

VIASAT INC  
Form 8-K  
November 02, 2006

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**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): November 2, 2006**

**ViaSat, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation)

**0-21767**

(Commission File No.)

**33-0174996**

(I.R.S. Employer  
Identification No.)

**6155 El Camino Real  
Carlsbad, California 92009**

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(760) 476-2200**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Conditions

Item 9.01. Financial Statements and Exhibits.

SIGNATURE

EXHIBIT INDEX

EXHIBIT 99.1

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**Item 2.02. Results of Operations and Financial Conditions**

On November 2, 2006, ViaSat, Inc. issued a press release regarding its financial results for the second quarter of fiscal year 2007. A copy of the press release is attached hereto as Exhibit 99.1.

The information contained in this Current Report, including the exhibit, is being furnished and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section. Such information shall not be incorporated by reference into any filing of ViaSat, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**Item 9.01. Financial Statements and Exhibits.**

(c) Exhibits.

Exhibit

Number

Description of Exhibit

99.1

Press release issued by ViaSat, Inc. on November 2, 2006.

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**SIGNATURE**

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

Date: November 2, 2006

VIASAT, INC.

By: /s/ Ronald G. Wangerin

Name: Ronald G. Wangerin

Title: Vice President, CFO

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**EXHIBIT INDEX**

Exhibit Number	Description of Exhibit
99.1	Press release issued by ViaSat, Inc. on November 2, 2006.

nsform: uppercase">Item 16B.Code of Ethics.

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

## ITEM 16C.

## PRINCIPAL ACCOUNTANT FEES AND SERVICES.

**Policies and Procedures**

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

## Fees Paid to Independent Auditors

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

	Year ended December 31,	
	2016	2017
	<b>(in thousands)</b>	
Audit Fees	\$ 400	\$ 458
Tax Fees	\$ 195	\$ 238
Total	\$ 595	\$ 696

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

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

## Item 16D.

## Exemptions from the Listing Standards for Audit Committees

Not applicable.

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

None.

**ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT.**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE.**

We are exempt from a number of the requirements under the NASDAQ Listing Rules based on our status as a “foreign private issuer.” See Item 6.C above “Board Practices— NASDAQ Opt-Outs for a Foreign Private Issuer.”

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

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

- The majority of the company's board of directors must qualify as independent directors, as defined under NASDAQ Listing Rule 5605(a)(2) and that the independent directors have regularly scheduled meetings at which only independent directors are present.

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

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

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

We have also elected to follow our home country practice in lieu of the requirements set forth in of NASDAQ Listing Rule 5635, which require a domestic United States company to obtain shareholder approval for certain dilutive events, such as:

- the establishment or amendment of certain equity based compensation plans and arrangements;

- an issuance that will result in a change of control of the company;

· certain transactions other than a public offering involving issuances of a 20% or more interest in the company; and

· certain acquisitions of the stock or assets of another company.

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

**ITEM 16H.**

**MINE SAFETY DISCLOSURE.**

Not applicable.

**PART III**

Item 17.

Financial Statements.

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

Item 18.

Financial Statements.

The Consolidated Financial Statements and related notes required by this Item are contained on pages F-1 through F-41 hereof.

**SAPIENS INTERNATIONAL CORPORATION N.V.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2017**

**IN U.S. DOLLARS**

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Tel-Aviv 6492102, Israel ey.com

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Shareholders and Board of Directors of**

**SAPIENS INTERNATIONAL CORPORATION N.V.**

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Sapiens International Corporation N.V. ("the Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 10, 2018 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with

the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global

We have served as the Company's auditor since at least 1994, but we are unable to determine the specific year.

Tel-Aviv, Israel  
April 10, 2018

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Shareholders and Board of Directors of**

**SAPIENS INTERNATIONAL CORPORATION N.V.**

### **Opinion on Internal Control over Financial Reporting**

We have audited Sapiens International Corporation N.V.'s (the "Company") internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of StoneRiver Inc. and KnowledgePrice.com which were acquired in February 2017 and December 2017, respectively. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of StoneRiver Inc. and KnowledgePrice.com. In our opinion, Sapiens International Corporation N.V. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2017 consolidated financial statements of the Company and our report dated April 10, 2018 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

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Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

Tel-Aviv, Israel

April 10, 2018

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

	December 31,	
	2016	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$60,908	\$71,467
Marketable securities	18,220	-
Trade receivables (net of allowance for doubtful accounts of \$623 and \$415 at December 31, 2016 and 2017, respectively)	34,684	53,226
Other receivables and prepaid expenses	6,389	6,280
<u>Total</u> current assets	120,201	130,973
<b>LONG-TERM ASSETS:</b>		
Marketable securities	17,228	-
Capitalized software development costs, net	20,755	23,761
Other intangible assets, net	7,599	41,409
Property and equipment, net	9,807	10,695
Goodwill	73,597	158,559
Other long-term assets	4,623	3,675
Severance pay fund	4,041	4,547
<u>Total</u> long-term assets	137,650	242,646
<u>Total</u> assets	\$257,851	\$373,619

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

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

	December 31,	
	2016	2017
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade payables	\$6,562	\$7,044
Employees and payroll accruals	18,143	23,039
Accrued expenses and other liabilities	13,906	23,573
Deferred revenues and customer advances	9,137	16,513
<u>Total</u> current liabilities	47,748	70,169
<b>LONG-TERM LIABILITIES:</b>		
Series B Debentures	-	78,281
Deferred tax liabilities	2,167	9,171
Other long-term liabilities	7,697	8,271
Accrued severance pay	4,940	5,500
<u>Total</u> long-term liabilities	14,804	101,223
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>		
REDEEMABLE NON-CONTROLLING INTEREST	908	1,353
<b>EQUITY:</b>		
Sapiens International Corporation N.V. Shareholders' equity:		
Share capital:		
Common shares of € 0.01 par value:		
Authorized: 70,000,000 shares at December 31, 2016 and 2017, respectively; Issued:		
51,364,247 and 52,086,730 shares at December 31, 2016 and 2017, respectively; Outstanding:	681	689
49,035,951 and 49,758,434 shares at December 31, 2016 and 2017, respectively		
Additional paid-in capital	226,782	221,175
Treasury shares, at cost - 2,328,296 Common shares at December 31, 2016 and 2017	(9,423 )	(9,423 )
Accumulated other comprehensive income (loss)	(11,167 )	528
Accumulated deficit	(13,278 )	(12,926 )
<u>Total</u> Sapiens International Corporation N.V. shareholders' equity	193,595	200,043
Non-controlling interests	796	831
<u>Total</u> equity	194,391	200,874

<u>Total</u> liabilities and equity	\$257,851	\$373,619
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The accompanying notes are an integral part of the consolidated financial statements.

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

	Year ended December 31,		
	2015	2016	2017
Revenues	\$185,636	\$216,190	\$269,194
Cost of revenues	111,192	130,402	175,678
Gross profit	74,444	85,788	93,516
Operating expenses:			
Research and development	10,235	16,488	31,955
Selling, marketing, general and administrative	39,859	44,460	60,559
<u>Total</u> operating expenses	50,094	60,948	92,514
Operating income	24,350	24,840	1,002
Financial income (expense), net	163	533	(3,010 )
Income (loss) before tax benefit (taxes on income)	24,513	25,373	(2,008 )
Tax benefit (taxes on income)	(4,213 )	(5,772 )	2,564
Net income	20,300	19,601	556
Attributed to non-controlling interests	59	(43 )	(189 )
Attributed to redeemable non-controlling interest	1	(135 )	43
Adjustment to redeemable non-controlling interest	224	443	350
Net income attributable to Sapiens' shareholders	\$20,016	\$19,336	\$352
Net earnings per share attributable to Sapiens' shareholders			
Basic	\$0.42	\$0.40	\$0.01
Diluted	\$0.41	\$0.40	\$0.01

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

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

	Year ended December 31,		
	2015	2016	2017
Net income	\$20,300	\$19,601	\$556
<u>Other comprehensive income (loss):</u>			
Foreign currency translation adjustments	(1,367 )	476	11,589
Unrealized gains (losses) arising from marketable securities during the period, net of tax	(37 )	41	146
Losses reclassified into earnings from marketable securities, net of tax	5	-	-
	(1,399 )	517	11,735
Total comprehensive income	18,901	20,118	12,291
Comprehensive income (loss) attributed to non-controlling interests	59	(38 )	(149 )
Comprehensive income (loss) attributed to redeemable non-controlling interest	1	(135 )	43
Comprehensive income adjustment to redeemable non-controlling interest	224	443	350
Comprehensive income attributable to Sapiens' shareholders	\$18,617	\$19,848	\$12,047

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

## SAPIENS INTERNATIONAL CORPORATION N.V.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands (except of share data)

	Common stock		Additional	Treasury	Accumulated	Accumulated	Non-controlling	Total
	Shares	Amount	paid-in	shares	other	deficit	interests	equity
		capital			comprehensive			
					income (loss)			
Balance as of January 1, 2015	47,679,311	\$ 667	\$ 249,271	\$(9,423)	\$(10,281)	\$(52,630)	\$ 689	\$ 178,293
Stock-based compensation	-	-	1,153	-	-	-	196	1,349
Employee stock options exercised (cash and cashless)	1,080,470	11	1,557	-	-	-	-	1,568
Distribution of dividend	-	-	(7,186)	-	-	-	-	(7,186)
Dividend to non-controlling interests	-	-	-	-	-	-	(77)	(77)
Other comprehensive loss	-	-	-	-	(1,398)	-	(1)	(1,399)
Adjustment to redeemable non-controlling interest	-	-	-	-	-	(224)	-	(224)
Distribution to ultimate parent for a business acquisition under common control	-	-	(10,815)	-	-	-	-	(10,815)
Net income	-	-	-	-	-	20,240	60	20,300
Balance as of December 31, 2015	48,759,781	\$ 678	\$ 233,980	\$(9,423)	\$(11,679)	\$(32,614)	\$ 867	\$ 181,809
Stock-based compensation	-	-	1,701	-	-	-	40	1,741
Employee stock options exercised (cash and cashless)	276,170	3	887	-	-	-	-	890
Distribution of dividend	-	-	(9,786)	-	-	-	(73)	(9,859)
	-	-	-	-	512	-	5	517

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Other comprehensive income								
Redeemable non-controlling interest	-	-	-	-	-	(308 )	-	(308 )
Net income	-	-	-	-	-	19,644	(43 )	19,601
Balance as of December 31, 2016	49,035,951	\$ 681	\$ 226,782	\$(9,423 )	\$(11,167 )	\$(13,278 )	\$ 796	\$194,391
Stock-based compensation	-	-	1,799	-	-	-	184	1,983
Employee stock options exercised (cash and cashless)	722,483	8	2,445	-	-	-	-	2,453
Distribution of dividend	-	-	(9,851 )	-	-	-	-	(9,851 )
Other comprehensive income	-	-	-	-	11,695	-	40	11,735
Redeemable non-controlling interest	-	-	-	-	-	(393 )	-	(393 )
Net income	-	-	-	-	-	745	(189 )	556
Balance as of December 31, 2017	49,758,434	\$ 689	\$ 221,175	\$(9,423 )	\$ 528	\$(12,926 )	\$ 831	\$200,874

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

	Year ended December 31,		
	2015	2016	2017
Cash flows from operating activities:			
Net income	\$20,300	\$19,601	\$556
Reconciliation of net income to net cash provided by operating activities:			
Depreciation and amortization	9,625	10,021	15,871
Stock-based compensation	1,349	1,955	2,035
Amortization of premium and accrued interest on marketable securities	(453 )	(516 )	509
Net changes in operating assets and liabilities			
Trade receivables, net	1,893	(5,435 )	(5,253 )
Other operating assets	(1,229 )	(3,309 )	3,688
Deferred tax assets, net	2,169	1,664	(8,840 )
Trade payables	1,511	1,101	(1,388 )
Other operating liabilities	4,134	2,223	92
Deferred revenues and customer advances	1,300	(1,035 )	1,249
Accrued severance pay, net	(159 )	(231 )	(37 )
Net cash provided by operating activities	\$40,440	\$26,039	\$8,482
Cash flows from investing activities:			
Purchase of property and equipment	(2,815 )	(4,664 )	(2,622 )
Capitalized software development costs	(6,032 )	(5,545 )	(5,567 )
Net cash paid for acquisitions (b)	(2,934 )	(4,382 )	(100,381)
Investment in marketable securities	(7,678 )	(9,017 )	-
Proceeds from sales of marketable securities	1,499	13,898	35,369
Restricted cash, net	(893 )	1,393	-
Net cash used in investing activities	\$(18,853)	\$(8,317)	\$(73,201)

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

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

	Year ended December 31,		
	2015	2016	2017
Cash flows from financing activities:			
Proceeds from employee stock options exercised	\$1,568	\$890	\$2,453
Distribution to ultimate parent for a business acquisition under common control (c)	(8,482 )	(1,440 )	-
Repayment of loan	-	(824 )	(56 )
Issuance of Series B Debentures, net (*)	-	-	78,229
Distribution of dividend	(7,186 )	(9,786 )	(9,851 )
Dividend to non-controlling interest	(77 )	(73 )	-
Net cash provided by (used in) financing activities	\$(14,177)	\$(11,233)	\$70,775
Effect of exchange rate changes on cash	(459 )	68	4,503
Increase in cash and cash equivalents	6,951	6,557	10,559
Cash and cash equivalents at beginning of year	47,400	54,351	60,908
Cash and cash equivalents at end of year	\$54,351	\$60,908	\$71,467
Supplemental cash flow activities:			
(a) <u>Cash paid during the year for:</u>			
Interest	\$6	\$48	\$713
Income taxes	\$2,234	\$1,196	\$2,705
(b) <u>Net cash paid for acquisitions:</u>			
Fair value of assets acquired and liabilities assumed at the date of acquisition:			
Working capital, net (excluding cash and cash equivalents)	\$(1,221 )	\$1,547	\$4,816
Other long-term assets	(183 )	(2,089 )	(1,336 )
Other long-term liabilities	1,424	1,420	16,599
Goodwill and other intangible assets	(3,903 )	(5,260 )	(120,460)
Contingent payments	949	-	-
	\$(2,934 )	\$(4,382 )	\$(100,381)
(c) <u>Non-cash transactions:</u>			
Loan and contingent payments to ultimate parent	\$(2,333 )	-	-

\*) Net of \$956 of debt discount and issuance costs

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

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**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

NOTE 1: GENERAL

a. General:

Sapiens International Corporation N.V. (“Sapiens”) and its subsidiaries (collectively, the “Company”), a member of the Formula Systems (1985) Ltd. Group, is a global provider of software solutions for the insurance industry, with an emerging focus on the broader financial services sector. The Company's offerings include a broad range of software solutions and services, comprised of: (i) core software solutions for the insurance industry, including Property & Casualty/General Insurance (“P&C”) and Life, Pensions and Annuities (“L&A”) products; (ii) variety of technology based solutions including business decision management solutions for the financial services industry, including insurance, banking and capital markets; and (iii) global services including project delivery and implementation of the Company’ software solutions.

The Company operates in North America, Europe, Asia Pacific and South Africa.

b. Acquisition of StoneRiver:

On February 28, 2017, the Company completed the acquisition of all of the outstanding shares of StoneRiver, Inc. (“StoneRiver”), a provider of technology solutions and services to the insurance industry for \$101,351. The Company related acquisition costs of \$1,348 is presented in general and administrative expenses.

The acquisition of StoneRiver expanded Sapiens presence and scale in the North American insurance market and allows the Company to offer its customers and partners a more extensive product portfolio in the industry.

The acquisition was accounted for by the acquisition method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of StoneRiver. The results of StoneRiver's operations have been included in the consolidated financial statements since February 28, 2017.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed:

Current assets	\$16,785
Property and equipment	1,088
Goodwill	77,013
Intangible assets	38,146
Other long-term assets	78
Total assets acquired	\$133,110
Current liabilities	\$10,595
Deferred revenues	5,742
Deferred tax liabilities	15,071
Other long-term liabilities	351
Total liabilities acquired	31,759
Total purchase price	\$101,351

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

## NOTE 1: GENERAL (Cont.)

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

	Fair value
Developed technology	\$ 34,039
Customer relationships	3,333
Backlog	773
Total intangible assets	\$ 38,145

Revenues of StoneRiver for the period since the acquisition date through December 31, 2017, which are included in the consolidated financial statements, amounted to \$67,805.

c. Pro Forma information:

The following represents the unaudited pro forma condensed results of operations for the years ended December 31, 2016 and 2017, assuming that the acquisition of StoneRiver occurred on January 1, 2016. The pro forma information is not necessarily indicative of the results of operations, which actually would have occurred had the acquisitions been consummated on this date, nor does it purport to represent the results of operations for future periods.

	December 31,	
	2016	2017
	Unaudited	Unaudited
Revenues	\$295,698	\$ 283,605
Net income (loss)	\$15,556	\$(89 )

d. Acquisitions of KnowledgePrice:

On December 27, 2017, the Company entered into an agreement to purchase all of KnowledgePrice.com's ("KnowledgePrice") total shares outstanding. KnowledgePrice, a Latvian company, specializes in digital insurance services and consulting. Fair value of the total consideration amounted to \$5,720, including a cash consideration of \$4,068 (out of this amount \$3,758 was paid in December 2017 and \$310 was paid in January 2018), and a contingent obligation valued at \$1,652 at the acquisition date. In addition, the seller has performance based payments relating to achievements of revenue and profitability targets over three years (2018-2020) and retention payment of up to \$1,116 as of December 31, 2017, that are subject to continued employment, and therefore not part of the purchase price. According to a preliminary purchase price allocation, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of KnowledgePrice. Unaudited pro forma condensed results of operations for the years ended December 31, 2016 and 2017 was not presented, since the acquisition is immaterial.

**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

NOTE 1: GENERAL (Cont.)

e. Acquisitions in previous years:

1. Acquisition of Maximum Processing:

On May 26, 2016, the Company entered into an agreement to purchase 100% of Maximum Processing Inc.'s (MaxPro) total shares outstanding. MaxPro specializes in providing business and technology solutions across the insurance industry. As of December 31, 2017, the estimated fair value of the contingent payment is \$422. In addition, the seller has performance based payments relating to achievements of revenue and profitability targets that are also subject to continued employment, and therefore were not part of the purchase price.

2. Acquisition of 4Sight business intelligence:

On June 7, 2016, the Company entered into an agreement to purchase 100% of 4Sight Business Intelligence Inc.'s (4Sight) total shares outstanding. 4Sight's system provides analytics software for the insurance industry. Sapiens paid the acquisition consideration of \$330. In addition, the seller has performance based payments relating to achievements of revenue and profitability targets that are also subject to continued employment, and therefore are not part of the purchase price.

3. Acquisition of Ibexi Solution Private:

On May 6, 2015, the Company completed the agreement to acquire all of the outstanding shares of Ibexi Solution Private Limited (Ibexi), an India-based provider of insurance business and technology solutions, in total consideration of \$4,764 including a contingent obligation valued at \$949 at the acquisition date. As of December 31, 2017, the estimated fair value of the remaining contingent payment is \$251.

In addition, an amount of approximately \$1,805 is subject to continued employment and therefore not part of the purchase price.

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**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

NOTE 1: GENERAL (Cont.)

4. Acquisition of Insseco:

On August 18, 2015, the Company completed the acquisition from Asseco Poland S.A. (“Asseco” or the “Seller”) of all issued and outstanding shares of Insseco. Asseco is the ultimate parent company of the Company, through holding in Formula Systems, which has been lastly effective as of December 23, 2014 and thereafter, the direct parent company of Sapiens. Insseco is a newly established company into which Asseco transferred all of its Polish insurance employees, certain fixed assets, certain customer contracts and certain software including intellectual property rights. Insseco has an established presence in the Polish insurance market, and services major insurance customers in Poland, including top tier insurance carriers.

Sapiens paid the acquisition consideration in cash, consisting of 34.3 million Polish Zloty or approximately \$9,100. In addition, the seller has upside or downside performance based payments relating to achievements of revenue goals and profitability over the next five years. If the aggregate revenues generated by Insseco from its activity from July 1, 2015 through June 30, 2020 exceed 90 million Polish Zloty or approximately \$23,800, the Seller shall be entitled to receive additional amounts ranging from 3% to 15% of the excess amount of the respective revenues. If the aggregate revenues generated by Insseco for the period from July 1, 2015 through June 30, 2018 are below 84 million Polish Zloty or \$22,200, the seller shall pay the Company an amount equal to 35% of the deficiency below such amount. In addition, the amounts payable to the seller may be adjusted upwards or downwards as a result of changes in the profitability of a specific account that Sapiens acquired as part of the acquisition. The estimated fair value of the remaining contingent payments as of December 31, 2017 is \$424.

The acquisition of Insseco from Asseco, which is the ultimate parent company of Sapiens is a transaction between entities under common control, and therefore accounted for under the pooling of interest method in accordance with ASC 805, Business Combinations. Under the pooling-of-interest’s method, combination between two businesses under common control is accounted for at carrying amounts with retrospective adjustment of prior period financial statements. As the common control was achieved on December 23, 2014, the balance sheet as of December 31, 2014 of Sapiens was adjusted to reflect the carrying amounts combination between Sapiens and Insseco.

The results of Sapiens for the twelve-month period ended December 31, 2015 were also adjusted to reflect the combination with Insseco, accordingly.

Under the pooling-of-interest method, the equity accounts of the combining entities are combined and the difference between the consideration paid and the net assets acquired is reflected as an equity transaction (i.e., distribution to parent company). As opposed to the purchase method of accounting, no intangible assets are recognized in the transaction, other than those existed in the combining entities and no goodwill is recognized as a result of the combination.

As a result of the application of the pooling-of-interest method with respect to the acquisition of Insseco, revenues, pretax income and net income of Insseco for the twelve-month period ended December 31, 2015, which are included in the consolidated statements of income amounted to \$10,516, \$1,324 and \$1,165, respectively.

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**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

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

a. Use of estimates:

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

b. Financial statements in United States dollars:

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

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

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

c. Principles of consolidation:

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

Non-controlling interests of subsidiaries represent the non-controlling shareholders' share of the total comprehensive income (loss) of the subsidiaries and fair value of the net assets upon the acquisition of the subsidiaries. The non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company.

Redeemable non-controlling interests are classified as mezzanine equity, separate from permanent equity, on the consolidated balance sheets and measured at each reporting period at the higher of their redemption amount or the non-controlling interest book value, in accordance with the requirements of Accounting Standards Codification (“ASC”) 810 “Consolidation” and ASC 480-10-S99-3A, “Distinguishing Liabilities from Equity”.

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**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

d. Cash equivalents:

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

e. Marketable securities:

The Company accounts for all its investments in debt securities, in accordance with ASC 320, "Investments - Debt and Equity Securities". The Company classifies all debt securities as "available-for-sale". All of the Company's investments in available-for-sale securities are reported at fair value. Unrealized gains and losses are comprised of the difference between fair value and the amortized cost of such securities and are recognized, net of tax, in accumulated other comprehensive income (loss).

The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization together with interest on securities is included in "financial income, net".

The Company recognizes an impairment charge when a decline in the fair value of its investments in debt securities below the cost basis of such securities is judged to be other-than-temporary. Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the potential recovery period and the Company's intent to sell, including whether it is more likely than not that the Company will be required to sell the investment before recovery of cost basis. Securities that are deemed other-than-temporarily impaired, the amount of impairment is recognized in "net gain on sale of marketable securities previously impaired" in the statements of income and is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. During 2015, 2016 and 2017, the Company did not recognize an impairment charge as the decline in fair value of its investment in marketable securities is not judged to be other-than-temporary.

f. Property and equipment, net:

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

	%
Computers and peripheral equipment	20 - 33
Office furniture and equipment	6 - 33
Buildings	2.5

Leasehold improvements are amortized using the straight-line method over the term of the lease (including option terms that are deemed to be reasonably assured) or the estimated useful life of the improvements, whichever is shorter.

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**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

g. Research and development costs:

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

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

Capitalized software development costs are amortized by the straight-line method over the estimated useful life of the software product (7 years).

h. Business combination:

The Company accounts for its business acquisitions in accordance with Accounting Standards Codification ASC No. 805, "Business Combinations". The Company uses its best estimates and assumptions as part of the purchase price allocation process to value assets acquired and liabilities assumed at the business combination date. The total purchase price allocated to the tangible assets acquired is assigned based on the fair values as of the date of the acquisition.

i. Other intangible assets, net:

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

	%
Technology	13 - 26
Customer relationships	9 - 23
Patent	10

j. Impairment of long-lived assets:

The Company's long-lived assets and identifiable intangibles that are subject to amortization are reviewed for impairment in accordance with ASC 360 "Property, Plant, and Equipment", whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. During 2015, 2016 and 2017, no impairment losses have been identified.

**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

k. Goodwill:

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Under ASC 350, "Intangibles- Goodwill and Other" ("ASC 350"), goodwill is subject to an annual impairment test at December 31 of each year or more frequently if impairment indicators are present. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. The Company operates in four reporting units: Emerge, L&A, Decision and P&C.

The Company applied the provisions of ASC 350 for the Company's annual impairment test. Under the provisions, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment does not result in a more likely than not indication of impairment, no further impairment testing is required. During 2015, 2016 and 2017, no impairment losses have been identified.

l. Revenue recognition:

The Company generates revenues from sales of software licenses which usually include significant implementation services that are considered essential to the functionality of the software license. In addition, the Company generates revenues from post implementation consulting services and maintenance services.

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

The Company accounts for revenues from the services (either fixed price or Time and Materials (T&M)) that require significant customization, integration and installation under ASC 605-35, "Construction-Type and Production-Type

Contracts", using the percentage-of-completion method of accounting based on the ratio of costs related to contract performance incurred to date to the total estimated amount of such project costs.

In accordance with ASC 985-605, the Company establishes Vendor Specific Objective Evidence ("VSOE") of fair value of maintenance services (PCS). The Company's policy for establishing VSOE of fair value of maintenance services is based on the price charged when the maintenance is renewed separately.

Provisions for estimated losses on contracts in progress are made in the period in which they are first determined, in the amount of the estimated loss on the entire contract.

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

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

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

**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

m. Income taxes:

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

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

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

n. Concentrations of credit risks:

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

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

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

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**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company's marketable securities include investment in corporate and government debentures. The Company's investment policy limits the amount that the Company may invest in any one type of investment or issuer, thereby reducing credit risk concentrations.

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

No off-balance sheet concentrations of credit risk exist.

- o. Accrued severance pay and retirement plans:

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

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

In addition, the Company signed a collective agreement with certain employees, according to which the Company's contributions for severance pay shall be in lieu of severance compensation and that upon release of the policy to the employee, no additional payments shall be made by the Company to the employee. Generally, the Company, under its sole discretion, pays to these employees the entire liability, irrespective of the collective agreement described per

above. Therefore, the net obligation related to those employees is stated on the balance sheet as accrued severance pay.

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

Severance expense for the years 2015, 2016 and 2017 amounted to \$3,518, \$4,094 and \$4,346, respectively.

The Company has a 401(k) retirement savings plan for most of its U.S. employees. Each eligible employee may elect to contribute a portion of its employee's compensation to the plan. The Company has a discretionary 2-3% employer match if employee contributes 6% (i.e. 1/3 of employee contribution up to 6% employee/2% employer).

**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

p. Basic and diluted net earnings per share:

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

q. Stock-based compensation:

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

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

Stock-based compensation cost is measured at the grant date, based on the fair value of the award. The Company recognizes compensation expense for the value of its awards, which have graded vesting, based on the straight-line basis over the requisite service period of the award, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

The fair value of each option granted in 2015, 2016 and 2017 using the Binomial model, was estimated on the date of grant with the following assumptions:

	<b>Year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Contractual life	6 years	6 years	6 years
Expected exercise factor	1.5-2.5	2-2.8	2-2.8
Dividend yield	0%	0%	0%
Expected volatility (weighted average)	43.0%-44.1%	34.9%-42.4%	28.9%-34.2%
Risk-free interest rate	1.6%-1.8%	1.3%-1.7%	1.8%-2.1%

The risk-free interest rate assumption is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term as of the Company's employee stock options. Since dividend payment is applied to reduce the exercise price of the option, the effect of the dividend protection is reflected by using an expected dividend assumption of zero.

**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The expected life of options granted is derived from the output of the option valuation model and represents the period of time the options are expected to be outstanding. The expected exercise factor is based on industry acceptable rates since no actual historical behavior by option holders exists. Expected volatility is based on the historical volatility of the Company.

r. Fair value of financial instruments:

ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820"), defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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

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

Valuations based on quoted prices in active markets for identical assets that the Company has the ability to Level access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are 1 - based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

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Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Company measures its marketable debt securities and foreign currency derivative instruments at fair value. The Company's marketable debts securities are traded in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency and accordingly are categorized as Level 2.

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

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**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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

s. Derivatives and hedging:

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

In 2015, 2016 and 2017, the Company entered into option contracts in the notional amounts of \$9,250, \$26,336 and \$31,111, respectively, and in 2015, 2016 and 2017 the Company entered into forward contracts in the notional amounts of \$42,770, \$17,668 and \$9,600, respectively, in order to protect against foreign currency fluctuations.

As of December 31, 2015, 2016 and 2017, the Company had outstanding options and forward contracts, in the notional amount of \$21,876, \$0 and \$0, respectively.

In 2015, 2016 and 2017, the Company recorded income (expense) of \$230, \$849 and (\$300), respectively, with respect to the above transactions, presented in the statements of income as financial income.

t. Treasury shares:

Repurchased common shares are held as treasury shares. The Company presents the cost to repurchase treasury stock as a reduction of shareholders' equity.

u. Comprehensive income (loss):

The Company accounts for comprehensive income (loss) in accordance with ASC 220, "Comprehensive Income". Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders.

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

The components of accumulated other comprehensive income (loss), in the amount of \$(11,167) and \$528 at December 31, 2016 and 2017, respectively, were as follows:

	December 31,	
	2016	2017
Foreign currency translation differences	\$(11,021)	\$528
Unrealized gains (losses) on available-for-sale marketable securities, net of tax	(146 )	-
	\$(11,167)	\$528

## v. Recently adopted accounting pronouncements:

Effective as of January 1, 2017, the Company adopted Accounting Standards Update 2016-09, "Compensation—Stock Compensation (Topic 718)" ("ASU 2016-09"). ASU 2016-09 permits entities to make an accounting policy election related to how forfeitures will impact the recognition of compensation cost for stock-based compensation: to estimate the total number of awards for which the requisite service period will not be rendered or to account for forfeitures as they occur. Upon adoption of ASU 2016-09, the Company elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period. Therefore, the adoption of this guidance did not have any impact on the Company's financial statements.

## w. Recently issued accounting pronouncements:

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), an updated standard on revenue recognition and issued subsequent amendments to the initial guidance in March 2016, April 2016, May 2016 and December 2016 within ASU 2016-08, 2016-10, 2016-12 and 2016-20, respectively. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods and services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods and services. In addition, the new standard requires expanded disclosures.

The Company has adopted the standard effective January 1, 2018 using the modified retrospective method.

The most significant impact of the new standard relates to the way the Company accounts for term license arrangements and costs to obtain customer contracts. Specifically, under the current revenue standard, the Company recognizes both the term license and maintenance revenues ratably over the contract period whereas under the new revenue standard term license revenues are recognized upfront, upon delivery, and the associated maintenance revenues are recognized over the contract period. The Company has also considered the impact of the guidance in ASC 340-40, "Other Assets and Deferred Costs" under the new standard. Under the Company's current accounting policy, sales commissions are expensed as incurred. The new standard requires the capitalization of all incremental costs that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained, provided the Company expects to recover the costs.

The Company applied the new standard with respect to existing contracts which are not substantially completed as of January 1, 2018. As a result, the Company expects to record a decrease to its deferred revenues of approximately \$1.5 million mainly from upfront recognition of license revenue from term licenses and an asset of approximately \$0.6 million related to incremental costs to obtain contracts which is mainly due to sales commissions that will be recorded against retained earnings.

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**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

In February 2016, the FASB issued ASU 2016-02, “Leases” (Topic 842), whereby, lessees will be required to recognize for all leases at the commencement date a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. A modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements must be applied. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Companies may not apply a full retrospective transition approach. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. Early application is permitted. The Company is evaluating the potential impact of this pronouncement.

In June 2016, the FASB Issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new standard requires financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The standard will be effective for the Company beginning January 1, 2020, with early adoption permitted. The Company is evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18), which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for annual and interim periods beginning after December 15, 2017. The adoption of this standard will not have a material impact on our consolidated financial statements of cash flows.

In January 2017, FASB issued ASU 2017-01, Business Combinations (Topic 805) Clarifying the Definition of Business. ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The update to the standard is effective for interim and annual periods beginning after December 15, 2017, and applied prospectively. We do not expect the adoption of this standard will have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04 (ASU 2017-04): Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 eliminates step two of the goodwill impairment test and specifies that goodwill impairment should be measured by comparing the fair value of a reporting unit with its carrying amount. Additionally, the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets should be disclosed. ASU 2017-04 is effective for annual or interim goodwill impairment tests performed in fiscal years beginning after December 15, 2019, and early adoption is permitted. The Company does not expect this ASU to have a material effect on its consolidated financial statements.

### NOTE 3: MARKETABLE SECURITIES

As of December 31, 2016, the fair value, amortized cost and gross unrealized holding gains and losses of available-for-sale marketable securities were as follows:

	December 31, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Government debentures – fixed interest rate	\$3,167	\$ -	\$ (3 )	\$3,164
Corporate debentures – fixed interest rate	32,473	-	(189 )	32,284
	\$35,640	\$ -	\$ (192 )	\$35,448

As of December 31, 2017, the Company did not hold any marketable securities. Interest receivable included in other receivables and prepaid expenses amounted to \$226 and \$0 as of December 31, 2016 and 2017, respectively.

### NOTE 4: OTHER LONG-TERM ASSETS

	December 31,	
	2016	2017
Deferred tax assets	\$2,261	\$2,620
Other	2,362	1,055
	\$4,623	\$3,675

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

## NOTE 5: PROPERTY AND EQUIPMENT, NET

	December 31,	
	2016	2017
Cost:		
Computers and peripheral equipment	\$18,503	\$31,435
Office furniture, equipment and other	4,309	5,858
Buildings and leasehold improvements	6,051	6,702
	28,863	43,995
Accumulated depreciation:		
Computers and peripheral equipment	14,737	27,011
Office furniture, equipment and other	2,682	4,017
Buildings and leasehold improvements	1,637	2,272
	19,056	33,300
Depreciated cost	\$9,807	\$10,695

Depreciation expense totaled \$2,080, \$2,835 and \$3,804 for the years 2015, 2016 and 2017, respectively.

## NOTE 6: CAPITALIZED SOFTWARE DEVELOPMENT COSTS, NET

The changes in capitalized software development costs during the years ended December 31, 2016 and 2017 were as follows:

	Year ended December 31,	
	2016	2017
Balance at the beginning of the year	\$ 19,856	\$ 20,755
Capitalization	5,545	5,567
Amortization	(4,929 )	(4,824 )

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Functional currency translation adjustments	283	2,263
Balance at year end	\$ 20,755	\$ 23,761

Amortization of capitalized software development costs for 2015, 2016 and 2017, was \$5,439, \$4,929 and \$4,824, respectively. Amortization expense is included in cost of revenues.

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

## NOTE 7: OTHER INTANGIBLE ASSETS, NET

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

	weighted average remaining useful life (years)	December 31, 2016	2017
Original amounts:			
Customer relationships	4	\$11,804	\$19,344
Technology	4.5	8,080	62,585
Patent	7.5	1,248	1,385
		21,132	83,314
Accumulated amortization:			
Customer relationships		7,756	9,889
Technology		5,475	31,543
Patent		302	473
		13,533	41,905
Other intangible assets, net		\$7,599	\$41,409

b. Amortization of other intangible assets was \$2,106, \$2,257 and \$7,243 for 2015, 2016 and 2017, respectively.

c. Estimated amortization expense for future periods:

For the year ended December 31,

2018	\$9,876
2019	8,239
2020	7,544
2021	6,344

2022 and thereafter

9,406

\$41,409

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

## NOTE 8: GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31, 2016 and 2017 are as follows:

	Year ended December 31,	
	2016	2017
Balance at the beginning of the year	\$ 70,035	\$ 73,597
Acquisition of subsidiaries	2,967	79,884
Functional currency translation adjustments	595	5,078
Balance at year end	\$ 73,597	\$ 158,559

## NOTE 9: ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2016	2017
Government authorities	\$5,009	\$6,486
Accrued expenses	8,638	16,051
Accrued interest - Series B Debentures	-	782
Accrued royalties to the IIA (Note 11a)	259	254
	\$13,906	\$23,573

## NOTE 10: SERIES B DEBENTURES

	December 31,	
	2016	2017
Series B Debentures	\$ -	\$ 79,185
Less: Unamortized debt discounts and issuance costs	-	(904 )

\$ - \$78,281

In September 2017, the Company issued Series B Debentures in the aggregate principal amount of NIS 280 million (approximately \$79.2 million), linked to US dollars, payable in eight equal annual payments of \$9,898, on January 1 of each of the years 2019 through 2026. The outstanding principal amount of the Series B Debentures will bear a fixed interest rate of 3.37% per annum, payable on January 1 and July 1 of each of the years 2018 through 2025, with one final interest payment on January 1, 2026. Debt discount and issuance costs were approximately \$956, allocated to the Series B Debentures discount and are amortized as financial expenses over the term of the Series B Debentures due in 2026.

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**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 10: SERIES B DEBENTURES (Cont.)**

The Series B Debentures are listed for trading on the Tel-Aviv Stock Exchange.

The Series B Debentures are unsecured and non-convertible. The Series B Debentures interest may be increased in the event that the debentures' rating is downgraded below a certain level. The Company has undertaken to maintain a number of conditions and limitations on the manner in which it operates its business, including limitations on its ability to undergo a change of control, distribute dividends, incur a floating charge on the Company's assets, or undergo an asset sale or other change that results in a fundamental change in the Company's operations.

In accordance with the indenture for the Series B Debentures, the Company is required to meet the following financial covenants: (1) Target shareholders' equity (excluding minority interest)- above \$120 million – as of December 31, 2017, total shareholders' equity was \$200 million; and (2) Target ratio of net financial indebtedness to net capitalization (in each case, as defined under the indenture for the Company's Series B Debentures) below 65% - as of December 31, 2017 the ratio of net financial indebtedness to net capitalization was (3.28)%. As of December 31, 2017, Sapiens is in compliance with all of its financial covenants.

During the year ended December 31, 2017, the Company recorded \$782 of interest expense and \$52 as amortization of debt issuance costs and discount in respect of the Series B Debentures.

**NOTE 11: COMMITMENTS AND CONTINGENT LIABILITIES**

Sapiens Technologies (1982) Ltd. ("Sapiens Technologies"), a subsidiary incorporated in Israel, was partially financed under programs sponsored by the Israel Innovation Authority ("IIA"), formerly the Office of the Chief Scientist, for the support of certain research and development activities conducted in Israel. In exchange for participation in the programs by the IIA, the Company agreed to pay 3.5% of total net consolidated license and maintenance revenue and 0.35% of the net consolidated consulting services revenue related to the software developed within the framework of these programs based on an understanding with the IIA reached in January 2012.

**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 11: COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)**

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

Royalty expense amounted to \$505, \$503 and \$488 in 2015, 2016 and 2017, respectively, and are included in cost of revenues.

As of December 31, 2017, the Company had a contingent liability to pay royalties of \$6,902.

b. Lease commitments:

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

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

2018	\$5,822
2019	4,552
2020	2,093
2021	626
2022 and thereafter	528
	\$13,621

Rent expense for the years ended December 31, 2015, 2016 and 2017 was \$4,418, \$6,284 and \$7,357, respectively.

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

The minimum payment under these operating leases, upon cancellation of these lease agreements was \$90 as of December 31, 2017.

The Company provided bank guarantees in the amount of \$917 as security for the rent to be paid for its leased offices. The bank guarantees are valid through February 2018 and thereafter will be renewed in an amount of approximately \$917 which will be valid through February 2019. As of December 31, 2017, the Company has provided bank guarantees of \$452 as security for the performance of various contracts with customers and suppliers.

As of December 31, 2017, the Company had no restricted bank deposits in favor of the bank guarantees.

In accordance with the indenture for the Series B Debentures, the Company is required to meet certain financial covenants. See Note 10 above.

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**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

NOTE 12: TAXES ON INCOME

a. Israeli taxation:

1. Corporate tax rates in Israel:

The Israeli corporate income tax rate was 24% in 2017, 25% in 2016 and 26.5% in 2015.

In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which reduces the corporate income tax rate to 24% effective from January 1, 2017 and to 23% effective from January 1, 2018.

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

Certain of the Company's Israeli subsidiaries have been granted "Approved Enterprise" Status under the Law. The above Israeli subsidiaries have elected the alternative benefits program, waiver of grants in return for tax exemptions. Pursuant thereto, the income of the Company derived from the "Approved Enterprise" program is tax-exempt for two years and will enjoy a reduced tax rate of 10%-25% for up to a total of eight years (subject to an adjustment based upon the foreign investors' ownership of the Company). Under the terms of the Approved Enterprise program, income that is attributable to one of the Company's Israeli subsidiaries was exempt from income tax for a period of two years commencing 2014.

If a dividend is distributed out of tax exempt profits, as above, the Company will become liable for tax at the rate applicable to its profits from the approved enterprise in the year in which the income was earned, as if it was not under the Approved Enterprise track. The Company's policy is not to distribute such a dividend.

Entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the above law, regulations published thereunder and the letters of approval for the specific investments in "approved enterprises". In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be

required to refund the amount of the benefits, in whole or in part, including interest and CPI linkage.

On December 29, 2010, the Knesset approved an additional amendment to the Law for the Encouragement of Capital Investments, 1959 (“2011 Amendment”). According to the 2011 Amendment, a reduced uniform corporate tax rate for exporting industrial enterprises (over 25%) was established. The reduced tax rate will not be program dependent and will apply to the “Preferred Enterprise's” (as such term is defined in the Investment Law) entire income. Pursuant to the 2011 Amendment, a “Preferred Enterprise” is entitled to a reduced corporate tax rate. Such corporate tax rate was determined to be 16% for 2014 until 2016.

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**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

NOTE 12: TAXES ON INCOME (Cont.)

As of December 31, 2015, some of the Company Israeli subsidiaries had filed a notice to the Israeli tax authorities in order to apply the new benefits under the 2011 Amendment and therefore subjected to the amended tax rate of 16%.

The Amendment also prescribes that any dividends distributed to individuals or foreign residents from the preferred enterprise's earnings as above will be subject to tax at a rate of 20%.

New Amendment- Preferred Technology Enterprise

In December 2016, the Israeli Knesset passed Amendment 73 to the Investment Law which included a number of changes to the Investments Law regimes. Certain changes were scheduled to come into effect beginning January 1, 2017, provided that regulations are promulgated by the Finance Ministry to implement the "Nexus Principles" based on OECD guidelines recently published as part of the Base Erosion and Profit Shifting (BEPS) project. The regulations have been approved on May 1, 2017 and accordingly, these changes have come into effect. Applicable benefits under the new regime include:

Introduction of a benefit regime for "Preferred Technology Enterprises" granting a 12% tax rate in central Israel – on income deriving from Intellectual Property, subject to a number of conditions being fulfilled, including a minimal amount or ratio of annual R&D expenditure and R&D employees, as well as having at least 25% of annual income derived from exports. Preferred Technology Enterprise ("PTE") is defined as an enterprise which meets the aforementioned conditions and for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion.

A 12% capital gains tax rate on the sale of a preferred intangible asset to a foreign affiliated enterprise, provided that the asset was initially purchased from a foreign resident at an amount of NIS 200 million or more.

A withholding tax rate of 20% for dividends paid from PTE income (with an exemption from such withholding tax applying to dividends paid to an Israeli company). Such rate may be reduced to 4% on dividends paid to a foreign resident company, subject to certain conditions regarding percentage of foreign ownership of the distributing entity.

Starting 2017, part of the Company's taxable income in Israel is entitled to a preferred 12% tax rate under Amendment 73 to the Investment Law.

3. Foreign Exchange Regulations:

Under the Foreign Exchange Regulations, some of the Company's Israeli subsidiaries calculate their tax liability in U.S. Dollars according to certain orders. The tax liability, as calculated in U.S. Dollars is translated into NIS according to the exchange rate as of December 31 of each year.

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**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 12: TAXES ON INCOME (Cont.)**

b. Income taxes on non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective country of residence. Neither Israeli income taxes, foreign withholding taxes nor deferred income taxes were provided in relation to undistributed earnings of the non-Israeli subsidiaries.

This is because the Company intends to permanently reinvest undistributed earnings in the foreign subsidiaries in which those earnings arose. If these earnings were distributed in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and non-Israeli withholding taxes.

The amount of undistributed earnings of foreign subsidiaries that are considered to be reinvested as of December 31, 2017 was \$31,063 and the amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries that were essentially permanent in duration as of December 31, 2017 was \$1,557.

c. Tax Reform- United States of America

The U.S. Tax Cuts and Jobs Act of 2017 (“TCJA”) was approved by US Congress on December 20, 2017 and signed into law by US President Donald J. Trump on December 22, 2017. This legislation makes complex and significant changes to the U.S. Internal Revenue Code. Such changes include a reduction in the corporate tax rate and limitations on certain corporate deductions and credits, among other changes.

The TCJA reduces the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. In addition, the TCJA makes certain changes to the depreciation rules and implements new limits on the deductibility of certain expenses and deduction.

The Company's subsidiaries in the United States do not have any foreign subsidiaries and, therefore, the remaining provisions of the Act have no material impact on the Company's results of operations.

The Company re-measured its U.S. deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future. The estimated tax benefit recorded related to the re-measurement of the provisional net deferred taxes was approximately \$3.8 million.

The SEC staff has issued SAB 118 which will allow the Company to record provisional amounts during a measurement period. The Company has concluded that a reasonable estimate could be developed for the effects of the tax reform. However, due to the short time frame between the enactment of the reform and the year end, its fundamental changes, the accounting complexity, and the expected ongoing guidance and accounting interpretations over the next 12 months, the Company considers the accounting of the deferred tax re-measurement and other items to be incomplete.

d. Net operating losses carry forward:

As of December 31, 2017, certain subsidiaries had tax loss carry-forwards totaling approximately \$35,647. Most of these carry-forward tax losses have no expiration date.

**SAPIENS INTERNATIONAL CORPORATION N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)****NOTE 12: TAXES ON INCOME (Cont.)**

## e. Deferred tax assets and liabilities:

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

	December 31,	
	2016	2017
Deferred tax assets:		
Net operating losses carry forward	\$6,515	\$8,786
Research and development	1,619	1,534
Other	3,155	2,959
Deferred tax assets before valuation allowance	11,289	13,279
Valuation allowance	(6,589 )	(7,486 )
Deferred tax assets	4,700	5,793
Deferred tax liabilities:		
Capitalized software development costs	(3,011 )	(2,738 )
Acquired intangibles	(1,202 )	(9,060 )
Property and equipment	(369 )	(489 )
Other	(24 )	(57 )
Deferred tax liabilities	(4,606 )	(12,344)
Deferred tax assets, net	\$94	\$(6,551 )

	December 31,	
	2016	2017
Deferred tax assets, net	\$2,261	\$2,620

Deferred tax liabilities, net (2,167) (9,171)

Deferred tax assets, net \$94 \$(6,551)

Deferred tax assets, net are included in other long-term assets in the balance sheets. Deferred tax liabilities, net are included in other long-term liabilities in the balance sheets.

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

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**SAPIENS INTERNATIONAL CORPORATION N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)****NOTE 12: TAXES ON INCOME (Cont.)**

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

	Year ended December 31,		
	2015	2016	2017
Domestic (Israel)	\$19,478	\$13,701	\$(3,849)
Foreign	5,035	11,672	1,841
	\$24,513	\$25,373	\$(2,008)

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

	Year ended December 31,					
	2015		2016		2017	
Income (loss) before taxes on income (tax benefit), as reported in the statements of income	\$24,513		\$25,373		\$(2,008)	
Statutory tax rate in Israel	26.5	%	25	%	24	%
Theoretical taxes on income (tax benefit)	\$6,496		\$6,343		\$(482)	
Increase (decrease) in taxes resulting from:						
Effect of foreign tax rates	117		(382)	)	(67)	)
Effect of "Approved, Beneficiary, Preferred or Preferred Technological Enterprise" status	(2,406)	)	(1,338)	)	(252)	)
Effect of the TCJA	-		-		(3,795)	
Utilization of carry forward tax losses for which valuation allowance was provided	(195)	)	-		(153)	)
Non-deductible expenses	569		584		892	
Losses and temporary differences for which valuation allowance was provided	127		377		1,050	
Others	(495)	)	188		243	
Taxes on income (tax benefit), as reported in the statements of income	\$4,213		\$5,772		\$(2,564)	

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

	Year ended December 31,		
	2015	2016	2017
Current	\$2,627	\$4,122	\$2,459
Deferred	1,586	1,650	(5,023)
	\$4,213	\$5,772	\$(2,564)

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

## NOTE 12: TAXES ON INCOME (Cont.)

	Year ended December 31,		
	2014	2015	2016
Domestic (Israel)	\$2,684	\$2,824	\$(314 )
Foreign	1,529	2,948	(2,250)
	\$4,213	\$5,772	\$(2,564)

## i. Uncertain tax benefits:

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

	December 31,	
	2016	2017
Balance at the beginning of the year	\$1,365	\$1,987
Increase in tax positions	688	375
Decrease in tax positions	(293 )	(135 )
Acquisition of subsidiary	227	66
Balance at the end of the year	\$1,987	\$2,293

As of December 31, 2016, and 2017, accrued interest related to unrecognized tax benefits amounted to \$490 and \$572, respectively.

Although the Company believes that it has adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement, there is no assurance that the final tax outcome of its tax audits will not be different from that which is reflected in the Company's income tax provisions. Such differences could have a material effect on the Company's income tax provision, cash flow from operating activities and net income in the period in which such determination is made.

Tax assessments filed by part of the Company's Israeli subsidiaries through the year ended December 31, 2012 are considered to be final.

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**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

NOTE 13: EQUITY

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

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

b. Stock option plans:

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

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

In February 2016, our Board of Directors approved the reservation of an additional 4,000,000 Common Shares for issuance under the 2011 Plan.

As of December 31, 2017, 3,167,261 common shares of the Company were available for future grant under the 2011 Plan. Any options granted under the 2011 Plan which are forfeited, cancelled, terminated or expired, will become available for future grant under the 2011 Plan.

A summary of the stock option activities in 2017 is as follows:

	Year ended December 31, 2017			
	<b>Amount of options</b>	<b>Weighted average exercise</b>	<b>Weighted average remaining contractual life (in years)</b>	<b>Aggregate intrinsic value</b>
Outstanding at January 1, 2017	2,137,783	6.91	3.43	\$ 15,171
Granted	880,000	11.15		
Exercised	(722,483 )	3.40		
Expired and forfeited	(187,887 )	9.71		
Outstanding at December 31, 2017	2,107,413	9.67	4.25	24,749
Vested and expected to vest	2,074,768	9.44	4.14	23,901
Exercisable at December 31, 2017	783,663	7.05	2.70	\$ 9,028

In 2015, 2016 and 2017, the Company granted 673,408, 310,000 and 920,910 stock options to employees and directors, respectively.

**SAPIENS INTERNATIONAL CORPORATION N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)****NOTE 13: EQUITY (Cont.)**

The weighted average grant date fair values of the options granted during the years ended December 31, 2015, 2016 and 2017 were \$3.79, \$4.30 and \$4.17, respectively.

The total intrinsic value of options exercised during the years ended December 31, 2015, 2016 and 2017 was \$10,294, \$2,304 and \$5,739, respectively.

The options outstanding under the Company's stock option plans as of December 31, 2017 have been separated into ranges of exercise prices as follows:

Ranges of exercise price	Options outstanding as of December 31, 2017	Weighted Average remaining contractual Term (Years)	Weighted average exercise price \$	Options Exercisable as of December 31, 2017	Weighted Average Exercise price of Options Exercisable \$
1.08-1.68	46,158	3.37	0.71	25,703	56,038
3.14	126,200	0.92	3.14	126,200	2,308
4.32-5.13	47,500	1.55	4.45	47,500	55,397
5.87-6.52	122,500	2.09	5.99	107,500	-
7.01-7.28	88,010	2.25	7.18	61,760	-
8.02-9.01	320,455	3.44	8.08	200,000	-
9.38-9.53	200,000	4.05	9.47	100,000	-
10.38	147,500	3.59	10.38	72,500	55,397
11.01-11.65	855,000	5.54	11.58	20,000	-
12.23-13.70	195,000	5.03	12.59	22,500	-
	2,148,323	4.17	9.49	783,663	7.05

The total equity-based compensation expense related to all of the Company's equity-based awards, recognized for the years ended December 31, 2015, 2016 and 2017, was \$1,349, \$1,955 and \$2,035, respectively.

c. As of December 31, 2017, there was \$5,419 of total unrecognized compensation cost related to non-vested options, which is expected to be recognized over a period of up to four years.

d. During 2017, 29,500 of the 88,500 restricted shares of Sapiens Decision, the Company's majority-owned subsidiary that were granted to one of the former shareholders of KPI in 2014 vested, thereby reducing the Company's percentage ownership of Sapiens Decision from 94.25% to 92.89%. During 2017, Sapiens Decision granted 122,730 options to certain of its employees to purchase shares of Sapiens Decision.

e.

Dividend:

On November 29, 2017, the Company's extraordinary general meeting of shareholders approved the distribution of a cash dividend of \$0.20 per common share for a total amount of \$9,851 that was paid during December 2017.

**SAPIENS INTERNATIONAL CORPORATION N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 14: RELATED PARTIES TRANSACTIONS**

Agreements with controlling shareholder and its affiliates:

The Company has in effect services agreements with certain companies that are affiliated with Formula Systems (1985) Ltd. (“Formula”), Sapiens' parent company (most recently since December 23, 2014 and thereafter), pursuant to which the Company has received services amounting to approximately \$2,600, \$6,100 and \$5,050, in aggregate for the years ended December 31, 2015, 2016 and 2017. In addition, during the years ended December 31, 2015, 2016 and 2017, the Company purchased from those affiliated companies an aggregate of approximately \$1,100, \$1,000 and \$930 of hardware and software. Furthermore, the Company paid to Formula \$29 for the year ended December 31, 2017 in respect of the Company's portion of the directors' fees payable to the Company's Chairman of the Board, who serves as the Chief Executive Officer of Formula.

On August 18, 2015, Sapiens completed the acquisition from Asseco Poland S.A. (“Asseco”) of all issued and outstanding shares of Insseco. Asseco is the ultimate parent company of Sapiens, through its holdings in Formula. Please see note 1(e)(4) above for further information concerning this acquisition.

Under the share purchase agreement for that acquisition, Asseco committed to assign all customer contracts to Insseco that relate to the intellectual property that the Company acquired as part of the acquisition. In the event that Asseco cannot obtain the consent of any customer to the assignment of its contract to Insseco, Asseco will hold that customer's contract in trust for the benefit of Insseco. Under that arrangement, in 2016, Insseco invoiced Asseco in a back-to-back manner for all invoices issued by Asseco on Insseco's behalf to customers under those contracts that were not yet assigned by Asseco to Insseco.

During the years ended December 31, 2015, 2016 and 2017, Asseco provided back office and professional services and fixed assets to Insseco in an amount totaling approximately \$1,700, \$1,900 and \$1,600, respectively.

As of December 31, 2016, and 2017, the Company had trade payables balances due to its related parties in amount of approximately \$1,300 and \$790, respectively. In addition, as of December 31, 2016 and 2017, the Company had trade

receivables balances due from its related parties in amount of approximately \$1,400 and \$1,500, respectively.

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**SAPIENS INTERNATIONAL CORPORATION N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)****NOTE 15: BASIC AND DILUTED NET EARNINGS PER SHARE**

	Year ended December 31,		
	2015	2016	2017
Numerator (thousands):			
Net income attributed to Sapiens' shareholders	\$20,016	\$19,336	\$352
Adjustment to redeemable non-controlling interest	224	443	350
Net income used for earnings per share	\$20,240	\$19,779	\$702
Denominator (thousands):			
Denominator for basic earnings per share - weighted average number of common shares, net of treasury stock	48,121	48,947	49,170
Stock options and warrants	1,206	833	756
Denominator for diluted net earnings per share - adjusted weighted average number of shares	49,327	49,780	49,926

The weighted average number of shares related to outstanding anti-dilutive options and warrants excluded from the calculations of diluted net earnings per share was 582,570, 250,809 and 1,282,305 for the years 2015, 2016 and 2017, respectively.

**NOTE 16: GEOGRAPHIC INFORMATION**

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

b. Geographic information:

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The following table sets forth revenues by country based on the billing address of the customer. Other than as shown below, no other country accounted for more than 10% of the Company's revenues during the years ended December 31, 2015, 2016 and 2017.

	Year ended December 31,		
	2015	2016	2017
1. Revenues:			
North America*	\$61,332	\$74,455	\$109,560
Europe**	98,405	107,134	120,926
Asia Pacific	20,512	30,223	18,059
South Africa	5,387	4,378	20,649
	\$185,636	\$216,190	\$269,194

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

## NOTE 16: GEOGRAPHIC INFORMATION (Cont.)

Revenue amounts for North America that are shown in the above table consist primarily of revenues from the United States, except for approximately \$471, \$854 and \$1,056 of revenues derived from Canada in the years ended December 31, 2015, 2016 and 2017, respectively.

\*\*Revenue amounts for Europe that are shown in the above table including UK, Europe and Israel.

	December 31,	
	2016	2017
2. Property and equipment:		
Israel	\$5,987	\$5,957
North America	2,136	2,913
Others	1,684	1,825
	\$9,807	\$10,695

c.

Major customer data:

The following table sets forth revenues from major customers during the years ended December 31, 2015, 2016 and 2017.

	Year ended December 31,		
	2015	2016	2017
Customer A	12 %	14 %	2 %

## NOTE 17: SELECTED STATEMENTS OF OPERATIONS DATA

a. Research and development expenses, net:

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	Year ended December 31,		
	2015	2016	2017
Total costs	\$ 16,267	\$ 22,033	\$ 37,522
Less - capitalized software development costs	( 6,032 )	( 5,545 )	( 5,567 )
Research and development expenses, net	\$ 10,235	\$ 16,488	\$ 31,955

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

## NOTE 17: SELECTED STATEMENTS OF OPERATIONS DATA (Cont.)

b.	Financial income, net:		
	Year ended December 31,		
	2015	2016	2017
Financial income:			
Interest	\$657	\$784	\$525
Foreign currency translation	556	191	309
Derivatives gains	230	849	-
	1,443	1,824	834
Financial expenses:			
Foreign currency translation, bank charges and other	1,123	1,021	1,990
Interest	157	270	1,688
Derivatives losses	-	-	166
	(1,280)	(1,291)	(3,844)
Financial income (expense), net	\$163	\$533	\$(3,010)

## NOTE 18: SUBSEQUENT EVENT

## Acquisition of Adaptik Corporation

In the first quarter of 2018, the Company acquired 100% of Adaptik Corporation ("Adaptik"), by a way of merger between Adaptik and one of the Company's subsidiaries in the US. Adaptik is a New Jersey company engaged in the development of software solutions for P&C insurers, including policy administration, rating, billing, customer management, task management and product design.

The total purchase price was approximately \$19.5 million in cash, subject to adjustments, and about \$3.5 million of contingent payments is subject to earn out-based specific criteria.

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Item 19.

Exhibits

Please see the exhibit index incorporated herein by reference.

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SIGNATURE

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

SAPIENS INTERNATIONAL  
CORPORATION N.V.

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

Date: April 10, 2018

**EXHIBIT INDEX**

**Exhibit**

**No. Exhibit Description**

- 1.1 Articles of Association of Sapiens International Corporation N.V., as amended (incorporated by reference to Exhibit 1.1 to the Company’s Annual Report on Form 20-F for the year ended December 31, 2015, filed with the SEC on March 31, 2016)
- 4.1 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 (SEC File No. 333-64208), filed with the SEC on June 9, 1993, and to the Company’s Registration Statement on Form S-8 (SEC File No. 333-10622), filed with the SEC on July 22, 1999)
- 4.2 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 for the year ended December 31, 2006, filed with the SEC on June 28, 2007)
- 4.3 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 for the year ended December 31, 2006, filed with the SEC on June 28, 2007)
- 4.4 Sapiens International Corporation N.V. 2011 Share Incentive Plan (incorporated by reference to Exhibit 4.1 to the Company’s Registration Statement on Form S-8 (SEC File No. 333-177834), filed with the SEC on November 9, 2011)
- 4.5 Form of Registration Rights Agreement, dated August 21, 2011, by and among Sapiens International Corporation N.V. and certain of its shareholders (incorporated by reference to Exhibit 10.1 to the Company’s Registration Statement on Form F-3 (SEC File No. 333-187185), filed with the SEC on March 11, 2013)
- 4.6 Share Purchase Agreement, dated as of February 14, 2017, by and among Sapiens International Corporation N.V., StoneRiver, Inc. and StoneRiver Group L.P.\*
- 8.1 List of Subsidiaries\*
- 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 and 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\*
- 15.1 Consent of Kost Forer Gabbay & Kasierer, a member of EY Global, independent registered public accounting firm\*

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The following financial information from Sapiens International Corporation N.V.'s Annual Report on Form 20-F for the year ended December 31, 2017 formatted in XBRL (eXtensible Business Reporting Language):

- (i) Consolidated Balance Sheets at December 31, 2016 and 2017;
- (ii) Consolidated Statements of Income for the years ended December 31, 2015, 2016 and 2017;
- (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2016 and 2017;
- (iv) Consolidated Statements of Changes in Equity for the years ended December 31, 2015, 2016 and 2017;
- (v) Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2016 and 2017; and
- (vi) Notes to the Consolidated Financial Statements, tagged as blocks of text. \*

\* Filed herewith

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