

SAPIENS INTERNATIONAL CORP N V  
Form 424B5  
November 14, 2013

**Filed Pursuant to Rule 424(b)(5)**  
**Registration No. 333-187185**

PROSPECTUS SUPPLEMENT  
(To Prospectus dated May 2, 2013)

5,650,000 Shares

## **Sapiens International Corporation N.V.**

Common Shares

This is an offering of 5,650,000 common shares of Sapiens International Corporation N.V.

Our shares trade on the NASDAQ Capital Market and the Tel Aviv Stock Exchange under the symbol SPNS. The last reported trading price of our shares on the NASDAQ Capital Market on November 12, 2013 was \$6.87.

*Investing in the common shares involves risks. See Risk Factors section beginning on page S-8 of this prospectus supplement, on page 2 of the accompanying prospectus and in the documents incorporated by reference.*

	Per Share	Total
Price to the public	\$ 6.250	\$ 35,312,500
Underwriting discounts and commissions	\$ 0.375	\$ 2,118,750
Proceeds to us (before expenses)	\$ 5.875	\$ 33,193,750

We have granted the underwriters the option to purchase 847,500 additional shares on the same terms and conditions set forth above, for 30 days after the date of this prospectus supplement.

Neither the Securities and Exchange Commission, the Israeli Securities Authority nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Barclays expects to deliver the shares on or about November 19, 2013.

**Barclays**

**William Blair**

**Needham & Company**

**Roth Capital Partners**

Prospectus Supplement dated November 14, 2013

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## **ABOUT THIS PROSPECTUS SUPPLEMENT**

This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, utilizing a shelf registration process. This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering. The second part is the prospectus, which provides more general information about securities we may offer from time to time, some of which may not apply to this offering. Generally, when we refer to this prospectus, we are referring to both parts of this document combined. We urge you to carefully read this prospectus supplement and the prospectus, and the documents incorporated by reference therein and herein, before buying any of the securities being offered under this prospectus supplement. This prospectus supplement may add or update information contained in the prospectus and the documents incorporated by reference therein or herein. To the extent that any statement we make in this prospectus supplement is inconsistent with statements made in the accompanying prospectus or any documents incorporated by reference therein or herein that were filed before the date of this prospectus supplement, the statements made in this prospectus supplement will be deemed to modify or supersede those made in the accompanying prospectus and such documents incorporated by reference therein or herein.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus, or contained in any free writing prospectus prepared by us or on our behalf. We have not, and the underwriters have not, authorized anyone to provide you with different information. The distribution of this prospectus supplement and sale of these securities in certain jurisdictions may be restricted by law. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. This prospectus supplement and the accompanying prospectus are not, and under no circumstances are to be construed as an advertisement or a public offering of securities in Israel. Any public offer or sale of securities in Israel may be made only in accordance with the Israeli Securities Law-1968, or the Israeli Securities Law (which requires, among others, the filing of a prospectus in Israel or an exemption therefrom). Persons in possession of this prospectus supplement or the accompanying prospectus are required to inform themselves about and observe any such restrictions. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and in any free writing prospectus that we have authorized for use in connection with this offering, is accurate only as of the date of those respective documents.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus supplement or prospectus to our company, the Company, we, us, our, and Sapiens refer to Sapiens International Corporation Curaçao public limited liability company and its consolidated subsidiaries.

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## **FORWARD-LOOKING STATEMENTS**

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference therein and herein contain forward-looking statements, which involve known and unknown risks and uncertainties. We include this notice for the express purpose of permitting us to obtain the protections of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to all such forward-looking statements. Examples of forward-looking statements include descriptions and projections concerning: competitive pressures, revenues, growth prospects (both for our industry and for our company), product development, financial resources and other financial matters. You can identify these and other forward-looking statements by the use of words such as may, plans, expects, anticipates, believes, estimates, predicts, intends, potential or the negative of such terms, or other comparable terminology.

Our ability to predict the results of our operations or the effects of various events on our operating results is inherently uncertain. Therefore, we caution you to consider carefully the matters described under the caption Risk Factors and certain other matters discussed in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in any of the foregoing. Such factors and many other factors which are beyond the control of our management could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by the forward-looking statements. Unless we are required to do so under U.S. federal securities laws or other applicable laws, we do not intend to update or revise any forward-looking statements.

## **MARKET AND INDUSTRY DATA AND FORECASTS**

This prospectus supplement and the accompanying prospectus and the documents incorporated by reference herein and therein include data, forecasts and information obtained from industry publications and surveys and other information available to us. Some data is also based on our good faith estimates, which are derived from management's knowledge of the industry and independent sources. Forecasts and other metrics included in this prospectus supplement and the accompanying prospectus and the documents incorporated by reference herein and therein to describe our industry are inherently uncertain and speculative in nature and actual results for any period may materially differ. We have not independently verified any of the data from third-party sources, nor have we ascertained the underlying assumptions relied upon therein. While we are not aware of any misstatements regarding the industry data presented in this prospectus supplement or the accompanying prospectus or in the documents incorporated by reference herein and therein, estimates and forecasts involve uncertainties and risks and are subject to change based on various factors, including those discussed under the headings Forward-Looking Statements and Risk Factors in this prospectus supplement.

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## PROSPECTUS SUPPLEMENT SUMMARY

*This summary is not complete and does not contain all of the information that you should consider before investing in the securities offered by this prospectus supplement. You should read this summary together with the entire prospectus supplement and the accompanying prospectus, including our financial statements, the notes to those financial statements and the other documents that are incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment decision. See Risk Factors beginning on page S-8 of this prospectus supplement, on page 3 of the accompanying prospectus and in the documents incorporated by reference for a discussion of the risks involved in investing in our securities.*

### Overview

We are a leading global provider of software solutions for the insurance industry, with an emerging focus on the broader financial services sector. We offer core software solutions for Property & Casualty/General Insurance, or P&C, and Life, Annuities, & Pensions, or L&P, providers, allowing them to manage policy administration, claims management and billing functions. We also provide record-keeping software solutions for providers of Retirement Services and offer a variety of technology-based solutions that enable organizations to deploy business logic and comply with policies and regulations across their organizations. Our solutions enable customers to respond to evolving market needs and regulatory changes, while improving the efficiency of their core operations, thereby increasing revenues and reducing costs. We believe the market for core software solutions aimed at the P&C and L&P insurance markets in which we operate will approximate \$25.0 billion in 2013.

Many participants in the global insurance markets and financial services are currently experiencing significant operational challenges due to the lack of flexibility of their legacy policy administration systems. The systems these providers typically rely on have often been in operation for decades, were designed using outdated programming languages, or run on legacy hardware. Moreover, these providers often have multiple policy administration systems in use simultaneously. As a result, many market participants are unable to rapidly innovate, grow by modifying current products, introduce new products or reach new market segments, and are also unable to achieve operating efficiencies to reduce costs. Increasingly, many market participants face challenges in responding to the rapidly changing regulatory environment which, in many instances, requires changes to be made to underlying technology infrastructures and internal information technology, or IT, processes. We believe that the confluence of changing market dynamics and evolution of regulatory frameworks will provide us with ongoing opportunities for growth in the future.

We have developed scalable, configurable, rule-based core software platforms which offer our clients comprehensive and function-rich solutions. Our solutions allow our customers to support new delivery channels such as mobile and social, rapidly deploy new products, and improve operational efficiency. As our software is customizable to match specific business requirements, it supports our customers' operations across different market segments, geographies and regulatory regimes. In addition, our software solutions enable compliance with complex and rapidly evolving regulations in the insurance and wider financial services industry.

Our technology-based solutions include application development and business decision management platforms. Our application development platforms allow for the deployment of tailor-made solutions that address unique business needs for which pre-packaged software solutions may not be available. Our business decision management platform,

Sapiens DECISION, allows business professionals to design, simulate, implement, change and analyze the business logic that drives financial operations and compliance in a business-friendly format and environment. Our platform facilitates the swift deployment of new or changed business logic that originates from regulatory updates or market changes, reduces costs and improves efficiency by shortening the software development lifecycle. This platform empowers the organization's business users as they manage their business strategy, rules and logic by using business terms rather than programming language.

We were incorporated in 1982 and completed our initial public offering on NASDAQ in 1992 and the dual-listing our shares for trading on the Tel Aviv Stock Exchange, or TASE, in 2003. For the nine months ended September 30, 2013, we generated \$99.2 million of revenues and \$0.21 of earnings per share. We have approximately 900 employees, more than 100 customers and derived 34.5%, 55.3% and 10.2% of our revenue from the Americas, Europe and Asia-Pacific in the nine months ended September 30, 2013, respectively. On April 27, 2010, we acquired Harcase Software Limited for total consideration of \$3.0 million. On August 21,

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2011 we significantly enhanced our product offering through the acquisition of FIS Software Ltd, and IDIT I.D.I. Technologies Ltd. for total consideration of \$49.7 million and \$31.4 million, respectively.

## **Our Strengths**

**We operate in a large market undergoing significant transformation.** According to Celent, a research firm (IT Spending in Insurance – A Global Perspective, March 2013), global IT spending by insurance companies is expected to grow from \$140.2 billion in 2013 to \$154.5 billion in 2015. In particular, such IT spending on external software and IT services will total approximately \$57.0 billion in 2013, and is expected to increase to \$63.7 billion by 2015, representing a 6% compound annual growth rate from 2013 to 2015. Of these amounts, we believe that our current total addressable market for core insurance software solutions is approximately \$25.0 billion and that it will grow as a result of the need for insurance carriers and other financial institutions to spend on modern software solutions from external providers to rectify the operational challenges presented by the inefficiency of their legacy policy administration systems. Such systems include technical and functional limitations that have an adverse impact on the ability of carriers to swiftly launch new, innovative products in line with their customers’ needs and preferences. These legacy systems also slow down carriers’ business and geographic expansion and lead to operational inefficiencies which are translated into increased costs. Furthermore, our customers are operating in a dynamic and changing regulatory environment. Often, these legacy systems simply do not support new regulatory requirements and put carriers at risk of non compliance. We believe these challenges will cause an accelerating shift from spending on legacy systems to new software solutions and a shift from reliance on in-house development to external vendors such as ourselves.

**Comprehensive suite of core solutions.** We offer end-to-end solutions for the P&C and L&P markets, supporting all sub-segments of these markets and the complete lifecycle of product lines on a single system. Our software supports and enables our customers’ most fundamental insurance business processes, including policy administration, billing and claims. In addition, our solutions in the retirement market enable record keeping for retirement services providers, which are fundamental to their operations. Our business decision management platform is a unique solution for the management design and simulation of the business logic behind operations and compliance in a wide variety of organizations. Our platforms are built for global and multi-national operations, and for use in a variety of international regulatory, language and currency environments.

**Innovative products with leading functionality and technology.** Our solutions include integrated, flexible, configurable, scalable and reliable suites of products based on advanced architectures, which are specifically designed for our customers’ needs. In addition, our solutions are highly compatible with other software solutions our customers may use. We allow carriers to support new sales channels, including mobile and social, reduce time to market for new product launches, and lower total cost of ownership. We have significant investment in research and development to ensure that our products employ new technology and are compatible with the needs of our clients. As a result, our products are highly regarded by leading industry analysts, such as Celent and Ovum, for their levels of both technology and functionality.

**Strong, diverse and stable customer base.** We currently have more than 100 customers globally, including some of the world’s largest global insurance carriers and financial institutions. Our customer base is well diversified across the P&C, L&P and retirement services segments. We believe our business decision management solutions are applicable across the financial industry, and offer an opportunity for further diversification. We derived 34.5%, 55.3% and 10.2% of our revenue from the Americas, Europe and Asia-Pacific in the nine months ended September 30, 2013 and 30.6%,



57.8% and 11.6%, respectively, in 2012. Installing a new core system is a major undertaking for insurance carriers, that involves extended pre-production work and entails a complex integration and implementation effort. Our products are at the core of our customers business, and therefore our customers are committed to our products, providing us with long-term relationships that result in revenue stability. Many of our customer relationships have been in place for more than 10 years and we have benefited from recurring revenues as customers request support, upgrades, and enhancements for our systems.

**Proven management team.** Our management team has aggregate industry experience of over 150 years. Our team possesses a variety of skills in product development, business development, sales, marketing, technology and finance as well as a unique knowledge of the financial industry. The current management team has been able to achieve our business and development objectives to date. We have also

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been successful in retaining key personnel from the companies we acquired and benefit from their experience and knowledge of the acquired products and technology.

## **Our Strategy**

Our goal is to become a market leader in the global software solutions marketplace for the financial services industry, with a focus on insurance. We plan to achieve our goals by focusing on the following principles:

**Expansion of our sales in existing products and markets.** We intend to build upon our existing customer relationships to sell additional products and to sell our products to additional business units within our customer base. We believe our strong relationships and track record with our customers position us to successfully grow our sales in existing products and markets.

**Organic growth into new markets.** We plan to grow our business by developing new products and marketing our existing products in new markets. In particular, we believe that there is considerable opportunity to commence and grow sales of our P&C product suite in the United States and Canada, and also to expand the customer base for Sapiens DECISION.

**Continue to develop long-term relationships with our customers.** We intend to strengthen our recurring revenue model by providing additional solutions, support, maintenance, assistance, and implementation services to our existing customer base, leveraging on our comprehensive and diversified product suite. We intend to leverage our existing technologies and familiarity with the industry to develop new products to continue to address our customers' evolving needs, thus strengthening our relationships with them.

**Innovation and technology leadership.** We plan to continue to enhance our software platform solutions to ensure they remain leading products in terms of functionality and technology. We believe our focus on innovation and our industry expertise will enable us to improve our existing product offering as well as to produce new software solutions for the benefit of our customers and partners. We will continue to leverage the insights and best practices drawn from our customer base as well as to invest in research and development.

**Growth through acquisitions.** As part of our growth strategy, we have made and successfully integrated three acquisitions over the past few years. We will continue to seek and evaluate opportunities to grow through acquisitions of companies with complementary software solutions, technologies and related intellectual property or customer base.

As various companies in our industry offer differentiated solutions sold to different customers, we believe we may encounter opportunities to acquire companies or technologies that can be meaningfully synergistic with our solutions.

We will balance investment in such acquisitions with return to investors and allocate our capital resources accordingly.

## **Corporate Information**

We are a public limited liability company. We were incorporated and registered in the former Netherlands Antilles on April 6, 1990. Following the dissolution of The Netherlands Antilles in late 2010, we became registered, and currently operate, under the provisions of the Curaçao Civil Code. Our registered office is located at Landhuis Joonchi, Kaya Richard J. Beaujon z/n, Curaçao, and our telephone number in Curaçao is +5999-736-6277. United International Trust N.V. is the Company's agent in Curaçao and serves as a member of our Board of Directors. Our principal executive

office is located at Azrieli Center, 26 Harukmim St., Holon, 5885800 Israel and the telephone number for this office is +972-3-790-2000. Our agent for service of process in the United States is our subsidiary, Sapiens Americas Corporation, 4000 CentreGreen Way, Suite 150, Cary, NC 27513, USA. Our website address is <http://www.sapiens.com>. The information on our website, however, is not, and should not be deemed to be, a part of this prospectus supplement.

Throughout this prospectus supplement, we refer to various trademarks, service marks and trade names that we use in our business. Sapiens® and RapidSure® are two of our registered trademarks. We also have several other registered trademarks, service marks and pending applications relating to our products. Other trademarks and service marks appearing in this prospectus are the property of their respective holders.

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## The Offering

Common shares offered by us

5,650,000 common shares (or 6,497,500 common shares if the underwriters exercise their option to purchase additional shares in full).

Common shares to be outstanding immediately following this offering

45,120,595 common shares (or 45,968,095 common shares if the underwriters exercise their option to purchase additional shares in full).

Use of proceeds

We estimate that we will receive net proceeds, after deducting the underwriting discount and estimated offering expenses payable by us, of \$32.8 million from the sale by us of common shares in this offering. We intend to use the net proceeds of this offering for general corporate purposes. General corporate purposes may include, among other things, acquisitions or investments in complementary companies, products or technologies, additions to working capital, capital expenditures and other investments. See Use of Proceeds.

Dividend policy

Upon review of our consolidated results of operations, financial condition, cash requirements, future prospects and other factors, on January 15, 2013, our Board of Directors determined to declare and pay a one-time cash dividend of \$0.15 per common share (or \$5.8 million in the aggregate). We currently have no dividend policy and do not presently anticipate paying dividends within the next twelve months.

NASDAQ Capital Market and TASE symbol

SPNS

Risk factors

See Risk Factors beginning on page S-8 of this prospectus supplement, beginning on page 3 of the accompanying prospectus and in the documents incorporated by reference for a discussion of factors you should carefully consider before deciding to invest in our common shares.

The number of our common shares to be outstanding immediately following the closing of this offering is based on 39,470,595 common shares outstanding as of October 31, 2013 and excludes, as of that date:

1,866,774 and 1,920,731 common shares issuable upon the exercise of outstanding stock options under our 2011 Share Incentive Plan and various other prior incentive plans, respectively, at weighted average exercise prices of \$3.47 and \$1.39 per share, respectively;

1,028,000 common shares issuable upon the exercise of outstanding warrants, at a weighted average exercise price of \$3.77 per share; and

976,984 common shares available for future grant under our 2011 Share Incentive Plan.

Unless specifically stated, the information in this prospectus supplement does not take into account the exercise of the underwriters' option to purchase up to an additional 847,500 common shares pursuant to the option to purchase additional shares granted to the underwriters by us.

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## Summary Consolidated Financial Data

The following table sets forth a summary of our consolidated financial data. The summary consolidated statements of income data for the years ended December 31, 2010, 2011 and 2012, and the summary consolidated balance sheet data as of December 31, 2011 and 2012, have been derived from our audited consolidated financial statements that appear in our Annual Report on Form 20-F for the year ended December 31, 2012, which is incorporated by reference in this prospectus supplement. The audited financial statements have been prepared in accordance with generally accepted accounting principles in the United States, or GAAP, except as otherwise described therein.

The summary historical consolidated statements of operations data (unaudited) for the nine months ended September 30, 2012 and 2013, and the consolidated historical balance sheet data (unaudited) as of September 30, 2013, have been derived from our unaudited consolidated quarterly financial statements that appear in our report of foreign private issuer on Form 6-K furnished to the SEC on November 13, 2013 and that are incorporated by reference in this prospectus supplement.

The historical financial results presented below are not necessarily indicative of results that can be expected for any future period. The results of operations for the nine months ended September 30, 2013 are not necessarily indicative of the operating results that may be expected for the full year. The unaudited consolidated financial statement data was prepared on a basis consistent with our audited consolidated financial statement data and includes, in the opinion of our management, all adjustments necessary for the fair presentation of the financial information contained in that data.

The information presented below is qualified by the more detailed historical consolidated financial statements, the notes thereto and the discussion under Operating and Financial Review and Prospects included in (i) Item 5 of our annual report on Form 20-F for the year ended December 31, 2012 and (ii) the exhibits to our report of foreign private issuer on Form 6-K, which were filed with, and furnished to (respectively), the SEC on March 11, 2013 and November 13, 2013, respectively, and which are incorporated by reference herein.

### Statements of Income Data:

	Year Ended December 31,			Nine Months Ended	
	2010	2011	2012	2012	2013
				(unaudited)	
	(U.S. dollars in thousands, except per share data)				
Revenues	\$52,235	\$69,927	\$113,909	\$82,739	\$99,185
Cost of revenues	29,921	40,067	66,459	47,384	62,279
Gross Profit	22,314	29,860	47,450	35,355	36,906
Operating Expenses:					
Research and development, net	3,293	5,008	10,169	7,575	9,078
Selling, marketing, general and administrative	12,310	18,113	25,236	19,254	19,270
Acquisition-related and restructuring costs		1,115			
Total operating expenses	15,603	24,236	35,405	26,829	28,348
Operating income:	6,711	5,624	12,045	8,526	8,558

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Financial income (expenses), net	(364 )	104	193	385	308
Income before taxes on income	6,347	5,728	12,238	8,911	8,866
Taxes on income (benefit)	177	(230 )	435	424	654
Net income	6,170	5,958	11,803	8,487	8,212
Attributable to non-controlling interest	18	61	23	23	29
Net income attributable to Sapiens	6,152	5,897	11,780	8,464	8,183
Basic net earnings per share attributable to Sapiens shareholders	\$0.28	\$0.21	\$0.29	\$0.21	\$0.21
Diluted net earnings per share attributable to Sapiens shareholders	\$0.28	\$0.19	\$0.28	\$0.20	\$0.20
Weighted average number of shares used in computing basic net earnings per share	21,583	28,460	39,953	39,771	39,043
Weighted average number of shares used in computing diluted net earnings per share	22,181	30,764	41,671	41,733	41,297

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	At December 31,			At September 30,	
	2010	2011	2012	2012	2013
	(unaudited)				
	(U.S. dollars in thousands)				
Cash and cash equivalents	\$16,182	\$21,460	\$29,050	\$33,110	\$28,111
Working capital	4,868	7,736	18,723	21,014	22,121
Total assets	58,719	153,468	162,584	162,732	178,175
Accrued severance pay <sup>(1)</sup>	4,446	10,711	11,645	11,369	12,986
Other long-term liabilities	299	617	803	631	1,485
Capital stock	133,418	208,464	210,594	209,943	212,867
Total equity	\$34,118	\$110,247	\$118,439	\$118,220	\$127,476

- (1) Accrued severance pay relates to accrued severance obligations mainly to our Israeli employees as required under Israeli labor law. We are legally required to pay severance upon certain circumstances, primarily upon termination of employment by our company, retirement or death of the respective employee. Our obligation for our Israeli employees is fully provided for by monthly deposits with insurance policies and by provision in accordance with Israeli Severance Pay Law (For more details, please refer to Note 2 to our consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2012).

**Non-GAAP Financial Data**

	For the nine months ended September 30,	
	2012	2013
	(unaudited) (unaudited)	
	(U.S. dollars in thousands, except per share data)	
Non-GAAP Revenues	\$ 83,058	\$ 99,185
Non-GAAP Gross profit	38,871	40,936
Non-GAAP Operating profit	11,168	10,291
Non-GAAP Net income attributable to Sapiens' shareholders	10,978	10,259
Non-GAAP Basic earnings per share	0.28	0.26
Non-GAAP Diluted earnings per share	0.26	0.25

We believe that the non-GAAP measures of our financial results set forth above, consisting of non-GAAP revenue, non-GAAP gross profit, non-GAAP operating profit, non-GAAP net income attributable to Sapiens' shareholders and non-GAAP basic earnings per share and non-GAAP diluted earnings per share, provide useful information to our management and to investors regarding certain financial and business trends relating to our financial condition and results of operations. Our management uses these non-GAAP measures to compare our performance to that of prior periods for trend analyses, for purposes of determining executive and senior management incentive compensation and for budgeting and planning purposes. These measures are used in financial reports prepared for management and in quarterly financial reports presented to our Board of Directors. We believe that the use of these non-GAAP financial

measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing our financial measures with those used by other software companies, many of which present similar non-GAAP financial measures to investors.

Our management does not consider these non-GAAP measures in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of these non-GAAP financial measures is that they exclude significant expenses and income that are required by GAAP to be recorded in our financial statements. In addition, they are subject to inherent limitations as they reflect the exercise of judgment by management about which expenses and income are excluded or included in determining these non-GAAP financial measures. In order to compensate for these limitations, management presents non-GAAP financial measures in conjunction with GAAP results. We urge investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures, which is set forth below, and not to rely on any single financial measure to evaluate our business.

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(U.S. dollars in thousands, except per share amounts)

	For the nine months ended	
	September 30, 2012	September 30, 2013
	(unaudited)	(unaudited)
GAAP revenues	\$82,739	\$ 99,185
Valuation adjustment on acquired deferred revenue and long term contract	319	
Non-GAAP revenues	83,058	99,185
GAAP gross profit	35,355	36,906
Revenues valuation adjustment (as above)	319	
Amortization of capitalized software	2,566	3,370
Amortization of other intangible assets	631	660
Non-GAAP gross profit	38,871	40,936
GAAP operating income	8,526	8,558
Gross profit adjustment	3,516	4,030
Capitalization of software development	(2,645 )	(3,936 )
Amortization of other intangible assets	1,305	940
Stock-based compensation	466	699
Non-GAAP operating profit	11,168	10,291
GAAP net income attributable to Sapiens shareholders	8,464	8,183
Operating income adjustments	2,642	1,733
Other	(128 )	343
Non-GAAP net income attributable to Sapiens shareholders	\$10,978	\$ 10,259
Non-GAAP basic earnings per share	\$0.28	\$ 0.26
Non-GAAP diluted earnings per share	\$0.26	\$ 0.25
Weighted average number of shares used to computation of earnings per share		
Basic	39,771	39,043
Diluted	41,733	41,297

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## **RISK FACTORS**

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

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

Because our solutions are complex and require rigorous testing, development cycles can be lengthy, taking us up to two years to develop and introduce new, enhanced or modified solutions. Moreover, development projects can be technically challenging and expensive. The nature of these development cycles may cause us to experience delays between the time we incur expenses associated with research and development and the time we generate revenues, if any, from such expenses. Furthermore, we may invest substantial resources in the development of solutions that do not achieve market acceptance or commercial success. We may also not have sufficient funds or other resources to make the required investments in product development. Even where we succeed in our sales efforts and obtain new orders from customers, the complexity involved in delivering our solutions to such customers makes it more difficult for us to consummate delivery in a timely manner and to recognize revenue and maximize profitability. Failure to deliver our solutions in a timely manner could result in order cancellations, damage our reputations and require us to indemnify our customers. Any of these risks relating to our lengthy and expensive development cycle could have a material adverse effect on our business, financial conditions and results of operations.

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

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

**Investment in highly skilled research and development personnel is critical to our ability to develop and enhance our solutions support our customers, but an increase in such investment may reduce our profitability.**

As a provider of software solutions that rely upon technological advancements, we rely heavily our research and development activities to remain competitive. We consequently depend in large part on the ability to attract, train,

motivate and retain highly skilled information technology professionals for our research and development team, particularly individuals with knowledge and experience in the insurance industry. Because our software solutions are highly complex and are generally used by our customers to perform critical business functions, we also depend heavily on other skilled technology professionals. Skilled technology professionals are often in high demand and short supply. If we are unable to hire or retain qualified research and development personnel and other technology professionals to develop, implement and modify our solutions, we may be unable to meet the needs of our customers. Even if we succeed in retaining the necessary skilled personnel and in our research and development efforts, our investments in our personnel and product development efforts increase our costs of operations and thereby reduce our profitability, unless accompanied by increased revenues. Given the highly competitive industry in which we operate, we may not succeed in increasing our revenues in line with our increasing investments in our personnel and research and development efforts.

Furthermore, if we seek to expand the marketing and offering of our products into new territories, that requires the retention of new, additional skilled personnel with knowledge of the particular market and applicable regulatory regime. Such skilled personnel may not be available at a reasonable cost relative to the additional revenues that we expect to recognize in those territories, or may not be available at all.

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

Our existing customers are a key asset, and we depend on repeat product and service revenues from our base of customers. Five of our customers accounted for 33% and 31% of our revenues in the year ended December 31, 2012 and the nine months ended September 30, 2013, respectively. If our existing customers are not satisfied with our solutions and services, they may not enter into new project contracts with us or continue using our technologies. A significant decline in our revenue stream from existing customers would have a material adverse effect on our business, results of operations and financial condition.

**We may be liable to our clients for damages caused by a violation of intellectual property rights, the disclosure of other confidential information, including personally identifiable information, system failures, errors or unsatisfactory performance of services, and our insurance policies may not be sufficient to cover these damages.**

We often have access to, and are required to collect and store, sensitive or confidential client information, including personally identifiable information. Some of our client agreements do not limit our potential liability for breaches of confidentiality, infringement indemnity and certain other matters. Furthermore, breaches of confidentiality may entitle the aggrieved party to equitable remedies, including injunctive relief. If any person, including any of our employees and subcontractors, penetrates our network security or misappropriates sensitive or confidential client information, including personally identifiable information, we could be subject to significant liability from our clients or from our clients' customers for breaching contractual confidentiality provisions or privacy laws. Despite measures we take to protect the intellectual property and other confidential information or personally identifiable information of our clients, unauthorized parties, including our employees and subcontractors, may attempt to misappropriate certain intellectual property rights that are proprietary to our clients or otherwise breach our clients' confidences. Unauthorized disclosure of sensitive or confidential client information, including personally identifiable information, or a violation of intellectual property rights, whether through employee misconduct, breach of our computer systems, systems failure or otherwise, may subject us to liabilities, damage our reputation and cause us to lose clients.

Many of our contracts involve projects that are critical to the operations of our clients' businesses and provide benefits to our clients that may be difficult to quantify. Any failure in a client's system or any breach of security could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Furthermore, any errors by our employees in the performance of services for a client, or poor execution of such services, could result in a client terminating our engagement and seeking damages from us.

Although we attempt to limit our contractual liability for consequential damages in rendering our services, these limitations on liability may not apply in all circumstances, may be unenforceable in some cases, or may be insufficient to protect us from liability for damages. There may be instances when liabilities for damages are greater than the insurance coverage we hold and we will have to internalize those losses, damages and liabilities not covered by our insurance.

**Errors or defects in our software solutions could inevitably arise and would harm our profitability and our reputation with customers, and could even give rise to liability claims against us.**

The quality of our solutions, including new, modified or enhanced versions thereof, is critical to our success. Since our software solutions are complex, they may contain errors that cannot be detected at any point in their testing phase. While we continually test our solutions for errors or defects and work with customers to identify and correct them, errors in our technology may be found in the future. Testing for errors or defects is complicated because it is difficult to simulate the breadth of operating systems, user applications and computing environments that our customers use and our solutions themselves are increasingly complex. Errors or defects in our technology have resulted in terminated work orders and could result in delayed or lost revenue, diversion of development resources and increased services, termination of work orders, damage to our brand and warranty and insurance costs in the future. In addition, time-consuming implementations may also increase the number of services personnel we must allocate to each customer, thereby increasing our costs and adversely affecting our business, results of operations and financial condition.

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

### **Failure to meet customer expectations with respect to the implementation and use of our solutions could result in negative publicity, reduced sales and diversion of resources.**

We generally provide our customers with upfront estimates regarding the duration, budget and costs associated with the implementation of our products. Implementation of our solutions is complex and meeting the anticipated duration, budget and costs often depend on factors relating to our customers or their other vendors. We may not meet the upfront estimates and expectations of our customers for the implementation of our solutions or the provision of our services as a result of factors within our control such as issues or limitations with our solutions, or factors beyond our control such as issues related to our system integrator partners or our customers' IT employees.

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

### **Our business involves long-term, large projects, some of which are fixed-price projects that involve uncertainties, such as estimated project costs and profit margins, and which can therefore adversely affect our results of operations.**

Our business is characterized by relatively large projects or engagements that can have a significant impact on our total revenue and cost of revenue from quarter to quarter. A high percentage of our expenses, particularly employee compensation, are relatively fixed. Therefore, a variation in the timing of the initiation, progress or completion of projects or engagements can cause significant variations in operating results from quarter to quarter.

This is particularly the case on fixed-price contracts. Some of our solutions and services are sold as fixed-price projects with delivery requirements spanning more than one year. As our projects can be highly complex, we may not be able to accurately estimate our actual costs of completing a fixed-price project. If our actual cost-to-completion of these projects exceeds significantly the estimated costs, we could experience a loss on the related contracts, which would have a material adverse effect on our results of operations, financial position and cash flow.

Similarly, delays in executing client contracts (whether fixed price or not) may affect our revenue and cause our operating results to vary widely. Our solutions are delivered over periods of time ranging from several months to a few years. Payment terms are generally based on periodic payments or on the achievement of milestones. Any delays in payment or in the achievement of milestones may have a material adverse effect on our results of operations, financial position or cash flows.

Failure to meet customer expectations with respect to the implementation and use of our solutions could result in ne

**If we are unable to deliver specified functionality, or combine multiple arrangements signed in different periods, our revenues relating to entire software orders will be deferred and recognized over future periods, reducing the revenues we recognize on a significant portion of a given order in a particular quarter.**

In the course of our selling efforts, we typically enter into sales arrangements pursuant to which we license our software applications and provide maintenance support and professional services. We refer to each individual product or service as an element of the overall sales arrangement. These arrangements typically require us to deliver particular elements in a future period. We apply software revenue recognition rules and allocate the total revenues among elements based on the objective and reliable evidence of fair value, or

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vendor-specific objective evidence, VSOE, of fair value of each element. If we are unable to determine the VSOE of fair value of any undelivered elements, offer certain contractual provisions to our customers, such as delivery of specified functionality, or combine multiple arrangements signed in different periods, then we are required under U.S. generally accepted accounting principles, or GAAP, to defer additional revenues to future periods. If we are required to defer additional revenues to future periods for a significant portion of our sales, our revenues for that quarter could fall below our expectations or those of securities analysts and investors, resulting in a decline in our stock price.

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

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

Consolidation in the insurance industry in which some of our clients operate also increases competitiveness for us by reducing the number of potential clients for whose business we and our competitors compete. The high level of continuity with which insurance and other financial services clients remain with their providers of software-related services also increases general competitiveness by tying clients to their service providers and thereby shrinking the market of potential clients.

### **Incorrect or improper use of our products or our failure to properly train customers on how to implement or utilize our products could result in customer dissatisfaction and negatively affect our business, results of operations, financial condition and growth prospects.**

Our products are complex and are deployed in a wide variety of network environments. The proper use of our solutions requires training of the customer. If our solutions are not used correctly or as intended, inadequate performance may result. Additionally, our customers or third-party partners may incorrectly implement or use our solutions. Our solutions may also be intentionally misused or abused by customers or their employees or third parties who are able to access or use our solutions. Similarly, our solutions are sometimes installed or maintained by customers or third parties with smaller or less qualified IT departments, potentially resulting in sub-optimal installation and, consequently, performance that is less than the level anticipated by the customer. Because our customers rely on our software, services and maintenance support to manage a wide range of operations, the incorrect or improper use of our solutions, our failure to properly train customers on how to efficiently and effectively use our solutions, or our failure to properly provide implementation or maintenance services to our customers has resulted in terminated work orders and may result in termination of work orders, negative publicity or legal claims against us in the future. Also, as we continue to expand our customer base, any failure by us to properly provide these services will likely result in lost opportunities for follow-on sales of our software and services.

In addition, if there is substantial turnover of customer personnel responsible for implementation and use of our products, or if customer personnel are not well trained in the use of our products, customers may defer the deployment



of our products, may deploy them in a more limited manner than originally anticipated or may not deploy them at all. Further, if there is substantial turnover of the customer personnel responsible for implementation and use of our products, our ability to make additional sales may be substantially limited.

**Assertions by third parties of infringement or other violation by us of their intellectual property rights could result in significant costs and substantially harm our business and results of operations.**

The software industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patents and other intellectual property rights. In particular, leading companies in the software industry own large numbers of patents, copyrights, trademarks and trade secrets, which they

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may use to assert claims against us. From time to time, third parties, including certain of these leading companies, may assert patent, copyright, trademark or other intellectual property claims against us, our customers and partners, and those from whom we license technology and intellectual property.

Although we believe that our products and services do not infringe upon the intellectual property rights of third parties, we cannot assure you that third parties will not assert infringement or misappropriation claims against us with respect to current or future products or services, or that any such assertions will not require us to enter into royalty arrangements or result in costly litigation, or result in us being unable to use certain intellectual property. We cannot assure you that we are not infringing or otherwise violating any third party intellectual property rights. Infringement assertions from third parties may involve patent holding companies or other patent owners who have no relevant product revenues, and therefore our own issued and pending patents may provide little or no deterrence to these patent owners in bringing intellectual property rights claims against us.

Any intellectual property infringement or misappropriation claim or assertion against us, our customers or partners, and those from whom we license technology and intellectual property could have a material adverse effect on our business, financial condition, reputation and competitive position regardless of the validity or outcome. If we are forced to defend against any infringement or misappropriation claims, whether they are with or without merit, are settled out of court, or are determined in our favor, we may be required to expend significant time and financial resources on the defense of such claims. Furthermore, an adverse outcome of a dispute may require us to pay damages, potentially including treble damages and attorneys' fees, if we are found to have willfully infringed on a party's intellectual property; cease making, licensing or using our products or services that are alleged to infringe or misappropriate the intellectual property of others; expend additional development resources to redesign our products or services; enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or works; and to indemnify our partners, customers, and other third parties. Royalty or licensing agreements, if required or desirable, may be unavailable on terms acceptable to us, or at all, and may require significant royalty payments and other expenditures. Any of these events could seriously harm our business, results of operations and financial condition. In addition, any lawsuits regarding intellectual property rights, regardless of their success, could be expensive to resolve and divert the time and attention of our management and technical personnel.

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

In accordance with industry practice, since we have no registered patents, we rely on a combination of contractual provisions and intellectual property law to protect our proprietary technology. We believe that due to the dynamic nature of the computer and software industries, copyright protection is less significant than factors such as the knowledge and experience of our management and personnel, the frequency of product enhancements and the timeliness and quality of our support services. We seek to protect the source code of our products as trade secret information and as unpublished copyright works. We also rely on security and copy protection features in our proprietary software. We distribute our products under software license agreements that grant customers a personal, non-transferable license to use our products and contain terms and conditions prohibiting the unauthorized reproduction or transfer of our products. In addition, while we attempt to protect trade secrets and other proprietary information through non-disclosure agreements with employees, consultants and distributors, not all of our employees have signed invention assignment agreements. Although we intend to protect our rights vigorously, there can be no assurance that these measures will be successful. Our failure to protect our rights, or the improper use of our products by others without licensing them from us could have a material adverse effect on our results of operations and financial condition.

Assertions by third parties of infringement or other violation by us of their intellectual property rights could result in si

**We and our customers rely on technology and intellectual property of third parties, the loss of which could limit the functionality of our products and disrupt our business.**

We use technology and intellectual property licensed from unaffiliated third parties in certain of our products, and we may license additional third-party technology and intellectual property in the future. Any errors or defects in this third-party technology and intellectual property could result in errors that could harm our brand and business. In addition, licensed technology and intellectual property may not continue to be available on

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commercially reasonable terms, or at all. The loss of the right to license and distribute this third party technology could limit the functionality of our products and might require us to redesign our products.

Further, although we believe that there are currently adequate replacements for the third-party technology and intellectual property we presently use and distribute, the loss of our right to use any of this technology and intellectual property could result in delays in producing or delivering affected products until equivalent technology or intellectual property is identified, licensed or otherwise procured, and integrated. Our business would be disrupted if any technology and intellectual property we license from others or functional equivalents of this software were either no longer available to us or no longer offered to us on commercially reasonable terms. In either case, we would be required either to attempt to redesign our products to function with technology and intellectual property available from other parties or to develop these components ourselves, which would result in increased costs and could result in delays in product sales and the release of new product offerings. Alternatively, we might be forced to limit the features available in affected products. Any of these results could harm our business and impact our results of operations.

### **We could be required to provide the source code of our products to our customers.**

Some of our customers have the right to require the source code of our products to be deposited into a source code escrow. Under certain circumstances, our source code could be released to our customers. The conditions triggering the release of our source code vary by customer. A release of our source code would give our customers access to our trade secrets and other proprietary and confidential information which could harm our business, results of operations and financial condition.

### **Catastrophes may adversely impact the P&C insurance industry, preventing us from expanding or maintaining our existing customer base and increasing our revenues.**

Our customers include P&C insurance carriers that have experienced, and will likely experience in the future, catastrophe losses that adversely impact their businesses. Catastrophes can be caused by various events, including, amongst others, hurricanes, tsunamis, floods, windstorms, earthquakes, hail, tornados, explosions, severe weather and fires. Moreover, acts of terrorism or war could cause disruptions in our or our customers' businesses or the economy as a whole. The risks associated with natural disasters and catastrophes are inherently unpredictable, and it is difficult to predict the timing of such events or estimate the amount of loss they will generate. In the event a future catastrophe adversely impacts our current or potential customers, we may be prevented from maintaining and expanding our customer base and from increasing our revenues because such events may cause customers to postpone purchases of new products and professional service engagements or discontinue projects.

### **There may be consolidation in the P&C insurance industry, which could reduce the use of our products and services and adversely affect our revenues.**

Mergers or consolidations among our customers could reduce the number of our customers and potential customers. This could adversely affect our revenues even if these events do not reduce the aggregate number of customers or the activities of the consolidated entities. If our customers merge with or are acquired by other entities that are not our customers, or that use fewer of our products and services, they may discontinue or reduce their use of our products and services. Any of these developments could materially and adversely affect our results of operations and cash flows.

We could be required to provide the source code of our products to our customers.

**Some of our services and technologies may use open source software, which may restrict how we use or distribute our services or require that we release the source code of certain products subject to those licenses.**

Some of our services and technologies may incorporate software licensed under so-called open source licenses, including, but not limited to, the GNU General Public License and the GNU Lesser General Public License. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on origin of the software. Additionally, open source licenses typically require that source code subject to the license be made available to the public and that any modifications or derivative works to open source software continue to be licensed under open source licenses. These open source licenses typically mandate that proprietary software, when combined in specific ways with open source software,

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become subject to the open source license. If we combine our proprietary software with open source software, we could be required to release the source code of our proprietary software.

We take steps to ensure that our proprietary software is not combined with, and does not incorporate, open source software in ways that would require our proprietary software to be subject to an open source license. However, few courts have interpreted open source licenses, and the manner in which these licenses may be interpreted and enforced is therefore subject to some uncertainty. Additionally, we rely on multiple software programmers to design our proprietary technologies, and although we take steps to prevent our programmers from including open source software in the technologies and software code that they design, write and modify, we do not exercise complete control over the development efforts of our programmers and we cannot be certain that our programmers have not incorporated open source software into our proprietary products and technologies or that they will not do so in the future. In the event that portions of our proprietary technology are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our technologies, or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our services and technologies and materially and adversely affect our business, results of operations and prospects.

### **Failure to manage our rapid growth effectively and manage our headquarters transition could harm our business.**

We have recently experienced, and expect to continue to experience, rapid growth in our number of employees and in our international operations that has placed, and will continue to place, a significant strain on our operational and financial resources and our personnel. To manage our anticipated future growth effectively, we must continue to maintain and may need to enhance our information technology infrastructure, financial and accounting systems and controls and manage expanded operations and employees in geographically distributed locations. We also must attract, train and retain a significant number of additional qualified sales and marketing personnel, professional services personnel, software engineers, technical personnel and management personnel. Our failure to manage our rapid growth effectively could have a material adverse effect on our business, results of operations and financial condition. Our growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of new services or product enhancements. For example, since it may take as long as six months to hire and train a new member of our professional services staff, we make decisions regarding the size of our professional services staff based upon our expectations with respect to customer demand for our products and services. If these expectations are incorrect, and we increase the size of our professional services organization without experiencing an increase in sales of our products and services, we will experience reductions in our gross and operating margins and net income. Furthermore, we have recently completed the relocation of our corporate headquarters within Israel, having moved from Ness Ziona to Holon in July 2013. We have incurred additional expense in connection with this relocation and our new headquarters lease. If we are unable to effectively manage our growth, our expenses may increase more than expected, our revenues could decline or grow more slowly than expected and we may be unable to implement our business strategy. We also intend to continue to expand into additional international markets which, if not technologically or commercially successful, could harm our financial condition and prospects.

## **Risks Relating to Our International Operations**

### **Our international sales and operations subject us to additional risks that can adversely affect our business, results of operations and financial condition.**

Failure to manage our rapid growth effectively and manage our headquarters transition could harm our business.

We sell our products and services to customers located outside the United States and Canada, and we are continuing to expand our international operations as part of our growth strategy. In fiscal year 2012 and the nine months ended September 30, 2013, 69% and 65%, respectively, of our revenues were derived from outside of North America. Our current international operations and our plans to expand our international operations subject us to a variety of risks, including:

increased exposure to fluctuations in foreign currency exchange rates;  
increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations;

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longer payment cycles and difficulties in enforcing contracts and collecting accounts receivable;  
the need to localize our products and licensing programs for international customers;  
lack of familiarity with and unexpected changes in foreign regulatory requirements;  
the burdens of complying with a wide variety of foreign laws and legal standards;  
compliance with the U.S. Foreign Corrupt Practices Act of 1977, as amended, or FCPA, particularly in emerging market countries;

import and export license requirements, tariffs, taxes and other trade barriers;  
increased financial accounting and reporting burdens and complexities;  
weaker protection of intellectual property rights in some countries;  
multiple and possibly overlapping tax regimes; and

political, social and economic instability abroad, terrorist attacks and security concerns in general.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Any of these risks could harm our international operations and reduce our international sales, adversely affecting our business, results of operations, financial condition and growth prospects.

### **International operations in the insurance industry, in which a significant portion of our business is concentrated, is accompanied by additional costs related to adaptation to specific territories.**

As we seek to expand the marketing and offering of our products into new territories, because insurance regulations vary by legal jurisdiction, the investment required to adapt our solutions to the legal and language requirements of such territories may prevent or delay us from effectively expanding into such territories. Such adaptation process requires the retention of new, additional skilled personnel with knowledge of the particular market and applicable regulatory regime. Such skilled personnel may not be available at a reasonable cost relative to the additional revenues that we expect to recognize in those territories, or may not be available at all.

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

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

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

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

International operations in the insurance industry, in which a significant portion of our business is concentrated, is a



conversion of foreign currencies were imposed, our financial position and results of operations could be adversely affected.

**The tax benefits that will be available to our Israeli subsidiaries will require us to continue to meet various conditions and may be terminated or reduced in the future, which could increase our costs and taxes.**

Some of our Israeli subsidiaries have been granted *Approved Enterprise* and *Benefited Enterprise* status, which provide certain benefits, including tax exemptions and reduced tax rates under the Israeli Law for the

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Encouragement of Capital Investments, 1959, referred to as the Investment Law. Income not eligible for Approved Enterprise and Benefited Enterprise benefits is taxed at regular rates (25% in 2013 and 26.5% in 2014).

In the event of distribution of dividends from said tax-exempt income, the amount distributed will be subject to corporate tax at the rate ordinarily applicable to the Approved/Benefited Enterprise's income. Tax-exempt income generated under the Approved/Benefited Enterprise program will be subject to taxes upon dividend distribution (which includes the repurchase of the Company's shares) or liquidation. The benefits period under the Investment Law has yet to commence.

The entitlement to the above benefits (once they commence) is conditional upon the fulfillment of the conditions stipulated by the Investment Law and applicable regulations. Should the Israeli subsidiaries fail to meet such requirements in the future, income attributable to the Approved Enterprise and Benefited Enterprise programs could be subject to the statutory Israeli corporate tax rate and they may be required to refund a portion of the tax benefits already received, with respect to such programs.

## **Risks Related to an Investment in our Common Shares, Including Pursuant to this Offering**

**There is limited trading volume for our common shares, which reduces liquidity for our shareholders, and may furthermore cause the stock price to be volatile, all of which may lead to losses by investors.**

There has historically been limited trading volume for our common shares, both on the NASDAQ Capital Market and the TASE. While recently there has been some improvement, the trading volume has still not reached the level that enables shareholders to freely sell their shares in substantial quantities on an ongoing basis and thereby readily achieve liquidity for their investment. As a further result of the limited volume, our common shares have experienced significant market price volatility in the past and may experience significant market price and volume fluctuations in the future, in response to factors such as announcements of developments related to our business, announcements by competitors, quarterly fluctuations in our financial results and general conditions in the industry in which we compete.

**Our management has broad discretion in the use of the net proceeds from this offering and our use of the net proceeds may not produce a positive rate of return.**

Our management will have broad discretion in the application of the net proceeds of this offering. We cannot specify with certainty the uses to which we will apply the net proceeds we will receive from this offering and cannot assure you that our management will apply the net proceeds from this offering in ways that improve our results of operations or increase the value of your investment. The failure by our management to apply these funds in a manner that produces a positive rate of return could adversely affect our ability to continue to maintain and expand our business, which could cause our stock price to decline.

**We are a foreign private issuer under the rules and regulations of the SEC and are therefore exempt from a number of rules under the Exchange Act and are permitted to file less information with the SEC than a domestic U.S. reporting**

The tax benefits that will be available to our Israeli subsidiaries will require us to continue to meet various conditions

**company, which reduces the level and amount of disclosure that you receive.**

As a foreign private issuer under the Exchange Act, we are exempt from certain rules under the Exchange Act, including the proxy rules, which impose certain disclosure and procedural requirements for proxy solicitations. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. companies with securities registered under the Exchange Act; and are not required to comply with Regulation FD, which imposes certain restrictions on the selective disclosure of material information. In addition, our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions of Section 16 of the Exchange Act and the rules under the Exchange Act with respect to their purchases and sales of our common shares. Accordingly, you receive less information about our company than you would receive about a domestic U.S. company, and are afforded less protection under the U.S. federal securities laws than you would be afforded in holding securities of a domestic U.S. company.

As a foreign private issuer, we are also permitted, and have begun, to follow certain home country corporate governance practices instead of those otherwise required under the Listing Rules of the NASDAQ Stock Market for domestic U.S. issuers. We have informed NASDAQ that we follow home country practice in Curacao with regard to, among other things, composition of our board of directors (whereby a majority of the

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members of our board of directors need not be independent directors, as is generally required for domestic U.S. issuers), director nomination procedure and approval of compensation of officers. In addition, we have opted to follow home country law instead of the Listing Rules of the NASDAQ Stock Market that require that a listed company obtain shareholder approval for certain dilutive events, such as the establishment or amendment of certain equity-based compensation plans, 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 greater interest in the company, and certain acquisitions of the stock or assets of another company. Following our home country governance practices as opposed to the requirements that would otherwise apply to a United States company listed on the NASDAQ Capital Market may provide our shareholders with less protection than they would have as stockholders of a domestic U.S. company.

### **The Israeli government grants that we received require us to meet several conditions and restrict our ability to manufacture and engineer products and transfer know-how outside of Israel and require us to satisfy specified conditions.**

We have received grants from the government of Israel through the Office of the Chief Scientist of the Ministry of Economy of the State of Israel, or the OCS, for the financing of a portion of our research and development expenditures in Israel. When know-how is developed using OCS grants, the Encouragement of Industrial Research and Development Law 5744-1984, or the R&D Law, as well as the terms of these grants restrict the transfer of the know-how outside of Israel. Transfer of know-how outside of Israel requires pre-approval by the OCS which may at its sole discretion grant such approval and impose certain conditions, including requirement of payment of a transfer fee (referred to in the law as the Base Amount ) calculated according to the formula provided in the R&D Law which takes into account the consideration for such know-how paid to us in the transaction in which the technology is transferred. In addition, any decrease of the percentage of manufacturing performed in Israel, as originally declared in the application to the OCS, requires us to notify, or to obtain the approval of the OCS and may result in increased royalty payments to the OCS as well as increase total amount to be paid to the OCS. These restrictions may impair our ability to enter into agreements for those products or technologies without the approval of the OCS. We cannot be certain that any approval of the OCS will be obtained on terms that are acceptable to us, or at all. Furthermore, in the event that we undertake a transaction involving the transfer to a non-Israeli entity of technology developed with OCS funding pursuant to a merger or similar transaction, the consideration available to our shareholders may be reduced by the amounts we are required to pay to the OCS. Any approval, if given, will generally be subject to additional financial obligations. Failure to comply with the requirements under the R&D Law may subject us to mandatory repayment of grants received by us (together with interest and penalties), as well as expose us to criminal proceedings.

### **We are not subject to the supervision of the Central Bank of Curaçao and Sint Maarten, so our shareholders are not protected by any regulatory inspections in Curacao.**

We are not an entity subject to any regulatory supervision in Curaçao by the Central Bank of Curaçao and Sint Maarten. As a result, shareholders are not protected by any regulatory supervision or inspections by any regulatory agency in Curaçao, and we are not required to observe any restrictions in respect of its conduct, save as disclosed in this prospectus supplement or our Amended Articles of Association.

The Israeli government grants that we received require us to meet several conditions and restrict our ability to manu

**As the rights of shareholders under Curacao law differ from those under U.S. law, you may have fewer protections as a shareholder.**

Our corporate affairs are governed by our Amended Articles of Association, the Civil Code of Curaçao and the civil law of Curaçao. The rights of shareholders to take legal action against our directors, actions by minority shareholders and the fiduciary responsibilities of our directors under Curaçao law are to a large extent governed by the Civil Code of Curaçao, the civil law of Curaçao and applicable case law. The rights of shareholders and the fiduciary responsibilities of our directors under Curaçao law are not as clearly established as they would be under statutes or judicial precedents in some jurisdictions in the U.S. In particular, Curaçao has a less developed body of securities laws as compared to the U.S., and some states (such as Delaware) have more fully developed and judicially interpreted bodies of corporate law. In addition, Curaçao law does not make a distinction between public and private companies and some of the protections and safeguards (such as statutory pre-emption rights, save to the extent that they are expressly provided for in the Amended

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Articles of Association) that investors may expect to find in relation to a public company are not provided for under Curaçao law. As a result of all of the above, holders of our common shares may have more difficulty in protecting their interests in the face of actions taken by our management, directors or major shareholders than they would as shareholders of a U.S. company.

### **Shareholders in Curacao companies may not be able to initiate shareholder derivative actions, thereby depriving a shareholder of the ability to protect its interests.**

While case law does exist in The Kingdom of The Netherlands for derivative actions to be brought in certain circumstances, shareholders in Curaçao companies may not have standing to initiate a shareholder derivative action in a federal court of the U.S. The circumstances in which any such action may be brought, and the procedures and defenses that may be available in respect to any such action, may result in the rights of shareholders of a Curaçao company being more limited than those of shareholders of a company organized in the U.S. Accordingly, shareholders may have fewer alternatives available to them if they believe that corporate wrongdoing has occurred. The Curaçao courts are also unlikely to: (i) recognize or enforce against us judgments of courts in the U.S. based on certain civil liability provisions of U.S. securities law; or (ii) to impose liabilities against us, in original actions brought in Curaçao, based on certain civil liability provisions of U.S. securities laws that are penal in nature. There is no statutory recognition in Curaçao of judgments obtained in the U.S., although the courts of Curaçao will in certain circumstances recognize and enforce the non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

### **The laws of Curacao provide little protection for minority shareholders, so minority shareholders will have little or no recourse if the shareholders are dissatisfied with the conduct of our affairs.**

Under the laws of Curaçao, there is little statutory protection of minority shareholders other than the provisions of the Civil Code dealing with shareholder remedies. Minority shareholders of a Curaçao company may commence legal proceedings against the company in which they hold shares on the following grounds:

tort (*onrechtmatige daad*). A tortious act may arise if a company makes certain promises to the shareholders, the shareholders could expect a certain attitude from the company according to rules of reasonableness and fairness and the company does not comply therewith;

the articles of association of the company; or

breach of contract assuming there is any specific contract between the minority shareholders and the company. In addition to the above, there are alternative claims under Curaçao law available for minority shareholders, who seek relief for alleged wrongful acts by a company, its directors or the majority shareholders, such as contesting the corporate resolutions of a company and requesting the majority shareholders to purchase the stake of the minority shareholders (*uitkoop*). However, these alternative possibilities are very cumbersome and time-consuming.

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## **USE OF PROCEEDS**

We estimate that our net proceeds from this offering will be approximately \$32.8 million after deducting the underwriting discount and estimated offering expenses payable by us.

We intend to use the net proceeds of this offering for general corporate purposes. General corporate purposes may include, among other things, acquisitions or investments in complementary companies, products or technologies, additions to working capital, capital expenditures and other investments.

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The following table sets forth our cash and cash equivalents and capitalization as of September 30, 2013:

on an actual basis; and  
on an as adjusted basis to give effect to the receipt by us of estimated net proceeds of \$32.8 million from the issuance and sale of 5,650,000 common shares offered by us after deducting the underwriting discount and estimated offering expenses payable by us.

You should read this information in conjunction with our unaudited consolidated quarterly financial statements and Operating and Financial Review and Prospects that appear in our report of foreign private issuer on Form 6-K furnished to the SEC on November 13, 2013 and that are incorporated by reference in this prospectus supplement.

	As of September 30, 2013	
	Actual	As Adjusted
	(unaudited)	
	(U.S. dollars in thousands)	
Cash and cash equivalents	\$28,111	\$60,905
Shareholder's Equity:		
Preferred shares, €0.01 par value: Authorized 1,000,000 shares; issued and outstanding (actual and as adjusted) none		
Common shares, €0.01 par value: Authorized 54,000,000 shares; issued 41,694,197 shares (actual) and 47,344,197 shares (as adjusted); outstanding 39,365,901 shares (actual) and 45,015,901 shares (as adjusted)	556	632
Additional paid-in capital	212,311	245,029
Treasury shares, at cost 2,328,296 common shares (actual and as adjusted)	(9,423 )	(9,423 )
Foreign currency translation adjustments	(499 )	(499 )
Accumulated Deficit:	(76,316 )	(76,316 )
Total Sapiens International Corporation N.V. shareholders' equity	126,629	159,423
Non-controlling interests	847	847
Total capitalization	\$127,476	\$160,270

The above table excludes, as of September 30, 2013:

1,866,774 and 2,025,425 common shares issuable upon the exercise of outstanding stock options under our 2011 Share Incentive Plan and various other prior incentive plans, respectively, at weighted average exercise prices of \$3.47 and \$1.39 per share, respectively;