchase proprietary solutions.

Some customers of information technology solutions are reluctant to purchase solutions that are not off-the-shelf or widely used by a broad customer base. Since our Sapiens eMerge™ solution and our Sapiens INSIGHT™ suite of solutions are proprietary to us and require special knowledge and training, we have faced reluctance by potential customers to purchase such proprietary solutions. Such reluctance could have a negative impact on our results of operations and our financial condition.

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

The assets as of December 31, 2009 include, among other things, goodwill amounting to approximately \$8.6 million, capitalized software development costs, net, amounting to approximately \$13.5 million, long-term deferred income taxes amounting to approximately \$1.8 million, and short-term deferred income taxes amounting to approximately \$1.5 million. The applicable accounting standards require that (a) goodwill be tested for impairment at least annually, and written down when impaired; (b) capitalized software costs be assessed for recoverability on a regular basis, to determine whether the amortization of the asset over its remaining life can be recovered through undiscounted future operating cash flows from the specific software product sold, in accordance with ASC 985 “Software”; and (c) certain identifiable intangible assets such as deferred taxes be reviewed for impairment in certain circumstances. If our goodwill, capitalized software development costs, or deferred tax assets, were deemed to be impaired in whole or in part due to us not achieving its goals, we could be required to reduce or write off such assets, thus having to recognize additional expense in our statements of operations and to reduce our shareholders’ equity.

As part of our business strategy, we may make acquisitions that could disrupt our business and harm our results of operations and financial condition.

As part of our growth strategy, we may consider acquiring complementary technologies, products and businesses. If we use capital stock in connection with such acquisitions, our existing shareholders may experience 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 nonrecurring charges or amortization of significant amounts of intangible assets, which would adversely affect our ability to achieve and maintain profitability. Attempted acquisitions may divert management, operational and financial resources from the conduct of our core business, and we may not complete any attempted acquisition.

Risks Relating to Our International Operations, Particularly in Israel

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

Most of our revenues are derived from international operations that are conducted in local currencies as well as dollars. Changes in the value of such local currencies or the dollar relative to such local currencies may affect our financial position and results of operations. Gains and losses on translations to dollars of assets and liabilities may contribute to fluctuations in our financial position and results of operations. In certain locations, we engage in currency-hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our financial position and results of operations. However, there can be no assurance that any such hedging transaction will materially reduce the effect of fluctuation in foreign currency exchange rates on such results. In addition, if for any reason exchange or price controls or other restrictions on the conversion of foreign currencies were imposed, our financial position and results of operations could be adversely affected.

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

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

Exchange rate fluctuations between the US dollar and other currencies which we and our subsidiaries use, especially the NIS, may negatively affect our earnings. A significant portion of our expenses, including research and development, personnel and facilities-related expenses, are incurred in Israel, in NIS. (On April 1st, 2010, the exchange rate between the NIS and the US dollar was NIS 3.697 per 1 US dollar.) Consequently, we are exposed to the risk of appreciation of the NIS vis-à-vis the US dollar. This appreciation would cause, and in 2008 did 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. Accordingly, our level of revenues and profits may be adversely affected by exchange rate fluctuations.

The depreciation of the NIS vis-à-vis the US dollar in 2009 was not significant, and the exchange rate fluctuations between the U.S. dollar and other currencies which we and our subsidiaries use, did not cause any significant change in our foreign currency transaction differences, compared to \$0.3 million in 2008. A material portion of our revenues in 2009 were, and will continue to be in future years, denominated in the British pound (the “GBP”) and as a result, the appreciation of the U.S. dollar versus the GBP during 2009 had a material adverse impact on our U.S. dollar translated revenues and results of operations within the U.K. See Note 14.b to our consolidated financial statements included elsewhere herein.

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

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

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

Since September 2000, there has been a marked increase in violence, civil unrest and hostility, including armed clashes, between the State of Israel and the Palestinians, and acts of terror have been committed inside Israel and against Israeli targets in the West Bank and Gaza. These developments have adversely affected the regional peace process, placed the Israeli economy under significant stress, and have negatively influenced Israel’s relationship with several Arab countries. The establishment in 2006 of a government in the Palestinian Authority by representatives of the Hamas militant group resulted in an escalation in violence among Israel, the Palestinian Authority and other groups and has created additional unrest and uncertainty in the region. Further, during the summer of 2006, Israel was engaged in a war with Hezbollah, a Lebanese Islamist Shiite militia group, which involved rockets being fired from Lebanon up to 50 miles into Israel and disrupted most day-to-day civilian activity in northern Israel. In January 2009, Israel engaged in a military action against Hamas in Gaza to prevent continued rocket attacks against Israel. These developments have further strained relations between Israel and the Palestinians. Any future armed conflict, political instability or violence in the region, including acts of terrorism, may have a negative effect on our business condition, harm our results of operations and adversely affect our share price.

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

Risks Related to an Investment in our Common Shares

If we fail to meet the standards for continued listing of our shares on NASDAQ, the shares could be de-listed from the NASDAQ Capital Market.

A company must continue to comply with several requirements in order to remain listed on NASDAQ. One of the requirements is that a company maintains a \$1.00 minimum bid price (the “Minimum Bid Price Requirement”).

Under the NASDAQ Listing Rules, a failure to meet the continued listing requirement for minimum bid price on the NASDAQ Capital Market shall be determined to exist only if the deficiency continues for a period of 30 consecutive business days.

Between February 17, 2009 and August 19 2009, the closing price of our Common Shares on the NASDAQ Capital Market was below \$1.00 and since August 20, 2009, has been above \$1.00. The closing price of our Common Shares on the NASDAQ Capital Market, on April 1, 2010, was \$2.04 per share.

If we fail to comply with the Minimum Bid Price Requirement, our Common Shares could be de-listed from the NASDAQ Capital Market, which could have a material adverse effect on our share price and our standing with current and future investors. In addition, if we are de-listed from the NASDAQ Capital Market, we may no longer be eligible for certain benefits granted by the Israel Securities Law to companies that are “dual listed” on the Tel Aviv Stock Exchange and a foreign (non-Israeli) securities exchange. The removal of such benefits would require us to incur additional costs relating to periodic reporting in Israel and would have a material adverse impact on our results of operations.

There can be no assurance that we will continue to meet all of the requirements for continued NASDAQ listing. Failure to meet one of NASDAQ's continued listing standards could result in the delisting of our Common Shares from NASDAQ.

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 will be made 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 very little trading volume for our Common Shares, which causes the stock price to be volatile and which may lead to losses by investors.

There is very little 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.

Our quarterly results may be impacted by multiple short-term factors, thereby causing variability in such results and enhanced volatility in the market price of our Common Shares.

Our revenue and operating results could vary widely from quarter to quarter as a result of several different factors, such as the budgeting and purchasing practices of our customers, the length of our customers' product evaluation process, the timing of our customers' system conversions, the timing and cost of new product introductions and product enhancements, and the timing of any acquisitions and associated costs. Employee hiring and the rate of utilization of such employees may also affect our revenues and results of operations. Such variation in results from quarter to quarter could cause enhanced volatility in the market price of our Common Shares.

Formula Systems (1985) Ltd. and its parent company Emblaze Ltd. 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 NASDAQ (under the trading symbol: FORTY) and whose shares trade on the TASE (under the trading symbol: FORT), directly owned (as of December 31, 2009) 15,206,426, or approximately 70%, of our currently outstanding Common Shares.

In November 2006, Emblaze Ltd. (“Emblaze”), whose ordinary shares are traded on the London Stock Exchange (under the trading symbol: BLZ.L), purchased the controlling interest of Formula, and as a result, control of us. As of April 1, 2010, Emblaze owned 49.19% of the outstanding share capital of Formula and, therefore, has a controlling influence over us.

Emblaze, 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 election to exempt our company from certain NASDAQ corporate governance requirements, as permitted for a “controlled company” of which greater than 50% of the voting power is held by a group (i.e., Emblaze and Formula), may have the effect of removing potential checks on Emblaze’s and Formula’s control over our company. As a result of such election, we need not 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; and determination of our executive officers’ compensation by a wholly independent compensation committee or a majority of our independent directors. Our exemption from these requirements could strengthen Emblaze’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”.

Further, 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.

Guy Bernstein, from Emblaze and Formula, also serves as Chairman of our Board of Directors.

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, or PFIC, for U.S. federal income tax purposes. 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 2009, 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 2010. 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, 2010 or in a future taxable year. U.S. shareholders should consult with their own U.S. tax advisors with respect to the U.S. tax consequences of investing in our Common Shares. For a discussion of how we might be characterized as a PFIC and related tax consequences, please see Item 10.E, “Additional Information – Taxation - U.S. Federal Income Tax Considerations - Tax Consequences if We Are a Passive Foreign Investment Company.”

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

Overview

We are a global provider of software solutions focusing on the insurance industry. Our suite of insurance solutions built to meet the core business needs of large and small insurance carriers, aligns IT with business demands for speed, flexibility and efficiency. Our solutions are supplemented by our methodology and consulting services, which address the complex issues related to the life-cycle of enterprise business applications.

We derive our revenues principally from the sale of products and from the provision of consulting and other services in the Life & Pension (L&P), Property & Casualty (P&C), reinsurance and closed block insurance spheres, in each case based largely upon the Sapiens eMerge™ architecture, as well as eMerge™ applications. Revenues from services include mainly consulting on a time and materials basis, maintenance and support. See “Critical Accounting Policies and Estimates” below for a discussion of how we account for our revenues and their associated costs.

The demand for our products and services is influenced by a number of industry-wide factors and trends, which present us with challenges, the most important of which are the following:

- (i) Our products are core components of insurance companies’ IT systems and are integrated with and connected to various other parts of such IT systems; therefore, insurance companies are conservative in purchasing products such as ours since such purchase requires significant investments;
- (ii) When insurance providers determine to proceed with modernizing changes, the sales cycle for our solutions is nevertheless long; and
- (iii) Even after we succeed in selling our products, given the high complexity of the systems being updated or replaced, the installation and implementation of such products is difficult and requires the allocation of significant resources by us.

We are addressing the challenges posed by the market environment by improving our sales & marketing efforts, upgrading the quality of our solutions and hiring high-quality personnel to better implement and integrate our solutions in our customers’ IT systems.

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, in accordance with U.S. GAAP, that affect the reporting amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, bad debts, goodwill and other intangible assets, foreign currency fluctuation, capitalized software development costs, deferred taxes, income taxes, restructurings and legal contingencies. 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.

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Revenue Recognition

Our revenue recognition approach for software licensing requires that, in accordance with ASC 985-605 “Software Revenue Recognition”, four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectability is reasonably assured.

Revenues under multiple-element arrangements, which may include software licenses, support and maintenance, and training and consulting services, are allocated to each element under the “residual method” when Vendors Specific Objective Evidence (“VSOE”) of fair value exists for all undelivered elements and VSOE does not exist for all of the delivered elements. VSOE is determined for support and maintenance, training and consulting services based on the price charged when the respective elements are sold separately or renewed. The Company charges support and maintenance renewals at a fixed percentage of the total price of the licensed software products purchased by the customer. Under the residual method, we defer revenues related to the undelivered elements based on their vendor-specific objective evidence of fair value and recognize the remaining arrangement fee for the delivered elements. When vendor-specific objective evidence of fair value for undelivered elements does not exist, revenues from the entire arrangement are recognized over the term of the agreement.

We recognize revenue from support and maintenance agreements ratably over the term of the agreement, which is typically one year. We recognize revenues from training arrangements as the services are performed.

We generally do not grant a right of return to our customers. When we do grant a right of return, we defer the recognition of revenue until the right of return expires, provided that all other revenue recognition criteria are met.

Amounts collected or billed prior to satisfying the above revenue recognition criteria are reflected as deferred revenue. Deferred revenue represents deferred maintenance revenue, and to a lesser extent, deferred software license revenues.

Revenues from license fees that involve implementation and customization of our software to customer specific requirements are generated from fixed-price or time-and-materials contracts. Revenues from fixed-price contracts are recognized based on ASC 605-35 “Revenue recognition- Construction Type and Production- Type Contracts,” which requires the accurate estimation of the cost, scope and duration for each project. Revenue and related cost for these projects are recognized on percentage of completion, using the input measure to assess the percent completed when enforceable right to services performed between milestones during the project exists, with revisions to estimates reflected in the period in which changes become known. If we do not accurately estimate the resources required or the scope of work to be performed, or do not manage the project properly within the projected periods of time or satisfy our obligations under the contract, project margins may be significantly and negatively affected, which may result in losses on existing contracts. Any such resulting reductions in margins or contract losses in a large, fixed-price contract may have a material adverse impact on our results of operations.

Revenues from consulting services that are not deemed essential to the functionality of the license provided on a “time and materials” basis are recognized as services are performed.

Revenues from IT outsourcing services that mainly include maintenance of customers' applications integrated on our license performed on a fixed fee basis are recognized on a straight line basis over the contractual period that the services are rendered, since no other pattern of outputs is discernible. Revenues from IT outsourcing services that are performed on a “time and materials” basis are recognized as services are performed.

Bad Debt

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required.

Goodwill, long lived assets and other identifiable intangible assets

ASC 350, “Intangibles- Goodwill and Other” requires that goodwill be tested for impairment at least annually or between annual tests in certain circumstances. Goodwill is required to be written down when impaired, rather than amortized as previous accounting standards required. Goodwill is tested for impairment by comparing the fair value of the reporting unit with its carrying value. Fair value is generally determined using market capitalization.

We selected December 31st as the date on which we perform our annual indefinite life impairment tests for our goodwill and intangible assets. Through December 31, 2009, no impairment was required.

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.

Share-Based Payments

We apply ASC 718 with respect to options issued to employees. ASC 718 requires us to estimate the fair value equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the awards that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company’s consolidated statement of operations. Beginning on the date of adoption of ASC 718, we estimate forfeitures based on historical experience and other factors; previously, we recorded forfeitures as they occurred.

Foreign Currency Fluctuation

We expect that, in addition to the US dollar, a significant portion of our revenues will continue to be denominated in the GBP and in the NIS and a smaller portion will be denominated in the Euro and Japanese yen. As a result, changes in the exchange rates between the US dollar and the GBP, the US dollar and the NIS, and to a lesser extent the US dollar and the Euro and the US dollar and the Japanese yen, could have a material adverse impact on our revenues and results of operations within the U.K., the rest of Europe, Israel and Japan. We regularly assess our currency exchange exposures and determine whether to adjust or hedge our position. We may use derivative instruments to hedge or adjust our exposures. As a matter of policy we do not enter into transactions of a speculative or trading nature. Foreign exchange exposures are monitored by tracking actual and projected commitments and through the use of sensitivity analysis.

Capitalized Software Development Costs

Our policy on 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 should be capitalized. We generally 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 costs are amortized by the greater of the amount computed using: (i) the ratio that current gross revenues from sales of the software bear to the total of current and anticipated future gross revenues from sales of that software, or (ii) the straight-line method between three to five years, which is the estimated useful life of the software product. 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.

In recent years, we developed a new generation of Sapiens eMerge™ products, which includes Service Oriented Architecture based products (“SOA”), eMerge™ for Linux and eMerge™ for Windows. In 2007, we determined the useful life of Sapiens eMerge™ products to be five years. In addition, we developed a new insurance product, Sapiens INSIGHT™ for Life and Pensions, and also determined its useful life to be five years. We based our determination of useful life on internal product road map analysis past history, technological obsolescence and market research. The life expectancy was established based on the contents, characteristics and capabilities of the products suite, on the technology trends in the IT market in the next decade and on the rate of adoption of new technologies by our customers. To assure a long life expectancy in a dynamic market, software components that support SOA, MS Windows and Linux environments were developed and released during 2006 and 2007.

(i) Sapiens eMerge™ products. The new Sapiens eMerge™ products suite, which is SOA compliant, supports adaptation of existing applications to the new standards without necessitating long and expensive re-implementation and agile incorporation of new business models, effectively extending the lifetime of existing applications. eMerge™ product suite, as well as the eMerge™ based applications, are based on mainstream technologies that are industry standards and were adopted by most of the software vendors. Based on life cycles for these mainstream key technologies, it is expected that the Microsoft and Linux platforms will exist for at least five years. We are not aware, nor do we anticipate, technological changes that are expected to have an impact on new Sapiens eMerge™ product suite in the next five years. Additionally, we believe that if there are major technology changes or advancements in the future, the technologies used by Sapiens eMerge™ products would be at the root of those advancements. We believe that these facts support a longer technological life for Sapiens eMerge™ products. The historical survival rates of similar technologies support a longer life for the eMerge™ product suite. Sapiens’ previous ObjectPool™ software was developed over a decade ago and was an integral part of our business solutions. This platform was used by our customers for their applications development and maintenance for over five years. The expanded functionality of eMerge™ is compatible with the capabilities of ObjectPool™. We believe that the long life of our previous product, ObjectPool™, supports a longer useful life of the eMerge™ products suite. Our estimate of the product life cycle is based on the contents, characteristics and capabilities of the respective products. The new eMerge™ product suite enables extending the productive life of existing legacy systems, while simultaneously providing a rapid migration path to new technologies. The advanced rapid application development technology allows making enterprise-specific enhancements in a significantly shortened timeframe resulting in a vastly reduced maintenance burden as compared to other technologies, application lifecycle costs reduced by approximately 80% and a significant prolongation of applications’ lifecycle. We estimate the technological life of the underlying platforms and architecture (SOA) to be five years. We do not anticipate any major variance or trend impacting our cost of revenues and profit margins as a result of such change.

(ii) Sapiens INSIGHT™ for Life and Pensions. In the life insurance market, there are very high costs of migrating old life insurance programs to a new system. Based on the industry and our experience with insurance companies that have already implemented Life & Pensions products, we estimate the useful life of this product to be at least five years. In addition, we do not plan to develop any new products in the next five years that will replace the INSIGHT™ for L&P. As further described above, the INSIGHT™ for Life & Pension is a SOA compliant product that is multi-company, multi-currency, multi-language, and web-enabled, leveraging the advantages of the Internet and company intranet. Sapiens INSIGHT™ for Life & Pension’s domain is significantly more complex and robust than other insurance domains (such as re-insurance or property and casualty) as it handles more product modules, engines and

algorithms which are also implemented during a longer average period than other insurance domains. Due to the extensive capabilities of the system, we estimate the product life cycle to be five years. We do not anticipate any major variance or trend impacting our cost of revenues and profit margins as a result of such change.

Deferred Taxes

Management judgment is required in determining our future taxable income for purposes of assessing our ability to realize any future benefits from our deferred tax assets. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. If actual results differ from these estimates or we adjust these estimates in future periods, our operating results and financial position could be materially affected. If we determine that we will be able to realize the deferred tax assets in the future in excess of their net recorded amount, an adjustment to the deferred tax asset would increase income in the period in which such determination is made. On the other hand, should we determine that we will not be able to realize all or part of the net deferred tax assets in the future, an adjustment to the deferred tax assets will be charged to expenses in the period in which such determination is made.

Income Taxes

Through our operating subsidiaries, we operate within multiple tax jurisdictions and may be subject to tax audits in these jurisdictions. These tax audits can involve complex issues, which may require an extended period of time to resolve. In management's opinion, adequate provisions for income taxes have been made for all years. However, though 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.

Accounting for Income Taxes

The Company and its subsidiaries account for income taxes in accordance with ASC 740 (Formerly SFAS 109) "Income Taxes" ("ASC 740"). This Statement 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. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

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. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

Legal Contingencies

We are currently involved in certain legal proceedings and claims that arose in the ordinary course of business, as discussed in Note 10 to our consolidated financial statements. As of December 31, 2009, we have accrued our estimate of the probable costs for the resolution of those claims where we believe it is probable that we will incur a loss. This estimate has been developed in consultation with outside counsel handling our defense in these matters and is based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. We do not expect these claims and/or proceedings to have a material adverse effect on our consolidated financial position. It is possible, however, that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by changes in our assumptions related to these claims and proceedings.

Fair Value Measurements

The carrying amounts of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of their generally short-term maturities.

Effective January 1, 2008, the Company adopted ASC 820 (Formerly SFAS 157), “Fair Value Measurements and Disclosures”. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. 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- Observable inputs that reflect quoted prices (unadjusted) for identical assets or
1 liabilities in active markets.

Level- Include other inputs that are directly or indirectly observable in the marketplace.
2

Level- Unobservable inputs which are supported by little or no market activity.
3

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.

Recent Accounting Pronouncements

In October 2009, the FASB issued ASU 2009-13, “Revenue Recognition (ASC Topic 605)-Multiple-Deliverable Revenue Arrangements” (ASU 2009-13). ASU 2009-13 amends the criteria in ASC Subtopic 605-25, “Revenue Recognition-Multiple-Element Arrangements”, for separating consideration in multiple-deliverable arrangements. This Update addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. ASU 2009-13 modifies the requirements for determining whether a deliverable can be treated as a separate unit of accounting by removing the criteria that verifiable and objective evidence of fair value exists for the undelivered elements. This guidance eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: a) vendor-specific objective evidence; b) third-party evidence; or c) estimates. In addition, this guidance significantly expands required disclosures related to a vendor's multiple-deliverable revenue arrangements. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company has chosen not to early adopt ASU 2009-13. We are currently evaluating the potential impact, if any, of the adoption of the standard on our consolidated financial statements.

In June 2009, the FASB issued ASU No. 2009-01, Topic 105 — Generally Accepted Accounting Principles amendments based upon Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement 162 (“ASU 2009-01”). ASU 2009-01 establishes the FASB ASC as the single source of authoritative accounting principles to be applied to financial statements of nongovernmental entities in conformity with U.S. GAAP. ASU 2009-01 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. Our adoption of ASU 2009-01 did not affect our consolidated results of operations or financial condition.

In December 2007, the FASB issued new authoritative accounting guidance under FASB ASC Topic 810 (formerly SFAS No. 160) which establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. ASC Topic 810 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, ASC 810 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and

the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. ASC Topic 810 is effective for fiscal years beginning on or after December 15, 2008. The adoption of ASC topic 810 on January 1, 2009 did not have a material impact on our financial position or results of operations and financial condition.

A. Operating Results

Years ended December 31, 2008 and 2009

Revenues.

Revenues from the sale of products are comprised of revenues from sales of Sapiens eMerge™ licenses, license upgrades, fixed price projects, and licenses for “Sapiens INSIGHT™” suite of solutions for the insurance industry. Revenues from services include mainly consulting on a time and materials basis, maintenance and support.

Total revenues in 2009 increased 5.1% to \$45.7 million from \$43.5 million in 2008. Product revenues in 2009 decreased 24.4% to \$3.1 million in 2009 from \$4.1 million in 2008. Consulting and other service revenues in 2009 increased 8.1% to \$42.6 million from \$39.4 million in 2008.

Cost of Revenues and Gross Profit

Cost of revenues increased 0.4% to \$26.6 million in 2009 from \$26.5 million in 2008. Cost of revenues relating to products is comprised of salaries and other personnel-related expenses of software consultants and engineers (\$1.1 million, or 57.9% of our total costs of products, in 2009, and \$1.2 million, or 48% of our total costs of products, in 2008), depreciation costs (\$0.2 million, or 10.5% of our total costs of products, in 2009 and \$0.3 million, or 12.0% of our total costs of products, in 2008), amortization of capitalized software development costs (\$0.3 million, or 15.8% of our total costs of products, in 2009 and \$0.4 million, or 16.0% of our total costs of products, in 2008), royalties to the Office of the Chief Scientist of the Ministry of Industry, Trade and Labor of Israel ("OCS") (\$0.1 million, or 5.3% of our total costs of products, in 2009, and \$0.1 million, or 4.0% of our total costs of products in 2008) and other costs (\$0.2 million, or 10.5% of our total costs of products, in 2009, and \$0.5 million, or 20.0% of our total costs of products, in 2008). Cost of revenues relating to consulting and other services is comprised of salaries and other personnel-related expenses, and amortization of capitalized software development costs. Salaries and other personnel-related expenses amounted to \$19.8 million, or 80.2% of our total costs of consulting and other services, in 2009, and \$19.6 million, or 81.7% of our total costs of consulting and other services, in 2008. Amortization of capitalized software development costs amounted to \$4.3 million, or 17.4% of our cost of revenues related to consulting, in 2009, and \$3.8 million, or 15.8% of our cost of revenues related to consulting, in 2008. The increase of the amortization is mainly due commencement of the amortization of new capitalized software development costs.

Our gross profit in 2009 increased 11.7% to \$19.1 million from \$17.1 million in 2008 as the overall increase in our revenues outpaced the slight increase in our cost of revenues. The gross profit margin increased by 6.7% in 2009 to 41.9 % from 39.3% in 2008.

Gross profit from product revenues decreased 29.4% in 2009 to \$1.2 million from \$1.7 million in 2008. Gross margin from product revenues was 40.0% in 2009, with no change from 2008. Gross profit from consulting, maintenance and other services increased 16.2% to \$17.9 million in 2009 from \$15.4 million in 2008. Gross margin from consulting, maintenance and other services increased 7.3% in 2009 to 42.0% from 39.1% in 2008. These results are mainly due to reduction in labor cost and tight control on all related expenses.

Amortization of capitalized software development costs increased 9.5% to \$4.6 million in 2009 from \$4.2 million in 2008. The increase was due to beginning of the amortization of new capitalized software development costs in 2009.

Research and Development, net.

Research and development ("R&D") costs are mainly comprised of labor costs and depreciation of property and equipment, reduced by capitalization of software development costs. Net R&D expenses decreased 30.8% in 2009 to \$2.7 million from \$3.9 million in 2008. The decrease in spending on R&D recorded in 2009, as compared with the previous year, resulted mainly due to the devaluation of the NIS against the US dollar in 2009 compared to 2008, as most of our research and development group is located in Israel and accordingly, related compensation and other expenses are recorded in NIS, as well as due to the decrease in labor expenses due to the reduction in salaries as well as due to income derived from a decrease in our obligations to contribute to employees pension funds resulting from the increase in the value of such pension funds.

Capitalized software development costs increased 5.7% to \$3.7 million in 2009 compared with \$3.5 million in 2008. Direct labor costs decreased 14.3% in 2009 to \$4.8 million from \$5.6 million in 2008, mainly due to the devaluation

of the NIS against the US dollar in 2009 compared to 2008, as most of our research and development group is located in Israel and accordingly related compensation and other expenses are recorded in NIS, as well as due to the decrease in labor expenses due to the reduction in salaries as well as due to income derived from a decrease in our obligations to contribute to employees pension funds resulting from the increase in the value of such pension funds.

Selling, Marketing, General and Administrative expenses.

Selling, marketing, general and administrative, expenses (“SG&A expenses”) increased 2.8% in 2009 to \$11 million from \$10.7 million in 2008. SG&A expenses consist primarily of salaries and other personnel-related expenses, which in 2009 amounted to \$6.5 million, or 59.1% of total SG&A expenses, and in 2008 to \$6.4 million or 59.8% of total SG&A expenses, as well as other costs associated with our sales and marketing efforts and our general and administrative activities such as rent which amounted to \$1.4 million in 2009 and \$1.3 million in 2008, accounting, legal and other public company expenses which amounted to \$0.8 million in 2009 and \$1.0 million in 2008, depreciation costs of \$0.2 million each of 2009 and 2008, and marketing costs, including tradeshow and design, in the amount of \$0.1 million in 2009 and \$0.2 million in 2008. General and administrative expenses include management salaries, offices and office maintenance, communications, external consultants and other expenses.

Financial expenses, net.

Our financial expenses, net, decreased 59.1% to \$0.9 million in 2009 from \$2.2 million in 2008. The decrease is mainly due to the decrease in the aggregate amount of our outstanding debentures and short term loans from financial institutions in 2009 compared to 2008. During 2009, we paid \$0.3 million as interest to our debenture holders and \$5.8 million for the repayment and repurchase of our convertible debentures consisting of a payment of \$5.4 million for the fourth installment repayment of the principal amount due under the debentures and \$0.4 million for the repurchase of our convertible debentures in the market.

Taxes on Income.

Our net tax expense in 2009 was \$0.26 million compared with \$0.58 million in 2008.

Our provision for taxes on income relates to operations in jurisdictions other than the Netherlands Antilles. 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 (loss).

Net income to holders of our Common Shares was \$4.2 million in 2009 compared to net loss of \$0.3 million for 2008. The increase in net income for shareholders in 2009 was due to (a) the \$2.8 million increase in operational profit in 2009, from \$2.5 million in 2008 to \$5.3 million in 2009, which was triggered by higher gross profit on our products and services (\$19.1 million in 2009 compared to \$17.1 million in 2008) and reduced overall operating expenses (\$13.8 million in 2009 relative to \$14.6 million in 2008), and (b) the \$1.3 million decrease in financial expenses, net in 2009, from \$2.2 million in 2008 to \$0.9 million in 2009.

Years ended December 31, 2007 and 2008

Revenues.

Revenues from the sale of products are comprised of revenues from sales of Sapiens eMerge™ licenses, license upgrades, fixed price projects, and licenses for “Sapiens INSIGHT™” suite of solutions for the insurance industry.

Revenues from services include mainly consulting on a time and materials basis, maintenance and support.

Total revenues in 2008 increased 2.6% to \$43.5 million from \$42.4 million in 2007. Product revenues in 2008 decreased 26.8% to \$4.1 million in 2008 from \$5.6 million in 2007. Consulting and other service revenues in 2008 increased 7.1% to \$39.4 million from \$36.8 million in 2007.

Our product revenues for the year 2008 decreased and our consulting and other service revenues increased mainly due to a planned shift from fixed price projects to time and material based projects, and the completion of certain fixed price projects during the year.

Cost of Revenues and Gross Profit.

Cost of revenues increased 3.5% to \$26.5 million in 2008 from \$25.6 million in 2007. Cost of revenues relating to products is comprised of salaries and other personnel-related expenses of software consultants and engineers (\$1.2 million, or 48% of our total costs of products, in 2008, and \$1.0 million, or 30.3% of our total costs of products, in 2007), depreciation costs (\$0.3 million, or 12.0% of our total costs of products, in 2008 and \$0.4 million, or 16.0% of our total costs of products, in 2007), amortization of capitalized software development costs (\$0.4 million, or 16.0% of our total costs of products, in 2008 and \$1.0 million, or 30.3% of our total costs of products, in 2007), royalties to the Office of the Chief Scientist of the Ministry of Industry, Trade and Labor of Israel ("OCS") (\$0.1 million, or 4.0% of our total costs of products, in 2008, and \$0.6 million, or 18.2% of our total costs of products in 2007) and other costs (\$0.5 million, or 20.0% of our total costs of products, in 2008, and \$0.3 million, or 9.1% of our total costs of products, in 2007). Cost of revenues relating to consulting and other services is comprised of salaries and other personnel-related expenses, and amortization of capitalized software development costs. Salaries and other personnel-related expenses amounted to \$19.6 million, or 81.7% of our total costs of consulting and other services, in 2008, and \$20.3 million, or 91% of our total costs of consulting and other services, in 2007. Amortization of capitalized software development costs amounted to \$3.8 million, or 15.8% of our cost of revenues related to consulting, in 2008, and \$2.0 million, or 9.0% of our cost of revenues related to consulting, in 2007. The increase of the amortization is mainly due to the devaluation of the NIS against the US dollar and the commencement of the amortization of new capitalized software development costs.

Our gross profit in 2008 increased 1.8% to \$17.1 million from \$16.8 million in 2007. The gross profit margin decreased by 0.8% in 2008 to 39.3 % from 39.6% in 2007 mainly due to the increase in amortization costs.

Gross profit from product revenues decreased 30.4% in 2008 to \$1.6 million from \$2.3 million in 2007. Gross margin from product revenues was 39.0% in 2008, a decrease of 5.1% from 41.1% in 2007. Gross profit from consulting, maintenance and other services increased 6.2% to \$15.4 million in 2008 from \$14.5 million in 2007. Gross margin from consulting, maintenance and other services decreased 0.8% in 2008 to 39.1% from 39.4% in 2007.

Amortization of capitalized software development costs increased 40.0% to \$4.2 million in 2008 from \$3.0 million in 2007. The increase is due to beginning of the amortization of new capitalized software development costs.

Research and Development, net.

Research and development ("R&D") costs are mainly comprised of labor costs and depreciation of property and equipment, reduced by capitalization of software development costs. Net R&D expenses increased 11.4% in 2008 to \$3.9 million from \$3.5 million in 2007. The increase in spending on R&D recorded in 2008, as compared with the previous year, resulted mainly from the devaluation of the NIS against the US dollar during the first three quarters of 2008, as most of our research and development group is located in Israel and accordingly its expenses are recorded in NIS.

Capitalized software development costs increased 12.9% to \$3.5 million in 2008 compared with \$3.1 million in 2007. Direct labor costs increased 36.6% in 2008 to \$5.6 million from \$4.1 million in 2007, mainly due to the devaluation of the NIS against the US dollar during the first three quarters of 2008.

Selling, Marketing, General and Administrative expenses, net.

Selling, marketing, general and administrative, net expenses (“SG&A expenses”) decreased 14.4% in 2008 to \$10.7 million from \$12.5 million in 2007. SG&A expenses consist primarily of salaries and other personnel-related expenses, which in 2008 amounted to \$6.4 million, or 59.8% of total SG&A expenses, and in 2007 to \$6.8 million or 54.4% of total SG&A expenses, as well as other costs associated with our sales and marketing efforts and our general and administrative activities such as rent which amounted to \$1.3 million in 2008, accounting, legal and other public company expenses in the amount of \$1.0 million, depreciation costs of \$0.2 million, marketing costs, including tradeshow and design, in the amount of \$0.2 million and bad debt income in the amount of \$0.4 million (bad debt expenses in the amount of \$0.4 million offset by the proceeds of a creditors' claim in the amount of \$0.8 million granted to our German subsidiary). General and administrative expenses include management salaries, offices and office maintenance, communications, external consultants and other expenses. The decrease in SG&A expenses in 2008 was the result of a reduction in headcount and consistent efficiency measures implemented by our management, which resulted in reduced expenses.

Financial expenses, net.

Our financial expenses, net, decreased 21.4% to \$2.2 million in 2008 from \$2.8 million in 2007. Total financial income decreased \$0.2 million to \$0.6 million in 2008 from \$0.8 million in 2007, which was offset by the decrease in financial expenses of \$0.8 million to \$2.8 million in 2008 from \$3.6 million in 2007. The decrease is mainly due to the decrease in the aggregate amount of our outstanding debentures and short term loans from financial institutions during 2008. In January and February 2008, we repurchased an aggregate amount of NIS 7,600,000 nominal value of debentures, representing approximately, \$2.1 million of the outstanding debentures. As a result, the amount of the annual interest payment that we paid in 2008 was reduced to approximately NIS 2.1 million or \$0.6 million. In addition, in December 2008, we paid to our debenture holders, \$3.5 million for the third installment repayment of the principal amount due under the debentures.

Taxes on Income.

Our net tax expenses in 2008 were \$0.58 million compared with \$0.34 million in 2007.

Our provision for taxes on income relates to operations in jurisdictions other than the Netherlands Antilles. 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 Loss.

Net loss to holders of our Common Shares was \$0.3 million for 2008, a decrease of 88.0% compared with a net loss to shareholders of \$2.5 million in 2007. The decrease in net loss to shareholders in 2008 was due to the increase in operational profit of \$1.7 million to \$2.5 million in 2008, compared with an operational profit of \$0.8 million in 2007.

Impact of Foreign Currency Fluctuations and Inflation.

For a discussion of the impact of inflation and foreign currency fluctuations upon our results, please see the risk factors entitled “We face currency exchange risks, as changes in exchange rates between the US dollar and other currencies, especially the NIS, may negatively impact our costs” and “We may be adversely affected if the rate of inflation in Israel exceeds the rate of devaluation (if any) of the New Israeli Shekel against the dollar” in Item 3.D, “Risk Factors,” above.

Effects of Government Regulations and Location on our Business.

For a discussion of the effects of Israeli governmental regulation and our location in Israel on our business, see the “Risks Relating to Our International Operations, Particularly in Israel” in Item 3.D above, and “Israeli Tax Considerations and Government Programs” in Item 10.E below.

B. Liquidity and Capital Resources.

Our cash and cash equivalents at the end of 2009 were \$11.1 million, compared with \$7.9 million at the end of 2008. The increase in such liquid assets was due to improved collection and positive cash flow from operating activities, which was partially offset by payment of the fourth and last installment of the principal amount of outstanding debentures, as well as the repurchase of our convertible debentures of approximately \$5.8 million

Net cash provided by operating activities was \$13.5 million in 2009, compared with net cash provided by operating activities of \$9.8 million in 2008. This change reflects the improved operational profit in 2009 of \$5.3 million compared to \$2.5 million during 2008.

Net cash used in investing activities was \$4.0 million in 2009, compared with net cash used in investing activities in 2008 of \$3.9 million. In 2009, we consummated investments in software development of \$3.7 million and purchase of property and equipment of \$0.3 million.

Net cash used in financing activities totaled \$6.5 million in 2009, compared with \$10.9 million used in financing activities in 2008. In 2009, we decreased our long term loan in the amount of \$0.6 million, paid \$0.3 million as interest to our debenture holders and \$5.8 million for the repayment and repurchase of our convertible debentures consisting of a payment of \$5.4 million for the fourth and last installment repayment of the principal amount due under our convertible debentures and \$0.4 million for the repurchase of our convertible debentures in the market.

Credit Lines

We had a revolving credit line facility for borrowings of up to \$9.2 million until June 30, 2009 which we did not utilize. We closed such line of credit with no liability with respect thereto.

Fund raising

In June 2007, we entered into a private placement investment transaction with several institutional investors, private investors and Formula for an aggregate gross investment amount of \$20 million (excluding finders' fees and out of pocket expenses), \$6.5 million of which was invested by Formula. We issued to the investors an aggregate of 6,666,667 Common Shares (of which 2,166,666 Common Shares were issued to Formula), at a price per share of \$3.00 which reflected a premium of approximately 25% above the trading price of our Common Shares (as of the date on which our Board of Directors approved the investment).

Debenture Issuance, Repayments and Buybacks

A prior source of liquidity for our Company was our offering of convertible debentures on the TASE in December 2003, which provided gross proceeds to us in an approximate amount of \$18.6 million (after including approximately \$1.5 million of additional debentures that were purchased in March 2004 pursuant to options that were issued as part of the December 2003 closing). The debentures bore interest at an annual rate of 6.0%, payable on the 5th of June and the 5th of December each year commencing on June 5, 2004 and ending on December 5, 2009. Principal was payable in four installments, on the 5th of December of the years 2006-2009. Our obligations under the debentures were denominated in NIS but would become linked to the US dollar if the exchange rate between the NIS and the US dollar rose above NIS 4.394 per 1 US dollar (on March 31, 2009, the exchange rate between the NIS and the US dollar was NIS 4.188 per 1 US dollar).

In June 2007, we repurchased an aggregate amount of NIS 15,000,000 nominal value, representing approximately \$3.5 million, of the then outstanding debentures. In January and February 2008, we repurchased an additional

aggregate amount of NIS 7,600,000 nominal value, representing approximately \$2.1 million, of the outstanding debentures.

In January 2009, we repurchased an aggregate amount of NIS1,605,799 nominal value, representing approximately \$0.4 million, of the outstanding debentures. Pursuant to the terms of the prospectus governing the debentures, the debentures repurchased by us were retired and removed from circulation.

In December 2009, we paid the fourth and final annual repayment of the principal of the debentures in the amount of approximately \$5.4 million, thereby retiring the remaining outstanding debentures

In 2009, we generated positive operating cash flow on an annual basis in the amount of \$13.5 million overall, following upon positive operating cash flow of \$ 9.8 million in 2008. Management believes that positive cash flow generated during 2008 and 2009 and our existing cash balances will be sufficient for our present requirements, and at least until December 31, 2010, to support our operating and financing requirements. However, in the event that we make one or more acquisitions for consideration consisting of all or a substantial part of our available cash, we might be required to seek external debt or equity financing for such acquisition or acquisitions or to fund subsequent operations.

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

The global insurance industry is constantly changing as a result of regulatory changes. Insurance companies must comply with regulations such as the Sarbanes-Oxley Act in the United States, Solvency II in Europe and other directives regarding transparency. In addition, many individual countries have increased supervision over local insurance companies.

Globally, the insurance industry has witnessed cross-border mergers and acquisitions, and the entry of international insurance companies into new emerging markets.

In Europe, regulators and insurers have been very active and creative, 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). Nevertheless, European insurers, and to some extent North American insurers, are cautiously approaching spending increases and most companies have not decided to change their software.

Finally, in recent years there has been constant significant growth in income from annual premiums. The recent financial developments worldwide may reduce insurers' revenues from such premiums, however, thereby reducing the likelihood that insurers will make additional expenditures to purchase our products and services.

We believe that the insurance market is changing and the reasons that contributed to the delays we experienced in penetration of the insurance industry are gradually fading away. However, the recent financial developments worldwide may still cause delays in our growth and expansion

Under current circumstances, we expect that additional time will be required to fully implement our strategy of focusing on the insurance industry, and that our results of operations and financial condition could continue to be adversely affected, especially in light of the recent worldwide economic slowdown. We are addressing the challenges posed by the market environment by focusing our marketing and selling efforts and by further reducing the expenses of our operations.

E. Off-Balance Sheet Arrangements

During 2009, we entered into hedging transactions, by purchasing put options in the total amount of \$5.8 million (whereby we could exchange such amount of US dollars for NIS), to protect against the devaluation of the US dollar, in the range of NIS 3.80 – 4.00 per Dollar. As of December 31, 2009, these hedging transactions were settled.

As of December 31, 2009, we are not a party to any material off-balance sheet arrangements.

F. Contractual Obligations

The following table sets forth information on our short-term and long-term contractual obligations as at December 31, 2009 (in thousands of dollars).

	Total	Payments due by period			
		Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years
Long-term loan	15	15	--	--	--
Accrued severance pay	938	--	--	--	938
Operating leasing	3,328	2,105	1,159	64	--
Total	\$ 4,281	\$ 2,120	\$ 1,159	\$ 64	\$ 938

As discussed in Note 11 of our consolidated financial statements contained elsewhere in this annual report, as of December 31, 2009 we had a total liability of \$300 thousand for gross unrecognized tax benefits. 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 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.
- 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.
- 8.1 List of Subsidiaries- previously filed as Exhibit 8.1 to the Original Report.
- 10.1 Consent of Kost Forer Gabbay & Kasierer, Independent Registered Public Accounting Firm- previously filed as Exhibit 10.1 to the Original Report.
- 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 Amendment No. 1 to its annual report on its behalf.

SAPIENS INTERNATIONAL
CORPORATION N.V.

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

Date: February 3, 2011

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