

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

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2017

OR

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

For the transition period from _____ to _____

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report.

Commission file number 000-20181



SAPIENS INTERNATIONAL CORPORATION N.V.
(Exact name of Registrant as specified in its charter)

Curacao

(Jurisdiction of incorporation or organization)

Azrieli Center
26 Harokmim St.
Holon, 5885800 Israel

(Address of principal executive offices)

Roni Giladi, Chief Financial Officer
Tel: +972-3-790-2000
Fax+972-3-790 2942
Azrieli Center
26 Harokmim St.
Holon, 5885800 Israel

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

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

Title of Class:
Common Shares, par value € 0.01 per share

Name of each exchange on which registered:
NASDAQ Capital Market

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

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

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

As of December 31, 2017, the issuer had 49,758,434 Common Shares, par value € 0.01 per share, outstanding (which excludes 2,328,296 Common Shares held in treasury).

Indicate by check mark if the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer: ☐ Accelerated filer: ☒
Non-accelerated filer: ☐ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

☒ U.S. GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other

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

Item 17 ☐ Item 18 ☐

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

Yes ☐ No ☒

TABLE OF CONTENTS

	<u>Page</u>
<u>Introduction</u>	<u>1</u>
<u>PART I</u>	<u>1</u>
<u>Item 1</u> <u>Identity of Directors, Senior Management and Advisers</u>	<u>1</u>
<u>Item 2</u> <u>Offer Statistics and Expected Timetable</u>	<u>2</u>
<u>Item 3</u> <u>Key Information</u>	<u>2</u>
<u>Item 4</u> <u>Information on the Company</u>	<u>20</u>
<u>Item 4A</u> <u>Unresolved Staff Comments</u>	<u>41</u>
<u>Item 5</u> <u>Operating and Financial Review and Prospects</u>	<u>41</u>
<u>Item 6</u> <u>Directors, Senior Management and Employees</u>	<u>66</u>
<u>Item 7</u> <u>Major Shareholders and Related Party Transactions</u>	<u>72</u>
<u>Item 8</u> <u>Financial Information</u>	<u>75</u>
<u>Item 9</u> <u>The Offer and Listing</u>	<u>76</u>
<u>Item 10</u> <u>Additional Information</u>	<u>78</u>
<u>Item 11</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>93</u>
<u>Item 12</u> <u>Description of Securities Other Than Equity Securities</u>	<u>93</u>
<u>PART II</u>	<u>93</u>
<u>Item 13</u> <u>Defaults, Dividend Arrearages and Delinquencies</u>	<u>93</u>
<u>Item 14</u> <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	<u>93</u>
<u>Item 15</u> <u>Controls and Procedures</u>	<u>94</u>
<u>Item 16</u> <u>[Reserved]</u>	<u>94</u>
<u>Item 16A</u> <u>Audit Committee Financial Expert</u>	<u>94</u>
<u>Item 16B</u> <u>Code of Ethics</u>	<u>94</u>
<u>Item 16C</u> <u>Principal Accountant Fees and Services</u>	<u>95</u>
<u>Item 16D</u> <u>Exemptions from the Listing Standards for Audit Committees</u>	<u>95</u>
<u>Item 16E</u> <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	<u>95</u>
<u>Item 16F</u> <u>Change in Registrant’s Certifying Accountant</u>	<u>95</u>
<u>Item 16G</u> <u>Corporate Governance</u>	<u>95</u>
<u>Item 16H</u> <u>Mine Safety Disclosures</u>	<u>96</u>
<u>PART III</u>	<u>96</u>
<u>Item 17</u> <u>Financial Statements</u>	<u>96</u>
<u>Item 18</u> <u>Financial Statements</u>	<u>96</u>
<u>Item 19</u> <u>Exhibits</u>	<u>97</u>
<u>Signature</u>	<u>98</u>

INTRODUCTION

Definitions

In this annual report, unless the context otherwise requires:

- references to “Sapiens,” the “Company,” the “Registrant,” “our company,” “us,” “we” and “our” refer to Sapiens International Corporation N.V., a Curaçao company, and its consolidated subsidiaries;
- references to “our shares,” “Common Shares” and similar expressions refer to Sapiens’ Common Shares, par value € 0.01 per share;
- references to “Sapiens Poland” refer to Sapiens Software Solutions (Poland) Sp.Z.O.O (formerly Insseco Sp. Z O.O), a Poland-based software and services provider for the insurance market that Sapiens acquired in the third quarter of 2015;
- references to “Adaptik”, refer to Adaptik Corporation, a New Jersey company engaged in the development of software solutions, which Sapiens acquired during the first quarter of 2018;
- references to “KnowledgePrice.com” refer to KnowledgePrice.com, a Latvian company that specializes in digital insurance services and consulting, which Sapiens acquired in the fourth quarter of 2017;
- references to “StoneRiver” refer to StoneRiver, Inc., a Denver, Colorado- based provider of technology solutions and services to the insurance industry that Sapiens acquired in the first quarter of 2017;
- references to “dollars”, “U.S. dollars”, “U.S. \$” and “\$” are to United States Dollars;
- references to “Euro” or “€” are to the Euro, the official currency of the Eurozone in the European Union;
- references to “shekels” and “NIS” are to New Israeli Shekels, the Israeli currency;
- references to the “Articles” are to our Amended Articles of Association, as currently in effect;
- references to the “Securities Act” are to the Securities Act of 1933, as amended;
- references to the “Exchange Act” are to the Securities Exchange Act of 1934, as amended;
- references to “NASDAQ” are to the NASDAQ Stock Market;
- references to the “TASE” are to the Tel Aviv Stock Exchange; and
- references to the “SEC” are to the United States Securities and Exchange Commission.

Cautionary Note Regarding Forward-Looking Statements

Certain matters discussed in this annual report are forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act and the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, that are based on our beliefs and assumptions as well as information currently available to us. Such forward-looking statements may be identified by the use of the words “anticipate,” “believe,” “estimate,” “expect,” “may,” “will,” “plan” and similar expressions. Such statements reflect our current views with respect to future events and are subject to certain risks and uncertainties. While we believe such forward-looking statements are based on reasonable assumptions, should one or more of the underlying assumptions prove incorrect, or these risks or uncertainties materialize, our actual results may differ materially from those expressed or implied by the forward-looking statements. Please read the risks discussed in Item 3 – “Key Information” under the caption “Risk Factors” and cautionary statements appearing elsewhere in this annual report in order to review conditions that we believe could cause actual results to differ materially from those contemplated by the forward-looking statements.

We undertake no obligation publicly to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed in this annual report might not occur.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**A. Selected Financial Data.**

The following tables summarize certain selected consolidated financial data for the periods and as of the dates indicated. We derived the statement of operations financial data for the years ended December 31, 2015, 2016 and 2017 and the balance sheet data as of December 31, 2016 and 2017 from our audited consolidated financial statements included elsewhere in this annual report. The selected consolidated statement of income financial data for the years ended December 31, 2013 and 2014 and the balance sheet data as of December 31, 2013, 2014 and 2015 are derived from our audited financial statements not included in this annual report. Our historical consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, and presented in U.S. dollars. You should read the information presented below in conjunction with those statements.

The summary consolidated balance sheet data as of December 31, 2014, as derived from our audited consolidated balance sheet as of that date that is not included in this annual report, reflects the carrying amounts combination between Sapiens and Sapiens Poland as of that date, consistent with the pooling of interest accounting method that we accorded to our acquisition of Sapiens Poland. Also, consistent with that accounting method, our consolidated statements of income data for the year ended December 31, 2015 includes the revenues and expenses of Insseco for the entire year (although the acquisition was actually consummated during the third quarter of 2015). See also Note 1(e) to our consolidated financial statements contained elsewhere in this annual report.

The information presented below is qualified by the more detailed historical consolidated financial statements, the notes thereto and the discussion under “Operating and Financial Review and Prospects” included elsewhere in this annual report.

Selected Financial Data:

	Year Ended December 31,				
	(In thousands, except per share data)				
Statement of Income Data:	2013	2014	2015 ⁽¹⁾	2016	2017
Revenues	\$ 135,377	\$ 157,450	\$ 185,636	\$ 216,190	\$ 269,194
Cost of revenues	84,971	99,095	111,192	130,402	175,678
Gross profit	50,406	58,355	74,444	85,788	93,516
Operating Expenses:					
Research and development	11,846	11,352	10,235	16,488	31,955
Selling, marketing, general and administrative	26,677	32,097	39,859	44,460	60,559
Total operating expenses	38,523	43,449	50,094	60,948	92,514
Operating income	11,883	14,906	24,350	24,840	1,002
Financial income (expenses), net	520	124	163	533	(3,010)
Income before tax benefit (taxes on income)	12,403	15,030	24,513	25,373	(2,008)
Tax benefit (taxes on income)	(811)	(454)	(4,213)	(5,772)	2,564
Net income	11,592	14,576	20,300	19,601	556
Attributed to non-controlling interest	(12)	131	59	(43)	(189)
Attributed to redeemable non-controlling interest	-	(18)	1	(135)	43
Adjustment to redeemable non-controlling interest	-	-	224	443	350
Net income attributable to Sapiens	11,604	14,463	20,016	19,336	352
Basic net earnings per share attributable to Sapiens' shareholders ⁽²⁾	\$ 0.29	\$ 0.31	\$ 0.42	\$ 0.40	\$ 0.01
Diluted net earnings per share attributable to Sapiens' shareholders	\$ 0.27	\$ 0.30	\$ 0.41	\$ 0.40	\$ 0.01
Weighted average number of shares used in computing basic net earnings per share	40,024	47,210 ⁽³⁾	48,121	48,947	49,170
Weighted average number of shares used in computing diluted net earnings per share	42,316	48,637	49,327	49,780	49,926

Balance Sheet Data:	At December 31,				
	2013	2014 ⁽¹⁾	2015	2016	2017
	(In thousands)				
Cash and cash equivalents	\$ 70,313	\$ 47,400	\$ 54,351	\$ 60,908	\$ 71,467
Marketable securities	-	33,098	39,651	35,448	-
Working capital	63,516	43,663	51,342	72,453	60,804
Total assets	222,428	233,210	242,271	257,851	373,619
Series B Debentures ⁽⁴⁾	-	-	-	-	78,281
Capital stock	245,205	249,938	234,658	227,463	221,864
Total equity	\$ 170,408	\$ 178,293	\$ 181,809	\$ 194,391	\$ 200,874

- (1) As indicated above, the balance sheet data as of December 31, 2014 and the statement of income data for the year ended December 31, 2015 reflect the carrying amounts combination between Sapiens and Sapiens Poland as of December 31, 2014 and as of January 1, 2015, respectively, consistent with the pooling of interest accounting method in respect of our acquisition of Sapiens Poland.
- (2) On January 15, 2013, April 22, 2015, March 31, 2016 and October 18, 2017, our Board of Directors determined, subject to shareholder approval, to declare and pay one-time cash interim dividends of \$0.15, \$0.15, \$0.20 and \$0.20 per Common Share (or \$5.8 million, \$7.2 million, \$10.0 million and \$9.8 million, in the aggregate, respectively), which were paid on February 22, 2013, June 1, 2015, June 1, 2016 and December 14, 2017, respectively.
- (3) On November 19, 2013, we consummated an underwritten follow-on public offering of 5,650,000 of our Common Shares, plus an additional 847,400 Common Shares to cover over-allotments, pursuant to an underwriting agreement with Barclays Capital Inc., as representative of certain underwriters.
- (4) In September 2017 we issued NIS 280 million (approximately \$78.2 million, net of \$0.96 million of debt discount and issuance costs) principal amount of Series B unsecured, non-convertible debentures, in a public offering and private placement in Israel. For more information concerning the Series B debentures, please see Item 5.B “Liquidity and Capital Resources”—“Israeli Public Offering and Private Placement of Debentures”.

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

We operate globally in a dynamic and rapidly changing environment that involves numerous risks and uncertainties. The following section lists some, but not all, of those risks and uncertainties that may have a material adverse effect on our business, financial position, results of operations or cash flows.

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

The implementation of our M&A growth strategy, which requires the integration of our multiple acquired companies, including, most recently, Adaptik, KnowledgePrice, StoneRiver, MaxPro, 4Sight, and their respective businesses, operations and employees with our own, involves significant risks, and the failure to integrate successfully may adversely affect our future results.

In the past eight years we have completed eleven acquisitions. Most recently, in the first quarter of 2018, we have acquired Adaptik, after having acquired KnowledgePrice.com and StoneRiver in 2017, Maximum Processing Inc, or MaxPro, and 4Sight Business Intelligence, or 4Sight, in 2016. These acquisitions are part of our integrated M&A growth strategy, which is centered on three key factors: growing our customer base, expanding geographically and adding complementary solutions to our portfolio—all while we seek to ensure our continued high quality of services and product delivery. Any failure to successfully integrate the business, operations and employees of our acquired companies, or to otherwise realize the anticipated benefits of these acquisitions, could harm our results of operations. Our ability to realize these benefits will depend on the timely integration and consolidation of organizations, operations, facilities, procedures, policies and technologies, and the harmonization of differences in the business cultures between these companies and their personnel. Integration of these businesses will be complex and time-consuming, will involve additional expense and could disrupt our business and divert management's attention from ongoing business concerns. The challenges involved in integrating Adaptik, Knowledgeprice.com, StoneRiver MaxPro, 4Sight and other former acquisitions include:

- preserving customer, supplier and other important relationships;
- integrating financial forecasting and controls, procedures and reporting cycles;
- combining and integrating information technology, or IT, systems; and
- integrating employees and related HR systems and benefits, maintaining employee morale and retaining key employees.

The benefits we expect to realize from these acquisitions are, necessarily, based on projections and assumptions about the combined businesses of our company, Adaptik, KnowledgePrice.com, MaxPro, 4Sight and StoneRiver, and assume, among other things, the successful integration of these acquired entities into our business and operations. The acquisition of StoneRiver, in particular, has significantly expanded our presence and scale in the North American insurance industry, and is expected to help us further accelerate our growing market footprint in the U.S. P&C space. The StoneRiver acquisition is the largest acquisition that we have ever effected, and failure to successfully integrate the business, operation and employees of StonerRiver could, in and of itself, significantly harm our results of operations. Our projections and assumptions concerning our acquisitions may be inaccurate, however, and we may not successfully integrate the acquired companies and our operations in a timely manner, or at all. We may also be exposed to unexpected contingencies or liabilities of the acquired companies. If we do not realize the anticipated benefits of these transactions, our growth strategy and future profitability could be adversely affected.

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. We may also not have sufficient funds or other resources to make the required investments in product development. Furthermore, we may invest substantial resources in the development of solutions that do not achieve market acceptance or commercial success. 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 requires us to expend significant time and resources prior to generating 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 one year to two years 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 and customer support personnel is critical to our ability to develop and enhance our solutions and 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 on 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 to provide ongoing support to our customers. 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 in our research and development and customer support 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, as we seek to expand the marketing and offering of our products into new territories, it 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 generate in those territories, or may not be available at all. In particular, wage costs in lower-cost markets where we have recently added personnel, such as India, are increasing and we may need to increase the levels of our employee compensation more rapidly than in the past to remain competitive. The transition of projects to new locations may also lead to business disruptions due to differing levels of employee knowledge and organizational and leadership skills. Although we have never experienced an organized labor dispute, strike or work stoppage, any such occurrence, including in connection with unionization efforts, could disrupt our business and operations and harm our financial condition.

Failure to manage our rapid growth— both organic and non-organic—could effectively 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. 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. Our rapid growth may also be accompanied by greater exposure to litigation, including suits by clients, vendors, employees or former employees, as the sizes of our workforce and our overall international operations increase. Restructuring strategies that we have been implementing as part of our management of the effectiveness of our growth require the termination of employees, which also increases our potential exposure to suits by former employees. All such litigation carries with it related costs and could divert our management's attention from ongoing business concerns. 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.

The skilled and highly qualified workforce that we need to develop, implement and modify our solutions may be difficult to hire, train and retain, and we could face increased costs to attract and retain our skilled workforce.

Our business operations depend in large part on our ability to attract, train, motivate and retain highly skilled information technology professionals, software programmers and communications engineers on a worldwide basis. In addition, our competitive success will depend on our ability to attract and retain other outstanding, highly qualified employees, consultants and other professionals. Because our software products are highly complex and are generally used by our customers to perform critical business functions, we depend heavily on skilled technology professionals. Skilled technology professionals are often in high demand and short supply. If we are unable to hire or retain qualified technology professionals to develop, implement and modify our solutions, we may be unable to meet the needs of our customers. In addition, serving several new customers or implementing several new large-scale projects in a short period of time may require us to attract and train additional IT professionals at a rapid rate.

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

We depend heavily on repeat product and service revenues from our base of existing customers. Five of our customers accounted for, in the aggregate, 34% and 22% of our revenues in the years ended December 31, 2016 and 2017, 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.

Our business often involves long-term, large, complex projects across the globe, some of which are fixed-price projects that involve uncertainties, such as estimated project costs and profit margins. Changes in the scope of a project or in the implementation schedule mid-stream can adversely impact our expected future revenues, profitability and/or, in some cases, our relationship with the relevant client.

Our business is characterized by relatively large, complex 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, variations in the timing of the initiation, estimate of scope of work, progress or completion of projects or engagements can cause significant variations in operating results from quarter to quarter.

This is particularly the case for fixed-price contracts, where our delivery requirements sometimes span more than one year. For a highly complex, fixed-price project that requires customization, we may not be able to accurately estimate our actual costs of completing the project. We are often dependent on the assistance of third-parties (such as our customers' vendors or IT employees, or our system integrator partners) in implementing such a project, which may not be provided in a timely manner. If our actual cost-to-completion of such a project significantly exceeds the estimated costs, we could experience a loss on the related contract, which (when multiplied by multiple projects) could 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.

For non-fixed price contracts, we generally provide our customers with upfront estimates regarding the duration, budget and costs associated with the implementation of our products. Due to the complexities described above, however, we may not meet those upfront estimates and/or the expectations of our customers, which could lead to a dispute with a client.

As an example, in 2017 we were involved in a dispute with a significant customer under a software development project agreement, which agreement provided for the customizing, enhancement and implementation of a new product. The customer alleged that we had materially breached our agreement with the customer. After carefully examining the customer's allegations, we informed the customer that we had not materially breached any of our obligations under the agreement and that the customer had itself materially breached the agreement. Work on the project was canceled due to the dispute. While we eventually entered into a settlement agreement with the customer, that settlement resulted in the termination of the software development project agreement, which resulted in a reduction in our revenues and operating profit relative to our prior estimates for 2017. Similar such disputes with other significant customers in the future, whether due to failure on our part to meet upfront estimates or customer expectations, or even absent such failures on our part, could harm our reputation, thereby adversely affecting our ability to attract new customers and to sell additional solutions and services to existing customers.

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.

In addition, while we have taken steps to protect the confidential information that we have access to, including confidential information we may obtain through usage of our cloud-based services, our security measures may be breached. If a cyber-attack or other security incident were to result in unauthorized access to or modification of our customers' data or our own data or our IT systems or in disruption of the services we provide to our customers, or if our products or services are perceived as having security vulnerabilities, we could suffer significant damage to our business and reputation.

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.

Changes in privacy regulations may impose additional costs and liabilities on us, limit our use of information, and adversely affect our business.

Personal privacy has become a significant issue in the United States, Europe, and many other countries where we operate. Many government agencies and industry regulators continue to impose new restrictions and modify existing requirements about the collection, use, and disclosure of personal information. Changes to laws or regulations affecting privacy and security may impose additional liability and costs on us and may limit our use of such information in providing our services to customers. If we were required to change our business activities, revise or eliminate services or products, or implement burdensome compliance measures, our business and results of operations may be harmed. Additionally, we may be subject to regulatory enforcement actions resulting in fines, penalties, and potential litigation if we fail to comply with applicable privacy laws and regulations.

In particular, our European activities will be subject to the new European Union General Data Protection Regulation, or GDPR, which will create additional compliance requirements for us. GDPR broadens the scope of personal privacy laws to protect the rights of European Union citizens and requires organizations to report on data breaches within 72 hours and be bound by more stringent rules for obtaining the consent of individuals on how their data can be used. GDPR will become enforceable on May 25, 2018 and non-compliance may expose entities such as our company to significant fines or other regulatory claims. While we have invested in, and intend to continue to invest in, reasonably necessary resources to comply with these new standards, to the extent that we fail to adequately comply, that failure could have an adverse effect on our business, financial conditions, results of operations and cash flows.

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.

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.

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 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 on our software solution technologies, 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.

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 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. A few of our customers have the right to use the source code of some of our products based on the license agreements signed with such clients (mostly with respect to older versions of our solutions), although such use is limited for specific matters and cases, these clients are exposed to some of our trade secrets and other proprietary and confidential information which could harm us.

Significant disruptions of our information technology systems or breaches of our data security could adversely affect our business.

A significant invasion, interruption, destruction or breakdown of our information technology, or IT, systems and/or infrastructure by persons with authorized or unauthorized access could negatively impact our business and operations. We could also experience business interruption, information theft and/or reputational damage from cyber attacks, which may compromise our systems and lead to data leakage internally. Both data that has been inputted into our main IT platform, which covers records of transactions, financial data and other data reflected in our results of operations, as well as data related to our proprietary rights (such as research and development, and other intellectual property- related data), are subject to material cyber security risks. Our IT systems have been, and are expected to continue to be, the target of malware and other cyber attacks. To date, we are not aware that we have experienced any loss of, or disruption to, material information as a result of any such malware or cyber attack.

We have invested in advanced detection, prevention and proactive systems to reduce these risks. Based on independent audits, we believe that our level of protection is in keeping with the industry standards of peer technology companies. We also maintain a disaster recovery solution, as a means of assuring that a breach or cyber attack does not necessarily cause the loss of our information. We furthermore review our protections and remedial measures periodically in order to ensure that they are adequate.

Despite these protective systems and remedial measures, techniques used to obtain unauthorized access are constantly changing, are becoming increasingly more sophisticated and often are not recognized until after an exploitation of information has occurred. We may be unable to anticipate these techniques or implement sufficient preventative measures, and we therefore cannot assure you that our preventative measures will be successful in preventing compromise and/or disruption of our information technology systems and related data. We furthermore cannot be certain that our remedial measures will fully mitigate the adverse financial consequences of any cyber attack or incident.

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.

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, 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.

Our deed of trust related to our Series B Debentures contains certain affirmative covenants and restrictive provisions that, if breached, could result in an increase in the interest rate and, potentially, an acceleration of our obligation to repay those debentures, which we may be unable to effect.

In the deed of trust that we have entered into with the trustee for the holders of our Series B Debentures, or the debentures, which we offered and sold in an Israeli public offering and Israeli private placement in September 2017, we have undertaken to maintain a number of conditions and limitations on the manner in which we can operate our business, including limitations on our ability to undergo a change of control, distribute dividends, incur a floating charge on our assets, or undergo an asset sale or other change that results in a fundamental change in our operations. The deed of trust also requires us to comply with certain financial covenants, including maintenance of a minimum shareholders' equity level and a maximum ratio of financial indebtedness to shareholders' equity, at levels that are customary for companies of comparable size. These limitations and covenants may force us to pursue less than optimal business strategies or forego business arrangements that could otherwise be financially advantageous to us and, by extension, our debenture holders. The deed of trust furthermore provides for an upwards adjustment in the interest rate payable under the debentures in the event that our debentures' rating is downgraded below a certain level. A breach of the financial covenants for more than two successive quarters or a substantial downgrade in the rating of the debentures (below BBB-) would constitute an event of default that could result in the acceleration of our obligation to repay the debentures, of which there is NIS 280 million (approximately US \$79.2 million) principal amount outstanding, which accelerated repayment may be difficult for us to effect.

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.

We are continuing to expand our international operations as part of our growth strategy. In fiscal years 2016 and 2017, 66% and 59%, respectively, of our revenues were derived from outside of North America. Our current international operations and our plans to further expand our international operations subject us to a variety of risks, including:

- increased exposure to fluctuations in foreign currency exchange rates;
- complexity in our tax planning, and increased exposure to changes in tax regulations in various jurisdictions in which we operate, which could adversely affect our operating results and frustrate our ability to conduct effective tax planning;
- increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations;
- 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 regulations in 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, including US dollars, GBP, EURO, New Israeli Shekels, or NIS, Indian rupee, or INR and Polish zloty, or PLN. In 2016 and 2017, our revenues were approximately 37% and 53%, respectively, in US dollars, with the remainder in the other currencies.

Because exchange rates between the NIS, GBP, Euro, JPY, INR and the PLN against the US dollar fluctuate continuously, exchange rate fluctuations and especially larger periodic devaluations could negatively affect our revenue and profitability.

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

Our business may be materially affected by changes to fiscal and tax policies. Potentially negative or unexpected tax consequences of these policies, or the uncertainty surrounding their potential effects, could adversely affect our results of operations and share price.

As a multinational corporation, we are subject to income taxes, withholding taxes and indirect taxes in numerous jurisdictions worldwide. Significant judgment and management attention and resources are required in evaluating our tax positions and our worldwide provision for taxes. In the ordinary course of business, there are many activities and transactions for which the ultimate tax determination is uncertain. In addition, our tax obligations and effective tax rates could be adversely affected by changes in the relevant tax, accounting, and other laws, regulations, principles and interpretations. This may include recognizing tax losses or lower than anticipated earnings in jurisdictions where we have lower statutory rates and higher than anticipated earnings in jurisdictions where we have higher statutory rates, changes in foreign currency exchange rates, or changes in the valuation of our deferred tax assets and liabilities.

We may be audited in various jurisdictions, and such jurisdictions may assess additional taxes against us. If we experience unfavourable results from one or more such tax audits, there could be an adverse effect on our tax rate and therefore on our net income. Although we believe our tax estimates are reasonable, the final determination of any tax audits or litigation could be materially different from our historical tax provisions and accruals, which could have a material adverse effect on our operating results or cash flows in the period or periods for which a determination is made. Additionally, we are subject to transfer pricing rules and regulations, including those relating to the flow of funds between us and our affiliates, which are designed to ensure that appropriate levels of income are reported in each jurisdiction in which we operate.

The U.S. Tax Cuts and Jobs Act of 2017, or the Act, enacted in December 2017, introduced significant changes to the U.S. Internal Revenue Code.

At December 31, 2017, we have not completed our accounting for the tax effects of enactment of the Act; however, we have made reasonable estimates of the effects on the existing deferred tax balances for which provisional amounts have been recorded.

The Act requires complex computations to be performed that were not previously required in U.S. tax law, significant judgments to be made in interpretation of the provisions of the 2017 Tax Act and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, and other standard-setting bodies could interpret or issue guidance on how provisions of the 2017 Tax Act will be applied or otherwise administered that is different from our interpretation. As we complete our analysis of the 2017 Tax Act, collect and prepare necessary data, and interpret any additional guidance, we may make adjustments to provisional amounts that we have recorded that may impact our provision for income taxes in the period in which the adjustments are made.

The base erosion and profit shifting (“BEPS”) project undertaken by the Organization for Economic Cooperation and Development (“OECD”) may have adverse consequences to our tax liabilities. The BEPS project contemplates changes to numerous international tax principles, as well as national tax incentives, and these changes, when adopted by individual countries, could adversely affect our provision for income taxes. Countries have only recently begun to translate the BEPS recommendations into specific national tax laws, and it remains difficult to predict the magnitude of the effect of such new rules on our financial results.

Risks Related to an Investment in our Common Shares

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

There has historically been limited trading volume in our common shares, both on the NASDAQ Capital Market and the TASE. While recently there has been improvement, the trading volume is still limited, which results in reduced liquidity for our shareholders. 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.

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 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—presently in Curaçao and prospectively, following the completion of our planned migration, in the Cayman Islands— with regard to, among other things, composition of our Board of Directors (whereby a majority of the 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.

Our controlling shareholder, Formula Systems (1985) Ltd., beneficially owns approximately 48.9% of our outstanding Common Shares and therefore asserts a controlling influence over matters requiring shareholder approval, which could delay or prevent a change of control that may benefit our public shareholders.

Formula Systems (1985) Ltd. beneficially owns approximately 48.9% of our outstanding Common Shares. As a result, it exercises a controlling influence over our operations and business strategy and has sufficient voting power to control the outcome of various matters requiring shareholder approval. These matters may include:

- the composition of our board of directors, which has the authority to direct our business and to appoint and remove our officers;

- approving or rejecting a merger, consolidation or other business combination;
- raising future capital; and
- amending our Articles, which govern the rights attached to our Common Shares.

This concentration of ownership of our Common Shares could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our Common Shares that might otherwise give you the opportunity to realize a premium over the then-prevailing market price of our Common Shares. This concentration of ownership may also adversely affect our share price.

Our U.S. shareholders may suffer adverse tax consequences if we are classified as a passive foreign investment company or as a “controlled foreign corporation”.

Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of the average quarterly value of our assets (which may be measured in part by the market value of our Common Shares, which is subject to change) are held for the production of, or produce, passive income, we would be characterized as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes under the Internal Revenue Code of 1986, as amended, or the Code. Based on our gross income and gross assets, and the nature of our business, we believe that we were not classified as a PFIC for the taxable year ended December 31, 2017. Because PFIC status is determined annually based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for the taxable year ending December 31, 2018, or for any subsequent year, until we finalize our financial statements for that year. Furthermore, because the value of our gross assets is likely to be determined in large part by reference to our market capitalization, a decline in the value of our Common Shares may result in our becoming a PFIC. Accordingly, there can be no assurance that we will not be considered a PFIC for any taxable year. Our characterization as a PFIC could result in material adverse tax consequences for you if you are a U.S. investor, including having gains realized on the sale of our Common Shares treated as ordinary income, rather than a capital gain, the loss of the preferential rate applicable to dividends received on our Common Shares by individuals who are U.S. holders, and having interest charges apply to distributions by us and the proceeds of share sales. Certain elections exist that may alleviate some of the adverse consequences of PFIC status and would result in an alternative treatment (such as mark-to-market treatment) of our Common Shares. Prospective U.S. investors should consult their own tax advisers regarding the potential application of the PFIC rules to them. Prospective U.S. investors should refer to “Item 10.E. Taxation—U.S. Federal Income Tax Considerations” for discussion of additional U.S. income tax considerations applicable to them based on our treatment as a PFIC.

Certain U.S. holders of our Common Shares may suffer adverse tax consequences if we or any of our non-U.S. subsidiaries are characterized as a “controlled foreign corporation”, or a CFC, under Section 957(a) of the Code. Certain changes to the CFC constructive ownership rules under Section 958(b) of the Code introduced by the TCJA may cause one or more of our non-U.S. subsidiaries to be treated as CFCs, may also impact our CFC status, and may affect holders of our Common Shares that are United States shareholders. Generally, for U.S. shareholders that own 10% or more of the combined vote or combined value of our Common Shares, this may result in negative U.S. federal income tax consequences and these shareholders may be subject to certain reporting requirements with the U.S. Internal Revenue Service. Any such 10% U.S. shareholder should consult its own tax advisors regarding the U.S. tax consequences of acquiring, owning, or disposing of our Common Shares and the impact of the TCJA, especially the changes to the rules relating to CFCs.

Risks Related to Our Israeli Operations and Our Status as a Curacao Company

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

Certain of our Israeli subsidiaries were granted Approved Enterprise, or AE, status under the Israeli Law for the Encouragement of Capital Investments, 5719-1959, or the Investment Law. These subsidiaries elected the alternative benefits program, pursuant to which income derived from the AE program is tax-exempt for two years and enjoys a reduced tax rate of 10.0% to 25.0% for up to a total of eight years, subject to an adjustment based on the percentage of foreign investors' ownership. We were also eligible for certain tax benefits provided to Benefited Enterprises, or BEs, under the Investment Law. In May 2015, we notified the Israel Tax Authority that we apply the new tax Preferred Enterprise, or PFE, regime under the Investment Law instead of our AE and BE. Accordingly, we are eligible for certain tax benefits provided to PFEs under the Investment Law. Beginning in 2017, part of the Company taxable income in Israel is eligible for benefits under Amendment 73 of the Investment Law. If we do not meet the conditions stipulated in the Investment Law and the regulations promulgated thereunder, as amended, for the PTE, any of the associated tax benefits may be cancelled and we would be required to repay the amount of such benefits, in whole or in part, including interest and CPI linkage (or other monetary penalties). Further, in the future these tax benefits may be reduced or discontinued. If these tax benefits are reduced, cancelled or discontinued, our Israeli taxable income would be subject to regular Israeli corporate tax rates (25% in 2016, 24% in 2017 and 23% in 2018 and thereafter), which would harm our financial condition and results of operation. Additionally, if we increase our activities outside of Israel through acquisitions, for example, our expanded activities might not be eligible for inclusion in future Israeli tax benefit programs. See "Item 5. Operating and Financial Review and Prospects—Operating Results—Impact of Tax Policies and Programs on our Operating Results—Israeli Tax Considerations and Government Programs."

In the event of distribution of dividends from said tax-exempt income, the amount distributed will be subject to corporate tax at the rate that would have otherwise been applicable on the AE/BE's income.

The Israeli government grants that our Israeli subsidiary has received require us to meet several conditions and restrict our ability to manufacture products and transfer know-how developed using such grants outside of Israel and require us to satisfy specified conditions.

One of our Israeli subsidiaries received grants in the past from the government of Israel through the National Technological Innovation Authority, or the Innovation Authority (formerly operating as 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 its research and development expenditures in Israel with respect to our legacy technology. In consideration for receiving grants from the OCS, we are obligated to pay the Innovation Authority royalties from the revenues generated from the sale of products (and related services) developed (in whole or in part) using the OCS funds, in an amount that is up to 100% to 150% of the aggregate amount of the total grants that we received from the OCS, plus annual interest for grants received after January 1, 1999. We must fully and originally own any intellectual property developed using the OCS grants and any right derived therefrom unless transfer thereof is approved in accordance with the provisions of the Israeli Encouragement of Research, Development and Technological Innovation Law, 5744-1984, or the Innovation Law (formerly known as the Encouragement of Industrial Research and Development Law, 5744-1984, or the Research Law), and related regulations.

When a company develops know-how, technology or products using grants provided by the Innovation Authority, the terms of these grants and the Innovation Law restrict the transfer of such know-how, and the transfer of manufacturing or manufacturing rights of such products, technologies or know-how outside of Israel. Even after the repayment of such grants in full, we will remain subject to the restrictions set forth under the Innovation Law, including:

- *Transfer of know-how outside of Israel.* Any transfer of the know-how that was developed with the funding of the Innovation Authority, outside of Israel, requires prior approval of the Innovation Authority, and the payment of a redemption fee.
- *Local manufacturing obligation.* The terms of the grants under the Innovation Law require that the manufacturing of products resulting from Innovation Authority-funded programs be carried out in Israel, unless a prior written approval of the Innovation Authority is obtained (except for a transfer of up to 10% of the production rights, for which a notification to the Innovation Authority is sufficient).
- *Certain reporting obligations.* We, as any recipient of a grant or a benefit under the Innovation Law, are required to file reports on the progress of activities for which the grant was provided as well as on our revenues from know-how and products funded by the Innovation Authority. In addition, we are required to notify the Innovation Authority of certain events detailed in the Innovation Law.

Therefore, if aspects of our technologies are deemed to have been developed with OCS funding, the discretionary approval of an OCS committee would be required for any transfer to third parties outside of Israel of know-how or manufacturing or manufacturing rights related to those aspects of such technologies. We may not receive those approvals. Furthermore, the OCS may impose certain conditions on any arrangement under which it permits us to transfer technology or development out of Israel.

The transfer of OCS-supported technology or know-how outside of Israel may involve the payment of significant amounts, depending upon the value of the transferred technology or know-how, the amount of OCS support, the time of completion of the OCS-supported research project and other factors. Furthermore, the consideration available to our shareholders in a transaction involving the transfer outside of Israel of technology or know-how developed with OCS funding (such as a merger or similar transaction) may be reduced by any amounts that we are required to pay to the OCS.

We received grants from the OCS prior to an extensive amendment to the Research Law that came into effect as of January 1, 2016, or the Amendment, which may also affect the terms of existing grants. The Amendment provides for an interim transition period (which has not yet expired), after which time our grants will be subject to terms of the Amendment. Under the Research Law, as amended by the Amendment, the Authority is provided with a power to modify the terms of existing grants. Such changes, if introduced by the Authority in the future, may impact the terms governing our grants.

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 Curaçao.

We are not 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, except to the extent disclosed in our annual report or our Articles.

We have been granted an exemption under the Foreign Exchange Regulations Curaçao and Sint Maarten enacted by the Central Bank of Curaçao and Sint Maarten (referred to as the FX Regulations). As a result of this exemption, we are exempted from certain conditions, regulations and provisions stemming from the FX Regulations relating to, among other things, capital transactions with non-residents of Curaçao (including dividend payments) and license fees on payments to non-residents of Curaçao. The exemption has been granted subject to our compliance with certain conditions, and the Central Bank of Curaçao and Sint Maarten can revoke the exemption should we no longer comply with one or more of those conditions. Those conditions include that none of our activities may take place in Curaçao or Sint Maarten, that we may not offer goods and services to residents of Curaçao or Sint Maarten, that we may not participate in Curaçao and Sint Maarten resident companies and that we may not extend loans to residents of Curaçao or Sint Maarten. Furthermore, residents of Curaçao or Sint Maarten may not be holders of our Common Shares.

The rights of shareholders under Curaçao law differ from those under U.S. law, and you may have fewer protections as a shareholder.

Our corporate affairs are governed by our Articles, 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 generally distinguish between public and private companies, and some of the protections and safeguards (such as statutory pre-emption rights, except to the extent that they are expressly provided for in the Articles) that investors may expect to find in relation to a public company are not provided for under Curaçao law, subject to the duty of directors and shareholders to generally act towards one another in accordance with the principles of reasonableness and fairness. 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 Curaçao companies may not be able to initiate shareholder derivative actions, thereby depriving a shareholder of the ability to protect its interests.

Derivative actions are not permitted in Curaçao. Under Curaçao law, only the Company may bring a civil action against a person who is liable to a Curaçao public limited liability company. 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 Curaçao 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 for minority shareholders other than the provisions of the Civil Code of Curaçao, which provides for 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;
- breach of contract- assuming there is any specific contract between the minority shareholders and the company; and
- nullification of resolutions- if a resolution is approved in violation of the provisions of Curaçao law or the articles of association as to how the decision needs to be taken, or in violation of rules, or in case a resolution to amend the articles adversely affects the legal position of a person involved in the company (such as a minority shareholder), provided such person has a serious interest, the resolution can be nullified.

Under Curaçao law, shareholders who satisfy certain threshold requirements can initiate inquiry proceedings with the joint Court of Justice of Aruba, Curaçao, Sint Maarten, Bonaire, Sint Eustatius and Saba. Such inquiry proceedings can relate to the policy of the company and its business as well as to the (deficient) functioning of the company as such. The Court of Justice will only order an inquiry if it finds that well-founded reasons exist to doubt the soundness of the policies of the company or the conduct of its business. This is not restricted to the policies of the governing bodies of the company (for example, the board) but can also pertain to acts or omissions of the general meeting of shareholders. During the proceedings, the Court of Justice may impose immediate provisional measures, such as a temporary amendment to the articles of association of the company and the appointment of interim board members.

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 (*uittrekking*). However, these alternative possibilities are very cumbersome and time-consuming and may not be instituted in respect of shares which are traded at a stock exchange.

Curacao law makes it more difficult for us to enter into a change of control transaction in which we are acquired and you are paid a premium on the shares that you hold in our company.

Our status as a Curacao company makes it more challenging (compared to Israel and various US states) to consummate a change of control transaction in which our company is acquired and our shareholders benefit economically via the payment of a premium on their shares relative to the then-current market price. Under Curacao law, there is no legal basis for a reverse triangular merger, a commonly-utilized transaction structure for the acquisition of publicly traded companies such as ours, in which shareholders receive cash. Curacao law allows for the acquisition of a publicly traded company such as ours for cash through a tender offer, provided that the offeror acquires at least 95% of the company's issued and outstanding share capital (which 95% threshold may be reduced under certain circumstances to 90% or 80% in case of a pre-wired asset sale), following which the offeror can purchase the remaining shares subject to court approval and possibly the exercise of certain dissenters' rights. Since Curacao law does not permit a cash merger and due to the challenges in obtaining such level of acceptance of the tender offer, a potential buyer might need to use different structures to acquire our company, e.g. migrating the company to another jurisdiction that allows for a cash merger as a means to acquire publicly traded companies; however, such process may be very time-consuming and could therefore prevent such a transaction from occurring. An additional option under Curacao law is a sale of assets, which is likely to be generally less efficient to our shareholders from a tax perspective. Each of the foregoing limitations or disadvantages of effecting an acquisition of our company or its assets in which shareholders realize a premium could furthermore adversely impact the market price of our shares in an ongoing manner.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company.

Corporate Details

Our legal and commercial name is Sapiens International Corporation N.V., and we were incorporated and registered in Curaçao on April 6, 1990. In November 2017, our shareholders approved the migration of our legal domicile to the Cayman Islands. Such migration is subject to certain rulings and approvals of the tax authorities in Israel and Curacao, which have not yet been received as of the date of this annual report. We are registered as an Israeli company for tax purposes only. Our principal place of business is located at Azrieli Center, 26 Harokmim Street, Holon, 5885800, Israel, and our telephone number there is +972-3-790-2000. Sapiens Americas Corporation is our agent in the United States. Our World Wide Web address is www.sapiens.com. The information contained on that web site is not a part of this annual report. Except as described elsewhere in this annual report, we have not had any important events in the development of our business since January 1, 2017.

Capital Expenditures and Divestitures since January 1, 2015

In the second quarter of 2015, we acquired IBEXI Solutions Private Limited, or IBEXI, an India-based provider of insurance solutions and services, which services 18 insurers in both the P&C and L&A markets throughout Southeast Asia. The total purchase price in this acquisition was approximately \$4.8 million, which we paid in cash at the closing, and which is subject to adjustment based on certain future criteria. For further information, please see Note 1(e) to our consolidated financial statements included in Item 18 of this annual report.

In the third quarter of 2015, we acquired Sapiens Poland (formerly Insseco), a Poland-based software and services provider for the insurance market, from Asseco Poland S.A., or Asseco, the indirect controlling shareholder of our company, which helped us to establish a strong presence in the Polish insurance market. We paid approximately \$9.1 million in cash for Sapiens Poland (formerly Insseco), subject to upwards adjustment based on its achieving future revenue goals. For further information, please see Note 1(e) to our consolidated financial statements included in Item 18 of this annual report.

In the third quarter of 2016, we acquired Maximum Processing Inc., or MaxPro, a privately-held company headquartered in Bradenton, Florida, with offices in Garner, North Carolina. MaxPro is the provider of the Stingray System, a P&C insurance administration suite targeted towards the tier 4-5 U.S. market, as well as managing general agents, or MGAs, third-party administrators, or TPAs, and insurance brokers. We paid \$4.3 million in cash for this acquisition (including \$1.5 million that we placed in escrow at the closing). The seller also has the right to receive performance based payments of up to \$2.6 million relating to achievements of revenue and profitability goals over three years (2016, 2017, 2018). For further information, please see Note 1(e) to our consolidated financial statements included in Item 18 of this annual report.

In the third quarter of 2016, we acquired 4Sight Business Intelligence Inc., or 4Sight, a provider of business intelligence reports that is based in Austin, Texas. 4Sight offers insurance-specific business intelligence, or BI, solutions, including 4SightBI, a P&C-specific, off-the-shelf business intelligence (BI) product. We paid \$330,000 in cash for this acquisition. In addition, the seller of 4Sight may receive additional performance-based payments of up to \$2.6 million relating to achievements of revenue and profitability goals over three years (2016, 2017, 2018). For further information, please see Note 1(e) to our consolidated financial statements included in Item 18 of this annual report.

In the first quarter of 2017, we acquired StoneRiver, a US-based provider of a wide range of technology solutions and services to insurance carriers, agents, and broker-dealers, whose product groups encompass P&C solutions, Life solutions, workers compensation, and reinsurance solutions for all major business lines. The acquisition will enable us to expand the range of solutions and services that we offer in North America. We paid approximately \$100 million in cash, subject to certain adjustments based on working capital, transaction expenses, unpaid debt and certain litigation matters. For further information, please see Note 1(b) to our consolidated financial statements included in Item 18 of this annual report.

In the fourth quarter of 2017, we acquired KnowledgePrice.com, a Latvian company that specializes in digital insurance services and consulting. This acquired entity will join our Digital Division, which focuses on digital and business intelligence services and solutions, including portal and digital distribution offerings to customers worldwide. The total purchase price was approximately €5,840,500, out of which €3,100,000 was paid at closing and the remainder is subject to earn-outs based on the revenues of KnowledgePrice.com following the closing. For further information, please see Note 1(d) to our consolidated financial statements included in Item 18 of this annual report.

In the first quarter of 2018, we acquired Adaptik, 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 adjustment and about \$3.5 million is subject to earn out-based specific criteria. For further information, please see Note 18 to our consolidated financial statements included in Item 18 of this annual report.

Our principal capital expenditures during the last three years related mainly to the purchase of computer equipment and software for use by our subsidiaries. Our capital expenditures totaled approximately \$2.8 million in 2015, \$4.7 million in 2016 and \$2.6 million in 2017.

B. Business Overview.

Sapiens is a leading global provider of software solutions for the insurance industry. Our extensive expertise is reflected in our innovative software platforms, solutions and services for providers of property and casualty/general insurance (P&C), and life, pension and annuity (L&A) insurance, as well as our full digital suite, which facilitates an innovative, holistic and seamless digital experience for agents, customers and assorted insurance personnel, across multiple devices and technologies. Our offerings enable our customers to effectively manage their core business functions, including policy administration, claims management and billing, and support them during their journey to becoming a digital insurer.

Sapiens also supplies a complete offering for reinsurance providers and a decision management platform for a variety of financial services providers that enables our customers to quickly deploy business logic and comply with policies and regulations across their organizations.

Our platforms possess modern, modular architecture and are digital-driven. They empower customers to respond to the rapidly changing insurance market and increasing regulatory changes, while improving the efficiency of their core operations. These enhancements increase revenue and reduce costs.

2017 was a year of organizational growth for Sapiens, a trend that has shown no sign of abating in early 2018. The company announced its acquisition of StoneRiver in February of 2017. StoneRiver's product portfolio is comprised of claims, billing, rating, underwriting, illustrations, reinsurance and finance & compliance solutions for all major insurance business lines, across both P&C and L&A. StoneRiver's rich set of solutions complements Sapiens' existing offerings and has helped Sapiens accelerate its growth in the U.S. market specifically, and globally as well.

In late December 2017/early January 2018, Sapiens expanded our digital division's capabilities through the acquisition of KnowledgePrice.com (or KnowledgePrice), a technology specialist with expertise in digital insurance services and consulting. Privately-held KnowledgePrice employed about 50 digital insurance technology experts and is a provider of services to leading insurance providers in the UK and Europe. KnowledgePrice serves as a center for excellence for digital engagement services. Its experts joined Sapiens' Digital Division, which focuses on digital and business intelligence (BI) services and solutions, including portal and digital distribution offerings to customers worldwide. The expanded Digital Division will create innovative offerings and provide full support during customers' digital journeys.

In early 2018, we announced the acquisition of Adaptik, a North American P&C solution provider. This acquisition is expected to enable Sapiens to provide North American P&C carriers with an enhanced platform, which will improve Sapiens' competitive position and enable it to increase its market share in the North American insurance market. Going forward, Sapiens will offer an innovative P&C digital insurance platform. This platform will be formed by combining three powerful core components: Adaptik Policy, Adaptik Billing and StoneRiver Stream® Claims, accompanied by Sapiens' existing solutions for data and analytics, digital engagement and distribution, and cloud operation.

Software Solutions

Our software portfolio is comprised of:

- **Life, Pension and Annuities Platforms/Solutions** – comprehensive software platform and solutions for the management of a diversified range of products for life, pension and annuities. Our portfolio includes Sapiens ALIS, LifeSuite, Life Portraits, LifeApply, Sapiens INSIGHT and Sapiens Closed Books.
- **Property and Casualty/General Insurance Platforms/Solutions** – comprehensive software platforms and solutions supporting a broad range of business lines, including personal, commercial and specialty lines, and workers' compensation. Our portfolio includes Sapiens IDIT, Adaptik Policy, Adaptik Billing, Stream Claim, Sapiens Stingray, PowerSuite and CompSuite.
- **Digital Engagement** – a digital insurance suite that provides an enablement platform that digitalizes insurance carriers' business and helps them transform. It is comprised of a set of integrative offerings, including: advanced analytics, a customer-centric portal for consumers and agents, an API layer for seamless integration with the insurtech ecosystem, accompanied by a strong cloud proposition.

We also offer consulting – process analysis, business process automation, project management, performance optimization, etc. – and services, such as information system development and various implementation methodologies. In sum, we provide an end-to-end, holistic and seamless digital experience for agents, customers and assorted insurance personnel.

- **Reinsurance** – complete reinsurance software solutions for full financial control and auditing support. Our portfolio includes Sapiens Reinsurance, Freedom Reinsurance System (FRS) and Universal Reinsurance System (URS®).
- **Financial and Compliance** – financial and compliance solutions comprised of both annual statement and insurance accounting software. This software includes eFreedom® Annual Statement, PRO Financial General Ledger and Accounts Payable, PTE Financial applications, Insurance Financial reporting and Power2Play.
- **Decision Management** – we offer Sapiens DECISION, an enterprise-scale platform that enables institutions to centrally author, store and manage all organizational business logic. Organizations of all types – including banks, mortgage institutions and insurers – use it to track, verify and ensure that every decision is based on the most up-to-date rules and policies.
- **Technology-Based Solutions** – tailor-made solutions (unrelated to the insurance or financial services market) based on our eMerge platform, which provides end-to-end, modular business solutions, ensuring rapid time to market.

Services

Our services modernize and automate processes for insurance providers and financial institutions around the globe, helping to create greater organizational efficiencies, reduce costs and provide a better end user experience.

The Sapiens Service Suite is comprised of three main pillars: **program delivery**, **business services** and **managed services**, as well as our various methodologies (which are applied across the first three pillars).

Program delivery includes:

- Project and program management
- Core development and implementation
- Integration
- Deployment
- Testing

Business transformation services are comprised of:

- Business transformation – planning and strategy, business process evaluation, training and change management
- Digital transformation – business model and processes transformation and data management consolidation, and data migration
- UAT testing
- System integration

Managed services include:

- Hosting services
- Application and system management
- Ongoing production support

Sapiens has partnered with Microsoft Azure to offer its policy administration systems and accompanying services over private and public clouds. Sapiens' cloud deployment includes full infrastructure for operations, plus the option of choosing cloud-related managed services delivered by Sapiens' experienced professional services team.

Methodologies:

Sapiens offers various methodologies, including Agile. We also provide Sapiens Delivery Tools and Sapiens Delivery Performance Indicators.

Built on a solid foundation of insurance domain expertise, proven technology and a history of successful deployments, our organization assists clients in identifying and eliminating IT barriers to achieve business objectives.

Our Marketplace and its Needs

Our Target Markets

We operate in a large market undergoing significant transformation. According to "IT Spending in Insurance: a Global Perspective, 2017" (a research report by Celent, a research and consulting firm, written by Jamie Macgregor, Juan Mazzini, Karen Monks and KyongSun Kong, and published on April 5, 2017), global IT spending by insurance companies is expected to grow from \$184.8 billion in 2017 to \$193.7 billion in 2018, and \$202 billion in 2019. IT spending on external software and IT services, which was predicted to total approximately \$83 billion in 2017, is expected to increase to \$89 billion by 2018, reflecting a 7.6% growth rate. It is thought that IT spending in the life vertical will grow from \$101.5 billion in 2017, to \$106.1 billion in 2018, reflecting a 4.6% growth rate. IT spending in the property and casualty vertical is expected to grow from \$83.8 billion in 2017 to \$87.6 billion in 2018, reflecting a 5.1% growth rate.

We believe that our current total addressable market for core insurance software solutions is approximately \$40 billion, which we expect to grow as a result of insurance carriers' and financial institutions' need to spend on modern software solutions from external providers to address the operational challenges presented by the inefficiency of their legacy core systems. Legacy systems possess technical and functional limitations that adversely impact carriers' ability to swiftly launch new, innovative products that satisfy their customers' changing needs and preferences. By slowing down carriers' business and geographic expansion, legacy systems create operational inefficiencies that are translated into increased business risk and financial costs. They are also a barrier for the adoption of digital capabilities, due to their inability to communicate and interact with innovative digital solutions. Today's insurance providers, accordingly, are looking for more than just the traditional "core" capabilities. They seek insurance platforms with a wider range of capabilities, including full digitalization,

Our customers are operating in a dynamic and changing regulatory environment. Often their legacy systems simply do not support new regulatory requirements and put carriers at risk of non-compliance. We believe these challenges will accelerate the shift from spending on legacy systems to new vendor software solutions, and the shift from reliance on in-house development to external vendors.

There is also a strong trend of shifting attention to the end-customer experience and activities, with a focus on digital operations. Many insurers are currently unable to provide the type of quality digital experience that their customers are already enjoying across most other verticals and customer satisfaction is only one of the many recognized benefits of going digital. This can only be supported via increased usage of data for decision-making, risk analysis, customer evaluation and rating, which requires a streamlined data flow and easy access to information from multiple sources.

Life, Pension and Annuity Markets

Life, pension and annuity providers offer their customers a wide range of products for long-term savings, protection, pension and insurance. They assist policyholders with financial planning through life insurance, medical and investment products. Their products can be classified into several areas, primarily investment and savings, risk and protection, pension, and health-related products. These products can be targeted to individuals, as well as group- and employee benefit types of products.

Because the products in this field are long-term in nature, when insurance providers order new platforms from us, the decision to acquire such systems is typically slower and involves multiple decision makers in the organization.

Property & Casualty/General Insurance Market

Property and casualty insurance (P&C) – also known as non-life insurance, or general insurance (GI) – protects policyholders against a range of losses on items of value. P&C insurance includes the **personal segment**, which is insurance coverage for individuals, with products such as motor, home, personal property and travel; the **commercial segment**, covering aspects of commercial activity, such as commercial property, car fleets and professional liability; and **specialty lines**, covering unique domains, such as marine, art and credit insurance. This market also includes workers' compensation for market carriers, administrators and state funds.

In the past few years, the P&C market is characterized by a fast rate of digital adoption. New business and technology models are adopted rapidly, to launch innovative business offerings. This requires advanced software solutions, both on the "core" layer, which needs to be flexible and open, to the variety of digital tools addressing customer experience needs.

Reinsurance Market

Reinsurance is insurance that is purchased by an insurance company ("ceded reinsurance") from another insurance company ("assumed reinsurance") as a means of risk management. The reinsurer and the insurer enter into a reinsurance agreement (referred to as "contract" or "treaty"), which details the conditions upon which the reinsurer would pay the insurer's losses. The reinsurer is paid a reinsurance premium by the insurer and the insurer issues insurance policies to its own policyholders. The insurer must maintain an accurate system of records to track its reinsurance contracts and treaties, to avoid claims leakage.

Increasing competition, regulatory burden, customer experience expectations, the proliferation of digital and product innovation requirements have necessitated a shift in thinking and approach across the financial services market. By replacing conventional policy and process management with the discipline known as “decision management,” financial institutions are bridging the gap between business and IT, by enabling business users to rapidly frame requirements in formal business models that can be easily understood by all stakeholders.

The decision management processes in financial services affects overall corporate performance, including its impact on customers and competitors. Decision management systems are a key performance component of every financial services organization, as they help the organization define, avoid and hedge financial risk.

Needs of our Target Markets

Large financial organizations must constantly invest in their IT systems to respond to key market drivers.

They require the ability to:

- Satisfy today’s sophisticated, tech-savvy and demanding customers – who expect the type of instant, personalized service they enjoy via Facebook or Amazon – via digitalization and innovative initiatives, providing a stronger customer experience and engagement
- Use advanced technologies, such as artificial intelligence and machine learning, to facilitate, improve and automate traditional insurance processes
- Provide innovative business models, based on technology capabilities and digital operation (such as a portal, a web-based acquisition process, advanced analytics, customer engagement platforms and the usage of data sources – such as wearables, the Internet of Things (IoT) and robo-advice.
- Respond to complex and evolving regulatory standards, such as Solvency II, IFRS 17, Dodd-Frank legislation, GDPR, etc.
- Support internal customers’ growth and operations. This includes reducing the time to market of new products, expanding into new geographies, reducing costs and streamlining operations.
- Rapidly launch new products and propositions to the market, within a short timeframe and using existing, pre-defined capabilities.

Specific Needs of the Insurance Markets

The insurance market is a large, complex and highly regulated environment. Insurance carriers operate in a super-competitive and quickly evolving market, which necessitates differentiating their value propositions. Additionally, carriers operate under a rigid regulatory regime that demands fast compliance. The insurance market is going through a rapid evolution process, driven by new technologies, digital capabilities and new business models, all enabled by new technologies.

To efficiently manage their operations, insurance carriers require IT platforms that enable rapid introduction of changes via configurable, user-driven activities, integration with internal and external systems, control and auditing of internal employees’ work, support for omni-channel distribution and clear visibility into the carrier’s business operations, through streamlining and intelligent usage of data.

To compete in the rapidly-changing environment, and win the competition for end-customers, insurance carriers require a coherent digital proposition, allowing them to better interact with their customers in a digital and omni-channel manner, and use robotics, predictive analytics, AI and machine learning to automate processes and get stronger business insights. The cloud can also be utilized for improved operations and scale.

Insurance carriers are experiencing substantial operational challenges due to the inefficiency of their legacy policy administration systems and their lack of digitalization. These legacy systems, which include both technical and functional limitations, acutely impact carriers' ability to cope with growing challenges, such as the need for innovation, the shift of power to the consumer, and the dynamic and constantly changing regulatory environment.

We believe the following are key considerations for insurance carriers when they think about upgrading their legacy systems:

- **Dynamic business environment with constantly changing regulations** – Many insurance carriers still use outdated legacy systems that are costly and time-consuming to modify or upgrade. This has prevented insurance carriers from innovating and growing. Carriers who use legacy systems may find that it is difficult for them to modify existing products, introduce new products and reach untapped market segments. Varied and frequently changing global regulatory requirements require specialized data and business rules, which makes change implementation particularly challenging.
- **Change in end-consumers' behavior and the shift of power to consumers** – Insurance carriers must adapt rapidly to the shifting needs and behaviors of consumers, including the types and terms of insurance products offered, and how consumers access information. Insurance carriers require systems with integration capability and support for multi-channel distribution, so they can reach their clients' customers and partners using multiple methods, including social media, across devices.
- **A need to improve operational efficiency and reduce total cost of ownership** – We believe that a majority of insurance carriers are still using inefficient and outdated processes that do not automate operations and workflows, and thus don't offer efficient process management. Many of these processes may have high error rates. Additionally, the ongoing maintenance of legacy systems is expensive and technically difficult. A specialized IT staff with the requisite skills and experience needed to maintain these systems is difficult to find or replace. Insurers seek systems that are modern, digital, automated, efficient and easy to maintain, and can lower costs over the long term.
- **Increasing global and multi-national operation** – A rising number of insurers are accelerating their growth initiatives through global acquisitions. These insurers seek sole providers who can deliver solutions that will be used across markets, combining the support of local regulatory requirements and specific customer needs, while driving a generic corporate business approach and strategy across the globe, reducing costs and overhead.
- **Going digital** – Digitalization holds significant potential for financial services institutions and insurers, but only if they manage to efficiently digitalize their operations, support multi-channel distribution and ensure that agents and customers are able to access real-time, accurate data at any time and from anywhere – including tablets and other mobile devices.

Business Decision Management Market Needs

Many large organizations, particularly in the financial services market, must comply with complex regulations. They operate in highly competitive markets that require quick responses. Business logic drives most of the financial services transactions and is the backbone of an organization's policies and strategies, and its ability to successfully operate.

To operate efficiently, business owners must assume ownership of the business logic and possess the ability to define and modify it; standardize it; and reuse it across the organization. Today, business logic is defined by business owners and compliance officers, but IT departments translate the requirements into code. This process raises several key challenges: the result does not always accurately reflect the business requirements; the new requirements might conflict with, or override, previous requirements; and the entire process is not fully audited. These gaps often create an inefficient and risk-exposed organization.

Sapiens' Software Solutions

Overview

Sapiens is a leading global provider of software solutions for the insurance industry. By enabling our insurance and financial services customers to digitize their business and be more agile in the face of changing business environments, we help them take advantage of powerful current trends – such as the Internet of Things, artificial intelligence, machine learning, customer engagement, chat bots, etc. – while simultaneously reducing IT costs.

We offer our insurance customers a range of packaged software solutions that are:

- **Digital** – revealing their history and anticipating their future needs, while facilitating easy engagement across preferred interaction channels and multiple devices.
- **Data-driven** – based on set of data analysis tools, from analytics to predictive, to provide a data-driven operation.
- **Highly automated** – by using various technologies, from decision to robotics, we improve efficiency and offer agile customer engagement.
- **Comprehensive and function-rich** – supporting insurance standards, regulations and processes, by providing field-proven functionality and best practices.
- **Customizable** – easily matches our customers' specific business requirements. Our flexible architecture and configurable structure allows quick functionality augmentation that permits our platform to be used across different markets, unique business requirements and regulatory regimes, utilizing our knowledge and extensive insurance best practices.
- **Open architecture and insurtech ecosystem** – provides easy integration to any external application under any technology, allowing streamlined connectivity to all satellite applications. This enhances the digital experience and omni-channel distribution, while maintaining total platform independence and system reliability. Easy interaction with various insurtech companies providing point-solutions that can be consumed by our platforms is enabled.
- **Component-based and scalable** – allows our customers to deploy platforms and solutions in a phased and modular approach, reducing risk and harm to the business, while supporting the growth plans and cost efficiency of the organization.

Our packaged software solutions enable:

- **Rapid deployment of new insurance products** – via configurable software, which creates a competitive advantage in all of the insurance markets we serve.
- **Improvement of operational efficiency and reduction of risk** – full insurance process automation, with configurable workflows, audit and control, streamlined insurance practices, and simple integration and maintenance.
- **Reduction of overhead for IT maintenance** – easy-to-integrate solutions with flexible and modern architecture, resulting in lower costs for ongoing maintenance, modifications, additions and integration.
- **Enhanced omni-channel distribution and focus on the customers** – event-driven architecture, a proactive client management approach, rapid access to all levels of data, and a holistic view of clients and distributors.
- **Cloud-first as a preferred deployment model** – with the flexibility to also provide an on-premises deployment approach.
- **Support of digitalization** – massive potential for insurers and financial services institutions, if they manage to efficiently digitalize their operations, support omni-channel distribution and ensure that agents and customers are able to access real-time, accurate data at any time and from anywhere – including tablets and mobile devices.

Sapiens Life, Pension & Annuity Solutions

Sapiens ALIS for Life, Pension and Annuities

Sapiens ALIS is a comprehensive, single software platform for individual, employee and group business. It provides comprehensive support for the complete policy lifecycle of all life insurance products, from quotation and illustrations; to underwriting, billing and servicing; through claims management and exit processing.

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

- Individual and group life, investment and savings
- Individual and group protection, and risk products
- Individual and group pension
- Annuity products
- Hybrid products

Sapiens ALIS is a modular system that includes all the functional components necessary for insurers to manage their business. Insurance carriers can manage their entire core business on a single platform and integrate Sapiens ALIS with other systems for the completion of a specific activity, or domain.

Sapiens ALIS integrates all of the following functions into one solution:

- Sales, quotation and illustration
- New business
- Underwriting
- Policy servicing
- Billing, collection and payment management
- Claims processing
- Agency and commission
- CRM and customer management
- Workflow and diary
- Compliance and calculation engine
- Insurance product manufacturing

Group insurance arrangements can be complex for insurers, with multiple and complex enrollment and eligibility rules, coverages, hierarchies and rules. Sapiens ALIS simplifies the complex management processes via an intuitive user experience, made simple with graphical, user-friendly, intuitive, business tools. This will create and empower self-sufficient business users to manage their business.

On top of the functional modules, Sapiens ALIS provides a set of digital capabilities to its customers, including an advanced analytics solution, a consumer and agent portal, personalized video capabilities and a customer engagement platform. These capabilities increase customer touch-points and generate actionable insights. Sapiens has partnered with Microsoft Azure to offer its Sapiens ALIS policy administration system and accompanying services over private and public clouds.

LifeSuite

LifeSuite is a web-based solution from StoneRiver, a Sapiens company, for automated underwriting and new business case management. LifeSuite streamlines underwriting case flow, speeding up and improving the entire new business process for carriers and their distribution channels. The solution delivers an impressive user experience. While it provides the most efficient and consistent solution, carrier staff can customize system features and underwriting rules to fit business needs and make informed underwriting decisions.

Life Portraits

Life Portraits is an offering from StoneRiver, a Sapiens company. It is a point-of-sale solution, providing access anywhere: from the field, home or office in an electronic environment. The life insurance illustrations software is one of the most widely used new business insurance illustrations systems for life, health and annuities (including term, whole life, universal life, variable and equity-indexed annuities) that can strengthen relationships and speed your sales process. Life Portraits' Home Office Maintenance tools enable the home office to edit plans for faster changes.

LifeApply

LifeApply is web-based insurance application software from StoneRiver, a Sapiens company. It provides carriers with the choice of a standalone e-app system, or a more comprehensive solution that seamlessly integrates with the Life Portraits Illustrations and LifeSuite Automated Underwriting Systems. LifeApply combines the best features and functionality of previous offerings with a completely redesigned look-and-feel.

Sapiens Closed Books

Sapiens Closed Books is a solution for life and pension insurance companies that enables them to efficiently and more effectively administer policies and claims relating to their legacy portfolio and closed books business (products that are no longer open to new business, but must still be administered).

An industry leading and proven system, Sapiens Closed Books was designed to deliver solutions to legacy portfolio challenges, while significantly cutting the costs that are commonly associated with legacy platforms. Sapiens Closed Books provides a full, end-to-end legacy portfolio-focused system that is capable of dealing with missing data, old legislation and a wide range of product types.

The Sapiens Closed Books model ensures that benefits are realized in a controlled and low risk manner, via best practices and proven industry experience.

Sapiens Property & Casualty/General Insurance Solutions

Sapiens IDIT

Sapiens IDIT is a component-based software solution, addressing the specific needs of general insurance carriers for traditional insurance, direct insurance, bancassurance and brokers markets, primarily in EMEA and Asia-Pacific.

It supports a broad range of general, personal and commercial lines of business, including:

- **Personal lines** – motor, personal property and homeowner, yacht, travel, medical insurance, liability, professional indemnity, etc.
- **Commercial lines** – fleet insurance, marine, cargo, engineering, real estate and commercial building, small and large commercial risks, etc.
- **Specialty lines** – agriculture, credit insurance, art insurance, etc.

Sapiens IDIT integrates multiple front office and back office processes, including insurance product design, the quote and buy process, policy administration, underwriting, call center, and remote users and partners, backed by fully secured internet-based capabilities.

By providing a full set of components, Sapiens IDIT supports insurance carriers' core operations lifecycle – from inception to renewal, and claims. This includes:

- Policy administration
- Claims management
- Billing and collection

Sapiens IDIT includes modular software components that can be customized to match specific insurance business requirements, while providing pre-configured functionality, including:

- Product factory
- Policy administration
- Billing and collection
- Claims management
- Customer Relationship Management (CRM)
- Intermediary management
- Workflow management
- Technical accounting
- Document management

On top of the functional modules, Sapiens IDIT provides a set of digital solutions and services to its customers, including an advanced analytics solution, a consumer and agent portal, personalized video capabilities and cloud offerings and services. These capabilities accelerate and automate responses, and reduce costs.

Sapiens North American P&C Platform

The recent acquisition of Adaptik will enable Sapiens to offer a truly modern, comprehensive property and casualty digital insurance platform to the North American region. This platform will be formed by combining three powerful core components: Adaptik Policy, Adaptik Billing and Stream® Claims, accompanied by Sapiens' existing solutions for data and analytics, digital engagement and distribution, and cloud operation.

- **Adaptik Policy** is used by agents, underwriters and customers to quote, issue and administer policies, including integration with third-party systems.
- Adaptik Billing is an enterprise billing platform from the leaders in configurable, scalable P&C insurance software solutions.
- **Stream Claims** streamlines end-to-end claims processing for all personal and commercial lines, and prepares you to adapt to new business requirements with the underlying platform.

Sapiens Stingray

Sapiens Stingray is a modular browser-based, property and casualty policy administration solution for Policy (quoting, rating, issuance), Billing, Claims and Reinsurance administration. Sapiens Stingray includes complete customer and agent portals as well as an imaging system. Additionally, Stingray has statistical bureau reporting, DMV, Credit Card, General Ledger, Comparative Raters, CLUE, Business Intelligence, reporting and many other third party insurance related interfaces.

PowerSuite and CompSuite

PowerSuite and CompSuite handle comprehensive workers' compensation policy administration and claims needs. CompSuite can deliver a turnkey solution in just 120 days. PowerSuite helps upper market carriers, administrators and state funds improve customer satisfaction, optimize operational efficiency and increase profitability.

Sapiens Reinsurance

Sapiens Reinsurance is a comprehensive business and accounting solution designed to support the entire range of reinsurance contracts and activities, both ceded and assumed, for all lines of business. This software product provides both insurers and reinsurers superior handling of all reinsurance activities and in-depth accounting functionality on a single platform. By incorporating fully automated functions adapted conveniently for its customers' business procedures, Sapiens Reinsurance provides flexible and full financial control of its customers' reinsurance processes, including full support for all auditing requirements and statutory compliance.

Sapiens Reinsurance offers end-to-end processing, including:

- Set-up and definition of the reinsurance program and comprehensive transaction processing for both cession and assumed contracts
- Automated production of all periodic statements, billings, bordereaux and accounts for all parties – reinsurers, brokers and ceding companies
- All-inclusive financial accounting module for current accounts management, P&L and balance sheet figures, and comprehensive support for general ledger accounts
- Complete audit trail and tracking capability of all activities, transactions and business processes

Freedom Reinsurance System (FRS)

Freedom Reinsurance System (FRS) is designed to meet the ceded reinsurance processing needs of property and casualty/general insurance, from calculating premium and claim cessions, to producing the data required for Schedule F.

Universal Reinsurance System (URS)

Universal Reinsurance System (URS) supports both ceded and assumed property and casualty reinsurance processing, and produces the data required for Schedule F. The ease of configuration, as well as the price point, makes URS a very attractive offering to the insurance market.

Sapiens Digital Suite

Sapiens INTELLIGENCE

Sapiens INTELLIGENCE is a modular, highly innovative business intelligence solution specifically designed for the insurance market. Based on the advanced technology of SAP's analytics platform, Sapiens INTELLIGENCE is an important component of the industry-leading Sapiens' portfolio and is comprised of two integral elements: SmartStore and InfoMaster.

SmartStore is a centralized data hub for all insurance reporting and analytics. It gathers data from Sapiens' operational repository and intelligently transforms it into an insurance-domain set of business logical models, specifically designed for complex and in-depth analytics.

InfoMaster is Sapiens' set of analytical applications, offering a wide range of data visualization and analysis capabilities through reporting, dashboards and data discovery. Incorporating Sapiens' best practices and three decades of leading experience, Sapiens InfoMaster helps insurers achieve greater efficiency and begin reaping the benefits of analytics immediately.

Sapiens PORTAL

The Sapiens PORTAL is pre-integrated with Sapiens core solutions. In addition to enjoying the myriad benefits provided by Sapiens' core, insurers can benefit from a portal that will transform their online sales, customer and agent experience. Insurers can choose a flexible deployment option that best fits their needs from the following approaches:

- Portal deployed over Sapiens' core policy admin. system
- Portal as a standalone digital solution, for a rapid launch of digitally-enabled business
- Portal over multiple systems, serving as a single point of engagement with the agents and customers

The Sapiens PORTAL was specifically designed to address insurers' needs, guided by Sapiens' three decades of industry experience. Two key segments are addressed by the Sapiens PORTAL:

The PORTAL for Consumers is a direct-to-consumer digital application providing a customer-centric view that enables customers to buy policies, view the status of their policies and accounts, issue claims and conduct many other transactions that save insurers time and reduce costs. Insurers can leverage their investment by offering customers a unique, real-time customer experience tailored to today's digital natives.

The PORTAL for Agents empowers the agent with full lifecycle enablement, including the ability to manage their pipeline, sell policies to their consumers and provide top-level customer service in real time. They can also obtain a holistic view of their business performance overall and benefit from full access to all their remunerations, payments, commission transactions and statements. Equipping agents with self-service tools that make their lives easier and help them better serve their customers will increase agent efficiency and satisfaction.

Sapiens' acquisition of KnowledgePrice meant the addition of 50 digital insurance technology experts, including innovative portal services. KnowledgePrice has extensive expertise and long-term experience with open technologies, agile methodologies and best practices surrounding digital insurance and the deployment of portals.

Sapiens Business Decision Management Solutions

Sapiens DECISION

Sapiens DECISION is a business decision management solution that consistently enforces business logic across all enterprise applications. Organizations use it to track, verify and ensure that every decision is based on the most up-to-date rules and policies. The solution is powered by The Decision Model®, a widely adopted decision management methodology, for which we own a number of patents.

Organizations are undergoing a paradigm shift in the way they approach change, by replacing conventional policy and process management with a growing discipline called “decision management.” Decision management bridges the gap between business and IT, by enabling business users to rapidly frame requirements in formal business models that can be easily understood by all stakeholders. This ensures that the business logic is complete, internally consistent and accurate, and does not replicate existing logic.

Sapiens DECISION allows the reusability and governance of business logic across all business divisions and software applications, using any rules engine or business process management system, and integrating seamlessly with the BRM or BPM system that the organization has in place.

Some of the key benefits for organizations that use Sapiens DECISION are:

- **Reduced risk**, by assessing the impact of any change (competitive, strategy, regulatory, etc.) and allowing users to simply and quickly design new and sustainable models to meet evolving business requirements.
- **Limited costs and complexity**, by centralizing the development and dissemination of institutional business logic, which improves efficiency.
- **Improved visibility and true governance**, by putting business users in full control of institutional business logic and enabling them to trace every policy and rule back to its motivation and documentation.
- **Establishment of a “single point of truth,”** by providing business and IT users a centralized business logic repository.

We are currently focusing on the development and marketing of Sapiens DECISION in the financial services market in North America and Western Europe, and we are building best practices to be used primarily by mortgage, retail and investment banking where the scale and complexity of operations requires enterprise-grade technology that can easily be adapted as policies and business strategies rapidly evolve. We also intend to develop and market Sapiens DECISION for the insurance industry and leverage our industry knowledge and close relationships with our existing customers and partners.

Technology-Based Solutions

Sapiens eMerge

Sapiens eMerge is a rules-based, model-driven architecture that enables the creation of tailor-made, mission-critical core enterprise applications with little or no coding. Our technology is intended to allow customers to meet complex and unique requirements using a robust development platform. For example, we perform proxy porting for our customers in an efficient, cost effective manner with Sapiens eMerge.

Sapiens’ Global Services

As noted previously, the Sapiens Service Suite is comprised of three main pillars: **program delivery**, **business services** and **managed services**, as well as our various methodologies (which are applied across the first three pillars).

- Program delivery includes:
- Project and program management
- Core development and implementation
- Integration
- Deployment
- Testing

Business transformation services are comprised of:

- Business transformation – planning and strategy, business process evaluation, training and change management
- Digital transformation – business model and processes transformation and data management consolidation, data migration
- UAT testing
- System integration

Managed services include:

- Hosting services
- Application and system management
- Ongoing production support

Our services modernize and automate processes for insurance providers and financial institutions around the globe, helping to create greater organizational efficiencies, reduce costs and provide a better end-user experience. Built on a solid foundation of insurance domain expertise, proven technology and a heritage of successful deployments, we assist clients in identifying and eliminating IT barriers to achieve business objectives.

Benefits include:

- **Project delivery experience** – more than 30 years of field-proven project delivery of core system solutions, based on best practices and accumulated experience.
- **System integration** – we help our customers deploy modern solutions, while expertly integrating these solutions with their legacy environments that must be supported.
- **Global presence** – insurance and technology domain experts are available worldwide to provide professional services.

Our implementation teams assist customers in building implementation plans, integrating our software solutions with their existing systems, and deploying specific requirements unique to each customer and installation. Sapiens' business services include API integration management and business intelligence (BI) and advanced analytics consolidation. Our managed services offer ongoing production support and a 24/7 help desk.

Sapiens' service teams possess strong technology skills and industry expertise. The level of service and business understanding they provide contributes to the long-term success of our customers. This helps us develop strategic relationships with our customers, enhances information exchange and deepens our understanding of the needs of companies within the industry.

Through our service teams, we provide a wide scope of services and consultancy around our core solutions, both in the initial project implementation stage, as well as ongoing additional services. Many of our customers also use our services and expertise to assist them with various aspects of daily maintenance, ongoing system administration and the addition of new solution enhancements.

Such services include:

- Adding new lines of business and functional coverage to existing solutions running in production
- Ongoing support services for managing and administering the solutions
- Creating new functionalities per specific requirements of our customers
- Assisting with compliance for new regulations and legal requirements

In addition, most of our clients elect to enter into an ongoing maintenance and support contract with us. The terms of such a contract are usually twelve months and are renewed every year. A maintenance contract entitles the customer to technology upgrades (when made generally available) and technical support. We also offer introductory and advanced classes and training programs available at our offices and customer sites.

We partner with several system integration and consulting firms to achieve scalable, cost-effective implementations for our customers. We have developed an efficient, repeatable methodology that is closely aligned with the unique capabilities of our solutions.

Our Strengths

Comprehensive digital platform of high-end, crucial business-solutions for insurance. We offer end-to-end solutions for both the P&C and L&A markets, supporting most sub-segments of these markets and the complete lifecycle of product lines. Our software supports and enables our customers' core insurance business processes throughout the full lifecycle of administration within an organization, including policy administration, billing and claims. These are accompanied by the Sapiens Digital suite, which offers strong analytics, data management and customer engagement capabilities – we believe this is a unique offering among software providers. Built for global and multi-national operations, our solutions are used in a variety of international regulatory, language and currency environments. Our digital suite is pre-integrated with our Sapiens core products.

Innovative solutions with leading functionality and technology. Our solutions are based on advanced, modern architectures that are specifically designed to satisfy our customers' needs. These solutions are integrated, modular and component-based, and include scalable product suites supporting various lines of business. By using our solutions, carriers can support new sales channels, including mobile and social, reduce time to market for new product launches, and lower total cost of ownership. Additionally, we significantly invest in research and development to ensure that our products employ new technology, are compatible with the needs of our clients and are easy to use. As a result, our products maintain a leadership position, as recognized by top industry analysts, such as Celent, Gartner and Novarica, for their levels of both technology and functionality.

One-stop-shop across products and services. In addition to our market-leading products across P&C and L&A, we possess consulting and implementation capabilities, which we use to customize our products and design the solution that best meets our customers' requirements. We believe that our customers do business with us not only because of our leading products, but also due to our complementary service offerings, which enhance our products and enable clients to maximize the value derived from our solutions. We believe that this approach lowers the risks for our clients, as they transition to a new system, and at the same time provides them with the functionality they desire. For example, we consult with each of our customers to determine their specific needs and then enhance our core solution and customize the appropriate interfaces. Through these interactions and experiences, we foster long-term relationships with our customers, which provide opportunities to deliver a wide range of our products and services as requirements change over time.

Strong, diverse and stable customer base. We currently serve more than 400 customers globally, including some of the world's largest global insurance carriers and financial institutions. Our customer base is diversified across insurance providers, including life, pensions and annuities; property and casualty insurers. We have been able to successfully maintain these customers due to our broad product portfolio geared toward addressing the needs of these industries. In addition, our business decision management platform is applicable across the financial services industry, including a wide range of financial institutions, and offers an opportunity for further diversification in other markets. Geographically, we derived 40.7%, 44.9%, 7.7%, and 6.7% of our revenue from North America, Europe, South Africa and the Asia-Pacific regions, respectively, in the year ended December 31, 2017, and 34.4%, 49.6%, 2.0% and 14.0%, respectively, in the year ended December 31, 2016.

Long-term relationships with customers. Our products are at the core of our customers' businesses, which ensures that our customers continue to use and co-invest in our products, providing us with long-term relationships that result in revenue stability. Installing a new core system is a major undertaking for insurance carriers that involves extended pre-production work and entails a comprehensive integration and implementation effort that is offered as part of our services. 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. In addition, we benefit from these relationships, due to our ability to market complementary solutions to our loyal customer base.

Proven management team. Our management team has extensive experience in the insurance and financial services industries and we have been able to achieve our business and development objectives to date. Management has also been successful in retaining key personnel from the companies we acquired, enabling us to benefit from their experience and knowledge of the acquired products and technology. Our management 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 services industry. We have maximized contributions from our hard working, talented and innovative employees.

Our Strategy

Leveraging our offerings, geographic presence and experienced management team, our goal is to further expand our presence in the markets in which we operate and further enhance our leadership in the global market. Our growth strategy is solidly based on both existing and new customers, and will include mergers and acquisitions, when applicable, to accelerate our growth. We plan to achieve our goals by focusing on the following principles:

Continue to innovate and extend the leadership of our product offerings. Due to past investments, we have become a leader in providing software offerings to the insurance industry. We plan to continue to invest in research and development to enhance our software platform solutions and to ensure they remain leading products, in terms of functionality and technology. We believe our focus on innovation, combined with our industry expertise, will enable us to improve our existing offerings and allow us to produce new solutions for the benefit of our customers and partners.

Leverage our global footprint to offer our complete platform/solutions. We intend to broaden our existing offering of solutions to enhance our presence in the geographies in which we currently operate. 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 market reach of our business decision management platform into Europe and the Asia Pacific region. Additionally, we plan to market our current suite of solutions to other countries in Europe in order to continue to generate revenue on existing products in new geographies.

Mergers and Acquisitions. Our M&A approach facilitates our growth strategy. We seek to identify new growth markets to penetrate via acquisition of local offices and customer bases. In addition, we aim to enhance our product portfolio with complementary solutions that will help our customers excel. We believe that our acquisition of local customer bases and expertise will accelerate our market penetration in growth geographies. We plan to take advantage of our recent acquisition of StoneRiver to strengthen our presence in North America, expand our product portfolio and accelerate our footprint in the U.S. Property & Casualty market.

Capture adjacencies and new opportunities. In order to maximize the value of our current offerings and leverage our long-term relationships with customers, we plan to feature and promote our digital suite to enhance our presence in the insurance market. To date, our core insurance software solutions account for approximately 80% of our business, while our technology platforms account for approximately 20% of our business. We believe our plan to remain vertically focused, while concentrating on our customers' ancillary needs, will strengthen our customer relationships. Additionally, we plan to focus on penetrating the financial services market with our business decision management platform to aid financial services organizations in the management, design and simulation of the business logic behind operations. Our business decision management platform can be geared toward compliance in a wide variety of organizations to facilitate streamlined and efficient regulatory compliance.

Invest in sales and marketing. We plan to strengthen our sales and marketing teams by working with and training sales professionals with experience in the insurance industry, or with connections to new or existing customers, enhancing market-awareness of our brand and solutions. We believe that the strength of our core solutions, the experience of our sales and marketing team, and our established and growing customer base create a significant opportunity to provide new and complementary solutions that address the ongoing needs of our customers.

Competitive Landscape

Sapiens is focused on serving insurers. The market for core software solutions for the insurance industry is highly competitive and characterized by rapidly changing technologies, evolving industry standards and customer requirements, and frequent innovation. In addition, we offer a business decision management platform, mainly to financial services organizations.

Competitive Landscape for our Insurance Software Solutions

Our competitors in the insurance software solutions market differ from us based on size, geography and lines of business. Some of our competitors offer a full suite, while others offer only one module; some operate in specific (domestic) geographies, while others operate on a global basis. And delivery models vary, with some competitors keeping delivery in-house, using IT outsourcing (ITO) or business process outsourcing (BPO).

The insurance software solutions market is highly competitive and demanding. Maintaining a leading position is challenging, because it requires:

- Development of new core insurance solutions, which necessitates a heavy R&D investment and an in-depth knowledge of complex insurance environments
- Technology innovation, to attract new customers, with rapid, technology-driven changes in the insurance business model and new propositions coming
- A global presence and the ability to support global insurance operations
- Ability to manage multiple partnerships, due to the changing landscape of the insurance ecosystem
- Satisfaction of regulatory requirements, which can be burdensome and require specific IT solutions
- Continued support and development of the solutions entails a critical mass of customers that support an ongoing R&D investment
- Know-how of insurance system requirements and an ability to bridge between new systems and legacy technologies
- Mission-critical operation that requires experience, domain expertise and proven delivery capabilities to ensure success

The complex requirements of this market create a high barrier to entry for new players. As for existing players, these requirements have led to a marked increase in M&A transactions in the insurance software solutions sector, since small, local vendors have not been able to sustain growth without continuing to fund their R&D departments and follow the globalization trend of their customers.

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

Different types of competitors include:

- Global software providers with their own IP.
- Local/domestic software vendors with their own IP, operating in a designated geographic market and/or within a designated segment of the insurance industry.
- BPO providers who offer end-to-end outsourcing of insurance carriers business, including core software administration (although BPO providers want to buy comprehensive software platforms to serve as part of the BPO proposition from vendors and may seek to purchase our solutions for this purpose).
- Internal IT departments, who often prefer to develop solutions in-house.
- New insurtech companies with niche solutions

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

- We offer innovative and modern software solutions, with rich functionality and advanced, intuitive user interfaces.
- We use model-driven architecture that allows rapid deployment of the system, while reducing total cost of ownership.

- Our solutions are built using an architecture that allows customers to implement the full solution or components, and readily integrate the solution or individual components into their existing IT landscape.
- Strong and global partnership program, with both established IT players, as well as new insurtech companies, to ensure linkage to innovative technologies, new business models, and ongoing work to embed such innovations into Sapiens platforms
- We recognize technology trends and invest in adjusting our solutions to meet this rapid pace.
- We are able to fund R&D investment and maintain the competitive advantage of our products due to our large and growing customer base and financial stability.
- Our delivery methodology is based on extensive insurance industry experience and cooperation with large insurance companies globally. Our track record over the past few years in developing a strong off-shore development center is also a significant parameter in differentiating our abilities in the services space
- We leverage our proven track record of successful delivery to help our customers deploy our modern solutions, while integrating with their legacy environment (that must remain supported).

Competitive Landscape for Business Decision Management Solutions

Sapiens DECISION is a pioneer in this disruptive market landscape. Since the introduction of our innovative approach to enterprise architecture to the market, we have identified only a small number of potential competitors.

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

- We believe that Sapiens DECISION is the only solution that offers a true separation of the business logic in a decision management system for large enterprises – and that is currently generally available and already in production.
- Sapiens DECISION is unique in its proven ability to support complex environments, with full audit trail and governance that is crucial for large financial services organizations.
- We understand complex environments where DECISION is deployed due to our experience delivering complex, mission-critical solutions

Geographical Scope of Our Operations

For a breakdown of the geographical regions in which our revenues are generated and the relative amounts of such revenues over the course of the last three fiscal years, please see “Item 5—Operating and Financial Review and Prospects—A. Operating Results—Revenue by geographical region” below in this annual report.

Sales and Marketing

Our main sales channel is direct sales, with a small portion of partner sales. Our sales team is dispersed across our regional offices in North America, the United Kingdom, Belgium, France, Israel, Australia, India, Poland and the Nordics. The direct sales force is geared to large organizations within the insurance and financial services industry.

In 2017, we continued to significantly invest in our target regions – North America, UK, Europe and South Africa – and our sales, presales, domain experts and marketing personnel. We anticipate that our sales team will leverage their proximity to customers and prospective clients to drive more business, and offer our services across our target markets.

Our account managers were focused on building ongoing relationships with existing customers during the past year, to maintain a high level of customer satisfaction and identify up-selling opportunities within these organizations. We believe that a high level of post-contract customer support is important to our continued success.

As part of our sales process, we typically sell a package that includes license, implementation, customization and integration services, and training services. All of our clients for whom we have deployed our solutions elect to enter into an ongoing maintenance and support contract with us. We aim to expand our distribution model to include more channel partners and system integrators, but we intend to maintain the direct sales model as our prime distribution channel.

We attend major industry trade shows to improve our visibility and our market recognition. Additionally, we host client conferences— such as our annual Sapiens Client Conference, which took place in Gouvieux, France in October 2015, in North Atlanta, U.S. in September 2016 and in Lisbon, Portugal in October 2017. In addition, StoneRiver hosts an annual customer summit in the U.S., which took place in Amelia Island, FL in 2015 and Tucson, AZ in 2016— that are intended to strengthen our relationships with our existing customer base. We continue investing in our web presence and digital marketing activities to generate leads and enhance our brand recognition. We maintain a blog channel (“Sapiens Spotlight”). We also invest in our working relationships and advisory services within the global industry-analyst community.

We work together with standards providers – such as ACORD and MISMO— to further enrich our offerings and provide our customers with comprehensive and innovative solutions that address the entire breadth of their business needs.

Intellectual Property

We rely on a combination of contractual provisions and intellectual property law to protect our proprietary technology. We believe that due to the dynamic nature of the computer and software industries, 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 build upon the protection offered by copyrights.

We seek to protect the source code of our products as trade secret information and as unpublished copyright work, although in some cases, we agree to place our source code into escrow. We also rely on security and copy protection features in our proprietary software. We distribute our products under software license agreements that grant customers a personal, non-transferable license to use our products and contain terms and conditions prohibiting the unauthorized reproduction or transfer of our products. In addition, we attempt to protect trade secrets and other proprietary information through agreements with employees, consultants and distributors.

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

In the third quarter of 2014, we acquired Knowledge Partners International LLC, or KPI, and the assets of The Decision Model, or TDM, which included certain intellectual property rights, including a patent held by TDM and a patent application for The Event Model, or TEM. Both TDM and TEM relate to decision management methodology that was invented by Larry Goldberg and Barbara Von Halle (in the case of TEM, IBM was a co-inventor as well). See “Item 4.B. Business Overview— Sapiens Business Decision Management Solutions” for further information.

In the first quarter of 2017, we acquired StoneRiver. The acquisition of StoneRiver included the acquisition of 25 registered trademarks, one issued patent and one patent application.

In the first quarter of 2018 we acquired Adaptik. Adaptik owns two registered patents.

Regulatory Impact

The global financial services industry is subject to significant government regulation, which is constantly changing. Financial services companies must comply with regulations, such as the Sarbanes-Oxley Act, Solvency II, Retail Distribution Review (known as RDR) in the United Kingdom, the Dodd-Frank Act, the GDPR (enforceable as of May 25, 2018) and other directives regarding transparency. In addition, many individual countries have increased supervision over financial services operating in their market.

For example, regulators in Europe have been very active, motivated by past financial crises and the need for pension restructuring. Distribution of policies is being optimized with the increasing use of Bank Assurance (selling of insurance through a bank's established distribution channels), supermarkets and kiosks (insurance stands). Increased activity – such as that occurring in Europe – would generally tend to have a positive impact on the demand for our software solutions and services. Nevertheless, insurers are cautiously approaching spending increases, and while many companies have not taken proactive steps to replace their software solutions in recent years, many of them are now looking for innovative, modern replacements to meet the regulatory changes.

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

C. Organizational Structure.

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

Sapiens International Corporation B.V., or Sapiens B.V.: incorporated in the Netherlands and 100% owned by Sapiens N.V.

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

- Sapiens Israel Software Systems Ltd.: incorporated in Israel
- Sapiens North America Inc.: incorporated in Ontario, Canada
- Sapiens (UK) Limited: incorporated in England
- Sapiens France S.A.S.: incorporated in France
- Sapiens Japan Co.: incorporated in Japan and 90% owned by Sapiens B.V.

- Sapiens Americas Corporation: incorporated in New York, U.S.
 - Maximum Processing Inc., incorporated in Florida (owned 100% by Sapiens Americas Corporation)
 - 4Sight Business Intelligence Inc.: incorporated in Texas (owned 100% by Sapiens Americas Corporation)
 - StoneRiver, Inc.: incorporated in Delaware (owned 100% by Sapiens Americas Corporation)
 - Adaptik Corporation: incorporated in New Jersey (owned 100% by Sapiens Americas Corporation)

- Sapiens Technologies (1982) Ltd.: incorporated in Israel
 - Sapiens Deutschland GmbH: incorporated in Germany (owned 100% by Sapiens Technologies (1982) Ltd.)
 - Sapiens Deutschland Consulting GmbH & Co. KG: incorporated in Germany (owned 100% by Sapiens Deutschland GmbH and Sapiens B.V.)

- Sapiens Software Solutions (IDIT) Ltd., or Sapiens IDIT: incorporated in Israel (owned 100% by Sapiens Technologies (1982) Ltd.)
 - IDIT Europe: incorporated in Belgium (owned 100% by Sapiens IDIT)
 - Sapiens (Singapore) Insurance Solution Pte Ltd.: incorporated in Singapore (owned 100% by Sapiens IDIT)

- Sapiens Software Solutions (Life and Pension) Ltd., or Sapiens L&P: incorporated in Israel (owned 100% by Sapiens Technologies (1982) Ltd.)
 - Neuralmatic Ltd.: incorporated in Israel (owned 66% by Sapiens L&P)
 - Sapiens NA Insurance Solutions Inc.: incorporated in Delaware, US (owned 100% by Sapiens L&P)
 - Sapiens (UK) Insurance Software Solutions Limited: incorporated in the UK (owned 100% by Sapiens L&P)
 - Formula Insurance Solutions France (F.I.S France): incorporated in France (owned 100% by Sapiens (UK) Insurance Software Solutions Limited)

FIS- AU Pty Limited: incorporated in Australia (owned 100% by Sapiens (UK) Insurance Software Solutions Limited)
Sapiens Software Solutions Denmark ApS: incorporated in Denmark (owned 100% by Sapiens (UK) Insurance Software Solutions Limited)
Sapiens SA (PTY) Ltd.: incorporated in South Africa (owned 100% by Sapiens (UK) Insurance Software Solutions Limited)

Sapiens Software Solutions (Decision) Ltd., or Sapiens Decision (owned 92.89% by Sapiens Technologies (1982) Ltd.)
Sapiens (UK) Decision Limited (owned 100% by Sapiens Decision)
Sapiens Decision NA Inc. (owned 100% by Sapiens Decision)
Knowledge Partners International LLC, or KPI (owned 100% by Sapiens Decision NA Inc.)

Sapiens Technologies (1982) India Private Limited (formerly Ibexi Solutions Private Limited): incorporated in India (owned 98.12% by Sapiens Technologies (1982) Ltd.)
Ibexi Solutions Pte Limited: incorporated in Singapore (owned 100% by Sapiens Software Solutions (India) Private Limited)

Sapiens Software Solutions (Poland) Sp. z o.o. (formerly Insseco Sp. z o.o.): incorporated in Poland (owned 100% by Sapiens Technologies (1982) Ltd.)

Sapiens Software Solutions Istanbul YAZILIM HİZMETLERİ İÇ VE DIŞ TİCARET ANONİM ŞİRKETİ: incorporated in Turkey (owned 100% by Sapiens Technologies (1982) Ltd.)

KnowledgePrice.com: incorporated in Latvia (owned 100% by Sapiens Technologies (1982) Ltd.)

We are a member of the Formula Systems (1985) Ltd., or Formula, Group (NASDAQ: FORTY and TASE: FORT). Formula is a holding and managing company of (currently) three publicly traded companies that provide IT solutions worldwide, developing and implementing innovative, proprietary software, services and solutions, turnkey projects and outsourcing services, as well as software distribution and support. In addition, Formula holds interests in several private companies, including a software solution company and an IT staffing company.

Based on information provided to the Company by Formula, Formula held 23,954,094 of our Common Shares, or approximately 48.1% of our outstanding Common Shares as of March 1, 2018. As of March 1, 2018, Asseco beneficially owned 26.3% of the outstanding share capital of Formula. In addition, on October 4, 2017 Asseco entered into a shareholders agreement with our Chairman of the Board, under which agreement Asseco has been granted an irrecoverable proxy to vote an additional 1,971,973 ordinary shares of Formula, thereby effectively giving Asseco beneficial ownership (voting power) over an aggregate of 39.7% of Formula's outstanding ordinary shares.

Based on the foregoing beneficial ownership by each of Formula and Asseco, each of Formula and Asseco may be deemed to directly or indirectly (as appropriate) control us.

D. Property, Plants and Equipment.

We lease office space, constituting our primary office locations, in the following countries: Israel, the United States, India, Poland, South Africa, the United Kingdom, Latvia, China, Canada and Denmark. The lease terms for the spaces that we currently occupy are generally five to eleven years. Based on our current occupancy, we lease (except for owned real property indicated below) the following amount of office space in the following locations, which constitute our primary locations:

- Israel – approximately 135,140 square feet;
- United States – approximately 93,574 square feet*;
- India – approximately 53,400 square feet;
- Poland – approximately 48,132 square feet;

- South Africa – approximately 42,269 square feet;
- United Kingdom – approximately 21,326 square feet;
- Latvia – approximately 8,548 square feet;
- China – approximately 2,860 square feet;
- Canada – approximately 1,407 square feet; and
- Denmark – approximately 237 square feet.

* 10,243 square feet of such office space in the United States constitutes owned real property.

Our Israeli offices house our corporate headquarters, as well as our core research and development activities. As of December 31, 2017, the lease at our Israeli facility is for a term of in excess of six remaining years and we have an option to extend the term for an additional five years. In 2017, our rent costs totaled \$7.4 million, in the aggregate, for all of our leased offices (which does not include office space leased by KnowledgePrice.com in Latvia, since it was acquired on December 27, 2017, or Adaptik, since it was acquired after December 27, 2017). We believe that our existing facilities are adequate for our current needs.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere herein. Our financial statements have been prepared in accordance with U.S. GAAP. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. As a result of many factors, such as those set forth under Item 3.D “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements” in the Introduction to this annual report, our actual results may differ materially from those anticipated in these forward-looking statements.

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 Life, Pension & Annuities (L&A) and Property & Casualty/General Insurance (P&C) providers, allowing them to manage policy administration, claims management and billing functions. In addition, we offer a variety of other 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 derive our revenues principally from the sale, implementation, maintenance and support of our solutions and from providing consulting and other services related to our products. Revenues are comprised primarily of revenues from services, including systems integration and implementation and product maintenance and support, and from licenses of our products.

We also generate revenues from other customers unrelated to the financial services industry, which use our legacy solution based on e-Merge software. For these customers, except for the difference in the target industry, revenues are recognized from the sale of package-based software solutions that include the grant of a license to use our product, implementation and customization services related to the product sold and maintenance and support services and follow similar methods of project delivery. See “Critical Accounting Policies and Estimates” below for a discussion of how we account for our revenues and their associated costs.

Key Business Metrics

We use certain key financial metrics to evaluate and manage our business and that we believe are useful for investors, including select GAAP and non-GAAP metrics. These metrics include, most prominently, our operating cash flow.

Operating Cash Flows

We monitor our cash flows from operating activities, or operating cash flows, as a key measure of our overall business performance, enabling us to analyze our financial performance without the effects of certain non-cash items such as depreciation and amortization and stock-based compensation expenses. Additionally, operating cash flows take into account the impact of changes in deferred revenue, which reflects the receipt of cash payment for products and services before they are recognized as revenue. Our operating cash flows are impacted by changes in deferred revenue and collections of accounts receivable. As a result, our operating cash flows may fluctuate significantly on a quarterly basis.

Our operating cash flows were \$40.4 million, \$26.0 million and \$8.5 million for the years ended December 31, 2015, 2016 and 2017 respectively. For a further discussion of our operating cash flows, see “Item 5.B. Liquidity and Capital Resources–Cash Flows from Operating Activities” below in this annual report.

A. Operating Results.

GAAP Results of Operations

The following tables set forth certain data from our results of operations for the years ended December 31, 2015, 2016 and 2017, as well as such data as a percentage of our revenues for those years. The data has been derived from our audited consolidated financial statements included in this annual report. The operating results for the below years should not be considered indicative of results for any future period. This information should be read in conjunction with the audited consolidated financial statements and notes thereto included in this annual report.

Statement of Income Data			
(U.S. dollars, in thousands, except share and per share data)			
	For the 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
Total 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	<u>\$ 20,016</u>	<u>\$ 19,336</u>	<u>\$ 352</u>

Statement of Income Data
(as a Percentage of Revenues)

	For the year ended December 31,		
	2015	2016	2017
Revenues	100%	100%	100%
Cost of revenues	59.9%	60.3%	65.3%
Gross profit	40.1%	39.7%	34.7%
Operating expenses:			
Research and development	5.5%	7.6%	11.9%
Selling, marketing, general and administrative	21.5%	20.6%	22.5%
Total operating expenses	27.0%	28.2%	34.4%
Operating income	13.1%	11.5%	0.4%
Financial income (expense), net	0.1%	0.2%	1.1%
Income before tax benefit (taxes on income)	13.2%	11.7%	0.7%
Tax benefit (taxes on income)	2.3%	2.7%	1.0%
Net income	10.9%	9.0%	0.2%
Attributed to non-controlling interests	0.0%	0.0%	0.1%
Attributed to redeemable non-controlling interest	0.0%	0.0%	0.0%
Adjustment to redeemable non-controlling interest	0.1%	0.1%	0.1%
Net income attributable to Sapiens' shareholders	10.8%	8.9%	0.1%

Comparison of the years ended December 31, 2016 and 2017

Revenues

Please refer to “Critical Accounting Policies and Estimates” below in this Item 5.A for a description of our accounting policies related to revenue recognition.

Our overall revenues increased by \$53.0 million, or 24.5%, to \$269.2 million for the year ended December 31, 2017 from \$216.2 million for the year ended December 31, 2016, as shown in the table below:

	Year ended December 31, 2016	Year-over-year change	Year ended December 31, 2017
(\$ in thousands)	\$ 216,190	24.5%	\$ 269,194

Revenues are derived primarily from implementation of our solutions and post-implementation services such as ongoing support and maintenance and professional services as part of an overall solution that we offer to our customers. The net increase in revenues of approximately \$53 million for the year ended December 31, 2017 was attributable to additional revenues from acquired entities, which contributed \$64.3 million towards that increase, primarily from the StoneRiver, which we acquired in 2017. Organic growth in our revenues (excluding the impact of the specific factors described in the following sentence, which negatively impacted, and caused an overall decrease in our revenues from existing customers) contributed approximately \$27.7 million towards the revenue growth in 2017, primarily due to implementation and professional services generated from existing and new customers. The foregoing factors were offset, in part, by decreases in revenues in amounts of \$26.5 million due to cancellation of a development project with a significant customer in 2017, and \$12.5 million attributable to our downsizing of our non-insurance and financial services activities in Japan in 2017 as described below.

In October 2017, we signed an agreement with a 10% shareholder of Sapiens Japan Co., our 90%-owned Japanese subsidiary, under which such shareholder's independent company will separately provide all professional services requested by our customers in Japan. As a result of this arrangement, our revenues from non-insurance and financial professional services in Japan have begun to, and are expected to continue to, decrease significantly. In connection with this arrangement, we terminated all employment agreements of our Japanese subsidiary's employees (most of whom were then hired by the shareholder's new company). Despite the new arrangement, we will continue to provide maintenance only to existing Japanese customers who had purchased licenses for our eMerge product.

Revenues by geographical region

The dollar amount and percentage of our revenues attributable to each of the geographical regions in which we conduct our operations for the years ended December 31, 2016 and 2017, respectively, as well as the percentage change between such periods, were as follows:

(\$ in thousands)	Year ended December 31, 2016		Year-over- year change	Year ended December 31, 2017	
	Revenues	Percentage		Revenues	Percentage
Geographical region					
North America*	\$ 74,455	34.4%	47.1%	\$ 109,560	40.7%
Europe**	107,134	49.6%	12.9%	120,926	44.9%
Asia Pacific	30,223	14.0%	40.2%	18,059	6.7%
South Africa	4,378	2.0%	371.7%	20,649	7.7%
Total	\$ 216,190	100%	24.5%	\$ 269,194	100%

* Revenue amounts for North America that are shown in the above table consist of revenues from the United States, except for approximately \$0.9 million and \$1.1 million of revenues generated in Canada in the years ended December 31, 2016 and 2017, respectively.

** Revenue amounts for Europe that are shown in the above table include revenues from the UK, the rest of Europe and Israel.

Our revenues in North America increased by \$35.1 million, or 47%, to \$109.6 million for the year ended December 31, 2017 from \$74.5 million for the year ended December 31, 2016. That increase was comprised primarily of an increase of \$64.3 million in revenues from newly-acquired entities, offset, in part, by a decrease of \$26.5 million due to the cancelation of a software development project agreement with a significant client.

Our revenues in Europe increased by \$13.7 million, or 13%, to \$120.9 million in the year ended December 31, 2017 from \$107.1 million in the year ended December 31, 2016. The increase was attributable to an increase in revenues from our existing and new customers.

Our revenues in Asia Pacific, or APAC, decreased by \$12.2 million, or 40 %, to \$18.1 million in the year ended December 31, 2017 from \$30.2 million in the year ended December 31, 2016. The decrease was primarily attributable to our downsizing of non-insurance and financial services activities in Japan in 2017.

Our revenues in South Africa increased by \$16.3 million, or 372%, to \$20.6 million in the year ended December 31, 2017 from \$4.4 million in the year ended December 31, 2016. That increase was primarily attributable to our implementation of our products for a new customer.

Cost of Revenues

Our cost of revenues for the years ended December 31, 2016 and 2017, respectively (both in absolute terms and as a percentage of our overall revenues), as well as the percentage change between those years, are provided in the below table:

(\$ in thousands)	Year ended December 31, 2016	Year-over- year change	Year ended December 31, 2017
Cost of revenues	\$ 130,402	34.7%	\$ 175,678
Cost of revenues as a percentage of revenues	60.3%		65.3%

Cost of revenue consists primarily of costs associated with providing services to customers, including compensation expense to employees and subcontractors, travel expenses, as well as amortization of acquired technologies and depreciation. Our cost of revenues increased by \$45.3 million, or 34.7%, to \$175.7 million for the year ended December 31, 2017, as compared to \$130.4 million for the year ended December 31, 2016. Cost of revenues increased as a percentage of our revenues during the year ended December 31, 2017, to 65.3% as compared to 60.3% during the year ended December 31, 2016. The increase in absolute cost of revenues of \$45.3 million was primarily attributable to increase of cost of revenues of acquired companies totaling \$39.1 million. The 5.0% increase in the cost of revenues as a percentage of our revenues was primarily due to the cancelation of a project development with a high degree of profitability in 2016 that did not continue in 2017, which caused an increase of 4.1% in our cost of revenues as a percentage of our revenues, as well as from the appreciation of the New Israeli Shekel relative to the U.S. dollar, which resulted in an increase of our cost of revenues as a percentage of our revenues as recorded in U.S. dollars for the year ended December 31, 2017.

Gross profit

Our gross profit for the years ended December 31, 2016 and 2017, respectively (both in absolute terms and as a percentage of our overall revenues), as well as the percentage change between those periods, are provided in the below table:

(\$ in thousands)	Year ended December 31, 2016	Year over- year change	Year ended December 31, 2017
Gross profit	\$ 85,788	9.0%	\$ 93,516
Gross profit as a percentage of revenues	39.7%		34.7%

Our gross profit increased by \$7.7 million, or 9.0%, to \$93.5 million for the year ended December 31, 2017, as compared to \$85.8 million for the year ended December 31, 2016. This increase was primarily attributable to the absolute increase in our revenues by \$53.0 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. The decrease in gross profit as a percentage of revenues for the year ended December 31, 2017 was due to the factors described above with respect to the increase in our cost of revenues as a percentage of revenues.

Operating expenses

The amount of each category of operating expense for the years ended December 31, 2016 and 2017, respectively, as well as the percentage change in each such expense category between such periods, and the percentage of our revenues constituted by our total operating expenses in each such period, is provided in the below table:

(\$ in thousands)	Year ended December 31, 2016	Year-over- year change	Year ended December 31, 2017
Research and development, net	\$ 16,488	93.8%	\$ 31,955
Selling, marketing, general and administrative	44,460	36.2%	60,559
Total operating expenses	\$ 60,948	51.8%	\$ 92,514
Percentage of total revenues	28.2%		34.4%

Research and development expense is primarily comprised of compensation expense to employees and subcontractors. Research and development expenses, net increased by 93.8% or \$15.5 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. This increase was primarily attributable to the R&D investments in our newly acquired entities, which totaled \$11.5 million, as well as to an increased degree of investment in research and development activities in support of the expansion of our offering of solutions in the year ended December 31, 2017. Our gross research and development expenses (before capitalization of eligible software development costs) for the year ended December 31, 2017 totaled \$37.5 million compared to \$22.0 million in the year ended December 31, 2016. Such increase of 70.3% was attributable to the same factors related to the increase in our net research and development expenses. Capitalization of software development costs accounted for \$5.6 million of our research and development expenses, net for the year ended December 31, 2017, compared to \$5.5 million in the year ended December 31, 2016, constituting an insignificant change from 2016 to 2017.

Selling, marketing, general and administrative, or SMG&A, expenses, which are primarily comprised of compensation expense to employees and subcontractors, were \$60.6 million for the year ended December 31, 2017 compared to \$44.5 million in the year ended December 31, 2016, representing an increase of \$16.1 million. The increase in 2017 was mainly attributable to SMG&A expenses of our newly acquired entities, which totaled \$9.2 million, as well as expenses of \$8.1 million associated with our cost reduction and reorganization program, which primarily relates to costs of employee terminations and reduction in leasing facilities globally, including the downsizing of our non-insurance and financial services activities in Japan in 2017. As a percentage of total revenues, our SMG&A increased from 20.6% in the year ended December 31, 2016, to 22.5% for the year ended December 31, 2017, primarily due to the cost reduction and reorganization program detailed above.

Operating income

Operating income and operating income as a percentage of total revenues for the years ended December 31, 2016 and 2017, respectively, as well as the percentage change in operating income between such periods, were as follows:

(\$ in thousands)	Year ended December 31, 2016	Year-over- year change	Year ended December 31, 2017
Operating income	\$ 24,840	(96.0)%	\$ 1,002
Percentage of total revenues	11.5%		0.4%

The decrease in our operating income during the year ended December 31, 2017 relative to the year ended December 31, 2016 as an absolute amount, and the decrease in operating income as a percentage of our revenues, as reflected in the above table, were attributable to the various gross profit and operating expenses trends described above.

Financial income (expense), net

The amount of our financial income, net, for the years ended December 31, 2016 and 2017, respectively, and the percentage of our revenues for those respective periods constituted by such amounts, as well as the percentage change in such amounts between such periods, were as follows:

(\$ in thousands)	Year ended December 31, 2016	Year-over- year change	Year ended December 31, 2017
Financial income (expense), net	\$ 533	664.7%	\$ (3,010)
Percentage of total revenues	0.2%		1.1%

Financial expense, net, was \$3.0 million for the year ended December 31, 2017 compared to financial income of \$0.5 million in the year ended December 31, 2016.

The increase in financial expenses in 2017 was primarily attributable to an aggregate of \$1.6 million of interest expenses in connection with (a) the long-term loan that we borrowed and repaid in its entirety six months later during 2017, as well as (b) interest on our newly-issued debentures in 2017. Interest expense was also attributable to the impact of foreign exchange rates during 2017.

Taxes on income (tax benefit)

Taxes on income, both as a dollar value and as a percentage of income before taxes on income, for the years ended December 31, 2016 and 2017, respectively, as well as the percentage change in the amount of taxes on income between such periods, were as follows:

(\$ in thousands)	Year ended December 31, 2016	Year-over- year change	Year ended December 31, 2017
Taxes on income (tax benefit)	\$ 5,772	144.4%	\$ (2,564)
As a percentage of income before taxes on income	22.7%		127.7%

In 2017, we recognized a net tax benefit of \$2.6 million. In 2016, income taxes amounted to \$5.8 million, or 23% of our pre-tax income. The shift to a tax benefit in 2017 compared to tax expense in the previous year was mainly attributable to the one-time effect of \$3.8 million tax benefit resulting from the remeasurement of our deferred tax liability in respect of our US subsidiaries due to a decrease in the federal corporate income tax rate following the enactment of the Tax Cuts and Jobs Act in the United States in December 2017, as well as an increase in deferred tax assets recorded in 2017 in respect of the one-time cost reduction and reorganization program that we believe will more likely than not be utilized in the near future.

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

Net income attributable to Sapiens shareholders

The amount of net income attributable to Sapiens shareholders and such amount as a percentage of revenues for the years ended December 31, 2016 and 2017, respectively, as well as the percentage change in net income attributable to Sapiens shareholders between such periods, were as follows:

(\$ in thousands)	Year ended December 31, 2016	Year-over- year change	Year ended December 31, 2017
Net income attributable to Sapiens shareholders	\$ 19,336	98.2%	\$ 352
Percentage of total revenues	8.9%		0.1%

As a percentage of total revenues, our net income attributable to Sapiens shareholders decreased from 8.9% in the year ended December 31, 2016 to 0.1% for the year ended December 31, 2017, reflecting the cumulative effect of all of the above-described line items from our statements of income.

Cost reduction and reorganization program implemented in 2017

Following the acquisition of StoneRiver, the cancellation of the project development process with a significant customer and downsizing of our non-insurance and financial services activities in Japan in 2017, we executed a cost reduction and reorganization program in 2017. The plan was intended to significantly reduce our cost base, restructure and realign our organization for better agility and productivity in utilization of our global workforce and improve our business performance, profitability and cash flow generation. We incurred \$8.1 million of cost reduction and reorganization program expenses in 2017 primarily related to costs of employee terminations and reduction in leasing facilities globally.

Comparison of the years ended December 31, 2015 and 2016

Revenues

Please refer to “Critical Accounting Policies and Estimates” below in this Item 5.A for a description of our accounting policies related to revenue recognition.

Our overall revenues increased by \$30.6 million, or 16.5%, to \$216.2 million for the year ended December 31, 2016 from \$185.6 million for the year ended December 31, 2015, as shown in the table below:

(\$ in thousands)	Year ended December 31, 2015	Year-over-year change	Year ended December 31, 2016
	\$ 185,636	16.5%	\$ 216,190

Revenues are derived primarily from implementation of our solutions and post-implementation services such as ongoing support and maintenance and professional services as part of an overall solution that we offer to our customers. The increase in revenues for the year ended December 31, 2016 is primarily attributed to organic growth due to implementation and professional services generated from existing and new customers, which were offset in part, in an amount of \$4.6 million, due to the devaluation of foreign currencies (in which revenues were received) relative to the U.S. dollar..

Revenues by geographical region

The dollar amount and percentage share of our revenues attributable to each of the geographical regions in which we conduct our operations for the year ended December 31, 2015 and 2016, respectively, as well as the percentage change between such periods, were as follows:

(\$ in thousands)	Year ended December 31, 2015		Year ended December 31, 2016	
	Revenues	Percentage	Revenues	Percentage
Geographical region				
North America*	\$ 61,332	33.0%	21.4%	\$ 74,455 34.4%
Europe**	98,405	53.0%	8.9%	107,134 49.6%
Asia Pacific	20,512	11.1%	47.3%	30,223 14.0%
South Africa	5,387	2.9%	18.7%	4,378 2.0%
Total	\$ 185,636	100%	16.5%	\$ 216,190 100%

* Revenue amounts for North America that are shown in the above table consist of revenues from the United States, except for approximately \$0.5 million and \$0.9 million of revenues generated in Canada in the years ended December 31, 2015 and 2016, respectively.

** Revenue amounts for Europe that are shown in the above table include revenues from the UK, the rest of Europe and Israel.

Our revenues in North America increased by \$13.1 million, or 21.4%, to \$74.5 million for the year ended December 31, 2016 from \$61.3 million for the year ended December 31, 2015, reflecting an increase of \$9.6 million in revenues from existing and new customers, as well as an increase of \$3.5 million of revenues attributable to newly-acquired entities.

Our revenues in the Europe increased by \$8.7 million, or 8.9%, to \$107.1 million in the year ended December 31, 2016 from \$98.4 million in the year ended December 31, 2015. The increase was primarily attributable to an increase of \$15.0 million in revenues from our existing and new customers, offset by \$6.4 million due to devaluation of the GBP and Euro relative to the U.S. dollar resulting primarily from the decision of United Kingdom to exit the European Union.

Our revenues in Asia Pacific, or APAC, increased by \$9.7 million, or 47.3%, to \$30.2 million in the year ended December 31, 2016 from \$20.5 million in the year ended December 31, 2015. The increase was primarily attributable to an increase of \$7.7 million in revenues from our existing and new customers in Japan, as well as an increase of \$2.0 million due to the appreciation of foreign currencies (primarily the Japanese yen) relative to the U.S. dollar.

Our revenues in South Africa decreased by \$1.0 million, or 18.7%, to \$4.4 million in the year ended December 31, 2016 from \$5.4 million in the year ended December 31, 2015.

Cost of Revenues

Our cost of revenues for the years ended December 31, 2015 and 2016, respectively (both in absolute terms and as a percentage of our overall revenues), as well as the percentage change between those years, are provided in the below table:

(\$ in thousands)	Year ended December 31, 2015	Year-over- year change	Year ended December 31, 2016
Cost of revenues	\$ 111,192	17.3%	\$ 130,402
Cost of revenues as a percentage of revenues	59.9%		60.3%

Our cost of revenues increased by \$19.2 million, or 17.3%, to \$130.4 million for the year ended December 31, 2016, as compared to \$111.2 million for the year ended December 31, 2015. Cost of revenues increased as a percentage of our revenues during the year ended December 31, 2016, to 60.3% as compared to 59.9% during the year ended December 31, 2015. The increase in absolute cost of revenues was related to the increase in revenues during the year ended December 31, 2016 relative to the year ended December 31, 2015, including due to the inclusion of newly-acquired entities in our consolidated results for the first time for the year ended December 31, 2016. The level of our cost of revenues as a percentage of our revenues remained relatively stable in 2016. Certain projects in certain non-central locations that are not part of our core insurance business had a lower degree of profitability, which contributed to the slight increase in our cost of revenues as a percentage of our revenues. In addition, the appreciation of the New Israeli Shekel relative to the U.S. dollar also increased our cost of revenues as a percentage of our revenues as recorded in U.S. dollars for the year ended December 31, 2016.

Gross profit

Our gross profit for the years ended December 31, 2015 and 2016, respectively (both in absolute terms and as a percentage of our overall revenues), as well as the percentage change between those periods, are provided in the below table:

(\$ in thousands)	Year ended December 31, 2015	Year over- year change	Year ended December 31, 2016
Gross profit	\$ 74,444	15.2%	\$ 85,788
Gross profit as a percentage of revenues	40.1%		39.7%

Our gross profit increased by \$11.4 million, or 15.2%, to \$85.8 million for the year ended December 31, 2016, as compared to \$74.4 million for the year ended December 31, 2015. This increase was primarily attributable to the absolute increase in our revenues by \$30.6 million for the year ended December 31, 2016 compared to the year ended December 31, 2015. The decrease in gross profit as a percentage of revenues for the year ended December 31, 2016 was due to the factors described above with respect to the increase in our cost of revenues as a percentage of revenues.

Operating expenses

The amount of each category of operating expense for the years ended December 31, 2015 and 2016, respectively, as well as the percentage change in each such expense category between such periods, and the percentage of our revenues constituted by our total operating expenses in each such period, is provided in the below table:

(\$ in thousands)	Year ended December 31, 2015	Year-over- year change	Year ended December 31, 2016
Research and development, net	\$ 10,235	61.1%	\$ 16,488
Selling, marketing, general and administrative	39,859	11.5%	44,460
Total operating expenses	\$ 50,094	21.7%	\$ 60,948
Percentage of total revenues	27.0%		28.2%

Research and development expenses, net increased by 61.1% for the year ended December 31, 2016 compared to the year ended December 31, 2015. This increase was attributable to our greater level of investment in research and development activities in support of the expansion of our offering of solutions in the year ended December 31, 2016, including due to the inclusion of newly-acquired entities in our consolidated results for the first time for the year ended December 31, 2016. Our gross research and development expenses (before capitalization of eligible software development costs) for the year ended December 31, 2016 totaled \$22.0 million compared to \$16.2 million in the year ended December 31, 2015. Such increase of 35.8% was attributable to the same factor related to the increase in our net research and development expenses. Capitalization of software development costs accounted for \$5.5 million of our research and development expenses, net for the year ended December 31, 2016 compared to \$6.0 million in the year ended December 31, 2015, constituting a non-material change from one such year to the other.

Selling, marketing, general and administrative, or SMG&A, expenses were \$44.5 million for the year ended December 31, 2016 compared to \$39.9 million in the year ended December 31, 2015. The increase was attributable to a greater investment in our sales and marketing organizations team and our increased marketing expenses to support our brands and expand sales opportunities, including due to the inclusion of newly-acquired entities in our consolidated results for the first time for the year ended December 31, 2016, which was evidenced by the 16.5% increase in our revenues in the year ended December 31, 2016. As a percentage of total revenues, our SMG&A decreased from 21.5% in the year ended December 31, 2015 to 20.6% for the year ended December 31, 2016, constituting a non-material change from one such period to the other.

Operating income

Operating income and operating income as a percentage of total revenues for the years ended December 31, 2015 and 2016, respectively, as well as the percentage change in operating income between such periods, were as follows:

(\$ in thousands)	Year ended December 31, 2015	Year-over- year change	Year ended December 31, 2016
Operating income	\$ 24,350	2.0%	\$ 24,840
Percentage of total revenues	13.1%		11.5%

The increase in our operating income during the year ended December 31, 2016 relative to the year ended December 31, 2015 as an absolute amount, and the decrease in operating income as a percentage of our revenues, as reflected in the above table, were attributable to the various gross profit and operating expenses trends described above.

Financial income, net

The amount of our financial income, net, for the years ended December 31, 2015 and 2016, respectively, and the percentage of our revenues for those respective periods constituted by such amounts, as well as the percentage change in such amounts between such periods, were as follows:

(\$ in thousands)	Year ended December 31, 2015	Year-over- year change	Year ended December 31, 2016
Financial income, net	\$ 163	227.0%	\$ 533
Percentage of total revenues	0.1%		0.2%

Financial income, net, was \$0.5 million for the year ended December 31, 2016 compared to financial income of \$0.2 million in the year ended December 31, 2015.

We engage in economic hedging in order to help protect against fluctuation in foreign currency exchange rates. Instruments that we use to manage currency exchange risks may include foreign currency forward contracts. The purpose of our foreign currency hedging activities is to reduce our exposure, from the perspective of our profitability, to the risks that arise from the adverse impact that exchange rates bear on our revenues and expenses that are denominated in non-U.S. currencies. These instruments are used selectively to manage risks, but there can be no assurance that we will be fully protected against material foreign currency fluctuations. We do not use these instruments for speculative or trading purposes.

Taxes on income

Taxes on income, both as a dollar value and as a percentage of income before taxes on income, for the years ended December 31, 2015 and 2016, respectively, as well as the percentage change in the amount of taxes on income between such periods, were as follows:

(\$ in thousands)	Year ended December 31, 2015	Year-over- year change	Year ended December 31, 2016
Taxes on income	\$ 4,213	37.0%	\$ 5,772
As a percentage of income before taxes on income	17.2%		22.7%

The increase in our expense from taxes on income was primarily attributable to an increase in our taxable income in Israel, the United States, APAC and other jurisdictions in which we operate. In addition, during the year ended December 31, 2016, certain of our subsidiaries in Israel and the UK became subject to tax liability following the utilization of tax benefits in previous years.

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

Net income attributable to Sapiens shareholders

The amount of net income attributable to Sapiens shareholders and such amount as a percentage of revenues for the years ended December 31, 2015 and 2016, respectively, as well as the percentage change in net income attributable to Sapiens shareholders between such periods, were as follows:

(\$ in thousands)	Year ended December 31, 2015	Year-over- year change	Year ended December 31, 2016
Net income attributable to Sapiens shareholders	\$ 20,016	(3.4)%	\$ 19,336
Percentage of total revenues	10.8%		8.9%

As a percentage of total revenues, our net income attributable to Sapiens shareholders decreased from 10.8% in the year ended December 31, 2015 to 8.9% for the year ended December 31, 2016, reflecting the cumulative effect of all of the above-described line items from our statements of income.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of our financial statements required us to make estimations and judgments that affect the reporting amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities within the reporting period. We have based our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. More detailed descriptions of these policies are provided in Note 2 to our consolidated financial statements included under Item 18 of this annual report.

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

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

Revenue Recognition

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

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

We usually sell our software licenses as part of an overall solution offered to a customer that combines the sale of software licenses which normally include significant implementation and that is considered essential to the functionality of the license. We account for the services (either fixed price or T&M -Time and Materials) together with the software under contract accounting using the percentage-of-completion method in accordance with Accounting Standards Codification, or ASC, 605-35, "Construction-Type and Production-Type Contracts". The percentage of completion method is used when the required services are quantifiable, based on the estimated direct costs necessary to complete the project, and under that method revenues are recognized using actual project direct costs incurred as the measure of progress towards completion. The revenues recognized are limited to revenues derived from our enforceable right to receive payment for services that we provide in accordance with our contract with our customer.

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

If our actual results turn out to be materially different than our estimates, or we do not manage the project properly within the projected periods of time or satisfy our obligations under the contract, project margins may be significantly and negatively affected, which may result in losses on existing contracts. Any such reductions in margins or contract losses in a large, fixed-price contract may have a material adverse impact on our results of operations.

In accordance with Accounting Standards Codification, or ASC, 985-605, the Company establishes Vendor Specific Objective Evidence, or VSOE, of fair value of maintenance services (PCS) based on the Bell-Shaped approach and determined VSOE for PCS, based on the price charged when the element is sold separately (that is, the actual renewal rate).

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.

In addition, we derive a significant portion of our revenues from post implementation consulting services provided on a T&M, basis, which are recognized as services are performed.

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

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

We perform ongoing credit evaluations on our customers. Under certain circumstances, we may require prepayment. An allowance for doubtful accounts is determined with respect to those amounts that we determine to be doubtful of collection. Provisions for doubtful accounts were recorded in general and administrative expenses.

Marketable Securities

We account for all our investments in debt securities in accordance with ASC 320, "Investments - Debt and Equity Securities". We classify all debt securities as "available-for-sale". All of our 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".

We recognize an impairment charge when a decline in the fair value of our 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 our intent to sell, including whether it is more likely than not that we will be required to sell the investment before recovery of cost basis. For 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.

Business Combinations

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

For the year ended December 31, 2015, we implemented the pooling of interest accounting method with respect to our acquisition of Sapiens Poland (formerly Insseco). We applied the pooling of interest accounting method with respect to this acquisition because we and Sapiens Poland were under common control. Thus, our balance sheet as of December 31, 2014 was adjusted to reflect the carrying amounts combination between our company and Sapiens Poland.

Goodwill, long lived assets and other identifiable intangible assets

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

We applied the provisions of ASC 350 for our 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.

Based on our annual impairment test during the fourth quarter of each of 2015, 2016 and 2017, no impairment to our goodwill was required.

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

As of December 31, 2017, we had a total of \$223.7 million of goodwill and intangible assets, of which \$23.8 million were attributable to capitalized software development costs, and the remainder of which were acquired as part of our prior acquisitions.

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

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

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

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

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

Capitalized software development costs are amortized commencing with general product release by the straight-line method over the estimated useful life of the software product (between five to seven years). We assess the recoverability of this intangible asset on a regular basis by determining whether the amortization of the asset over its remaining life can be recovered through undiscounted future operating cash flows from the specific software product sold.

Taxes on Income

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

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

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

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

Recently Issued Accounting Pronouncements

For a description of our recently issued accounting pronouncements, see Note 2(w) to our consolidated financial statements appearing elsewhere in this annual report.

Impact of Tax Policies and Programs on our Operating Results

Israeli Tax Considerations and Government Programs

Tax regulations have a material impact on our business, particularly in Israel where we have our headquarters and due to our election to be treated as an Israeli resident corporation for tax purposes. The following summary describes the current tax structure applicable to companies in Israel, with special reference to its effect on us.

General Corporate Tax Structure

Generally, Israeli companies are subject to corporate tax on their taxable income. In 2017 the corporate tax rate was 24% and as of 2018 the corporate tax rate is 23%. However, the effective tax rate payable by a company that derives income from an AE, BE, PFE or a PTE, in each case, as defined and further discussed below, may be considerably lower. See “Law for the Encouragement of Capital Investments” in this Item 5.A below. In addition, Israeli companies are currently subject to regular corporate tax rate on their capital gains.

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

Law for the Encouragement of Industry (Taxes), 1969

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

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

- Deduction of the cost of the purchases of patents, or the right to use a patent or know-how used for the development or promotion of the Industrial Enterprise, over an eight year period commencing on the year in which such rights were first exercised;
- The right to elect, under certain conditions, to file a consolidated tax return together with Israeli Industrial Companies controlled by it; and
- Expenses related to a public offering are deductible in equal amounts over three years.

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

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

Law for the Encouragement of Capital Investments, 5719-1959

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

The Investment Law has been amended several times over the recent years, with the three most significant changes effective as of April 1, 2005 (referred to as the 2005 Amendment), as of January 1, 2011 (referred to as the 2011 Amendment) and as of January 1, 2017 (referred to as the 2017 Amendment). Pursuant to the 2005 Amendment, tax benefits granted in accordance with the provisions of the Investment Law prior to its revision by the 2005 Amendment remain in force but any benefits granted subsequently are subject to the provisions of the amended Investment Law. Similarly, the 2011 Amendment introduced new benefits instead of the benefits granted in accordance with the provisions of the Investment Law prior to the 2011 Amendment. However, companies entitled to benefits under the Investment Law as in effect up to January 1, 2011 were entitled to choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead, irrevocably, to forego such benefits and elect the benefits of the 2011 Amendment. The 2017 Amendment introduced new benefits for Technological Enterprises, alongside the existing tax benefits.

Tax benefits for AEs approved before April 1, 2005

Under the Investment Law prior to the 2005 Amendment, a company that wished to receive benefits on its investment program that is implemented in accordance with the provisions of the Investment Law (referred to as an AE), had to receive an approval from the Israeli Authority for Investments and Development of the Industry and Economy (referred to as the Investment Center). Each certificate of approval for an AE relates to a specific investment program, delineated both by the financial scope of the investment, including sources of funds, and by the physical characteristics of the facility or other assets.

An AE may elect to forego any entitlement to the cash grants otherwise available under the Investment Law and, instead, participate in an alternative benefits program. Under the alternative benefits program, a company's undistributed income derived from an AE will be exempt from corporate tax for a period of between two and ten years from the first year of taxable income, depending on the geographic location within Israel of the AE, and a reduced corporate tax rate of between 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in the company in each year, as detailed below. The benefits period under AE status is limited to 12 years from the year in which the production commenced (as determined by the Investment Center), or 14 years from the year of receipt of the approval as an AE, whichever ends earlier. If a company has more than one AE program or if only a portion of its capital investments are approved, its effective tax rate is the result of a weighted combination of the applicable rates. The tax benefits available under any certificate of approval relate only to taxable income attributable to the specific program and are contingent upon meeting the criteria set out in the certificate of approval. Income derived from activity that is not integral to the activity of the AE will not enjoy tax benefits.

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

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

Percentage of non-Israeli ownership	Corporate Tax Rate
Over 25% but less than 49%	25%
49% or more but less than 74%	20%
74% or more but less than 90%	15%
90% or more	10%

A company that has elected to participate in the alternative benefits program and that subsequently pays a dividend out of the income derived from the portion of its facilities that have been granted AE status during the tax exemption period will be subject to tax in respect of the amount of dividend distributed (grossed up to reflect such pre-tax income that it would have had to earn in order to distribute the dividend) at the corporate tax rate that would have been otherwise applicable if such income had not been tax-exempted under the alternative benefits program. This rate generally ranges from 10% to 25%, depending on the level of foreign investment in the company in each year as explained above.

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

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

The benefits available to an AE are subject to the fulfillment of conditions stipulated in the Investment Law and its regulations and the criteria in the specific certificate of approval with respect thereto, as described above. If a company does not meet these conditions, it would be required to refund the amount of tax benefits, adjusted to the Israeli consumer price index and interest, or other monetary penalty.

Under the terms of the AE program, income that is attributable to one of our Israeli subsidiaries has been exempted from income tax for a period of two years commencing in 2014.

Tax Benefits Subsequent to the 2005 Amendment

The 2005 Amendment applies to new investment programs commencing after 2004, but does not apply to investment programs approved prior to April 1, 2005. The 2005 Amendment provides that terms and benefits included in any certificate of approval that was granted before the 2005 Amendment became effective (April 1, 2005) will remain subject to the provisions of the Investment Law as in effect on the date of such approval. Pursuant to the 2005 Amendment, the Investment Center will continue to grant AE status to qualifying investments. The 2005 Amendment, however, limits the scope of enterprises that may be approved by the Investment Center by setting criteria for the approval of a facility as an AE.

An enterprise that qualifies under the new provisions is referred to as a BE, rather than AE. The 2005 Amendment provides that a certificate of approval from the Investment Center will only be necessary for receiving cash grants. As a result, it was no longer necessary for a company to obtain the advance approval of the Investment Center in order to receive the tax benefits previously available under the alternative benefits track. Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set forth in the 2005 Amendment. A company that has a BE may, at its discretion, approach the Israel Tax Authority for a pre-ruling confirming that it is in compliance with the provisions of the Investment Law.

Tax benefits are available under the 2005 Amendment to production facilities (or other eligible facilities) which are generally required to derive more than 25% of their business income from export to specific markets with a population of at least 14 million in 2012 (such export criteria will further be increased in the future by 1.4% per annum). In order to receive the tax benefits, the 2005 Amendment states that a company must make an investment which meets certain conditions set forth in the amendment for tax benefits, including exceeding a minimum investment amount specified in the Investment Law. Such investment entitles a company to receive a BE status with respect to the investment, and may be made over a period of no more than three years ending in the end of the year in which the company chose to have the tax benefits apply to its BE. Where a company requests to have the tax benefits apply to an expansion of existing facilities, only the expansion will be considered to be a BE and the company's effective tax rate will be the weighted average of the applicable rates. In such case, the minimum investment required in order to qualify as a BE must exceed a certain percentage of the value of the company's production assets before the expansion.

The extent of the tax benefits available under the 2005 Amendment to qualifying income of a BE depends on, among other things, the geographic location in Israel of the BE. The location will also determine the period for which tax benefits are available. Such tax benefits include an exemption from corporate tax on undistributed income generated by the BE for a period of between two to ten years, depending on the geographic location of the BE in Israel, and a reduced corporate tax rate of between 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in the company in each year, as explained above. The benefits period is limited to 12 or 14 years from the year the company first chose to have the tax benefits apply, depending on the location of the company.

A company qualifying for tax benefits under the 2005 Amendment which pays a dividend out of income derived by its BE during the tax exemption period will be subject to corporate tax in respect of the amount of the dividend distributed (grossed-up to reflect the pre-tax income that it would have had to earn in order to distribute the dividend) at the corporate tax rate which would have otherwise been applicable. Dividends paid out of income attributed to a BE (or out of dividends received from a company whose income is attributed to a BE) are generally subject to withholding tax at source at the rate of 15% or at a lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). The reduced rate of 15% is limited to dividends and distributions out of income attributed to a Beneficiary Enterprise during the benefits period and actually paid at any time up to 12 years thereafter except with respect to an FIC, in which case the 12-year limit does not apply.

The benefits available to a BE are subject to the continued fulfilment of conditions stipulated in the Investment Law and its regulations. If a company does not meet these conditions, it would be required to refund the amount of tax benefits, adjusted to the Israeli consumer price index, and interest, or other monetary penalties.

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

The 2011 Amendment canceled the availability of the benefits granted in accordance with the provisions of the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a “Preferred Company” through its PFE (as such terms are defined in the Investment Law) as of January 1, 2011. A Preferred Company is defined as either (i) a company incorporated in Israel which is not wholly owned by a governmental entity or (ii) a limited partnership that (a) was registered under the Israeli Partnerships Ordinance and (b) all of its limited partners are companies incorporated in Israel, but not all of them are governmental entities; which has, among other things, PFE status and is controlled and managed from Israel. Pursuant to the 2011 Amendment, a Preferred Company is entitled to a reduced corporate tax rate of 15% with respect to its preferred income (“PFI”) attributed to its PFE in 2011 and 2012, unless the PFE is located in a certain development zone, in which case the rate will be 10%. Such corporate tax rate was reduced to 12.5% and 7%, respectively, in 2013 and was increased to 16% and 9%, respectively, in 2014 until 2016. Pursuant to the 2017 Amendment, in 2017 and thereafter, the corporate tax rate for a PFE that is located in a specified development zone was decreased to 7.5%, while the reduced corporate tax rate for other development zones remains 16%. Income derived by a Preferred Company from a Special PFE (as such term is defined in the Investment Law) would be entitled, during a benefits period of 10 years, to further reduced tax rates of 8%, or 5% if the Special PFE is located in a certain development zone. As of January 1, 2017, the definition for Special PFE includes less stringent conditions.

Dividends paid out of PFI attributed to a PFE or to a Special PFE are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if such dividends are subsequently distributed from such Israeli company to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided in an applicable tax treaty will apply).

The 2011 Amendment also provided transitional provisions to address companies already enjoying current benefits under the Investment Law. These transitional provisions provide, among other things, that unless an irrevocable request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011: (i) the terms and benefits included in any certificate of approval that was granted to an AE, which chose to receive grants, before the 2011 Amendment became effective, will remain subject to the provisions of the Investment Law as in effect on the date of such approval, and subject to certain conditions; and (ii) the terms and benefits included in any certificate of approval that was granted to an AE, that had participated in an alternative benefits program, before the 2011 Amendment became effective, will remain subject to the provisions of the Investment Law as in effect on the date of such approval, provided that certain conditions are met. As of December 31, 2015, some of our Israeli subsidiaries had filed a request to apply the new benefits under the 2011 Amendment.

New Tax benefits under the 2017 Amendment that became effective on January 1, 2017

The 2017 Amendment was enacted as part of the Economic Efficiency Law that was published on December 29, 2016, and is effective as of January 1, 2017. The 2017 Amendment provides new tax benefits for two types of Technology Enterprises, as described below, and is in addition to the other existing tax beneficial programs under the Investment Law.

The 2017 Amendment provides that a technology company satisfying certain conditions will qualify as a PTE and will thereby enjoy a reduced corporate tax rate of 12% on income that qualifies as Preferred Technology Income, or PTI, as defined in the Investment Law. The tax rate is further reduced to 7.5% for a PTE located in development zone A. In addition, a Preferred Technology Company will enjoy a reduced corporate tax rate of 12% on capital gain derived from the sale of certain Benefited Intangible Assets (as defined in the Investment Law) to a related foreign company if the Benefited Intangible Assets were acquired from a foreign company on or after January 1, 2017 for at least NIS 200 million, and the sale receives prior approval from the National Authority for Technological Innovation (referred to as NATI).

The 2017 Amendment further provides that a technology company satisfying certain conditions will qualify as a Special PTE (an enterprise for which total consolidated revenues of its parent company and all subsidiaries exceed NIS 10 billion) and will thereby enjoy a reduced corporate tax rate of 6% on PTI regardless of the company’s geographic location within Israel. In addition, a Special PTE will enjoy a reduced corporate tax rate of 6% on capital gain derived from the sale of certain “Benefited Intangible Assets” to a related foreign company if the Benefited Intangible Assets were either developed by an Israeli company or acquired from a foreign company on or after January 1, 2017, and the sale received prior approval from NATI. A Special PTE that acquires Benefited Intangible Assets from a foreign company for more than NIS 500 million will be eligible for these benefits for at least ten years, subject to certain approvals as specified in the Investment Law.

Dividends distributed by a PTE or a Special PTE, paid out of PTI, are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if such dividends are subsequently distributed from such Israeli company to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided in an applicable tax treaty will apply). If such dividends are distributed to a foreign company and other conditions are met, the withholding tax rate will be 4%.

We examined the impact of the 2017 Amendment and the degree to which we will qualify as a PTE or Special PTE, and the amount of PTI that we may have, or other benefits that we may receive, from the 2017 Amendment. Beginning in 2017, part of the Company taxable income in Israel is entitled to a preferred 12% tax rate under Amendment 73 to the Investment Law.

Tax Benefits for Research and Development

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

B. Liquidity and Capital Resources

To date, we have substantially satisfied our capital and liquidity needs through cash flows from operations and sales of our equity and debt securities.

Cash flows provided from operations were \$26.0 million and \$8.5 million during the years ended December 31, 2016 and 2017, respectively. We used \$8.3 million and \$73.2 million of cash in investing activities during the years ended December 31, 2016 and 2017, respectively. We used \$11.2 million of cash for our financing activities in the year ended December 31, 2016, while in the year ended December 31, 2017, our financing activities provided us with \$70.8 million of cash. As of December 31, 2016, and 2017, we had \$96.4 million and \$71.5 million, respectively, of cash, cash equivalents and investments in marketable securities, and \$72.5 million and \$60.8 million, respectively, of working capital.

We expect that we will continue to generate positive cash flows from operations on an annual basis, although this may fluctuate significantly on a quarterly basis. We believe that based on our current operating forecast, the combination of existing working capital and expected cash flows from operations will be sufficient to finance our ongoing operations for the next twelve months.

Our future capital requirements will depend on many factors, including the rate of growth of our revenues, the expansion of our sales and marketing activities and the timing and extent of our spending to support our research and development efforts and expansion into other markets. We may determine to distribute dividends to our shareholders. See "Item 8. Financial Information - Dividend Policy". We may also seek to invest in, or acquire complementary businesses, applications or technologies. To the extent that existing cash and cash equivalents, investments in marketable securities and cash from operations are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Israeli Public Offering and Private Placement of Debentures

In September 2017, we published with the Israeli Securities Authority, or the ISA, and the Tel Aviv Stock Exchange, or the TASE, a shelf offering report for an offering of a new series of debentures—Series B, unsecured, non-convertible debentures, or the Series B Debentures—in Israel, which offering included institutional and public bid processes. Pursuant to the offering, we offered, issued and sold a total of 234,144 units of Series B Debentures of principal amount of NIS 1,000 each for aggregate gross proceeds of approximately NIS 234.14 million (approximately \$66.2 million).

Immediately following the public offering, we entered into agreements with Israeli accredited investors for the private placement to those investors, in Israel, of an additional NIS 45.86 million (approximately \$12.96 million) principal amount of Series B Debentures. The Series B Debentures were sold in the private placement at a price of NIS 995.5 for each NIS 1,000 principal amount, thereby generating approximately NIS 45.65 million (\$12.9 million) of additional proceeds for our company.

Upon the completion of the public offering and private placement of Series B Debentures, we had issued and sold the full NIS 280 million (approximately \$79.2 million) principal amount of Series B Debentures that we had offered in the Israeli public offering.

The Series B Debentures were offered as, and trade on the TASE as, 280,000 units of NIS 1,000 principal amount each. In the case of the privately placed Series B Debentures, resale by the purchasers was restricted for an initial period, in accordance with the Israeli Securities Law, 5728-1968, and the regulations thereunder.

The outstanding principal amount of the Series B Debentures is link to the US\$ and bears interest at an annual rate of 3.37%, to be paid on a semi-annual basis (on January 1 and July 1 of 2018 through 2025, with one final interest payment on January 1, 2026). The principal of the Series B Debentures is payable in eight equal annual payments beginning on January 1, 2019, with the final payment due on January 1, 2026.

We have been using, and expect to continue to use, the net proceeds of the offering for general corporate purposes, including repayment of outstanding debt (as described immediately below), financing our operating and investment activities, and financing future acquisitions.

Secured Term Loan Under Credit Agreement—Repayment

In connection with our acquisition of StoneRiver, in the first quarter of 2017, we (via our wholly-owned subsidiary, Sapiens Americas Corporation) obtained \$40 million of secured debt financing from HSBC Bank USA, National Association pursuant to a credit agreement. Upon our consummation of the public offering and private placement of Series B Debentures in September 2017, we utilized the proceeds received from the sale of the debentures for repayment of the entire outstanding term loan amount (including accrued interest) under the credit agreement with HSBC.

Cash Flows

Comparison of the years ended December 31, 2016 and 2017

The following tables summarize the sources and uses of our cash in the years ended December 31, 2016 and 2017:

	Year ended December 31,	
	2016	2017
	(in thousands US\$)	
Net cash provided from operating activities	\$ 26,039	\$ 8,482
Net cash used in investing activities	(8,317)	(73,201)
Net cash provided from (used in) financing activities	(11,233)	70,775

Operating Activities

We derived positive cash flows from operating activities of \$26.0 million and \$8.5 million during the years ended December 31, 2016 and 2017, respectively. This decrease in cash flows provided from operating activities for the year ended December 31, 2017, relative to the year ended December 31, 2016 resulted primarily from a decrease in net income of \$19.0 million, from \$19.6 million to \$0.6 million, which was due to the factors described above.

Investing Activities

Net cash used in investing activities increased to \$73.2 million for the year ended December 31, 2017, compared to \$8.3 million in the year ended December 31, 2016, primarily due to an increase in use of cash, for the acquisition of businesses during 2017, which increased to \$100.4 million, compared to \$4.4 million in 2016. The increase in cash used for investing activities in the year ended December 31, 2017, was offset, in part, by an increase in sales of marketable securities in the year ended December 31, 2017, relative to the previous year. In 2017, we received \$35.4 million of cash, net, from sales (net of purchases) of marketable securities, compared to \$4.9 million received from sales of marketable securities (net of sales) in the year ended December 31, 2016, constituting an overall difference of \$30.5 million between the two years. An additional offsetting factor to the increase in cash used for investing activities was a decrease in use of cash, to an amount of \$2.6 million, for the purchase of property and equipment during the year ended December 31, 2017, compared to \$4.7 million in 2016.

Financing Activities

Our financing activities generated \$70.8 million of cash during the year ended December 31, 2017, as compared to using \$11.2 million of cash in the year ended December 31, 2016. Cash provided from financing activities in the year ended December 31, 2017, was primarily attributable to our Series B Debentures offering, which generated \$78.2 million, which was offset in part by cash used for payment of a cash dividend in a total amount of approximately \$9.8 million. In the year ended December 31, 2016, cash used in financing activities was primarily attributable to payment of a cash dividend in a total amount of approximately \$9.9 million. Cash provided from financing activities during the year ended December 31, 2017, and cash used in financing activities during the year ended December 31, 2016 included \$2.5 million and \$0.9 million, respectively, of cash provided by stock option exercises during those respective years.

Comparison of the years ended December 31, 2015 and 2016

The following tables summarize the sources and uses of our cash in the years ended December 31, 2015 and 2016:

	Year ended December 31,	
	2015	2016
	(in thousands US\$)	
Net cash provided from operating activities	\$ 40,440	\$ 26,039
Net cash used in investing activities	(18,853)	(8,317)
Net cash used in financing activities	(14,177)	(11,233)

Operating Activities

We derived positive cash flows from operating activities of \$40.4 million and \$26.0 million during the years ended December 31, 2015 and 2016, respectively. This decrease in cash flows provided from operating activities for the year ended December 31, 2016 relative to the year ended December 31, 2015 resulted primarily from a decrease in net income of \$0.7 million, from \$20.3 million to \$19.6 million, which was due to the factors described above. The decrease in cash flows was furthermore attributable to an increase of \$5.4 million in accounts receivable during the year ended December 31, 2016, as compared to a decrease of \$1.9 million in accounts receivable during the prior year, which year-over-year difference contributed \$7.3 million, in the aggregate, to the decrease in operating cash flow during 2016. Another contributing factor was an increase in other operating assets during 2016 relative to the prior year, from an increase of \$1.2 million to an increase of \$3.3 million, thereby contributing an aggregate of \$2.1 million towards the decrease of operating cash flows in the year ended December 31, 2016.

Investing Activities

Net cash used in investing activities decreased to \$8.3 million for the year ended December 31, 2016 compared to \$18.9 million in the year ended December 31, 2015, primarily due to a decrease in purchases of marketable securities and increase in sales of marketable securities in the year ended December 31, 2016 relative to the previous year. In 2016, we received \$4.9 million of cash, net, from sales (net of purchases) of marketable securities, compared to \$6.2 million used in the purchases of marketable securities (net of sales) in the year ended December 31, 2015, constituting an overall difference of \$11.1 million between the two years. The decrease in cash used for investing activities in the year ended December 31, 2016 was offset, in part, by an increase in use of cash, for the acquisition of businesses during 2016, which increased to \$4.4 million, compared to \$2.9 million in 2015. An additional offsetting factor to the decrease in cash used for investing activities was an increase in use of cash, to an amount of \$4.7 million, for the purchase of property and equipment during the year ended December 31, 2016, compared to \$2.8 million in 2015.

Financing Activities

Our financing activities used \$11.2 million of cash during the year ended December 31, 2016, as compared to using \$14.2 million of cash in the year ended December 31, 2015. Cash use in the year ended December 31, 2016 was primarily attributable to a cash dividend in a total amount of approximately \$9.8 million, as compared to a cash dividend in a total amount of approximately \$7.2 million and the distribution of \$8.5 million to our ultimate parent company for a business acquisition under common control (that is, for the acquisition of Inseco, as described in Item 3.A, "Selected Financial Data", above) in the year ended December 31, 2015. Cash used for financing activities during each of the years ended December 31, 2015 and December 31, 2016 was partially offset by \$1.6 million and \$0.9 million, respectively, of cash provided by stock option exercises during each reported period.

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

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

D. Trend Information

There are various sales and marketing trends that influence our business. According to a research report published by Celent, a research and consulting firm, (IT Spending in Insurance, a Global Perspective, 2017, by Jamie Macregor, Juan Mazzini, Karen Monks and KyongSun Kong, published on April 5, 2017), global IT spending by insurance companies is expected to grow from \$184.8 billion in 2017, to \$193.7 billion in 2018, and \$202 billion in 2019. IT spending on external software and IT services, which was predicted to total approximately \$83 billion in 2017, is expected to increase to \$89 billion by 2018, reflecting a 7.6% growth rate. IT

Spending in the life vertical is expected to grow from \$101.5 billion in 2017, to \$106.1 billion in 2018, reflecting 4.6% growth rate. IT spending in the property and casualty vertical is expected to grow from \$83.8 billion in 2017 to \$87.6 billion in 2018, reflecting 5.1% growth rate.

Celent also projected that IT spending in North America would rise to \$77.6 billion in 2018, annual growth of 6.4% from 2017. By 2019, North American insurers are expected to account for approximately 40.9% of global IT spending; this is up 1.4% from 2017. IT spending in Europe would grow to \$70.8 billion in 2018, at a rate of 2.9% from 2017. Asia-Pacific was expected to grow to \$34.3 billion in 2018, at a 2.8% annual growth rate.

According to Celent, IT spending in external software and services, which is the market we address, is expected to grow from an estimated \$83 billion in 2017, to \$89 billion by 2018, a 7.6% growth rate. Celent reports that the expected significant increase in external software and services will be driven by pure growth in IT spending, and also from the shift in IT spending from internal efforts to external vendors (such as our company). This move from in-house, home-grown solutions to packaged solutions is happening as IT departments recognize that internal solutions are often difficult to maintain and do not have the advantage of significant R&D investment. Celent's three overarching trends in the market – digitalization, data analytics and legacy and ecosystem transformation – are still dominating IT spending for insurers.

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

- Tighter competition
- Tougher regulation
- Customer sophistication
- Globalization and consolidation

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

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

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

With today's strong trend of shifting attention to the end-customer experience and activities, there is an increasing focus on digital operations to support the increasing usage of the Internet for sales, recommendations and general communication. This affects the carriers' needs to innovate their product proposition through a flexible and modern solution. Another substantial trend is the increasing usage of data for decision-making, risk analysis, customers' evaluation and rating, which requires streamlined data flow and easy access to information from multiple sources.

Increased global competition, the need to improve distribution channels and provide an enhanced customer experience, and efforts to expand into new countries and markets have required heavy investments from insurers, resulting in a trend towards consolidation. This has mainly included consolidation of applications, databases, development tools, hardware and data centers.

E. Off-Balance Sheet Arrangements

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

F. Contractual Obligations

The following table sets forth information on our short-term and long-term contractual obligations as at December 31, 2017.

	Payments due by period				
	Total	Less than 1 year	1 to 3 Years (in thousands)	3 to 5 years	Over 5 years
Accrued severance pay, net ⁽¹⁾	\$ 953	-	-	-	\$ 953
Operating leases	13,621	5,823	7,271	527	-
Liability to the OCS ⁽²⁾	254	254	-	-	-
Series B Debentures ⁽³⁾	79,186	-	29,695	29,695	19,796
Contingent payment obligations – acquisitions ⁽⁴⁾	3,774	1,959	1,815	-	-
Total Contractual Cash Obligations	\$ 97,788	\$ 8,036	\$ 38,781	\$ 30,222	\$ 20,749

(1) Accrued severance pay relates to accrued severance obligations mainly to our Israeli employees as required under Israeli labor law. We are legally required to pay severance upon certain circumstances, primarily upon termination of employment by our company, retirement or death of the respective employee. Our liability for all of our Israeli employees is fully provided for by monthly deposits with insurance policies and by an accrual.

(2) Does not include contingent liabilities to the Innovation Authority of approximately \$6.6 million as described in Note 11(a) to our consolidated financial statements contained elsewhere in this annual report.

(3) Future principal payments for the Series B Debentures without interest.

(4) Contingent payment obligations for our acquisitions do not include contingent payments in an amount of up to \$4.6 million, in the aggregate, that are subject to continued employment by the potential recipients thereof.

The total amount of unrecognized tax benefits for uncertain tax positions was \$2.3 million as of December 31, 2017. Payment of these obligations would result from settlements with taxing authorities. Due to the uncertainties related to those tax matters, we are currently unable to make a reasonably reliable estimate of when cash settlement with a relevant tax authority will occur. See Note 12(i) to our consolidated financial statements contained elsewhere in this annual report, as of December 31, 2017.

ITEM 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table and below biographies set forth certain information regarding the current executive officers and directors of the Company as of March 1, 2018.

Name (1)	Age	Position
Guy Bernstein	50	Chairman of the Board of Directors
Roni Al Dor	57	President, Chief Executive Officer and Director
Naamit Salomon	54	Director
Yacov Elinav (2)	73	Director
Uzi Netanel (2)	82	Director
Eyal Ben Chlouche (2)	56	Director
Roni Giladi	47	Chief Financial Officer

(1) In addition to the executive officers and directors listed above, United International Trust N.V., a former director of the Company, serves as the Company's local representative in Curaçao until (and subject to) the completion of the migration of the legal domicile of the Company to the Cayman Islands.

(2) Member of Audit Committee

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

Roni Al Dor joined the Company as President and Chief Executive Officer in November 2005 and has served as a director of the Company since November 2005. Prior to joining the Company, Mr. Al Dor was one of the two founders of TTI Team Telecom International Ltd., or TTI, a global supplier of operations support systems to communications service providers and from August 1996 until 2004, Mr. Al Dor served as President of TTI. Prior to that, Mr. Al Dor served as TTI's Co-President from November 1995 until August 1996 and its Vice President from September 1992 to November 1995. During his service in the Israeli Air Force, Mr. Al Dor worked on projects relating to computerization in aircrafts. Mr. Al Dor is a graduate of the military computer college of the Israeli Air Force, studied computer science and management at Bar Ilan University and attended the Israel Management Center for Business Administration.

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

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

Yacov Elinav has served as a director of the Company since March 2005. For over 30 years, Mr. Elinav served in various positions at Bank Hapoalim B.M., which is listed on the London and Tel Aviv Stock Exchanges, including over 10 years as a member of the Board of Management, responsible for subsidiary and related companies. From 1992 through 2006, Mr. Elinav served as Chairman of the Board of Directors of Diur B.P. Ltd., the real estate subsidiary of Bank Hapoalim. From August 2004 until 2009, Mr. Elinav served as Chairman of the Board of Directors of DS Securities and Investments, Ltd. From August 2004 through 2008, Mr. Elinav served as Chairman of the Board of Directors of DS Provident Funds Ltd., and from 2010 until August 2015, served as Chairman of the Board of Directors of Golden Pages Ltd.. Mr. Elinav also serves on the Board of Directors of several other public and private companies. Mr. Elinav is an independent director.

Uzi Netanel has served as a director of the Company since March 2005. He has served as chairman of the Board of Directors of Maccabi Enterprise Development & Management Ltd., and as Chairman of Maccabi Group Holdings Ltd. from 2005 through 2011. From 2004 through 2007, Mr. Netanel served as Chairman of Board of Directors of M.L.L. Software & Computers, and from 2000 through 2011 served as a director of Bazan and Carmel Olephine. From 2001 through 2003, Mr. Netanel served as partner in the FIMI Opportunity Fund. From 1993 through 2001, he served as Active Chairman of Israel Discount Capital Markets and Investments Ltd. From 1997 to 1999, Mr. Netanel served as Chairman of Poliziv Plastics Company (1998) Ltd. From 2005 through 2014, he served as director of Maman Group and from 2012 through 2014, he served as director of Gadot Biochemicals. Mr. Netanel also serves on the Board of Directors of Acme Trading, Scope Metals Ltd. (external director), Assuta Health Centers, and Maccabi Health Services. Mr. Netanel is an independent director.

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

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

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

Our Chairman, Guy Bernstein, serves as the Chief Executive Officer of Formula and as a director of Asseco. In addition, Ms. Salomon, another Board member of ours, who served as an executive officer of Formula until December 2009, is a member of the Board of Directors of our affiliate Magic Software Enterprises Ltd. Formula directly owns (as of March 1, 2018) approximately 48.1% of our currently outstanding Common Shares, and Asseco beneficially owns 26.3% of the outstanding share capital of Formula, as well as the power to vote an additional 1,971,973 ordinary shares of Formula, thereby effectively giving Asseco beneficial ownership (voting power) over an aggregate of 39.7% of Formula's outstanding ordinary shares.

B. Compensation of Directors and Officers

The aggregate amount of compensation paid by us, or accrued by us, for all directors and executive officers as a group for services in all capacities with respect to the fiscal year ended December 31, 2017 was \$1.5 million. In addition to the foregoing amount, we also set aside or accrued for our directors and executive officers with respect to the fiscal year ended December 31, 2017 \$0.3 for pension, retirement severance, vacation accrual and similar benefits of the Company. These compensation amounts do not include amounts expended by us for automobiles made available to our officers or expenses (including business travel and professional and business association dues) reimbursed to such officers. The foregoing amounts also exclude the value of stock option grants to our directors and officers pursuant to our 2011 Share Incentive Plan, which is described below.

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

Board Fees and Expenses

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

We pay a fee of approximately \$31,800 to our independent directors (except to Formula, to which we pay approximately \$28,600 in respect of the service of its Chief Executive Officer, Guy Bernstein, as our Chairman of the Board), for attending or participating in meetings of the Board of Directors and its committees, and for participating in Board action taken via unanimous written consent. Such fees are set in accordance with the rates paid to “external directors” under the Israeli Companies Law 5759-1999. Although we are not an Israeli company and are not subject to the Israeli Companies Law, we deem certain standards of that body of law (including compensation to Board members) relevant to a company such as ours that has a substantial percentage of Israeli operations and Israeli employees. United International Trust N.V., which also qualified as an independent director when it was serving as such (until our November 2017 annual general shareholder meeting), instead received a fee of \$1,200 for director services when it was serving as a director in 2017 (until November 2017), and continues to receive an additional annual amount for consulting and related services that it provides to us (until the completion of the migration of our legal domicile to the Cayman Islands).

Stock Option and Incentive Plans

Prior Incentive Plans

In 1992, 2003 and 2005, our Board of Directors adopted (and our shareholders subsequently approved) our 1992 Stock Option and Incentive Plan, 2003 Share Option Plan, and Incentive Stock Option Plan, respectively, collectively referred to as our Prior Incentive Plans. These plans were administered by our Compensation Committee. Upon the approval of our 2011 Share Incentive Plan (as described below), our Board of Directors determined that no further awards would be granted under the Prior Incentive Plans. Furthermore, the exercise period for all remaining outstanding options under the Prior Incentive Plans terminated in September 2015. Consequently, there are no remaining awards outstanding under any of the Prior Incentive Plans.

2011 Share Incentive Plan

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

Options granted under the 2011 Plan may be ISOs or NQSOs within the meaning of Section 422 of the Code. In the case of Israeli grantees, we intend that options granted comply with, and benefit from, applicable tax laws and regulations in Israel. We are also eligible to grant restricted stock, restricted share units and other share-based compensation in addition to or in lieu of any other award under the 2011 Plan.

The 2011 Plan is administered by the Compensation Committee. Subject to the provisions of the 2011 Plan, the Compensation Committee determines the type of award, when and to whom awards will be granted and the number of shares covered by each award. The Compensation Committee also determines the terms, provisions, and kind of consideration payable (if any), with respect to awards. The Compensation Committee has discretionary authority to interpret the 2011 Plan and to adopt practices related thereto. In determining the persons to whom awards shall be granted and the number of shares covered by each award, the Compensation Committee takes into account their present and potential contributions to the success of the Company and such other factors as the Compensation Committee shall deem relevant in connection with accomplishing the purpose of the 2011 Plan.

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

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

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

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, 2,148,323 Common Shares were issuable upon the exercise of outstanding options under the 2011 Plan, at a weighted average exercise price of \$9.49 per share, of which options to purchase 783,663 Common Shares had vested. 1,180,000 of such Common Shares were issuable upon the exercise of outstanding options held by our directors and executive officers. As of December 31, 2017, 3,167,261 Common Shares were available for future grant under the 2011 Plan.

Restricted Share and Option Grants Outside of Our Stock Option and Incentive Plans

During 2017, the remaining 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 (in addition to the 59,000 of such 88,500 restricted shares that had vested in 2015 and 2016), thereby reducing the Company's percentage ownership of Sapiens Decision from 94.25% to 92.89%. In addition, during 2017, Sapiens Decision issued options to certain of its employees to purchase shares of Sapiens Decision.

C. Board Practices

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

Audit Committee

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

Compensation Committee

The Compensation Committee of our Board of Directors is comprised of three directors, nominated by the Board of Directors: Uzi Netanel, Naamit Salomon and Guy Bernstein. Mr. Bernstein serves as the chairman of the committee. The Compensation Committee is responsible for the review and approval of grants of options to our employees and other compensation matters as requested by the Board of Directors from time to time.

NASDAQ Opt-Outs for a Foreign Private Issuer

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

Pursuant to NASDAQ Listing Rule 5615(a)(3), a foreign private issuer may follow home country practice in lieu of certain provisions of the NASDAQ Listing Rule 5600 series and certain other NASDAQ Listing Rules. Please see “Item 16G. Corporate Governance” below for a description of the manner in which we rely upon home country practice in lieu of certain of the NASDAQ Listing Rules.

D. Employees

As of December 31, 2017, we had a total of 2,376 employees, a 23.2% increase relative to the end of 2016.

The following table sets forth the number of our employees as of the end of each of the past three fiscal years, according to their geographic regions:

Geographic Region	Total Number of Employees as of December 31,		
	2015	2016	2017
Israel	790	862	864
UK and Europe	367	445	407
North America	113	175	511
Asia Pacific	303	446	594
Total Employees	1,573	1,928	2,376

E. Share Ownership

The number of our Common Shares beneficially owned by our directors and executive officers individually, and by our directors and executive officers as a group, as of March 1, 2018, is as follows:

	Shares Beneficially Owned	
	Number	Percent ⁽¹⁾
Roni Al Dor	1,224,781 ⁽²⁾	2.4%
All directors and executive officers as a group (7 persons, including Roni Al-Dor) ⁽³⁾	1,680,846 ⁽⁴⁾	3.3%

- (1) Unless otherwise indicated below, the persons in the above table have sole voting and investment power with respect to all shares shown as beneficially owned by them. The percentages shown are based on 49,779,055 Common Shares outstanding (which excludes 2,328,296 Common Shares held in treasury) as of March 1, 2018, plus such number of Common Shares as the relevant person or group had the right to receive upon exercise of options that are exercisable within 60 days of March 1, 2018.
- (2) Includes options to purchase 300,000 Common Shares under the 2011 Plan at an exercise price of \$8.02 per share expiring no later than May 2021, which are vested or will become vested within 60 days of March 1, 2018. See Item 6 - "Directors, Senior Management and Employees - Compensation of Directors and Officers".
- (3) Each of our directors and executive officers who is not separately identified in the above table beneficially owns less than 1% of our outstanding Common Shares (including options to purchase Common Shares held by each such party that are vested or will vest within 60 days of March 1, 2018) and has therefore not been separately identified.
- (4) Includes options to purchase 580,000 Common Shares at exercise prices ranging from \$3.14 to \$9.53 per share, which are vested or will become vested within 60 days of March 1, 2018.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders.

The following table sets forth, as of March 15, 2018, certain information with respect to the beneficial ownership of the Company's Common Shares by each person known by the Company to own beneficially more than 5% of the outstanding Common Shares, based on information provided to us by the holders or disclosed in public filings of the shareholders with the Securities and Exchange Commission.

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

Name and Address	Shares Beneficially Owned	
	Number	Percent ⁽¹⁾
Formula Systems (1985) Ltd. 5 HaPlada Street Or Yehuda 60218, Israel	23,954,094 ⁽²⁾	48.1%

- (1) The percentages shown are based on 49,779,055 Common Shares outstanding (which excludes 2,328,296 Common Shares held in treasury) as of March 15, 2018.
- (2) The number of Common Shares shown as owned by Formula is based on information provided to the Company by Formula as of March 15, 2018. Also based on information provided to the Company, as of March 15, 2018, Asseco beneficially owned 26.3% of the outstanding share capital of Formula. In addition, on October 4, 2017, Asseco entered into a shareholders agreement with our Chairman of the Board, under which agreement Asseco has been granted an irrevocable proxy to vote an additional 1,971,973 ordinary shares of Formula, thereby effectively giving Asseco beneficial ownership (voting power) over an aggregate of 39.7% of Formula's outstanding ordinary shares. The address of Asseco is Olchowa 14 35-322 Rzeszow, Poland.
- (3) Based on a Statement of Beneficial Ownership on Schedule 13G filed with the SEC on February 26, 2018. Of the 2,491,391 Common Shares reported as beneficially owned by Migdal Insurance & Financial Holdings Ltd., or Migdal, all 2,491,391 Common Shares are held for members of the public through, among others, provident funds, mutual funds, pension funds and insurance policies, which are managed by subsidiaries of Migdal, according to the following segmentation: (a) 1,315,800 Common Shares are held by Profit participating life assurance accounts, (b) 979,865 Common Shares are held by Provident funds and companies that manage provident funds, and (c) 195,726 Common Shares are held by companies for the management of funds for joint investments in trusteeship, each of which subsidiaries operates under independent management and makes independent voting and investment decisions. Migdal does not admit beneficial ownership of those 2,491,391 Common Shares.

- (4) Based on Amendment No.1 to a Statement of Beneficial Ownership on Schedule 13G, filed with the SEC on January 31, 2018. The Common Shares reported as beneficially owned are held by provident funds managed by Yelin Lapidot Provident Funds Management Ltd. and/or mutual funds managed by Yelin Lapidot Mutual Funds Management Ltd., collectively referred to as the Subsidiaries, each of which is a wholly-owned subsidiary of Yelin Lapidot Holdings Management Ltd., or Yelin Holdings. Each of Messrs. Dov Yelin and Yair Lapidot owns 24.38% of the share capital and 25% of the voting rights of Yelin Holdings, and together they are responsible for the day-to-day management of Yelin Holdings. Each of Messrs. Yelin and Lapidot, Yelin Holdings, and each of the Subsidiaries disclaims beneficial ownership of the subject Common Shares.

To the best of our knowledge, each of the entities listed in the above table has sole voting and investment power with respect to all shares shown as beneficially owned by it, except to the extent described above.

Significant changes in holdings of major shareholders

From time to time, Formula has increased its beneficial shareholding in our Company through market purchases of additional Common Shares.

Formula's beneficial ownership of our Common Shares constituted 50.2% of our outstanding share capital as of December 2014. That beneficial ownership has been diluted down to 48.1% as of March 15, 2018, primarily as a result of various minor issuances of Common Shares that we have made.

Yelin Holdings and its affiliates held 2,625,007 Common Shares (above 5% of our Common Shares) as of the end of 2015. They subsequently sold shares and reduced their holdings to 2,381,426 Common Shares as of December 31, 2016, thereby reducing their ownership of our Common Shares below 5% (based on Amendment No. 4 to the Schedule 13G filed by Yelin Lapidot Provident Funds Management Ltd., Yelin Lapidot Mutual Funds Management Ltd., Yair Lapidot and Dov Yelin on February 8, 2017). Their beneficial ownership increased once again above 5%, to 2,765,424 Common Shares, or 5.6%, as of December 31, 2017 (based on Amendment No. 1 to Schedule 13G filed by Yelin Holdings, Yair Lapidot and Dov Yelin on January 31, 2018). Subsequently, however, we have been informed by Yelin Holdings that its beneficial ownership has decreased once again below 5% as of March 15, 2018.

Migdal acquired 2,468,836 Common Shares, or 5.0%, as of July 12, 2017, based on its Schedule 13G filed on August 28, 2017, thereby becoming a major shareholder of our company. Since that time, its ownership fell slightly below 5%, then rose again above 5% and has now fallen again below 5% and stands at 2,471,184 Common Shares, or 4.97%, as of March 12, 2018, based on a Statement of Beneficial Ownership on Schedule 13G filed by Migdal with the SEC on March 15, 2018.

Voting rights of major shareholders

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

Holders of record

As of March 1, 2018 there were 61 holders of record of our Common Shares, including 41 holders of record with addresses in the United States who held a total of 42,115,636 Common Shares (out of which 42,106,702 Common Shares are held of record by CEDE & Co), representing approximately 84.6% of our issued and outstanding Common Shares. The number of record holders in the United States is not representative of the number of beneficial holders, nor is it representative of where such beneficial holders are resident, because many of these Common Shares were held of record by nominees (including CEDE & Co., as nominee for a large number of banks, brokers, institutions and underlying beneficial holders of our Common Shares). In particular, Formula, which held (as of March 1, 2018 (in part as a record holder and in part as an underlying beneficial holder) 23,954,094 Common Shares, representing 48.1% of our issued and outstanding shares, is not a United States company.

Control of the Company

Based on Formula's beneficial ownership of 48.1% of the outstanding Common Shares of the Company (as of March 1, 2018), and based on Asseco's beneficial ownership of 39.7% of the outstanding share capital of Formula (also as of that date), both Formula and Asseco may be deemed to control the Company. We are unaware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

B. Related Party Transactions

Registration Rights Agreement with Major Shareholders

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

Fees Paid to Major Shareholder for Board Service of its Affiliate

We paid to our major shareholder, Formula, approximately \$28,600 in respect of our share of the director fees of Guy Bernstein, our Chairman, for the year ended December 31, 2017. Mr. Bernstein serves as the Chief Executive Officer of Formula and a director of Asseco. Formula directly owns (as of March 1, 2018) approximately 48.1% of our currently outstanding Common Shares.

Additional Agreements and Transactions with Affiliated Companies of Formula

During the year ended December 31, 2017, we paid to affiliated companies of Formula approximately \$5.1 million, in the aggregate, pursuant to services agreements that we have in place with those companies under which we receive services. In 2017, we also purchased from those affiliated companies an aggregate of approximately \$0.9 million of hardware and software. Please see Note 14 to our audited consolidated financial statements included in Item 18 of this annual report for further information.

Further, the Company paid to Formula approximately \$0.1 million in respect of its share of the D&O insurance for the period starting June 18, 2017 through December 17, 2018.

Transactions Involving Asseco and Sapiens Poland

During 2017, Asseco provided back-office services, professional services and fixed assets to our wholly-owned subsidiary, Sapiens Poland, in an amount totaling approximately \$1.6 million. Please see Note 14 to our audited consolidated financial statements included in Item 18 of this annual report for further information.

In addition, during 2017, Sapiens Poland performed services as a sub-contractor on behalf of Asseco for clients of Asseco in a total amount of approximately \$8.25 million. For historic reasons, Asseco issues invoices to those clients and then Sapiens in turn invoices Asseco on a back-to-back basis.

Trade Payables and Receivables

As of December 31, 2017, we had trade payables balances due to, and trade receivables balances due from, our related parties in amounts of approximately \$0.8 million and \$1.5 million, respectively.

C. Interests of Experts and Counsel.

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information.

Financial Statements

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

Export Sales

In 2017, 89.4% of our revenues originated from customers located outside of Israel. For information on our revenues breakdown by geographic region for the past three years, see Item 5.A, “Operating and Financial Review and Prospects— Operating Results— Comparison of the years ended December 31, 2016 and 2017, and Comparison of the years ended December 31, 2015 and 2016— Revenues by geographical region”.

Legal Proceedings

Dispute with Significant Client

As disclosed previously, in 2017, we were involved in a dispute with a significant customer under a software development project agreement, which agreement provided for the customizing, enhancement and implementation of a new product. The customer alleged that we had materially breached our agreement with the customer. After carefully examining the customer’s allegations, we informed the customer that we had not materially breached any of our obligations under the agreement and that the customer had itself materially breached the agreement. Work on the project was canceled due to the dispute.

Following discussions between the parties, in the second quarter of 2017, we entered into a settlement agreement with the customer, under which the software development project agreement was terminated. Pursuant to the settlement agreement, the customer paid to us a settlement amount and the customer retained a nonexclusive, perpetual, royalty-free license to use the software product in certain territories, subject to payment to us of an agreed-upon maintenance fee. The agreement furthermore confirmed the respective ownership rights of the parties in the intellectual property related to the product that had been jointly developed, including our ownership of the subject software. As agreed, we have the right to commercialize and sell licenses to certain components of the developed product, without limitation, subject to our payment of royalties to the customer on certain initial sales of licenses to those components. The settlement agreement furthermore called for us and the customer to endeavor to meet once every 12 months to discuss the relationship between the parties and the current status of certain development and marketing efforts by us.

Dispute with Former Client

In November 2017, our wholly-owned subsidiary settled a dispute with a customer, related to a claim filed by such customer in an Amsterdam court, pursuant to which the action was dismissed and our subsidiary paid approximately \$0.9 million, constituting the deductible for our insurance policy coverage for the customer’s claim.

In addition to the foregoing, from time to time, we are a party to various non-material legal proceedings and claims that arise in the ordinary course of business.

Dividend Policy

Upon review of our consolidated results of operations, financial condition, cash requirements, future prospects and other factors, on January 15, 2013, April 20, 2015, March 31, 2016 and October 18, 2017, our Board of Directors determined, subject to shareholder approval, to declare and pay one-time cash interim dividends of \$0.15, \$0.15, \$0.20 and \$0.20 per Common Share (or \$5.8 million, \$7.2 million, \$10 million and \$9.8 million, in the aggregate, respectively), which were paid on February 22, 2013, June 1, 2015, June 1, 2016 and December 14, 2017, respectively.

We do not have a dividend policy. However, our Board of Directors will determine, on an annual basis, as to whether we will pay a dividend in the upcoming year. Such determination will be dependent upon our financial condition, recent and prospective results of operations, and cash requirements, among other relevant factors, and will be subject to the requirements of Curacao law and the Articles (or, following the planned migration of our legal domicile, our Memorandum and Articles and Cayman Islands law). If our company continues to be profitable, our Board of Directors may decide to distribute additional dividends in the future as well. For more information about distribution of dividends, the related requirements of Curacao law and various tax implications, see Item 10, “Additional Information— Memorandum and Articles of Association;” Item 10, “Additional Information— Exchange Controls,” and Item 10, “Additional Information— Taxation.”

B. Significant Changes

No significant change, other than as otherwise described in this annual report, has occurred in our operations since the date of our consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

The Company’s Common Shares are listed on the NASDAQ Capital Market and on the TASE under the symbol “SPNS”.

NASDAQ:

The table below sets forth the high and low daily closing prices (in US dollars) for our Common Shares on the NASDAQ Capital Market (i) on an annual basis for the years 2013 through 2017, and the year 2018 (through March 14, 2018), and (ii) on a quarterly basis for 2016, 2017 and the first quarter of 2018 (through March 14, 2018):

	HIGH	LOW
2018 (through March 14, 2018)	12.49	9.16
2017 (Annual)	15.45	10.62
2016 (Annual)	15.64	9.47
2015 (Annual)	12.64	6.42
2014 (Annual)	8.46	6.73
2013 (Annual)	7.77	3.99
2018		
First Quarter (through March 14, 2018)	12.49	9.16
2017		
First Quarter	15.45	12.88
Second Quarter	13.73	11.09
Third Quarter	13.29	10.62
Fourth Quarter	14.10	11.24
2016		
First Quarter	12.12	9.47
Second Quarter	12.65	10.99
Third Quarter	14.12	11.74
Fourth Quarter	15.64	12.58

The table below sets forth the high and low daily closing prices (in US dollars) for our Common Shares on the NASDAQ Capital Market on a monthly basis during the most recent six-month period.

	HIGH	LOW
March 2018 (through March 14, 2018)	9.89	9.23
February 2018	12.33	9.16
January 2018	12.49	11.45
December 2017	12.00	11.24
November 2017	13.99	11.96
October 2017	14.10	13.20
September 2017	13.29	11.18

The daily closing price of our Common Shares on the NASDAQ Capital Market on March 14, 2018, being the last practicable date prior to publication of this annual report, was \$9.23.

TASE:

Our Common Shares began trading on the TASE effective March 6, 2003. Under current Israeli law, the Company satisfies its reporting obligations in Israel by furnishing to the applicable Israeli regulators those reports that the Company is required to file or submit in the United States.

The table below sets forth the high and low closing prices, in US dollars, for our Common Shares on the TASE on an annual basis for the years 2013 through 2017 and the year 2018 (through March 14, 2018), and on a quarterly basis for the years 2016 and 2017, and for the first quarter of 2018 (through March 14, 2018). The conversion from NIS into US dollars for the following two tables is based on the average monthly, quarterly or yearly representative rate of exchange published by the Bank of Israel for the month, quarter or year (as appropriate) in which such high or low closing price per share was recorded.

	HIGH	LOW
2018 (through March 14, 2018)	12.63	9.15
2017 (Annual)	15.01	10.52
2016 (Annual)	15.34	9.20
2015 (Annual)	12.70	6.48
2014 (Annual)	8.37	6.66
2013 (Annual)	7.90	4.10

2018

First Quarter (through March 14, 2018)	12.63	9.15
--	-------	------

2017

First Quarter	15.01	12.53
Second Quarter	13.59	11.14
Third Quarter	13.21	10.52
Fourth Quarter	13.93	11.35

2016

First Quarter	11.77	9.20
Second Quarter	12.50	11.18
Third Quarter	13.87	11.78
Fourth Quarter	15.34	12.78

The table below sets forth the high and low daily closing prices, in US dollars, for our Common Shares on the TASE during the most recent six-month period:

	HIGH	LOW
March 2018 (through March 14, 2018)	9.80	9.30
February 2018	12.28	9.15
January 2018	12.63	11.48
December 2017	12.02	11.35
November 2017	13.81	11.73
October 2017	13.93	13.01
September 2017	13.21	11.06

The closing price of our Common Shares on the TASE on March 14, 2018, being the last practicable date prior to publication of this annual report, was \$9.35 (as converted from NIS based on the closing representative exchange rate as of March 14, 2018).

B. Plan of Distribution.

Not applicable.

C. Markets.

Our Common Shares are listed on the NASDAQ Capital Market and on the TASE under the symbol “SPNS”.

D. Selling Shareholders.

Not applicable.

E. Dilution.

Not applicable.

F. Expenses of the Issue.

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital.

Not applicable.

B. Memorandum and Articles of Association.

Migration of Legal Domicile from Curaçao to Cayman Islands

We are currently in the process of migrating the legal domicile of our company from Curaçao to the Cayman Islands. Such migration and the accompanying adoption of charter documents suitable for a Cayman Islands exempted company (which charter documents will be effective immediately prior to the completion of the migration of the legal domicile) required shareholder approval under Curaçao law, which approval was obtained at our annual general meeting of shareholders that was held on November 29, 2017. Completion of the migration requires compliance with certain additional steps under Curaçao law and Cayman Islands law and is conditioned on receipt by our company of (i) a ruling that the migration will not constitute a taxable event for our shareholders under Israeli tax law (being the jurisdiction of our residency for tax purposes) and (ii) approval that the migration will not constitute a taxable event for our shareholders under Curacao tax law. We currently expect to complete the migration in the second quarter of 2018, subject, however, to (i) the completion within that time frame of the necessary logistical steps for migration under Curaçao and Cayman Islands law and (ii) receipt of the aforementioned ruling and approval from the Israeli Tax Authority.

We have provided herein descriptions related to our current status as a Curacao company.

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

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

- to establish, participate in or have any other interest in business enterprises concerned with the development and commercial operation of software;
- to finance directly or indirectly the activities of the Company, its subsidiaries and affiliates;
- to borrow and to lend moneys;
- to engage in the purchase and sale of securities, futures, real estate, business debts, commodities and intellectual property;
- to undertake, conduct and promote research and development;
- to guarantee, pledge, mortgage or otherwise encumber assets as security for the obligations of the Company or third parties; and
- to do all that may be useful or necessary for the attainment of the above purposes.

2. Board of Directors. In case of a conflict of interest between the Company and one or more directors, acting either in private or ex officio, the Company shall be represented by a person appointed thereto by the General Meeting of Shareholders or the Board of Directors. A director who knows or ought to understand that in a certain instance there is mention of a conflicting interest between the Company and him acting privately or ex officio, will timely inform the General Meeting of Shareholders or Board of Directors of such conflict of interest. No conflict of interest will be deemed to exist between the Company and one or more of its directors in case of a contract or transaction between the Company and any other corporation, partnership, association, or other organization in which one or more directors are directors or officers, or have a financial interest, solely for that reason, or solely because the director is present or participates in the meeting of the Board of Directors or Committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose if : (a) the material facts are disclosed or are known to the Board of Directors, (b) the material facts are disclosed or are known to the shareholders entitled to vote thereon, (c) the contract or transaction is fair as to the Company as of the time it is authorized, approved or ratified by the Board of Directors, a Committee thereof or the shareholders. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a Committee that authorizes the contract or transaction. The Articles provide that the directors shall receive such compensation as the Board of Directors may from time to time prescribe. Members of the Board of Directors have the power to vote compensation to themselves, even if they lack an independent quorum, subject to prior approval of the range of their compensation by the Company's General Meeting of Shareholders.

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

3. Rights and Preferences. The Company has only one class of shares of common stock, the Common Shares, currently outstanding. All previous issuances of preferred shares have been converted into Common Shares. The rights and preferences of the holders of Common Shares are summarized below. The Articles authorize a class of undefined preferred shares (which we refer to as the Blank Preferred Shares). There are no rights associated with the Blank Preferred Shares and none have been issued. The Board of Directors shall specify the rights that shall be associated with the Blank Preferred Shares prior to their issuance, including dividend rights and voting rights.

(a) Common Shares

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

(b) Dividend Policy

We do not have a dividend policy. However, our Board of Directors will determine, on an annual basis, as to whether we will pay a dividend in the upcoming year. Such determination will be dependent upon various financial criteria, among other relevant factors. If our company continues to be profitable, our Board of Directors may decide to distribute a dividend, as it has done in the recent past. Please see “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy” above for further information concerning the factors that help to determine whether and under what circumstances we may distribute dividends.

Our ability to pay dividends is subject to the limitations of the Curaçao Civil Code and the Articles. In direct connection with the approval of our annual accounts, the general meeting of our shareholders shall decide on the distribution of the profits. Profits can either be reserved or distributed to the shareholders in accordance with the Articles. Our Board of Directors has the right to reserve the profits at its discretion. If such reservation has been made by our Board of Directors, the general meeting of shareholders is not authorized to make a distribution out of the reserved part of the profits, unless the Board of Directors has first recommended in writing to the general meeting that such distribution out of the reserved profits can be made and the general meeting has adopted a resolution to that effect. Our Board of Directors may at any time resolve to make any interim distributions, if justified by the anticipated profits of our company as an advanced payment of the dividend expected to be declared by the general meeting. The Curaçao Civil Code and the Articles further provide that a (interim) distribution of dividends can only occur if, at the moment of distribution, the equity of our company equals at least the nominal capital of our company and, as a result of the distribution, it will not fall below the nominal capital. Nominal capital is the sum of the par values of all of the issued shares of our company’s capital stock at any moment in time.

(c) The Blank Preferred Shares

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

4. *Changing the Rights of the Shareholders.* The general meeting of shareholders decides upon any change in the Articles. Provided that no Blank Preferred Shares have been issued, a resolution to amend the Articles requires the approval of the absolute majority of all shares outstanding and entitled to vote.

5. **General Meetings.** At least one general meeting of shareholders must be held each year. Pursuant to the Articles, general meetings must be held in Curaçao. Special general meetings of shareholders may be called at any time by the Chairman of the Board or by the Board of Directors upon no less than 12 nor more than 60 days' written notice to the Company's shareholders. Every shareholder has the right to attend any meeting of shareholders in person or by proxy and to address the meeting. No action may be taken at any meeting of shareholders unless a quorum consisting of holders of at least one-half of the shares outstanding and entitled to vote are present at the meeting in person or by proxy. If a quorum is not present at the originally-called shareholder meeting, a second shareholder meeting, is held within two months. At that second meeting, valid resolutions may be adopted with respect to any matter stated in the notice of the original meeting and also in the notice of such second meeting or which by law is required to be brought before the shareholders (subject to certain exceptions), despite the absence of a quorum.

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

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

8. **Disclosure of Ownership.** The Articles contain no provisions requiring a shareholder to disclose his or her interest at a certain time; however, holders of our shares are subject to the reporting provisions of the SEC.

C. **Material Contracts**

We are not party to any material contract within the two years prior to the date of this annual report, other than contracts entered into in the ordinary course of business, or as otherwise described below:

Share Purchase Agreement for Acquisition of StoneRiver

In the first quarter of 2017, we entered into a share purchase agreement with StoneRiver Group L.P., or the StoneRiver Seller, and StoneRiver, Inc., or StoneRiver, for the acquisition of all of the issued and outstanding share capital of StoneRiver. We consummated the acquisition later in the first quarter of 2017. StoneRiver is a Denver, Colorado- based provider of technology solutions and services to the insurance industry.

The acquisition consideration was approximately \$100 million in cash, subject to certain adjustments based on working capital, transaction expenses, unpaid debt and certain litigation matters.

Immediately prior to closing, we purchased a representations and warranties insurance policy covering certain indemnifiable damages under the agreement, which we refer to as the StoneRiver Insurance. The StoneRiver Insurance provides for coverage of \$12,500,000 in the aggregate and its term is in general three years (except with respect to certain fundamental representations and warranties, as to which the term of the StoneRiver Insurance is six years). In addition, two escrow funds were established by StoneRiver, for the purpose of enabling the indemnification of our company for certain damages that are not fully recovered under the StoneRiver Insurance: (i) an escrow fund in the amount of \$500,000 for a period of one year and (ii) an escrow fund in the amount of \$2,000,000 for a period of 18 months.

Deed of Trust in Favor of Series B Debentures Holders

In connection with our Israeli public offering and private placement of NIS 280 million (approximately US \$79.2 million) principal amount of our Series B Debentures, in the aggregate, in September 2017 (which debentures are traded on the TASE), we entered into a deed of trust with a trustee in favor of the debenture holders. In the deed of trust, we have agreed to repay the principal amount of the debentures in eight equal payments that will be paid once a year on January 1 of each of the years 2019 through 2026 (included). The outstanding principal amount bears interest at an annual rate of 3.37%, to be paid in half-yearly payments on January 1 and July 1 of each of the years 2018 through 2026 (included). The principal and interest are payable in NIS, subject to adjustment in accordance with fluctuations in the exchange rate between the U.S. dollar and the NIS.

Under the deed of trust, we have undertaken to maintain a number of conditions and limitations on the manner in which we can operate our business, including limitations on our ability to undergo a change of control, distribute dividends, incur a floating charge on our assets, or undergo an asset sale or other change that results in a fundamental change in our operations. The deed of trust also requires us to comply with certain financial covenants, as described below. The deed of trust furthermore provides for an upwards adjustment in the interest rate payable under the debentures in the event that our debentures' rating is downgraded below a certain level. A breach of the financial covenants for more than two successive quarters or a substantial downgrade in the rating of the debentures (below BBB-) could result in the acceleration of our obligation to repay the debentures.

The deed of trust includes the following provisions:

- a negative pledge, subject to certain exceptions;
- a covenant not to distribute dividends unless (i) our shareholders' equity (not including minority interests) shall not be less than \$160 million, (ii) our net financial indebtedness (financial indebtedness net of cash, marketable securities, deposits and other liquid financial instruments) does not exceed 65% of net CAP (which is defined as financial indebtedness, net, plus shareholders equity, including minority interest), (iii) the amount of the dividend does not exceed our profits for the year ended December 31, 2016 and the first three quarters of the year ended December 31, 2017, plus 75% of our profits as of September 1, 2017 and up to the date of distribution, and (iv) no event of default shall have occurred; and
- financial covenants, including (i) the equity attributable to the shareholders of Sapiens (not including minority interests), as reported in our annual or quarterly financial statements, will not be less than \$120 million, and (ii) Sapiens' net financial indebtedness (financial indebtedness net of cash, marketable securities, deposits and other liquid financial instruments) shall not exceed 65% of net CAP (which is defined as financial indebtedness, net, plus shareholders equity, including minority interest).

As of December 31, 2017, we were in compliance with the foregoing financial covenants.

We also agreed to standard events of default under the deed of trust, together with the following specific events of default (among others):

- cross default, including following an immediate repayment initiated in relation to other indebtedness (other than non-recourse debt) in an amount that exceeds 5% of our total balance sheet;
- suspension of trading of the debentures on the TASE over a period of 60 days, or the delisting of the debentures from the TASE;
- failure to have the debentures rated over a period of 60 days;
- if the rating of the debentures is less than BBB- by Standard and Poors Maalot or less than Baa3 by Midroog Ltd or drops below an equivalent rating of another rating agency;
- if there is a change in control without consent of the rating agency (a change of control is deemed to occur if Formula ceases to be the controlling shareholder of our company, whether directly or indirectly. Formula will be considered a controlling shareholder for so long as it continues to hold at least 25% of the means of control of our company (within the meaning of the Israeli Securities Law) and there is no other person or entity holding a higher percentage. To the extent that Formula holds such controlling interest jointly with others, it will be deemed to remain our controlling shareholder if it maintains the highest percentage ownership among such other shareholders);
- the existence and continuation of a bankruptcy event involving our company, or the liquidation of our company or writing off of our assets;
- our failure to comply with the above-described financial covenants for two consecutive quarters;
- there has been a material adverse change in the business of our company compared to the position of our company shortly before the issuance of the debentures and there is a material concern that we will not be able to pay our obligations under the debentures on time;
- if we distribute a dividend contrary to the above-described limitations on dividends;
- breach of our undertakings regarding the issuance of additional Series B Debentures;
- the sale of 25% or more of our assets, or a change in the main sphere of our activity as a company; and
- failure to comply with the negative pledge covenant.

HSBC Term Loan Credit Agreement (Loan Repaid)

In the first quarter of 2017, we (via our wholly-owned subsidiary, Sapiens Americas Corporation, or the Borrower) entered into a secured credit agreement, or the Credit Agreement, with HSBC Bank USA, National Association, or the Lender, in connection with, and as financing for, our acquisition of StoneRiver. Pursuant to the Credit Agreement, we borrowed \$40 million, or the Bank Loan, for a prospective five-year term. The Bank Loan was to mature in March 2022 and was to be payable in equal consecutive quarterly principal installments of principal and accrued interest.

The repayment of the Bank Loan was secured by first priority liens over (i) substantially all assets of the Borrower and its US subsidiaries and (ii) the shares of the Borrower held by Sapiens International Corporation B.V. (our company). Certain affiliated entities of the Borrower guaranteed the repayment of the Bank Loan. The Credit Agreement contained customary representations and warranties, affirmative covenants and negative covenants, which included, without limitation, restrictions on indebtedness, liens, investments, and certain dispositions with respect to the property secured by the lien. The Credit Agreement also contained customary events of default that entitled the Lender to cause any or all of the Borrower's indebtedness to become immediately due and payable and to foreclose on the lien, and included customary grace periods before certain events were deemed events of default.

Pursuant to our prepayment right under the Credit Agreement, following consummation of our Israeli public offering and private placement of Series B Debentures in September 2017, we used the proceeds therefrom for prepayment of the entire outstanding Bank Loan amount (plus accrued interest), which resulted in the termination of the Credit Agreement.

Registration Rights Agreement

In connection with our acquisitions of each of IDIT and FIS, which were consummated in the third quarter of 2011, we granted the shareholders of IDIT (or the IDIT Selling Shareholders), the shareholders of FIS (or the FIS Selling Shareholders, to which we refer, together with the IDIT Selling Shareholders, as the Holders) and Formula certain registration rights under a Registration Rights Agreement. Under the Registration Rights Agreement, the Holders and Formula are entitled to piggyback registration rights in connection with any registration statement that we file (subject to customary exceptions). The Holders also agreed to execute a lock-up agreement if requested by the representative of the underwriters in any underwritten offering. Based on information that we have received from our transfer agent, we do not believe that the IDIT Selling Shareholders and the FIS Selling Shareholders still hold a significant number of Common Shares that are entitled to the foregoing registration rights under the Registration Rights Agreement as of the current time.

D. Exchange Controls

There are no exchange control or currency regulations in the Cayman Islands that would affect the payment of dividends, interest or other payments to non-resident holders of the Company's securities, including the Common Shares. Other jurisdictions in which the Company conducts operations may have various currency or exchange controls. In addition, the Company is subject to the risk of changes in political conditions or economic policies which could result in new or additional currency or exchange controls or other restrictions being imposed on the operations of the Company. As to the Company's securities, Cayman Islands law and the Memorandum and Articles impose no limitations on the right of non-resident or foreign owners to hold or vote such securities.

E. Taxation

Israeli Taxation Considerations for Our Shareholders

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

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

Tax Consequences Regarding Disposition of Our Common Shares

Overview

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

Capital gain

Israeli Resident Shareholders

As of January 1, 2006, the tax rate applicable to Real Capital Gain derived by Israeli individuals from the sale of shares which had been purchased on or after January 1, 2003, whether or not listed on a stock exchange, is 20%, unless such shareholder claims a deduction for interest and linkage differences expenses in connection with the purchase and holding of such shares, in which case the gain will generally be taxed at a rate of 25%. Additionally, if such shareholder is considered a Substantial Shareholder (*i.e.*, a person who holds, directly or indirectly, alone or together with another person who collaborates with such person on a permanent basis, 10% or more of any of the company's "means of control" (including, among other things, the right to receive profits of the company, voting rights, the right to receive the company's liquidation proceeds and the right to appoint a director)) at the time of sale or at any time during the preceding 12-month period, such gain will be taxed at the rate of 25%. Individual shareholders dealing in securities in Israel are taxed at their marginal tax rates applicable to business income (up to 50% in 2017).

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

Under current Israeli tax legislation, the tax rate applicable to Real Capital Gain derived by Israeli resident corporations from the sale of shares of an Israeli company is the general corporate tax rate. As described above, the corporate tax rate was 24% in 2017, and as of 2018 the corporate tax rate is 23%.

Non-Israeli Residents Shareholders

Israeli capital gain tax is imposed on the disposal of capital assets by a non-Israeli resident if such assets are either (i) located in Israel; (ii) shares or rights to shares in an Israeli resident company; or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a tax treaty between Israel and the seller's country of residence provides otherwise. As mentioned above, Real Capital Gain is generally subject to tax at the corporate tax rate (24% in 2017 and 23% in 2018 and thereafter) if generated by a company, or at the rate of 25% (for assets other than shares that are listed on stock exchange – 20% for the portion of the gain generated up to December 31, 2011) or 30% (for any asset other than shares that are listed on stock exchange – 25% with respect to the portion of the gain generated up to December 31, 2011), if generated by an individual from the sale of an asset purchased on or after January 1, 2003. Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income (a corporate tax rate for a corporation and a marginal tax rate of up to 50% for an individual in 2017).

Notwithstanding the foregoing, shareholders who are non-Israeli residents (individuals and corporations) are generally exempt from Israeli capital gain tax on any gains derived from the sale, exchange or disposition of shares publicly traded on the Tel Aviv Stock Exchange or on a recognized stock exchange outside of Israel, provided, among other things, that (i) such gains are not generated through a permanent establishment that the non-Israeli resident maintains in Israel, (ii) the shares were purchased after being listed on a recognized stock exchange, and (iii) with respect to shares listed on a recognized stock exchange outside of Israel, such shareholders are not subject to the Israeli Income Tax Law (Inflationary Adjustments) 5745-1985. However, non-Israeli corporations will not be entitled to the foregoing exemptions if Israeli residents (a) have a controlling interest of more than 25% in such non-Israeli corporation, or (b) are the beneficiaries of or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. Such exemption is not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income.

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

In some instances where our shareholders may be liable for Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at source. Shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale. Specifically, in transactions involving a sale of all of the shares of an Israeli resident company, in the form of a merger or otherwise, the Israel Tax Authority may require from shareholders who are not liable for Israeli tax to sign declarations in forms specified by this authority or obtain a specific exemption from the Israel Tax Authority to confirm their status as non-Israeli resident, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold taxes at source.

Taxes Applicable to Dividends

Israeli Resident Shareholders

Israeli residents who are individuals are generally subject to Israeli income tax for dividends paid on our common shares (other than bonus shares or share dividends) at 25%, or 30% if the recipient of such dividend is a Substantial Shareholder at the time of distribution or at any time during the preceding 12-month period. However, dividends distributed from taxable income accrued during the benefits period of an AE are subject to withholding tax at the rate of 15% (if the dividend is distributed during the tax benefits period under the Investment Law or within 12 years after such period) or 20% with respect to PFE. An average rate will be set in case the dividend is distributed from mixed types of income (regular and Approved/ Preferred income).

Israeli resident corporations are generally exempt from Israeli corporate tax for dividends paid on shares of Israeli resident corporations (like our common shares). However, dividends distributed from taxable income accrued during the benefits period of an AE are subject to withholding tax at the rate of 15%, if the dividend is distributed during the tax benefits period under the Investment Law or within 12 years after such period.

Non-Israeli Resident Shareholders

Non-Israeli residents (whether individuals or corporations) are generally subject to Israeli income tax on the receipt of dividends paid on ordinary shares, like our common shares, at the rate of 25% or 30% (if the dividend recipient is a Substantial Shareholder at the time of distribution or at any time during the preceding 12-month period) or 15% if the dividend is distributed from income attributed to our AE or 20% with respect to PFE. Such dividends are generally subject to Israeli withholding tax at a rate of 25% so long as the shares are registered with a Nominee Company (whether the recipient is a Substantial Shareholder or not), and 15% if the dividend is distributed from income attributed to an AE or 20% if the dividend is distributed from income attributed to a PFE, unless a reduced rate is provided under an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). For example, under the U.S.-Israel Treaty, the maximum rate of tax withheld in Israel on dividends paid to a holder of our common shares who is a U.S. resident (for purposes of the U.S.-Israel Treaty) is 25%. However, generally, the maximum rate of withholding tax on dividends, not generated by our AE, that are paid to a U.S. corporation holding at least 10% or more of our outstanding voting capital from the start of the tax year preceding the distribution of the dividend through (and including) the distribution of the dividend, is 12.5%, provided that no more than 25% of our gross income for such preceding year consists of certain types of dividends and interest. Notwithstanding the foregoing, dividends distributed from income attributed to an AE are subject to a withholding tax rate of 15% for such a U.S. corporation shareholder, provided that the condition related to our gross income for the previous year (as set forth in the previous sentence) is met. If the dividend is attributable partly to income derived from an AE, or a PFE, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income. U.S. residents who are subject to Israeli withholding tax on a dividend may be entitled to a credit or deduction for U.S. federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in United States tax legislation.

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

Excess Tax

Individuals who are subject to tax in Israel (whether any such individual is an Israeli resident or non-Israeli resident) are also subject to an additional tax for income exceeding a certain level. For 2016, the rate of such additional tax was 2% on annual taxable income exceeding NIS 803,520, and for 2017 and onwards, the additional tax is at a rate of 3% on annual income exceeding NIS 640,000, which amount is linked to the annual change in the Israeli consumer price index, including, but not limited to, dividends, interest and capital gain.

Estate and Gift Tax

Israeli law presently does not impose estate or gift taxes.

Taxation of Investments

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

Curaçao Taxation

Under the laws of Curaçao as currently in effect, a holder of Common Shares who is not a resident of, and during the taxable year has not engaged in trade or business through a permanent establishment in, Curaçao, should not be subject to Curaçao income tax on dividends paid with respect to the Common Shares or on gains realized during that year on sale or disposal of such shares, unless the holder of Common Shares has been a resident of Curaçao in the preceding ten years and the holder of Common Shares has a qualifying interest of at least 5% of the total issued share capital; Curaçao does not impose a withholding tax on dividends paid by the Company. Under Curaçao law, no gift or inheritance taxes should be levied if, at the time of such gift or at the time of death, the relevant holder of Common Shares was not domiciled in Curaçao.

Cayman Islands Taxation

To the extent that we complete the migration of our legal domicile to the Cayman Islands from Curacao (which is subject to certain rulings and approvals of the tax authorities in Israel and Curacao, which have not yet been received, as described in Item 4.A above), we note that the Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation, and there is no taxation in the nature of inheritance tax or estate duty or withholding tax that will be applicable to us or to any holder of our Common Shares. There are currently no other taxes likely to be material to us or our shareholders levied by the Government of the Cayman Islands except for stamp duties that may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands exempted companies except those that hold interests in land in the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

As part of the migration process, we will seek to obtain an undertaking from the Governor-in-Council pursuant to Section 6 of the Tax Concessions Law (1995 Revision) of the Cayman Islands:

- that no law that is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to us or our operations; and
- that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the our shares, debentures or other obligations.

The undertaking from the Governor-in-Council for the Cayman Islands Parent is generally provided for a period of 20 years from the date on which it is issued.

U.S. Federal Income Tax Considerations

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

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

- a corporation (or another entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any political subdivision thereof, or the District of Columbia;
- an estate, the income of which may be included in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust (i) if, in general, a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (ii) an electing trust that was in existence on August 19, 1996 and was treated as a domestic trust on that date.

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

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

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

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

Taxation of Distributions on Common Shares

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

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

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

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

Taxation of the Disposition of Common Shares

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

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

Tax Consequences if We Are a Passive Foreign Investment Company

We would be a passive foreign investment company, or PFIC, for a taxable year if either (1) 75% or more of our gross income in the taxable year is passive income; or (2) the average percentage (by value determined on a quarterly basis) in a taxable year of our assets that produce, or are held for the production of, passive income is at least 50%. Passive income for this purpose generally includes, among other things, certain dividends, interest, royalties, rents and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income. If we own (directly or indirectly) at least 25% by value of the stock of another corporation, we would be treated for purposes of the foregoing tests as owning our proportionate share of the other corporation's assets and as directly earning our proportionate share of the other corporation's income. As discussed below, we believe that we were not a PFIC for 2017.

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

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

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

Based on an analysis of our assets and income, we believe that we were not a PFIC for 2017. We currently expect that we will not be a PFIC in 2018. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to this determination. Accordingly, there can be no assurance that we will not become a PFIC in any future taxable years. U.S. holders who hold our Common Shares during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC, subject to certain exceptions for U.S. holders who made QEF, mark-to-market or certain other special elections. U.S. holders are urged to consult their tax advisors about the PFIC rules, including the consequences to them of making a mark-to-market or QEF election with respect to our Common Shares in the event that we qualify as a PFIC.

Tax on Net Investment Income

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

Non-U.S. holders of Common Shares

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

Information Reporting and Backup Withholding

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

Information Reporting by Certain U.S. Holders

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

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our Common Shares. You should consult your tax advisor concerning the tax consequences of your particular situation.

F. Dividends and Paying Agents.

Not applicable.

G. Statement by Experts.

Not applicable.

H. Documents on Display.

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

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

I. Subsidiary Information.

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

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

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

Because exchange rates between the NIS, GBP and Euro and against the US dollar fluctuate continuously, exchange rate fluctuations and especially larger periodic devaluations will have an impact on our revenue and profitability and period-to-period comparisons of our results. The effects of foreign currency re-measurements are reflected as financial expenses in our consolidated financial statements. A hypothetical 10% movement in foreign currency rates (primarily the NIS, GBP Euro, PLN and INR) against the US dollar, with all other variables held constant on the expected sales, would have resulted in a decrease or increase in 2017 sales revenues of approximately \$12.4 million.

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

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

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

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES.

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES.

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.

None.

ITEM 15. CONTROLS AND PROCEDURES

A. *Disclosure Controls and Procedures.*

Our management, including our President and Chief Executive Officer, and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2017. Based on such evaluation, the President and Chief Executive Officer, and the Chief Financial Officer, have concluded that, as of December 31, 2017, the Company's disclosure controls and procedures are effective.

B. *Management's Annual Report on Internal Control Over Financial Reporting.*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our management, including our President and Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of the end of the period covered by this report. Such evaluation did not cover the internal controls of StoneRiver or KnowledgePrice since they were first acquired in the first quarter and fourth quarter, respectively, of 2017.

Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2017. Notwithstanding the foregoing, there can be no assurance that our internal control over financial reporting will detect or uncover all failures of persons within the Company to comply with our internal procedures, as all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements.

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

The attestation report of Kost Forer Gabbay & Kasierer, a member of EY Global, an independent registered public accounting firm in Israel, on our management's assessment of our internal control over financial reporting as of December 31, 2017 is provided on page F-3, as included under Item 18 of this annual report.

Changes in Internal Control Over Financial Reporting.

Based on the evaluation conducted by our President and Chief Executive Officer and our Chief Financial Officer pursuant to Rules 13a-15(d) and 15d-15(d) under the Exchange Act, our management has concluded that there was no change in our internal control over financial reporting that occurred during the year ended December 31, 2017 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. RESERVED

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT.

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

ITEM 16B. CODE OF ETHICS.

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**Policies and Procedures**

Our Audit Committee has adopted policies and procedures for the pre-approval of audit and non-audit services rendered by our independent auditors, Kost Forer Gabbay & Kasierer, a member of 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
	(in thousands)	
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."

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

INDEX

	<u>Page</u>
<u>Reports of Independent Registered Public Accounting Firm</u>	<u>F – 2 - F – 4</u>
<u>Consolidated Balance Sheets</u>	<u>F – 5 - F – 6</u>
<u>Consolidated Statements of Income</u>	<u>F – 7</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>F – 8</u>
<u>Consolidated Statements of Changes in Equity</u>	<u>F – 9</u>
<u>Consolidated Statements of Cash Flows</u>	<u>F – 10 - F – 11</u>
<u>Notes to the Consolidated Financial Statements</u>	<u>F – 12 - F – 43</u>



Kost Forer Gabbay & Kasierer
144 Menachem Begin St.
Tel-Aviv 6492102, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
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



Kost Forer Gabbay & Kasierer
144 Menachem Begin St.
Tel-Aviv 6492102, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

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.

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2016	2017
ASSETS		
CURRENT ASSETS:		
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
Total current assets	120,201	130,973
LONG-TERM ASSETS:		
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
Total long-term assets	137,650	242,646
Total assets	\$ 257,851	\$ 373,619

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

CONSOLIDATED BALANCE SHEETS**U.S. dollars in thousands (except share data)**

	December 31,	
	2016	2017
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
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
Total current liabilities	47,748	70,169
LONG-TERM LIABILITIES:		
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
Total long-term liabilities	14,804	101,223
COMMITMENTS AND CONTINGENT LIABILITIES		
REDEEMABLE NON-CONTROLLING INTEREST	908	1,353
EQUITY:		
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: 49,035,951 and 49,758,434 shares at December 31, 2016 and 2017, respectively		
	681	689
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)
Total Sapiens International Corporation N.V. shareholders' equity	193,595	200,043
Non-controlling interests	796	831
Total equity	194,391	200,874
Total liabilities and equity	\$ 257,851	\$ 373,619

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

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
Total 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.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Year ended December 31,		
	2015	2016	2017
Net income	\$ 20,300	\$ 19,601	\$ 556
Other comprehensive income (loss):			
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.

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)
Other comprehensive income	-	-	-	-	512	-	5	517
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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2015	2016	2017
<u>Cash flows from operating activities:</u>			
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
<u>Cash flows from investing activities:</u>			
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.

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) Cash paid during the year for:			
Interest	\$ 6	\$ 48	\$ 713
Income taxes	\$ 2,234	\$ 1,196	\$ 2,705
(b) Net cash paid for acquisitions:			
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) Non-cash transactions:			
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.

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's 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.

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		<u>78</u>
Total assets acquired	\$	<u>133,110</u>
Current liabilities	\$	10,595
Deferred revenues		5,742
Deferred tax liabilities		15,071
Other long-term liabilities		<u>351</u>
Total liabilities acquired		<u>31,759</u>
Total purchase price	\$	<u><u>101,351</u></u>

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:

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

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.

	<u>December 31,</u>	
	<u>2016</u>	<u>2017</u>
	<u>Unaudited</u>	<u>Unaudited</u>
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.

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.

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.

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".

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.

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.

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.

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.

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).

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:

	Year ended December 31,		
	2015	2016	2017
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.

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:

- | | |
|-----------|--|
| Level 1 - | Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are 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. |
| 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.

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.

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)	-
	<u>\$ (11,167)</u>	<u>\$ 528</u>

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.

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
	<u>\$ 35,640</u>	<u>\$ -</u>	<u>\$ (192)</u>	<u>\$ 35,448</u>

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
	<u>\$ 4,623</u>	<u>\$ 3,675</u>

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
	<u>28,863</u>	<u>43,995</u>
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
	<u>19,056</u>	<u>33,300</u>
Depreciated cost	<u>\$ 9,807</u>	<u>\$ 10,695</u>

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)
Functional currency translation adjustments	283	2,263
Balance at year end	<u>\$ 20,755</u>	<u>\$ 23,761</u>

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.

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

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	<u>\$ 73,597</u>	<u>\$ 158,559</u>

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
	<u>\$ 13,906</u>	<u>\$ 23,573</u>

NOTE 10: SERIES B DEBENTURES

	December 31,	
	2016	2017
Series B Debentures	\$ -	\$ 79,185
Less: Unamortized debt discounts and issuance costs	-	(904)
	<u>\$ -</u>	<u>\$ 78,281</u>

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.

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

- a. 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.

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.

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

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

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.

- c. 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.

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

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.

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.

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.

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.

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
	<u>\$ 24,513</u>	<u>\$ 25,373</u>	<u>\$ (2,008)</u>

- g. A reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate 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	<u>\$ 24,513</u>	<u>\$ 25,373</u>	<u>\$ (2,008)</u>
Statutory tax rate in Israel	<u>26.5%</u>	<u>25%</u>	<u>24%</u>
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	<u>\$ 4,213</u>	<u>\$ 5,772</u>	<u>\$ (2,564)</u>

- 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	<u>1,586</u>	<u>1,650</u>	<u>(5,023)</u>
	<u>\$ 4,213</u>	<u>\$ 5,772</u>	<u>\$ (2,564)</u>

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)
	<u>\$ 4,213</u>	<u>\$ 5,772</u>	<u>\$ (2,564)</u>

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	<u>\$ 1,987</u>	<u>\$ 2,293</u>

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.

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			
	Amount of options	Weighted average exercise	Weighted average remaining contractual life (in years)	Aggregate intrinsic value
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.

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	-
	<u>2,148,323</u>	<u>4.17</u>	<u>9.49</u>	<u>783,663</u>	<u>7.05</u>

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.

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.

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	<u>\$ 20,240</u>	<u>\$ 19,779</u>	<u>\$ 702</u>
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	<u>1,206</u>	<u>833</u>	<u>756</u>
Denominator for diluted net earnings per share - adjusted weighted average number of shares	<u>49,327</u>	<u>49,780</u>	<u>49,926</u>

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

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

The following 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.

1. Revenues:	Year ended December 31,		
	2015	2016	2017
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	<u>5,387</u>	<u>4,378</u>	<u>20,649</u>
	<u>\$ 185,636</u>	<u>\$ 216,190</u>	<u>\$ 269,194</u>

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
		<u>\$ 9,807</u>	<u>\$ 10,695</u>

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:

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	<u>\$ 10,235</u>	<u>\$ 16,488</u>	<u>\$ 31,955</u>

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.

ITEM 19. EXHIBITS

Please see the exhibit index incorporated herein by reference.

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
<u>1.1</u>	<u>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)</u>
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)
<u>4.2</u>	<u>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)</u>
<u>4.3</u>	<u>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)</u>
<u>4.4</u>	<u>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)</u>
<u>4.5</u>	<u>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)</u>
<u>4.6</u>	<u>Share Purchase Agreement, dated as of February 14, 2017, by and among Sapiens International Corporation N.V., StoneRiver, Inc. and StoneRiver Group L.P.*</u>
<u>8.1</u>	<u>List of Subsidiaries*</u>
<u>12.1</u>	<u>Certification by Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Exchange Act*</u>
<u>12.2</u>	<u>Certification by Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Exchange Act*</u>
<u>13.1</u>	<u>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*</u>
<u>15.1</u>	<u>Consent of Kost Forer Gabbay & Kasierer, a member of EY Global, independent registered public accounting firm*</u>
101	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

SHARE PURCHASE AGREEMENT

by and among

SAPIENS INTERNATIONAL CORPORATION N.V.,

STONERIVER, INC.,

and

STONERIVER GROUP, L.P.

Dated as of February 14, 2017

SHARE PURCHASE AGREEMENT

THIS SHARE PURCHASE AGREEMENT (this "**Agreement**") is made and entered into as of February 14, 2017 (the "**Agreement Date**"), by and among Sapiens International Corporation N.V., a corporation organized under the laws of Curaçao ("**Acquirer**"), StoneRiver, Inc., a corporation organized under the laws of Delaware (the "**Company**"), and StoneRiver Group L.P., a limited partnership formed under the laws of Delaware ("**Seller**"). Certain other capitalized terms used herein are defined in Exhibit A.

RECITALS

- A. Seller is the holder and the legal owner of, and has all voting rights with respect to, one hundred percent (100%) of the Company Capital Stock.
- B. Acquirer desires to purchase from Seller, and Seller desires to sell to Acquirer, all of the Company Capital Stock, free from any Encumbrances, subject to the terms and conditions set forth in this Agreement (the "**Share Purchase**").
- C. The Company, Seller and Acquirer desire to make certain representations, warranties, covenants and other agreements in connection with the Share Purchase as set forth herein.
- D. The board of directors of the Company (the "**Company Board of Directors**") has carefully considered the terms of this Agreement and has unanimously determined that the terms and conditions of the transactions contemplated by the Agreement and the documents referenced herein (collectively, the "**Transactions**") are in the best interests of, and are advisable to, the Company and Seller.

NOW, THEREFORE, in consideration of the representations, warranties, covenants, agreements and obligations contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1
THE SHARE PURCHASE

1.1 The Share Purchase. On the terms and subject to the conditions of this Agreement, Seller shall sell, transfer and deliver to Acquirer at the Closing, and Acquirer shall purchase from Seller, all of the Company Capital Stock, on an as converted and fully diluted basis (including all options, warrants, convertible debt and other rights of any kind to acquire Company securities), free and clear of all Encumbrances, in exchange for an amount in United States Dollars (the "**Consideration**") equal to (A) \$100,000,000, minus (B) an amount in cash equal to the Net Working Capital Shortfall or plus (C) an amount in cash equal to the Net Working Capital Surplus, minus (D) any unpaid Transaction Expenses, minus (E) the amount of all unpaid Company Debt (in each case, without duplications), plus (F) the Final BWC Advance Amount, plus (G) the sum of all BWC Payment Amounts, plus (H) \$55,000 (the "**Reimbursement Amount**").

1.2 Consideration Adjustments.

(a) Pursuant to Section 6.11, the Company shall deliver the Company Closing Financial Certificate to Acquirer not later than five (5) Business Days prior to the Closing Date. If Acquirer disagrees with any information included in the Company Closing Financial Certificate, then Acquirer, Seller and the Company will discuss in good faith any revisions that are necessary to resolve such disagreement, provided that if the parties do not reach agreement on such revisions, then the Closing shall be effected based on the Company Closing Financial Certificate delivered by the Company to Acquirer.

(b) Within one hundred twenty (120) days after the Closing, Acquirer shall deliver to Seller a certificate signed by an officer of Acquirer (the "**Acquirer Financial Notice**") setting forth Acquirer's calculation of the Company Closing Financial Amounts as of the Effective Time, together with reasonable supporting documentation, information and calculations. The Acquirer Financial Notice shall be prepared (i) in accordance with the Accounting Principles and Methodologies, (ii) without taking into account any purchase accounting or other adjustment arising out of the consummation of the Transactions and (iii) without taking into account the effect of any act or decision of Acquirer or any Affiliate of Acquirer (including the Company) occurring on or after the Effective Closing Time except those occurring on the Closing Date that are in the usual, regular and ordinary course of the Company's business as conducted prior to the Closing. The respective amounts included in the Company Net Working Capital for accruals or reserves (in the form of an accrued liability or an offset to an asset or similar item) relating to any of the current assets or current liabilities forming a part thereof, the amount of which was determined for the Company Balance Sheet by subjective estimates, shall not be greater than the respective amounts (including the absence of a reserve or zero) included in respect of such items on the Company Balance Sheet, except to the extent consistent with the Accounting Principles and Methodologies (i) based on additional facts and circumstances actually becoming known to Acquirer, or new events occurring, after the Company Balance Sheet Date or (ii) to correct inaccuracies in such accruals or reserves that are based on incorrect facts at the time of their inclusion in the Company Net Working Capital.

(c) Seller may object to the calculations of the Company Closing Financial Amounts set forth in the Acquirer Financial Notice by providing written notice of such objection to Acquirer within thirty (30) days after Acquirer's delivery to Seller of the Acquirer Financial Notice (the "**Notice of Objection**"), together with reasonable supporting documentation, information and calculations. Any matters not expressly set forth in the Notice of Objection shall be deemed to have been accepted by Seller.

(d) If Seller timely provides the Notice of Objection, then Acquirer and Seller shall confer in good faith for a period of up to ten (10) Business Days following Acquirer's timely receipt of the Notice of Objection in an attempt to resolve any disputed matter set forth in the Notice of Objection, and any resolution by them shall be in writing and shall be final and binding on the parties.

(e) If, during the 10-Business Day period set forth in Section 1.2(d), any matter set forth in the Notice of Objection remains unresolved, then Acquirer and Seller shall, within seven (7) Business Days after expiration of such 10-Business Day period, engage an auditing firm acceptable to both Acquirer and Seller, whose acceptance shall not be unreasonably withheld, delayed or conditioned by either party (the "**Reviewing Accountant**") to review only the matters in the Notice of Objection that are still disputed by Acquirer and Seller and the Company Closing Financial Amounts, to the extent relevant thereto. In connection with the engagement of the Reviewing Accountant, each party shall represent and warrant to the other parties that the Reviewing Accountant is not then performing or engaged to perform services for such party and shall promptly execute reasonable engagement letters and promptly supply such other documents and information as the Reviewing Accountant reasonably requires. None of the Company, Acquirer, Seller or any of their respective controlled Affiliates shall engage, or agree to engage, the Reviewing Accountant to perform any services other than as described in this Section 1.2(e) until after the Reviewing Accountant completes its determination of the Company Closing Financial Amounts. The Reviewing Accountant (i) shall utilize the criteria set forth in Section 1.2(b) and (ii) shall not assign a value to any item greater than the greatest value for such item claimed by any party, or less than the smallest value for such item claimed by any party, as set forth in the Acquirer Financial Notice or the Notice of Objection. After such review and a review of the Company's relevant books and records, the Reviewing Accountant shall promptly, and in any event within thirty (30) days following its engagement, determine the resolution of such remaining disputed matters, which determination shall be final and binding on the parties, and the Reviewing Accountant shall provide Acquirer and Seller with a calculation of the Company Closing Financial Amounts in accordance with such determination. The fees, costs and expenses of the Reviewing Accountant shall be paid in equal parts by Acquirer and Seller.

(f) Upon final determination of the Company Closing Financial Amounts pursuant to this Section 1.2, the net amount of the following payments shall be made by Seller or Acquirer, as applicable, within two (2) Business Days after the date of such final determination, to an account that the recipient, at least 24 hours prior to the time for payment specified, has designated in writing:

(i) If the Company Net Working Capital as finally determined pursuant to this Section 1.2 (the "**Final Net Working Capital**") is less than the Company Net Working Capital set forth in the Company Closing Financial Certificate, then Seller shall pay Acquirer, the amount of such difference.

(ii) If the Final Net Working Capital is greater than the Company Net Working Capital set forth in the Company Closing Financial Certificate, then Acquirer shall pay Seller the amount of such difference.

(iii) If the Transaction Expenses as finally determined pursuant to this Section 1.2 (the "**Final Transaction Expenses**") are less than the Transaction Expenses set forth in the Company Closing Financial Certificate, then Acquirer shall pay Seller, the amount of such difference.

(iv) If the Final Transaction Expenses are greater than the Transaction Expenses set forth in the Company Closing Financial Certificate, then Seller shall pay Acquirer the amount of such difference.

(v) If the Company Debt as finally determined pursuant to this Section 1.2 (the "**Final Company Debt**") is less than the Company Debt set forth in the Company Closing Financial Certificate, then Acquirer shall pay Seller, the amount of such difference.

(vi) If the Final Company Debt is greater than the Company Debt set forth in the Company Closing Financial Certificate, then Seller shall pay Acquirer the amount of such difference.

(vii) If the BWC Advance Amount as finally determined pursuant to this Section 1.2 (the "**Final BWC Advance Amount**") is less than the Estimated BWC Advance Amount, then Seller shall pay Acquirer the amount of such difference.

(viii) If the Final BWC Advance Amount is greater than the Estimated BWC Advance Amount, then Acquirer shall pay Seller the amount of such difference.

(g) Cooperation. Until the final determination of the Company Closing Financial Amounts pursuant to this Section 1.2, Acquirer and the Company shall not take any action with respect to the accounting books, records, policies and procedures of the Company that would or would be reasonably expected to materially obstruct or prevent the determination of the Company Closing Financial Amounts, including any action that would materially obstruct or prevent the preparation or review of the Acquirer Financial Notice or the Notice of Objection. Acquirer and the Company shall cooperate (and Acquirer shall cause the Company to cooperate) with Seller (and its representatives) in its review of the Acquirer Financial Notice, including (i) providing Seller and its representatives with reasonable access during normal business hours to the books, records (including work papers, schedules, memoranda and other documents), facilities and employees of the Company and (ii) the provision on a timely basis of all other information reasonably necessary in connection with Seller's review of the Acquirer Financial Notice and, if applicable, Seller's preparation of a Notice of Objection or Seller's participation in dispute related thereto.

(h) Withholding: Certain Tax Matters. Each of Acquirer and the Company (each, a "**Payor**") shall be entitled to deduct and withhold from any consideration payable or otherwise deliverable pursuant to this Agreement to, or on behalf of, Seller such amounts as the Payor reasonably determines are required to be deducted or withheld therefrom or in connection therewith under the Code or any provision of state, local or foreign Tax law or under any other Applicable Law. To the extent such amounts were so deducted or withheld, such amounts shall be (i) treated for all purposes under this Agreement as having been paid to the Person to whom such amounts would otherwise have been paid and (ii) timely remitted by each Payor to the applicable Governmental Entity for the account of such Person. In the case of any amounts withheld, the withholding party shall promptly provide to Seller written confirmation of the amount so withheld (and to the extent practicable, provide notice in advance of withholding).

(i) Treatment of Company Capital Stock Owned by the Company. At the Closing, all shares of Company Capital Stock that are owned by the Company immediately prior to the Closing shall be canceled by the Company and extinguished without any conversion thereof.

(j) Closing. Upon the terms and subject to the conditions set forth herein, the closing of the Transactions, including the consummation of the Share Purchase (the "**Closing**"), shall take place through electronic or facsimile delivery of signature pages and executed documents at 9:30 a.m. central standard time on March 3, 2017 (or on a Business Day earlier than March 3, 2017 if mutually agreed upon by the parties). However, if all of the conditions set forth in Article 7 (other than those conditions that, by their terms, are intended to be satisfied at the Closing) have not been satisfied or waived by such date, or any later date to which the Closing has been extended pursuant to this sentence, then the Closing shall, by written notice from either party to the other that identifies any such condition that has not been satisfied, be postponed until the second Business Day following such date. The date on which the Closing occurs is sometimes referred to herein as the "**Closing Date**." The Closing shall, for Tax purposes and for purposes of determining the Company Closing Financial Amounts, be deemed to occur at 11:59 p.m. EST on the Closing Date (the "**Effective Time**") and, for all other purposes, be deemed to occur at 9:30 a.m. central standard time on the Closing Date (the "**Effective Closing Time**").

1.3 Closing Deliveries.

(a) Acquirer Deliveries. Subject to the fulfillment or waiver of the conditions set forth in Article 7, Acquirer shall deliver to Seller, at or prior to the Closing:

- (i) a certificate, dated as of the Closing Date, executed on behalf of Acquirer by a duly authorized officer of Acquirer to the effect that each of the conditions set forth in Section 7.2(a) has been satisfied
- (ii) a certificate, dated as of the Closing Date and executed on behalf of Acquirer by its Chief Executive Officer, certifying Acquirer's board resolutions approving the Share Purchase and adopting this Agreement and any ancillary documents hereto; and

(iii) the Escrow Agreement, executed by Acquirer and the Escrow Agent.

(b) Company and Seller Deliveries. Subject to the fulfillment or waiver of the conditions set forth in Article 7, the Company or Seller, as applicable, shall deliver to Acquirer, at or prior to the Closing:

(i) original share certificates representing all of the Company Capital Stock accompanied by a stock transfer power in the form attached hereto as Exhibit B, duly executed by Seller with respect to all Company Capital Stock (or, if any such certificate is lost, stolen or destroyed, Seller may deliver to Acquirer, in lieu thereof, a lost certificate affidavit and an agreement to indemnify and hold harmless Acquirer for any losses in connection therewith, all in forms to be provided by Acquirer) (the "**Certificates**");

(ii) a certificate, dated as of the Closing Date and executed on behalf of the Company by its Chief Executive Officer, to the effect that each of the conditions set forth in Section 7.3(a) has been satisfied;

(iii) a certificate, dated as of the Closing Date and executed on behalf of the Company by its Chief Executive Officer, certifying the Company's (A) certificate of incorporation, including all amendments thereto, as in effect immediately prior to Closing (the "**Charter Documents**") and (B) board and shareholders resolutions approving the Share Purchase and adopting this Agreement and any ancillary documents hereto;

(iv) written acknowledgments pursuant to which any Person entitled to any Transaction Expenses (as set forth on the Company Closing Financial Certificate) acknowledges (A) the total amount of Transaction Expenses that (I) has been incurred and paid to such Person prior to the Closing or (II) has been incurred and remains payable to such Person as of the Closing and (B) that, upon payment of such remaining payable amount at the Closing, such Person shall be paid in full and shall not be owed any other amount by any of Acquirer, the Company or their respective Affiliates, whether with respect to this Agreement or the Transactions or otherwise;

(v) a resignation letter of each of the directors of the Company in office immediately prior to the Closing, effective as of the Effective Closing Time, in the form attached hereto as Exhibit C;

(vi) a certificate of good standing for the Company, dated not earlier than two (2) Business Days prior to the Closing Date, and issued by the appropriate office or agency of its state of incorporation certifying that the Company is in good standing;

(vii) the Company Closing Financial Certificate, which certificate shall be accompanied by such reasonable supporting documentation, information and calculations as are necessary for Acquirer to examine the amounts set forth therein;

- (viii) an escrow agreement in the form of Exhibit D (the "**Escrow Agreement**"), executed by Seller;
- (ix) evidence of full payment of all indebtedness of any Company Employee (including any Key Employee) to the Company;
- (x) the stockholders registry of the Company, evidencing the transfer and ownership of all of the Company Capital Stock to Acquirer;
- (xi) one or more payoff letters executed by the Persons listed on Schedule 1.3(b)(xi) of the Company Disclosure Schedule, in form reasonably satisfactory to Acquirer, reflecting (1) the full repayment of all Company Debt outstanding to such Persons upon payment pursuant to Section 1.4(c) and (2) upon receipt of payment pursuant to Section 1.4(c), agreement to remove all Encumbrances currently recorded on Company Capital Stock and/or Company assets in favor of such Persons;
- (xii) evidence reasonably satisfactory to Acquirer of the termination of the LTIP by the Company and the payment in full of any amounts to any of the participants thereunder through the Effective Closing Time; and
- (xiii) a certification in form reasonably satisfactory to Acquirer, duly completed and executed by Seller pursuant to § 1.1445-2(b)(2) of the Treasury Regulations, certifying that Seller is not a "foreign person" within the meaning of Section 1445 of the Code.

Receipt by Acquirer of any of the agreements, instruments, certificates or documents delivered pursuant to this Section 1.3(b) shall not be deemed to be an agreement by Acquirer that the information or statements contained therein are true, correct or complete, and shall not diminish Acquirer's remedies hereunder if any of the foregoing agreements, instruments, certificates or documents are not true, correct or complete.

(c) Rights Not Transferable. The rights of Seller under this Agreement are personal to Seller and shall not be transferable for any reason, other than by operation of law, will or the laws of descent and distribution. Any attempted transfer of such right by any holder thereof (other than as permitted by the immediately preceding sentence) shall be null and void.

(d) No Interest. Notwithstanding anything to the contrary contained herein, no interest shall accumulate on the Consideration, except for any interest accumulated in accordance with the Escrow Agreement.

1.4 Payment of Consideration.

(a) Payment to Seller. At the Closing Date, Acquirer shall initiate or cause to be initiated a wire transfer of immediately available funds to an account that Seller has designated in writing in an amount equal to the Closing Consideration less the Total Cash Escrow Amount.

(b) Escrow Fund. At the Closing Date, Acquirer will deposit (or cause to be deposited) the Total Cash Escrow Amount with the Escrow Agent, as escrow agent pursuant to the Escrow Agreement, to be held and released by the Escrow Agent in accordance with and subject to the provisions the Escrow Agreement.

(c) Payment of Company Debt. On the Closing Date, Acquirer shall (on behalf of the Company) initiate one or more wire transfers of immediately available funds, in such amounts of Company Debt as are provided for in the Company Closing Financial Certificate, in accordance with one or more customary payoff letters, if any, from the lenders and/or agents, as the case may be, under or with respect to the Company Debt.

(d) Payment of Transaction Expenses. On the Closing Date, Acquirer shall (on behalf of the Company and Seller) initiate one or more wire transfers of immediately available funds equal to all Transaction Expenses unpaid as of the Closing as are provided for in the Company Closing Financial Certificate.

(e) Payment of BWC Payment Amounts.

(i) Within five (5) Business Days following receipt, from time to time, of any BWC Post-Closing Collections (and in any event no less than once each calendar quarter until final resolution of the BWC Matter), Acquirer and the Company will (A) deliver to Seller a BWC Payment Report and (B) initiate a wire transfer of immediately available funds to an account that Seller has designated in writing in the amount of the applicable BWC Payment Amount.

(ii) Acquirer and the Company shall cooperate (and Acquirer shall cause the Company to cooperate) with Seller (and its representatives) in its review of any BWC Payment Report, including (A) providing Seller and its representatives with reasonable access during normal business hours to the books, records (including work papers, schedules, memoranda and other documents), facilities and employees of the Company and (B) the provision on a timely basis of all other information reasonably necessary in connection with Seller's review of any BWC Payment Report.

(1) To the extent Seller disagrees with the calculations provided in any BWC Payment Report, Seller shall notify Acquirer of such disagreement in writing within thirty (30) days of receipt of such BWC Payment Report. Acquirer and Seller shall confer in good faith for a period of up to ten (10) Business Days following Seller's written notice of such disagreement in an attempt to resolve any disputed matter, and any resolution by them shall be in writing and shall be final and binding on the parties and, to the extent such differences remain unresolved after such ten (10) Business Day period, such differences shall be resolved by the Reviewing Accountant utilizing the procedures outlined in Section 1.2(e).

1.5 No Further Ownership Rights in the Company Capital Stock. The Consideration paid or payable following the surrender for exchange of the Certificates in accordance with the terms hereof shall be paid or payable in full satisfaction of all rights pertaining to the shares of Company Capital Stock represented by the Certificates, and there shall be no further registration of transfers on the records of Acquirer or the Company of any Company Stock.

1.6 Certain Taxes. All transfer, documentary, sales, use, stamp, registration and other such Taxes and fees (including any penalties and interest) incurred in connection with this Agreement shall be paid by Acquirer when due, and Seller and Acquirer shall, at their own expense, file all required Tax Returns and other documentation with respect to all such transfer, documentary, sales, use, stamp, registration and other Taxes and fees.

1.7 Taking of Necessary Action. Prior to the Closing, Acquirer, the Company and Seller, as applicable, shall sign and deliver any documents and instruments and take any further action that is reasonably necessary to effect the Closing and to carry out the purposes of this Agreement and to vest Acquirer with full right, title and interest in and to the Company Capital Stock.

1.8 Waiver and Release of Claims.

(a) Subject to Section 1.8(d), effective as of the Effective Closing Time, Seller, by executing this Agreement, acknowledges and agrees on behalf of itself and each of its agents, directors, officers, Affiliates, Subsidiaries, successors and assigns (each, a "**Releasing Party**") that each hereby releases and forever discharges the Company and Acquirer (each a "**Beneficiary**") and each of such Beneficiary's respective Subsidiaries, affiliates, directors, officers, employees, representatives, consultants, agents, members, stockholders, successors, predecessors and assigns (each, a "**Released Party**" and collectively, the "**Released Parties**") from any and all Shareholder Claims such Releasing Party may have or assert it has against any of the Released Parties, from the beginning of time through the Effective Closing Time, in each case whether known or unknown, solely in Seller's capacity as a shareholder of the Company, or whether or not the facts that could give rise to or support a Shareholder Claim are known or should have been known; except with regard to its rights pursuant to this Agreement, the Escrow Agreement and the Transactions. In this Agreement, a "**Shareholder Claim**" shall mean: (i) any claim or right with regard to any Company Stock other than the Company Capital Stock to be transferred to Acquirer in accordance with the terms hereof; (ii) any claim or right to receive any amount or value of consideration payable to Seller pursuant to the terms of this Agreement, other than as specifically set forth herein; and (iii) any claim with respect to the authority or enforceability to enter into this Agreement, the Share Purchase or any of the Transactions.

(b) Seller, by executing this Agreement, hereby confirms, acknowledges, represents and warrants that it (A) hereby terminates and waives any rights, powers and privileges Seller has or may have pursuant to any "**Shareholders Agreement**" (which for purposes of this Agreement will be defined as any investors rights agreement, registration rights agreement or shareholders agreement entered into by Seller with respect to the Company), (B) for as long as this Agreement is in force, agrees not to sell, transfer, assign or convert any of its Company Capital Stock or subject such Company Capital Stock to any Encumbrances and (C) has not heretofore assigned or transferred, or purported to have assigned or transferred, to any corporation (or any other legal entity) or person whatsoever, any claim, debt, liability, demand, obligation, cost, expense, action or cause of action herein released.

(c) Seller, on behalf of each Releasing Party, further covenants and agrees that such Releasing Party has not heretofore sold, transferred, hypothecated, conveyed or assigned, and shall not hereafter sue any Released Party upon, any Shareholder Claim released under this Section 1.8, and that each Releasing Party shall indemnify and hold harmless the Released Parties against any loss or liability on account of any actions brought by such Releasing Party or such Releasing Party's assigns or prosecuted on behalf of such Releasing Party and relating to any Shareholder Claim released under this Section 1.8.

(d) Notwithstanding anything to the contrary in this Section 1.8 the foregoing releases and covenants shall not apply to any claims (a) relating to Acquirer's failure to pay the Consideration (or any portion thereof) in accordance with this Agreement; (b) relating to Acquirer's failure to perform any of its obligations, undertakings or covenants set forth in this Agreement (including any exhibit hereto) or the Escrow Agreement; and (c) relating to or arising from any commercial relationship Seller may have with any of the Released Parties.

(e) Notwithstanding anything to the contrary: (i) the foregoing release is conditioned upon the consummation of the Closing and shall become null and void, and shall have no effect whatsoever, without any action on the part of any person or entity, upon termination of this Agreement in accordance with Article 8; and (ii) should any provision of this release be found, held, declared, determined, or deemed by any court of competent jurisdiction to be void, illegal, invalid or unenforceable under any applicable statute or controlling law, the legality, validity, and enforceability of the remaining provisions will not be affected and the illegal, invalid, or unenforceable provision will be deemed not to be a part of this release.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Subject to the disclosures set forth in the disclosure schedule of the Company delivered to Acquirer concurrently with the execution of this Agreement (the "***Company Disclosure Schedule***"), each of which disclosures, in order to be effective, shall clearly indicate the Section and, if applicable, the Subsection of this Article 2 to which it relates, unless and only to the extent the relevance to other representations and warranties is readily apparent from the actual text of the disclosures without any reference to extrinsic documentation or any independent knowledge on the part of the reader regarding the matter disclosed, the Company represents and warrants to Acquirer, as of the Agreement Date, as follows:

2.1 Organization, Standing, Power and Subsidiaries.

(a) The Company is a corporation duly incorporated and validly existing under the laws of the State of Delaware. The Company has the corporate power to own, operate, use, distribute and lease its properties and to conduct the Business and are duly licensed or qualified to do business and are in good standing in each jurisdiction where the failure to be so qualified or in good standing, individually or in the aggregate with any such other failures, would reasonably be expected to have a Material Adverse Effect with respect to the Company. The Company is not in violation of any of the provisions of their certificate of incorporation, bylaws or other organizational documents, as applicable.

(b) The Company does not have any Subsidiaries and the Company does not own or control, directly or indirectly, any Equity Interest in, or have any commitment or obligation to invest in, purchase any securities or obligations of, fund, guarantee, contribute or maintain the capital of or otherwise financially support any, corporation, partnership, limited liability company, joint venture or other business association or entity.

(c) Schedule 2.1(c) of the Company Disclosure Schedule sets forth, as of the Agreement Date, a true, correct and complete list of: (i) the names of the members of the Company Board of Directors; and (ii) the names and titles of the officers of the Company.

(d) Except as set forth in Schedule 2.1(d) of the Company Disclosure Schedule, the Company has not, since January 1, 2012, conducted any business under or otherwise used, for any purpose or in any jurisdiction, any fictitious name, assumed name, business name or other name, other than its corporate name as set forth in this Agreement.

(e) Except as set forth in Schedule 2.1(e) of the Company Disclosure Schedule, the Company (i) does not have any (A) properties or assets outside of the United States or (B) operations based outside of the United States, and (ii) did not have revenue in 2016 from customers outside of (based on the billing address provided by such customers) the United States.

2.2 Capital Structure.

(a) The authorized share capital of the Company consists solely of one thousand (1,000) shares of Company Stock. A total of one hundred (100) shares of Company Stock are issued and outstanding as of the Agreement Date and owned by Seller. The Company holds no treasury shares. As of the Agreement Date, there are no other issued and outstanding shares of Company Capital Stock and no outstanding commitments (including without limitation any subscriptions, options, warrants, "put" or "call" rights, exchangeable or convertible securities) or Contracts of any character obligating the Company to issue, transfer or sell any shares of Company Capital Stock, any Equity Interests or any other securities of the Company or otherwise acquire or sell any securities. There are no issued and outstanding shares of Company Stock that are not vested under the terms of any Contract with the Company (including any stock option agreement, or stock option exercise agreement, or restricted stock purchase agreement) and no issued and outstanding shares of Company Stock are subject to any Contract providing for the vesting or repurchase of such shares of Company Stock. All issued and outstanding shares of Company Capital Stock are duly authorized, validly issued, fully paid and non-assessable and are free of any Encumbrances, outstanding subscriptions, preemptive rights, rights of first refusal or "put" or "call" rights created by statute, the Charter Documents or any Contract to which the Company is a party or by which the Company or any of its assets is bound. There is no Liability for dividends accrued and unpaid by the Company. The Company is not under any obligation to register under the Securities Act, any other Applicable Law or "blue sky" laws, any shares of Company Capital Stock, any Equity Interests or any other securities of the Company. All issued and outstanding shares of Company Capital Stock were issued in compliance with all Applicable Law and all requirements set forth in the Charter Documents and any applicable Contracts to which the Company is a party or by which the Company or any of its assets is bound.

(b) The Company has not adopted, sponsored or maintained any stock option plan or any other plan or agreement providing for equity compensation to any Person (in each case, which is currently in effect).

(c) As of the Agreement Date, there are no authorized, issued or outstanding Equity Interests of the Company other than the Company Capital Stock. As of the Agreement Date, no Person has any Equity Interests of the Company, share appreciation rights, share units, share schemes, calls or rights, or is party to any Contract of any character to which the Company or Seller is a party or by which it or its assets is bound, (i) obligating the Company or Seller to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any Equity Interests of the Company or other rights to purchase or otherwise acquire any Equity Interests of the Company, whether vested or unvested, or (ii) obligating the Company to grant, extend, accelerate the vesting and/or repurchase rights of, change the price of, or otherwise amend or enter into any such option, warrant, call, right or Contract.

(d) No Company Debt (i) granting its holder the right to vote on any matters on which Seller may vote (or that is convertible into, or exchangeable for, securities having such right) or (ii) the value of which is in any way based upon or derived from capital or voting share of the Company, is issued or outstanding as of the Agreement Date.

(e) The Company has not, since January 1, 2014, repurchased, redeemed or otherwise reacquired any of its Company Capital Stock or any other Equity Interests. There are no Contracts relating to voting, purchase, sale or transfer of any Company Capital Stock between the Company and Seller.

(f) The Company has not granted to any employee of the Company or other Person any offer letter or other Contract or Company Employee Plan (in each case that is currently in effect) that contemplates a grant of, or right to purchase or receive: (i) options to purchase shares of Company Capital Stock or other equity awards with respect to Company Capital Stock or (ii) any other securities of the Company.

(g) No Person has a right to acquire from the Company any Company Capital Stock or any other Equity Interests of the Company.

2.3 Authority; Noncontravention.

(a) Authority. The Company has all requisite corporate power and authority to enter into this Agreement and to consummate the Transactions. The execution and delivery of this Agreement and the consummation of the Transactions have been duly authorized by all necessary corporate action on the part of the Company. This Agreement has been duly executed and delivered by the Company and, assuming the due execution and delivery of this Agreement by the other parties hereto, constitutes the valid and binding obligation of the Company enforceable against the Company in accordance with its terms subject only to the effect, if any, of (i) applicable bankruptcy and other similar Applicable Law affecting the rights of creditors generally and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies. The Company Board of Directors, by resolutions duly adopted (and not thereafter modified or rescinded) by the Company Board of Directors, has (i) approved this Agreement and approved the Share Purchase and the other Transactions and determined that this Agreement and the Transactions, including the Share Purchase, upon the terms and subject to the conditions set forth herein, advisable, fair to and in the best interests of the Company and (ii) approved this Agreement in accordance with Applicable Law and the Charter Documents.

(b) Non-Contravention. The execution and delivery of this Agreement by the Company does not, and the consummation of the Transactions by the Company will not, (i) result in the creation of (A) any Encumbrance on any of the material properties or assets of the Company or (B) any Encumbrance on any Company Capital Stock, (ii) conflict with, or result in any violation of or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of any benefit under, or require any consent, approval or waiver from any Person pursuant to, (A) any provision of the Charter Documents or any resolution adopted by the Company Board of Directors, (B) any Material Contract or any Company License Agreement, or (C) any Applicable Law, or (iii) contravene, conflict with or result in a violation of, or give any Governmental Entity or other Person the right to challenge any of the Transactions or to exercise any remedy or obtain any relief under any Law or any Order to which the Company or any of the assets owned or used by the Company, is subject.

(c) No consent, approval, Order or authorization of, or registration, qualification, designation, declaration or filing with, or notice to, any Governmental Entity or any other Person (but excluding in each case any such action required under any Contracts) is required by or with respect to the Company in connection with the execution and delivery of this Agreement or the consummation of the Transactions (including without limitations, antitrust laws and other Applicable Law) by the Company.

2.4 Company Financial Statements; Absence of Certain Changes.

(a) Attached as Schedule 2.4(a) of the Company Disclosure Schedule are the Company's (i) audited balance sheet, statements of income and cash flows for the fiscal year of the Company ended December 31, 2015 (the "**Audited Financial Statements**"), (ii) unaudited balance sheet and statement of income for the nine months ended September 30, 2016 (the "**September Financial Statements**") and (iii) unaudited balance sheet as of December 31, 2016 (such balance sheet, the "**Company Balance Sheet**" and December 31, 2016, the "**Company Balance Sheet Date**"), statements of income and cash flows for the year ended December 31, 2016 (together with the September Financial Statements, the "**Interim Financial Statements**"). Such Company Financial Statements (x) were prepared, to the extent applicable and in all material respects, in accordance with the books and records of the Company, (y) present fairly in all material respects the financial condition of the Company at the date or dates therein indicated and the results of operations for the period or periods therein specified except as noted in Schedule 2.4(a) of the Company Disclosure Schedule and (z) have been prepared in accordance with GAAP except as noted in Schedule 2.4(a) of the Company Disclosure Schedule, and except, in the case of unaudited Company Financial Statements, for the omission of notes thereto and customary year-end adjustments.

(b) Since the Balance Sheet Date, the Company has not incurred (i) any Liabilities that GAAP (as applied by the Company on a consistent basis) would require to be reflected or reserved against on a balance sheet of the Company as of the date hereof or (ii) to the Knowledge of the Company, any other material Liability, other than (A) those set forth or adequately provided for in the Company Balance Sheet included in the Company Financial Statements, (B) those incurred in the conduct of the Company's business since the Company Balance Sheet Date in the ordinary course, consistent with past practice, (C) Transaction Expenses reflected on the Company Closing Financial Certificate and (D) Liabilities that are listed on Schedule 2.4(b) of the Company Disclosure Schedule. The Company does not have any off balance sheet liability of any nature to, or any financial interest in, any third party or entities, the purpose or effect of which is to defer, postpone, reduce or otherwise avoid or adjust the recording of debt expenses incurred by the Company. Except as set forth in Schedule 2.4(b) of the Company Disclosure Schedule, there are no Company Debts.

(c) Neither the Company nor, to the Knowledge of the Company, any current or former employee, advisor, consultant or director of the Company, has identified or been notified in writing of any fraud, whether or not material, that involves the Company or the Company's management or other current or former employees, consultants, advisors or directors of the Company who have a role in the preparation of financial statements or the internal accounting controls utilized by the Company, or any written claim or allegation regarding any of the foregoing.

(d) Except as set forth in Schedule 2.4(d) of the Company Disclosure Schedule, since the Company Balance Sheet Date:

(i) the Company has not declared or paid any non-cash dividends, or authorized or made any non-cash distribution upon or with respect to any Company Stock.

(ii) other than the Company Debt, the Company has not incurred any indebtedness for money borrowed or, other than in the ordinary course of business, incurred any other Liabilities in excess of \$50,000 individually or \$150,000 in the aggregate;

(iii) the Company has not made any loans, guarantees or advances, nor has provided any type of security interest whatsoever (other than in connection with the Company Debt) to any Person, other than ordinary advances for expenses;

(iv) the Company has not sold, exchanged or otherwise disposed of any material assets or rights other than non-exclusive licenses in the ordinary course of its business;

- (v) the Company has not entered into any transactions with any of its officers, directors or employees or any entity controlled by any of its officers or directors;
- (vi) there has not been any damage, destruction or loss, whether or not covered by insurance, materially and adversely affecting the assets, properties, financial condition, operating results, or business of the Company;
- (vii) there has not been any waiver by the Company of a material right or of a material debt owed to it;
- (viii) there has not been any material change in any compensation or benefits arrangement or Contract with any employee, officer, director or shareholder of the Company;
- (ix) through the Agreement Date, there has not been any resignation or termination of employment of any officer or Key Employee and the Company has no Knowledge of any impending resignation or termination of employment of any such officer or Key Employee;
- (x) there has not been any change in any tax election or method of tax accounting made or used by the Company, or any settlement or final determination of any tax audit, claim, investigation, litigation or other proceeding or assessment involving the Company;
- (xi) there has not occurred any event or events that have had, or would reasonably be expected to have, a Material Adverse Effect on the Company;
- (xii) there has not been any arrangement or commitment by the Company or any other Person acting on behalf of the Company to do any of the things described in this Section 2.4(d);
- (xiii) the Company has not received written notice of any claims or matters raised by any individual, Governmental Entity, or workers' representative organization, bargaining unit or union, regarding, claiming or alleging labor trouble, wrongful discharge or any other unlawful employment or labor practice or action with respect to the Company;
- (xiv) there has not been any issuance or sale, or contract or agreement to issue or sell, by the Company of any shares of Company Stock, or securities convertible into, or exercisable or exchangeable for, shares of Company Stock, or any securities, warrants, options or rights to purchase any of the foregoing; and
- (xv) there has not been any material change in accounting methods or practices (including any change in depreciation or amortization policies or rates) by the Company other than as required by GAAP.

2.5 Litigation. Except as set forth in Schedule 2.5 of the Company Disclosure Schedule, there is no private or governmental action, suit, proceeding, mediation, arbitration or investigation (of which the Company has received notice, whether written or oral) pending before any Governmental Entity, or, to the Knowledge of the Company, threatened, against the Company or any of its assets or properties or, to the Knowledge of the Company, any of its directors, officers or employees (in their capacities as such or relating to their employment, services or relationship with the Company). Except as set forth in Schedule 2.5 of the Company Disclosure Schedule, there is no judgment, decree, injunction or order binding against the Company, any of its assets or properties, or, to the Knowledge of the Company, any of its directors, officers or employees (in their capacities as such or relating to their employment, services or relationship with the Company). Except as set forth in Schedule 2.5 of the Company Disclosure Schedule, the Company does not have any action, suit, proceeding, mediation or arbitration pending against any other Person.

2.6 Restrictions on Business Activities. There is no Contract, judgment, injunction, order or decree binding upon the Company that has or would reasonably be expected to have, whether before or after consummation of the Share Purchase, the effect of prohibiting or impairing any material current business practice of the Company.

2.7 Compliance with Laws; Governmental Permits.

(a) The Company has complied in all material respects with, is not in material violation of, and, since January 1, 2014, has not received any written notices of violation with respect to, any Applicable Law. Neither the Company nor, to the Knowledge of the Company, any director, officer or employee (in their capacities as such), has given, offered, paid, promised to pay or authorized payment of any money, any gift or anything of value, with the purpose of influencing any act or decision of the recipient in his or her official capacity or inducing the recipient to use his or her influence to affect an act or decision of a government official or employee, to any (i) governmental official or employee, (ii) political party or candidate thereof or (iii) Person while knowing that all or a portion of such money or thing of value would be given or offered to a governmental official or employee or political party or candidate thereof.

(b) The Company has obtained each governmental consent, business license, permit, grant, or other authorization of a Governmental Entity (i) pursuant to which the Company currently operates or holds any interest in any of its assets or properties or (ii) that is required for the operation of the Company's business or the holding of any such interest in each case except for such consents, business licenses, permits, grants and other authorizations the failure to obtain would not be material to the business of the Company (all of the foregoing consents, business licenses, permits, grants, and other authorizations (and excluding Contracts with any Governmental Entity), collectively, the "**Company Authorizations**"). All of the Company Authorizations are in full force and effect. The Company has not, since January 1, 2012, received any written notice from any Governmental Entity regarding (i) any actual violation of law or any Company Authorization or any failure to comply with any term or requirement of any Company Authorization or (ii) any actual revocation, withdrawal, suspension, cancellation, termination or modification of any Company Authorization. None of the Company Authorizations will be terminated or impaired, or will become terminable, in whole or in part, merely as a result of the consummation of the transactions contemplated by this Agreement, and the mere consummation of the Transactions will not give any Governmental Entity the right to revoke, terminate or modify any Company Authorization (ignoring for purposes of this sentence any effect relating to the identity of Acquirer or its operations).

2.8 Title to Property and Assets. The Company has good and marketable title to all of its material properties, interests in properties and assets, real and personal, reflected on the Company Financial Statements or acquired after the Company Balance Sheet Date, except properties and assets, or interests in properties and assets, sold or otherwise disposed of since the Company Balance Sheet Date in the ordinary course of business consistent with past practice, or, with respect to leased properties and assets, valid leasehold interests in such properties and assets which afford the Company valid leasehold possession of the properties and assets that are the subject of such leases, in each case, free and clear of all Encumbrances (other than Permitted Encumbrances). The tangible property and equipment of the Company used in the operation of its business, taken as a whole, are in such operating condition and repair, subject to normal wear and tear, as necessary for the conduct of the Business. All properties used in the operations of the Company are reflected on the Company Financial Statements to the extent required under GAAP to be so reflected. Schedule 2.8 of the Company Disclosure Schedule identifies each parcel of real property leased by the Company. The Company has adequate rights of ingress and egress into any real property used in the operation of its business. The Company has heretofore made available to Acquirer's counsel true, correct and complete copies of all leases, subleases and other agreements under which the Company uses or occupies or has the right to use or occupy, now or in the future, any real property or facility, including all modifications, amendments and supplements thereto. The Company does not currently own any real property.

2.9 Intellectual Property.

(a) As used in this Agreement, the following terms have the meanings indicated below:

(i) "**Company IP Rights**" means (A) any and all Intellectual Property used in the conduct of the business of the Company as currently conducted by the Company and (B) any and all other Intellectual Property owned by the Company.

(ii) "**Company IP Rights Agreements**" means any Contract of the Company governing any Company IP Rights, to which the Company is a party or by which the Company is bound, except for contracts for Third Party Intellectual Property that are generally available software and licenses for an annual fee under \$1,000.

(iii) "**Company License Agreements**" means the Contracts listed in subsection (vi) of Schedule 2.9(c) of the Company Disclosure Schedule.

(iv) "**Company-Owned IP Rights**" means (A) Company IP Rights that are owned or are purportedly owned by and (B) Company IP Rights that were developed for the Company by full or part time employees or consultants of the Company and which are owned by the Company. For the avoidance of doubt, Company-Owned IP Rights exclude Company IP Rights licensed to, rather than owned by, the Company.

(v) **"Company Products"** means all products produced, marketed, licensed, sold or distributed by or on behalf of the Company.

(vi) **"Company Registered Intellectual Property"** means all active or pending United States, international and foreign: (A) patents and patent applications (including provisional applications); (B) registered trademarks, applications to register trademarks, intent-to-use applications, or other registrations or applications related to trademarks; (C) registered Internet domain names; (D) registered copyrights and applications for copyright registration and (E) any other Intellectual Property that is the subject of an application, certificate, filing, registration or other document issued, filed with, or recorded by any governmental authority owned by, registered or filed in the name of, the Company.

(vii) **"Company Source Code"** means, collectively, any software source code, any material portion or aspect of software source code, or any material proprietary algorithm contained in or relating to any software source code of any Company-Owned IP Rights or Company Products.

(viii) **"Intellectual Property"** means any and all worldwide industrial and intellectual property and all rights associated therewith, including all patents and applications therefor and all reissues, divisions, renewals, extensions, provisionals, continuations and continuations-in-part thereof, all inventions (whether patentable or not), invention disclosures, improvements, trade secrets, proprietary information, know how, technology, technical data, proprietary processes and formulae, algorithms, specifications, customer lists and supplier lists, all industrial designs and any registrations and applications therefor, all trade names, logos, common law trademarks and service marks, trademark and service mark registrations and applications therefor, Internet domain names, Internet and World Wide Web URLs or addresses, all copyrights, copyright registrations and applications therefor, and all other rights corresponding thereto, all mask works, mask work registrations and applications therefor, and any equivalent or similar rights in semiconductor masks, layouts, architectures or topology, all computer software, including all source code, object code, firmware, development tools, files, records and data, all schematics, netlists, test methodologies, test vectors, emulation and simulation tools and reports, hardware development tools, and all rights in prototypes, breadboards and other devices, all databases and data collections, all moral and economic rights of authors and inventors, however denominated, and any similar or equivalent rights to any of the foregoing, and all tangible embodiments of the foregoing.

(ix) **"Open Source Materials"** means all software or other material that is distributed as "free software" or "open source software" or under a similar licensing or distribution terms (including the GNU General Public License (GPL), GNU AFFERO General Public License (AGPL), GNU Lesser General Public License (LGPL), Mozilla Public License (MPL), BSD licenses, the Artistic License, the Netscape Public License, the Sun Community Source License (SCSL) the Sun Industry Standards License (SISL) and the Apache License).

(x) "***Third Party Intellectual Property***" means any and all Intellectual Property owned by a third party.

(b)

(i) Schedule 2.9(b)(i) of the Company Disclosure Schedule lists all Company Products.

(ii) Schedule 2.9(b)(ii) of the Company Disclosure Schedule lists all Company Registered Intellectual Property including the jurisdictions in which each such item of Intellectual Property has been issued or registered or in which any application for such issuance and registration has been filed, or in which any other filing or recordation has been made.

(iii) Schedule 2.9(b)(iii) of the Company Disclosure Schedule sets forth a list of all actions that are required to be taken by the Company, including payment of applicable registration, maintenance and/or renewal fees, within 90 days of the Closing Date with respect to any of the Company Registered Intellectual Property in order to avoid impairment to or abandonment of such Company Registered Intellectual Property.

(iv) Schedule 2.9(b)(iv) of the Company Disclosure Schedule identifies each Contract pursuant to which the Company has deposited since January 1, 2014, or is or may be required to deposit, with an escrow holder or any other Person, any of the Company Source Code.

(c) Except as set forth in Schedule 2.9(c) of the Company Disclosure Schedule:

(i) The Company (A) owns or (B) has the valid right or license to all Company IP Rights. The Company IP Rights are sufficient for the conduct of the Business as currently conducted, free and clear of any Encumbrances (other than Permitted Encumbrances), and without any conflict with or infringement upon the rights of other.

(ii) The Company owns and has good and exclusive title to each item of Company-Owned IP Rights and each item of Company Registered Intellectual Property, free and clear of any Encumbrances (other than Permitted Encumbrances). The right, license and interest of the Company in and to all Third Party Intellectual Property rights licensed by the Company from a third party are free and clear of all Encumbrances (other than Permitted Encumbrances and the terms of the applicable license or other agreement with the applicable Third Party).

(iii) Neither the execution and delivery or effectiveness of this Agreement, the consummation of the Transactions, nor the performance of the Company's obligations under this Agreement will cause the forfeiture or termination of, or give rise to a right of forfeiture or termination of any Company-Owned IP Right, or impair the right of the Company to use, possess, sell or license any Company-Owned IP Right or portion thereof. Except as (A) required under Applicable Laws and (B) applicable under the terms contained in (1) licenses and other agreements regarding Third Party Intellectual Property (including Open Source Materials) and (2) end user licenses entered into by users of the Company Products, all Company-Owned IP Rights or, to the Company's Knowledge, Third Party Intellectual Property that is used by or licensed to the Company is currently fully transferable, alienable or licensable by the Company without restriction and without payment of any kind to any third party.

(iv) Each item of Company Registered Intellectual Property is valid and subsisting (or in the case of applications, applied for), all registration, maintenance and renewal fees currently due in connection with such Company Registered Intellectual Property have been paid and all documents, recordings and certificates in connection with such Company Registered Intellectual Property currently required to be filed have been filed with the relevant patent, copyright, trademark or other authorities in the United States and/or foreign jurisdictions, as the case may be, for the purposes of prosecuting, maintaining and perfecting such Company Registered Intellectual Property and recording the Company's ownership interests therein.

(v) None of the Company IP Rights Agreements grants any third party the right to sublicense any Company-Owned IP Rights or exclusive rights to or under any Company-Owned IP Rights (except for time-limited limitations on the Company's right to commercialize Company-Owned IP).

(vi) Except for payments under the Company License Agreements set forth in subsection (vi) of Schedule 2.9(c) of the Company Disclosure Schedule, there are no royalties, honoraria, fees or other payments payable by the Company to any Person (other than salaries payable to employees, consultants and independent contractors in the scope of their engagement) in excess of \$10,000 per annum as a result of the ownership, use, possession, license-out, sale, marketing, advertising or disposition of any Company-Owned IP Rights by the Company, and there are no options, licenses or agreements of any kind relating to any Company Owned IP Rights outside of customary nonexclusive (except for time-limited limitations on the Company's right to commercialize Company-Owned IP) end user terms of service entered into by users of the Company Products in the ordinary course of business.

(vii) There currently is no and since January 1, 2014 there has not been any unauthorized use, unauthorized disclosure, infringement or misappropriation of any Company-Owned IP Rights, by any third party, including any employee or former employee of the Company. Since January 1, 2014, the Company has not brought any action, suit or proceeding against a third party for infringement or misappropriation of any Company-Owned IP Rights or breach of any Company IP Rights Agreement.

(viii) Since January 1, 2014, the Company has not been sued in any suit, action or proceeding (or received any written notice or, to the Knowledge of the Company, threat) which involves a claim of infringement or misappropriation of any Intellectual Property of any third party or which contests the validity, ownership or right of the Company to exercise any Company IP Rights. Since January 1, 2014, the Company has not received any written communication that involves an offer to license or grant any other rights or immunities under (A) any patent rights or (B) any other Third Party Intellectual Property to avoid infringement.

(ix) The operation of the Business, including (A) with respect to any Company Product, the design, development, manufacturing, reproduction, marketing, licensing, sale, offer for sale, importation, distribution, provision and/or use of such Company Product in any country in which the Company conducts such activities in relation to such Company Product, and (B) the Company's use of any product, device or process used in the Business, does not infringe or misappropriate the Intellectual Property of any third party in a manner that would (i) give rise to indemnity obligations on the part of the Company under the applicable Contract, (ii) prevent the Company from using its products, devices or processes as currently used by the Company or (iii) constitute unfair competition or unfair trade practices under the laws of the applicable jurisdiction.

(x) None of the Company-Owned IP Rights, the Company Products or the Company is subject to any proceeding or outstanding order, Contract or stipulation (A) restricting in any manner the use, transfer, or licensing by the Company of any Company-Owned IP Right or (B) which may affect the validity or enforceability of any Company-Owned IP Right.

(xi) Since January 1, 2014, the Company has not received any written opinion of counsel that any Company Product or the operation of the Business infringes or misappropriates any Third Party Intellectual Property.

(xii) Since January 1, 2014, the Company has secured contractually or through operation of law from all of its consultants, employees and independent contractors who independently or jointly contributed to the conception, reduction to practice, creation or development of any Company-Owned IP Rights unencumbered and unrestricted exclusive ownership of (a) all such contributions created in connection with their services to the Company and (b) all such third party's Intellectual Property in such contribution that the Company does not already own by operation of law and such third party has not retained any rights or licenses with respect thereto. To the Knowledge of the Company, since January 1, 2014, no current or former employee, consultant or independent contractor of the Company: (i) is in violation of any term or covenant of any Contract executed with the Company relating to employment, invention disclosure, invention assignment, non-disclosure or non-competition or any other Contract with any other party by virtue of such employee's, consultant's or independent contractor's being employed by, or performing services for, the Company or using trade secrets or proprietary information of others without permission or (ii) has developed any technology, software or other copyrightable, patentable or otherwise proprietary work for the Company (excluding any such technology, software or other copyrightable, patentable or otherwise proprietary work that was intended to be owned by a customer of the Company (pursuant to a written agreement with such customer)) that is subject to any agreement under which such employee, consultant or independent contractor has assigned or otherwise granted to any third party any rights (including Intellectual Property rights) in or to such technology, software or other copyrightable, patentable or otherwise proprietary work.

(xiii) To the Knowledge of the Company, the employment of any employee of the Company or the use by the Company of any consultant or independent contractor does not subject the Company to any Liability to any third party for improperly soliciting such employee, consultant or independent contractor to work for the Company, whether such Liability is based on contractual or other legal obligations to such third party.

(xiv) No current or former employee, consultant or independent contractor of the Company has any right, license, claim or interest whatsoever in or with respect to any Company-Owned IP Rights.

(xv) To the extent that any Intellectual Property that is or was Third Party Intellectual Property is incorporated into, integrated or bundled with, or used by the Company in the development, manufacture or compilation of any of the Company Products, the Company has the right to use such Third Party Intellectual Property in such Company Products sufficient for the conduct of the Business.

(xvi) Since January 1, 2012, the Company has taken commercially reasonable steps to protect and preserve the confidentiality of all confidential or non-public information included in the Company IP Rights ("**Confidential Information**"). Since January 1, 2012, all use, disclosure or appropriation of Confidential Information owned by the Company by or to a third party has been pursuant to the terms of a written Contract between the Company and such third party. Since January 1, 2012, all use, disclosure or appropriation of Confidential Information by the Company not owned by the Company has been pursuant to the terms of a written agreement between the Company and the owner of such Confidential Information, or is otherwise lawful. All current and former employees and consultants of the Company having access to Confidential Information or proprietary information of any of the customers or business partners of the Company have executed and delivered to the Company an agreement regarding the protection of such Confidential Information or proprietary information (in the case of proprietary information of the Company's customers and business partners, to the extent required by such customers and business partners).

(xvii) The Company is in material compliance with the terms and conditions of all licenses for all Open Source Materials used by the Company in connection with the development, production or distribution of any Company Products.

(xviii) Since January 1, 2012, the Company has not (A) incorporated Open Source Materials into, or combined Open Source Materials with, the Company-Owned IP Rights or Company Products, (B) distributed Open Source Materials in conjunction with any Company-Owned IP Rights or Company Products or (C) used Open Source Materials in such a way that, with respect to (A), (B), or (C), creates obligations for the Company with respect to any such Company-Owned IP Rights to grant to any third party any rights or immunities under any such Company-Owned IP Rights that require, as a condition of use, modification and/or distribution of such Open Source Materials that other Company-Owned IP Rights incorporated into, derived from or distributed with such Open Source Materials be (x) disclosed or distributed in source code form, (y) be licensed for the purpose of making derivative works or (z) be redistributable at no charge.

(xix) The software included in the Company Products or software used in the provision of any Company Product does not contain any disabling mechanisms or protection features which are designed to disrupt, disable, harm or otherwise impede in any manner the operation of, or provide unauthorized access to, a computer system or network or other device on which such Company Product software is stored or installed or damage or destroy any data or file without the user's consent.

(xx) All Company Products sold, licensed, leased or delivered by the Company to customers and all services provided by or through the Company to customers, in each case since January 1, 2012, conform in all material respects to applicable contractual commitments, and express and statutorily implied warranties, all to the extent any such warranties, representations, materials, specifications or documentation (a) are not subject to legally effective express exclusions thereof and (b) are otherwise applicable to such Company Products. The Company does not have any Liability for replacement or repair thereof or other damages in connection therewith in excess of any reserves therefor reflected on the Company Financial Statements. The Company Products can be legally sold in each geographical market in which they are currently sold or marketed.

(xxi) Since January 1, 2012, the Company has used commercially reasonable efforts to document all bugs, errors and defects in all the Company Products, and such documentation is retained and is available internally at the Company.

(xxii) For all software used by the Company in providing services, or in developing or making available any of the Company Products, the Company has implemented any and all material security patches or upgrades that are generally available for that software.

(xxiii) Since January 1, 2014, no (A) government funding (excluding Contracts for the license of Company Products with any Governmental Entity), (B) facilities of a university, college, other educational institution or research center or (C) funding from any Person (other than funds received in consideration for shares of Company Capital Stock) was used in the development of the Company-Owned IP Rights. To the Knowledge of the Company, no current or former employee, consultant or independent contractor of the Company, who was involved in, or who contributed to, the creation or development of any Company-Owned IP Rights, has performed services for any government, university, college or other educational institution or research center during a period of time during which such employee, consultant or independent contractor was also performing services for the Company. The Company has not, since January 1, 2014, received any grant, loan, incentive, subsidy, award, participation, exemption, status, cost sharing arrangement or reimbursement arrangement, relief or privilege provided or made available by any Person in connection with Company-Owned IP Rights.

(xxiv) The Company is not now and since January 1, 2014 has not been a member or promoter of, or a contributor to, any industry standards body or any similar organization that could reasonably be expected to require or obligate any of the Company to grant or offer to any other Person any license or right to any Company-Owned IP Rights. In addition, if any Company-Owned IP Rights were acquired from a Person other than an employee of or contractor to the Company, then, such Person is not now nor since January 1, 2014 has been a member or promoter of, or a contributor to, any industry standards body or any similar organization that could reasonably be expected to have required or obligated such Person to grant or offer to any other Person any license or right to such Intellectual Property. The Company does not have a present obligation (and there is no substantial basis to expect that there will be a future obligation) to grant or offer to any other Person any license or right to any Company-Owned IP Rights by virtue of the Company's or any other Person's membership in, promotion of, or contributions to any industry standards body or any similar organization.

(xxv) The Company has written privacy policies which govern its collection, use and disclosure of personal identifiable information and the Company is in compliance in all material respects with such privacy policies. The Company has complied in all material respects with all Applicable Laws and its internal privacy policies relating to the use, collection, storage, disclosure and transfer of any personally identifiable information collected by the Company. The execution, delivery and performance of this Agreement, will comply in all material respects with all Applicable Laws relating to privacy and with the Company's privacy policies. Since January 1, 2014, the Company has not received a written complaint regarding the Company's collection, use or disclosure of personally identifiable information.

(xxvi) The Company has implemented and maintains an information security plan with reasonable physical, administrative and technical safeguards for the protection of Company data and in compliance with Applicable Law. Since January 1, 2014, the Company has not experienced any breach of security or otherwise unauthorized access by third parties to the Confidential Information, including personally identifiable information in the Company's possession, custody or control. The Company's computer systems, including external communication systems, are configured in accordance with and perform in compliance with generally accepted security standards. The Company has compiled written policy guidelines for all parties with access to its computer systems regarding use of its computer systems, including use of the Internet and e-mail, and to the Knowledge of the Company, since January 1, 2014, such policy guidelines have been complied with in all material respects.

2.10 Taxes.

(a) The Company has properly completed and timely filed (or will properly complete and timely file before the Closing Date) all material Tax Returns required to be filed by it prior to the Closing Date and has timely paid (or will timely pay prior to the Closing Date) all Taxes required to be paid by it prior to the Closing Date (whether or not shown on any Tax Return). All such Tax Returns were or will be, in each case upon the filing thereby, complete and accurate and prepared in compliance in all material respects with Applicable Law. There is no written claim for Taxes being asserted against the Company that has resulted in an Encumbrance (other than a Permitted Encumbrance) against any of the assets of the Company.

(b) The Company has delivered to Acquirer true, correct and complete copies of all material Tax Returns relating to income taxes filed by the Company and StoneRiver Corporate, LLC for periods ending after December 31, 2013, and all examination reports and statements of deficiencies, adjustments and proposed deficiencies and adjustments in respect of the Company and StoneRiver Corporate, LLC received by the Company and StoneRiver Corporate, LLC after December 31, 2013.

(c) The Company Balance Sheet reflects all Liabilities for unpaid Taxes of the Company for periods (or portions of periods) through the Company Balance Sheet Date. The Company does not have any Liability for unpaid Taxes accruing after the Company Balance Sheet Date except for Taxes arising in the ordinary course of business consistent with past practice.

(d) There is (i) no action, suit, investigation, contest, or audit pending, or proposed or threatened in writing, by any Tax Authority with respect to Taxes for which the Company may be liable, (ii) no extension of any statute of limitations on the assessment of any Taxes granted by the Company currently in effect and (iii) no agreement to any extension of time for filing any Tax Return that has not been filed. No claim has been made by any Governmental Entity in a jurisdiction where the Company does not file Tax Returns that the Company is or may be subject to taxation by that jurisdiction, other than nexus questionnaires to which the Company has responded or intends to respond.

(e) The Company is a resident for Tax purposes solely in its country of incorporation, and the Company is not subject to Tax in any jurisdiction other than its country of incorporation whether by virtue of having employees, a permanent establishment (within the meaning of an applicable Tax treaty), or any other place of business in such jurisdiction or by virtue of exercising management and control in such jurisdiction.

(f) The Company has provided to Acquirer all documentation relating to any applicable Tax holidays or incentives (other than incentives generally available by operation of Law without application to or action by any Tax Authority). The Company is in compliance with the requirements of all such Tax holidays and incentives and none of the Tax holidays or incentives will be jeopardized by the consummation of the Transactions.

(g) The Company has not been and will not be as a result of the execution thereby of this Agreement or the consummation of the Transaction required to include any adjustment in Taxable income for any Tax period (or portion thereof) pursuant to Section 481 of the Code or any comparable provision under state, local or foreign Tax laws as a result of transactions, events or accounting methods employed prior to the Share Purchase.

(h) The Company is not and, since 2009, has not been a controlled foreign corporation (as defined in Section 957 of the Code).

(i) The Company is not a party to or bound by any Tax sharing, Tax indemnity, or Tax allocation agreement, other than customary provisions relating to the allocation of sales, use, or property taxes in any agreement that does not primarily relate to Tax matters, and the Company does not have any Liability or potential Liability to another party under any such Tax sharing, Tax indemnity, or Tax allocation agreement.

(j) The Company has disclosed on its Tax Returns any Tax reporting position taken in any Tax Return that could result in the imposition of penalties under Section 6662 of the Code or any comparable provisions of state, local or foreign Applicable Law.

(k) The Company has not participated in, and is not currently participating in, a "Listed Transaction" or a "Reportable Transaction" within the meaning of Section 6707A(c) of the Code or Treasury Regulation Section 1.6011-4(b), or any transaction requiring disclosure under a corresponding or similar provision of state, local, or foreign law.

(l) Except as set forth on Schedule 2.10(l) of the Company Disclosure Schedule, neither the Company nor any predecessor of the Company is or, since 2009, has been a member of a consolidated, combined, unitary or aggregate group of which the Company or any predecessor of the Company was not the ultimate parent corporation.

(m) Except as set forth on Schedule 2.10(m) of the Company Disclosure Schedule, the Company does not have any Liability for the Taxes of any Person (other than the Company) under Section 1.1502-6 of the Treasury Regulations (or any similar provision of state, local or foreign law), as a transferee or successor, by operation of Applicable Law, or by Contract (other than Contracts that do not primarily relate to Tax matters and contain customary provisions relating to the allocation of sales, use, or property Taxes).

(n) The Company will not be required to include any item of income in, or exclude any item of deduction from, Taxable income for any Taxable period (or portion thereof) ending after the Closing Date as a result of any (i) adjustment made pursuant to Section 481 of the Code as a result of a change in method of accounting for a Taxable period ending on or prior to the Closing Date, (ii) "closing agreement" described in Section 7121 of the Code (or any corresponding or similar provision of state, local, or foreign Tax law) executed on or prior to the Closing Date, (iii) intercompany transactions (including any intercompany transaction subject to section 367 or 482 of the Code) entered into on or prior to the Closing Date, (iv) any excess loss account described in Treasury Regulations under Section 1502 of the Code (or any corresponding or similar provision of state, local, or foreign Tax law) existing as of the Closing Date, (v) installment sale or open transaction disposition made on or prior to the Closing Date, (vi) election under Section 108(i) of the Code made on or prior to the Closing Date or (vii) prepaid amount received on or prior to the Closing Date.

- (o) The Company has not received any private letter ruling from the IRS (or any comparable Tax ruling from any other Tax Authority.
- (p) The Company is not a party to any joint venture, partnership or other Contract or arrangement that could be treated as a partnership for U.S. federal income Tax purposes.
- (q) The Company has in its possession official foreign government receipts for any Taxes paid by it to any foreign Tax Authorities for which receipts have been provided to the Company.
- (r) The Company is not, and it has never been, a "United States real property holding corporation" within the meaning of Section 897 of the Code, and the Company has filed with the IRS all statements, if any, that are required under Section 1.897-2(h) of the Treasury Regulations.
- (s) The Company has not constituted either a "distributing corporation" or a "controlled corporation" in a distribution of stock intended to qualify for Tax-free treatment under Section 355 of the Code (i) in the two years prior to the Agreement Date or (ii) in a distribution that could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the Share Purchase.
- (t) The Company has (i) complied with all Applicable Law relating to the payment, reporting and withholding of Taxes (including withholding of Taxes pursuant to Sections 1441, 1442, 1445, 1446, 1471, 1472 and 3406 of the Code or similar provisions under any foreign law) and (ii) withheld (within the time and in the manner prescribed by Applicable Law) from employee wages or consulting compensation and paid over to the proper governmental authorities (or is properly holding for such timely payment) all amounts required to be so withheld and paid over under all Applicable Law, including federal and state income Taxes, Federal Insurance Contribution Act, Medicare, Federal Unemployment Tax Act, relevant state income and employment Tax withholding laws.
- (u) The Company does not own any interest in any controlled foreign corporation (as defined in Section 957 of the Code), passive foreign investment company (as defined in Section 1297 of the Code) ("**PFIC**"), or other foreign entity the income of which is required to be included in the income of the Company. The Company is not and, since 2009, has not been a controlled foreign corporation (as defined in Section 957 of the Code). The Company is not and will not be a PFIC or a controlled foreign corporation (as defined in Section 957 of the Code) for its taxable year that includes the day immediately preceding the Closing Date.
- (v) The Company has delivered to Acquirer true, correct and complete copies of all election statements under Section 83(b) of the Code, together with evidence of timely filing of such election statements with the appropriate IRS Center with respect to any shares of Company Capital Stock that was initially subject to a vesting arrangement or to other property issued by the Company to any of its employees, non-employee directors, consultants or other service providers.

(w) Schedule 2.10(w) of the Company Disclosure Schedule lists all "nonqualified deferred compensation plans" (within the meaning of Section 409A of the Code) to which the Company is a party. Each such nonqualified deferred compensation plan to which the Company is a party either is exempt from or complies with the requirements of paragraphs (2), (3) and (4) of Section 409A(a) by its terms and has been operated in accordance with such requirements. No event has occurred that would be treated by Section 409A(b) as a transfer of property for purposes of Section 83 of the Code. The Company is under no obligation to gross up any Taxes under Section 409A of the Code.

(x) The Company is in compliance in all material respects with all applicable transfer pricing laws and regulations, including the execution and maintenance of contemporaneous documentation substantiating the transfer pricing practices and methodology of the Company. The prices for any property or services (or for the use of any property) provided by or to the Company are arm's length prices for purposes of all applicable transfer pricing laws, including Treasury Regulations promulgated under Section 482 of the Code.

(y) Except as set forth on Schedule 2.10(y) of the Company Disclosure Schedule, there is no agreement, plan, arrangement or other Contract covering any current or former employee or other service provider of the Company or any ERISA Affiliate to which the Company is a party or by which the Company or its assets is bound that, considered individually or considered collectively with any other such agreements, plans, arrangements or other Contracts, will, or would reasonably be expected to, as a result of the Transactions (whether alone or upon the occurrence of any additional or subsequent events), give rise directly or indirectly to the payment of any amount that would reasonably be expected to be characterized as a "parachute payment" within the meaning of Section 280G of the Code (or any corresponding or similar provision of state or local Tax law). No Person (whether United States or foreign) will be as of the Closing, with respect to the Company, a "disqualified individual" (within the meaning of Section 280G of the Code and the regulations promulgated thereunder), as determined as of the Agreement Date.

(z) For U.S. federal income tax purposes, the merger of StoneRiver Corporate, LLC into the Company was an exchange qualifying for nonrecognition of gain under section 351 of the Code.

Without limiting any Indemnified Person's right to indemnification for Pre-Closing Taxes under Section 9.2(a)(v), the representations and warranties made in this Section 2.10 (other than Section 2.10(n)) address only the activities of the Company prior to the Closing and do not constitute representations and warranties regarding, or a guarantee of, nor can they be relied upon with respect to, any Taxes or Tax matters attributable to any period commencing, or any Tax position taken, after the Closing.

2.11 Employee Benefit Plans and Employee Matters.

(a) Employee List. Schedule 2.11(a) of the Company Disclosure Schedule contains a list of all Company Employees as of two (2) Business Days prior to the Agreement Date, and correctly reflects: (i) their name and dates of hire; (ii) their position, full-time or part-time status, including each Company Employee's classification as either exempt or non-exempt from the overtime requirements under any Applicable Law; (iii) their current monthly base salary or hourly wage rate, as applicable; (iv) bonus eligibility, year-to-date commissions, vacation entitlement and accrued vacation; and (v) their city/country of employment. As of the date of this Agreement, there is no Person who has accepted an offer of employment made by the Company but whose employment has not yet started.

(b) Schedule 2.11(b) of the Company Disclosure Schedule contains a list of all the Company's Company Contractors as of five (5) Business Days prior to the Agreement Date, and, for each such individual such individual's billing rate. All Company Contractors engaged since January 1, 2012 were correctly classified as Company Contractors and would not reasonably be expected to be reclassified by any Governmental Entity as employees of the Company for any purpose whatsoever. The Company is not delinquent with respect to any payments due and payable to Company Contractors for services provided to the Company.

(c) Schedule 2.11(c) of the Company Disclosure Schedule lists, with respect to the Company and any trade or business (whether or not incorporated) that is treated as a single employer with the Company (an "**ERISA Affiliate**") within the meaning of Section 414(b), (c), (m) or (o) of the Code, (i) all "employee benefit plans" within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), (ii) all share option, share purchase, phantom share, share appreciation right, restricted share unit, severance, medical, dental, vision care, disability, employee relocation, cafeteria benefit (Section 125 of the Code), dependent care (Section 129 of the Code), life insurance or accident insurance plans, programs or arrangements, (iii) all material bonus, pension, profit sharing, savings, severance, retirement, deferred compensation or incentive plans (including cash incentive plans), programs or arrangements, (iv) all other material fringe or employee benefit plans, programs or arrangements and (v) all material management, employment, executive compensation, relocation, repatriation, expatriation or severance agreements, as to which any unsatisfied obligations of the Company remain for the benefit of, or relating to, any Company Employee or non-employee director of the Company (all of the foregoing described in clauses (i) through (iv), collectively, the "**Company Employee Plans**").

(d) Except as set forth on Schedule 2.11(d) of the Company Disclosure Schedule, the Company does not sponsor or maintain any self-funded Company Employee Plan providing medical, dental, or vision benefits, including any plan to which a stop-loss policy applies. Any Company Employee Plan intended to be qualified under Section 401(a) of the Code has either obtained from the Internal Revenue Service a favorable determination letter as to its qualified status under the Code, or has applied (or has time remaining in which to apply) to the Internal Revenue Service for such a determination letter prior to the expiration of the requisite period under applicable Treasury Regulations or Internal Revenue Service pronouncements, or has been established under a prototype or volume submitter plan for which an Internal Revenue Service opinion or advisory letter has been obtained and that is valid as to the adopting employer. The Company has provided to Acquirer a true, correct and complete copy of the most recent Internal Revenue Service determination, advisory, or opinion letter issued with respect to each such Company Employee Plan that is intended to be qualified under Section 401(a) of the Code, and nothing has occurred since the issuance of each such letter that would reasonably be expected to cause the loss of the Tax-qualified status of any Company Employee Plan subject to Section 401(a) of the Code.

(e) None of the Company Employee Plans promises or provides retiree medical, dental or vision benefits to any person other than as required under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**"), or similar law of any state or foreign jurisdiction. Each Company Employee Plan complies, in both form and operation, in all material respects, with its terms and with all Applicable Laws, and the Company has not incurred any material fine or penalty under any such plan for any open Tax year and no condition exists or event has occurred with respect to any such plan which would reasonably be expected to result in the incurrence by the Company of any material fine or penalty.

(f) Each Company Employee Plan can be amended, terminated or otherwise discontinued after the Closing in accordance with its terms, without liability to the Company (other than ordinary administrative expenses typically incurred in a termination event and except as required by applicable Laws).

(g) Neither the Company nor any ERISA Affiliate currently maintains, sponsors, participates in or contributes to, or has ever maintained, established, sponsored, participated in, or contributed to, any pension plan (within the meaning of Section 3(2) of ERISA) that is subject to Part 3 of Subtitle B of Title I of ERISA, Title IV of ERISA or Section 412 of the Code.

(h) Neither the Company nor any ERISA Affiliate is a party to, or has made any contribution to or otherwise incurred any obligation under, any "multiemployer plan" as such term is defined in Section 3(37) of ERISA or any "multiple employer plan" as such term is defined in Section 413(c) of the Code.

(i) The Company is in compliance in all material respects with all Applicable Laws respecting employment, termination of employment, discrimination in employment, terms and conditions of employment, worker classification (including the proper classification of workers as independent contractors or employees), wages, pay slips, working hours, overtime and overtime payments, working during rest days, termination and severance payment, and engaging Company Contractors through services providers (such as staffing firms and similar agencies). Since January 1, 2014, the Company has not received written notice of complaints, charges or claims against the Company, and there are no material controversies, complaints, charges or claims pending or, to the Knowledge of the Company, threatened, between the Company and any current or former Company Employees, based on, arising out of, in connection with or otherwise relating to the employment or termination of employment by the Company, or of any individual or Company Contractor, which controversies have resulted or would reasonably be expected to result in a Legal Proceeding before any Governmental Entity.

(j) The Company has made available to Acquirer true, correct and complete copies of each of the following: all current Company Employee Plan documents including any amendments and related insurance contracts; all forms of currently effective offer letters; all forms of currently effective employment agreements and severance agreements; all currently effective agreements with staffing firms providing Company Contractors; all agreements relating to acceleration of vesting rights; all forms of confidentiality, non-competition or inventions agreements between current employees/consultants and the Company and any arrangement pursuant to which the Company may have Liability with respect thereto.

(k) The Company is not nor has it been a party to or bound by any collective bargaining agreement or other labor union Contract, no collective bargaining agreement is being negotiated by the Company, and the Company does not have any duty to bargain with any labor organization. There are no labor organizations representing, and to the Knowledge of the Company there are no labor organizations purporting to represent or seeking to represent, any Company Employees. To the Knowledge of the Company, there are no activities or proceedings of any labor union to organize the employees of the Company. There is no and has not been any labor dispute, strike or work stoppage against the Company, whether in the past or now pending or, to the Knowledge of the Company, threatened that may interfere with the conduct of the Business. Neither the Company nor, to the Knowledge of the Company, any of its Representatives has committed any unfair labor practice in connection with the conduct of the Business, and there is no charge or complaint against the Company by the National Labor Relations Board or any comparable Governmental Entity pending or, to the Knowledge of the Company, threatened. The Company does not have any unsatisfied obligations of any nature to any of its former Company Employees or Company Contractors, except as set forth in the Company Employee Plans, and their termination was in compliance with all material Applicable Laws and Contracts.

(l) To the Knowledge of the Company, no employee of the Company is in violation of any term of any employment agreement, non-competition agreement or any restrictive covenant to a former employer relating to the right of any such employee to be employed by the Company because of the nature of the Business or to the use of trade secrets or proprietary information of others. To the Knowledge of the Company, no Company Contractor is in violation of any term of any non-competition agreement or any restrictive covenant to a former employer relating to the right of any such Company Contractor to be providing services to the Company because of the nature of the Business or to the use of trade secrets or proprietary information of others. Except as set forth on Schedule 2.11(l) of the Company Disclosure Schedule, no Company Employee has given written notice to the Company of the intent to terminate his or her employment with the Company. The employment of each of the Company Employees is in accordance with Applicable Law and the Company has no obligation under any Contract to provide a written prior notice prior to terminating the employment of any of its employees except as set forth on Schedule 2.11(l) of the Company Disclosure Schedule. As of the Effective Closing Time, except as set forth on Schedule 2.11(l) of the Company Disclosure Schedule, the Company has not (i) entered into any Contract that obligates or purports to obligate Acquirer to make an offer of employment or engagement to any present employee or Company Contractor of the Company and/or (ii) promised or otherwise provided any written assurances to any present employee or Company Contractor of any terms or conditions of employment with Acquirer following the Closing.

(m) Except as set forth on Schedule 2.11(m) of the Company Disclosure Schedule, other than as expressly contemplated by this Agreement or under Applicable Law, neither the execution and delivery of this Agreement, the consummation of the Share Purchase or any other transaction contemplated hereby or any termination of employment or service or any other event in connection therewith or subsequent thereto will, individually or together or with the occurrence of some other event, (i) result in any payment (including severance, unemployment compensation, golden parachute, bonus or otherwise) becoming due to any Person, (ii) materially increase or otherwise enhance any benefits otherwise payable by the Company, (iii) increase the amount of compensation due to any Person or (iv) result in the forgiveness in whole or in part of any outstanding loans made by the Company to any Person.

(n) Without derogating from any of the above representations, the Company's liability towards Company Employees regarding severance pay, accrued vacation and contributions to all Company Employee Plans are fully funded or if not required by any source to be funded are accrued on the Company's financial statements as of the date of such financial statements. All amounts that the Company is legally or contractually required to either (i) deduct from its employees' salaries and any other compensation or benefit or to transfer to such employees' Company Employee Plan or (ii) withhold from employees' salaries and any other compensation or benefit and to pay to any Governmental Entity as required by any Applicable Law have in either case, been duly deducted, transferred, withheld and paid, and the Company does not have any outstanding obligation to make any such deduction, transfer, withholding or payment (other than routine payments, deductions or withholdings to be timely made in the ordinary course of business and consistent with past practice).

(o) The Company and any ERISA Affiliate have complied with the Workers Adjustment and Retraining Notification Act of 1988, as amended ("**WARN Act**") and all similar state or local Laws. The Company has not taken any action which would constitute a "plant closing" or "mass layoff" within the meaning of the WARN Act or similar state or local Law, issued any notification of a plant closing or mass layoff required by the WARN Act or similar state or local Law, or incurred any liability or obligation under WARN or any similar state or local Law that remains unsatisfied. No terminations prior to the Closing would trigger any notice or other obligations under the WARN Act or similar state or local Law. All liabilities and obligations relating to the employment, termination or employee benefits of any former employees previously terminated by the Company or an ERISA Affiliate including all termination pay, severance pay or other amounts in connection with the WARN Act and all similar state Laws, if incurred, have been paid and no terminations on or prior to the Closing Date shall result in unsatisfied liability or obligation under WARN or any similar state or local Law.

2.12 Interested Party Transactions. Neither Seller nor, to the Knowledge of the Company, any officer or director of the Company has any direct or indirect ownership, participation, royalty or other material financial interest in, or is an officer or director of, any firm, partnership, entity or corporation that competes with, or does material business with, the Company (except with respect to any interest in less than one percent (1%) of the shares of any corporation whose shares are publicly traded and except with respect to interests of Stone Point Capital LLC and its Affiliates and employees in portfolio companies of the funds managed by Stone Point Capital LLC). Neither Seller nor, to the Knowledge of the Company, any officer or director of the Company is a party to any Contract to which the Company is a party or by which the Company or any of its assets or properties may be bound or affected, except for normal compensation for services as an officer, director or employee thereof and except for those Contracts of the Company entered into in the ordinary course of business on arm's length terms with portfolio companies of the funds managed by Stone Point Capital LLC, solely for the provision of products or services to such portfolio companies, or by such portfolio companies, in the Company's ordinary course of business.

2.13 Insurance. Schedule 2.13 of the Company Disclosure Schedule lists all current insurance policies (by policy number, insurer, annual premium, expiration date, and amount and scope of coverage) held by the Company. Except as set forth on Schedule 2.13 of the Company Disclosure Schedule, as of the date of this Agreement, there is no claim pending under any of such policies. All premiums due and payable under all such policies have been paid and the Company is otherwise in material compliance with the terms of such policies and bonds. All such policies remain in full force and effect, except to the extent such enforceability may be limited by the effect of any applicable bankruptcy, reorganization, insolvency, moratorium or similar Applicable Law affecting creditors' rights generally and general principles of equity or public policy (regardless of whether such enforceability is considered in a proceeding in equity or at law) and the Company has no Knowledge of any threatened termination of, or material premium increase with respect to, any of such policies.

2.14 Books and Records. The Company has provided to Acquirer true, correct and complete copies of the Charter Documents. There has not been any violation of any of the provisions of the Charter Documents, including all amendments thereto, and the Company has not taken any action that is inconsistent in any material respect with any resolution adopted by the shareholders of the Company or the Company Board of Directors. The books, records and accounts of the Company have been maintained in accordance with reasonable business practices on a basis consistent with prior years.

2.15 Material Contracts.

(a) Except for this Agreement and the Contracts specifically identified in Schedule 2.15(a) of the Company Disclosure Schedule, the Company is not a party to or bound by any of the following Contracts (each, as may be amended from time to time, a "**Material Contract**");

(i) any distributor, original equipment manufacturer, reseller, value added reseller, sales, advertising, agency or manufacturer's representative Contract pursuant to which any Person has a right to resell or distribute any Company Product;

- (ii) any trust indenture, mortgage, promissory note, loan agreement or other Contract for the borrowing of money, any currency exchange, commodities or other hedging arrangement or any leasing transaction of the type required to be capitalized in accordance with GAAP;
- (iii) any Contract for capital expenditures in excess of \$100,000 in the aggregate;
- (iv) any Contract limiting the freedom of the Company to engage or participate, or compete with any other Person, in any line of business, market or geographic area, or any Contract granting most favored nation pricing, exclusive sales, distribution or marketing rights, rights of refusal, rights of first negotiation or similar rights and/or terms to any Person, or any Contract otherwise limiting the right of the Company to sell, distribute or manufacture any products or services or to purchase or otherwise obtain any software, components, parts, subassemblies or services, excluding in each case any confidentiality or non-disclosure Contracts entered into in the ordinary course of business, consistent with the Company's past practices;
- (v) any Contract pursuant to which the Company is a lessor or lessee of any real property or any machinery, equipment, motor vehicles, office furniture, fixtures or other personal property involving in excess of \$25,000 per annum;
- (vi) any Contract, the primary purpose of which, is a guarantee, support, indemnification, assumption or endorsement of, or any similar commitment with respect to, the obligations, Liabilities or indebtedness of any other Person;
- (vii) any Contract providing for the development of any material software, content, technology or Intellectual Property, independently or jointly, by or for the Company;
- (viii) any Contracts relating to the membership of, or participation by, the Company in, or the affiliation of the Company with, any industry standards group or association;
- (ix) (A) any joint venture Contract, (B) any Contract that involves a sharing of revenues, profits, cash flows, expenses or losses with other Persons or (C) any Contract that involves the payment of royalties to any other Person in excess of \$10,000 per annum;
- (x) any Contract for the employment of any director, officer or, employee of the Company or any other type of Contract with any officer or employee of the Company that is not immediately terminable by the Company without cost or Liability (except for any notice period, payment or severance payment due under Applicable Law), including any Contract requiring it to make a payment to any director, officer or employee on account of the Share Purchase, any transaction contemplated by this Agreement or any Contract that is entered into in connection with this Agreement;

(xi) any Contract or plan (including any share option, merger and/or share bonus plan) relating to the sale, issuance, grant, exercise, award, purchase, repurchase or redemption of any shares of Company Capital Stock or any other securities of the Company or any options, warrants, convertible notes or other rights to purchase or otherwise acquire any such shares, other securities or options, warrants or other rights therefor;

(xii) any Contract with any labor union or any collective bargaining agreement or similar contract with its employees;

(xiii) any Contract with any investment banker, broker, advisor or similar party retained by the Company in connection with this Agreement and the transactions contemplated hereby; or

(xiv) any Contract pursuant to which the Company has, in the last five (5) years, acquired a business or entity, whether by way of merger, consolidation, purchase of shares, purchase of assets or otherwise, or any contract pursuant to which it has any material ownership interest in any other Person.

(b) The term "**Material Contract**" also includes (i) Contracts with customers representing the twenty (20) largest sources of customer revenues for the Company in 2015 in each of the "P&C" and "Life" Divisions of the Company, which Contracts are specifically identified in Schedule 2.15(b)(i) of the Company Disclosure Schedule, and (ii) Contracts with suppliers representing the twenty (20) largest sources of supply of products and/or services to the Company, excluding employee compensation and benefits and Affiliate overhead charges, based on amounts paid to suppliers in 2015, which Contracts are specifically identified in Schedule 2.15(b)(ii) of the Company Disclosure Schedule. The Contracts listed in (x) Schedule 2.15(b)(i) of the Company Disclosure Schedule represent Contracts with those sources of customer revenues for the Company representing in the aggregate more than 69% and 78%, respectively, of the customer revenues in each of the "P&C" and "Life" Divisions of the Company in 2015 and (y) Schedule 2.15(b)(ii) of the Company Disclosure Schedule represent Contracts with those sources of supply of products and/or services to the Company, excluding employee compensation and benefits and Affiliate overhead charges, representing in the aggregate more than 69% of the supply of products and/or services to the Company, excluding employee compensation and benefits and Affiliate overhead charges, based on amounts paid to suppliers in 2015.

(c) All Material Contracts are in written form. Except for Material Contracts that have expired in accordance with their terms, each of the Material Contracts and the Company License Agreements is in full force and effect, subject only to the effect, if any, of applicable bankruptcy and other similar laws affecting the rights of creditors generally and rules of law governing specific performance, injunctive relief and other equitable remedies. Except as set forth in Schedule 2.15(c) of the Company Disclosure Schedule, there exists no material default nor any event of default or event, occurrence, condition or act, with respect to the Company or, to the Knowledge of the Company, any other contracting party, which, with the giving of notice, the lapse of time or the happening of any other event or condition, would reasonably be expected to (i) become a material default or an event of default under any Material Contract or any Company License Agreements, or (ii) give any third party (A) the right to declare a default or exercise a material remedy under any Material Contract or any Company License Agreements, (B) the right to accelerate the maturity or performance of any material obligation of the Company under any Material Contract or any Company License Agreements or (C) the right to cancel, terminate or modify any Material Contract or any Company License Agreements. Except as set forth in Schedule 2.15(c) of the Company Disclosure Schedule, the Company has not received any written notice regarding any actual material breach of, or material default under, any Material Contract or any Company License Agreements. True, correct and complete copies of all Material Contracts and Company License Agreements have been made available to Acquirer prior to the date hereof.

2.16 Transaction Fees. The Company is not obligated for any finder's, broker's fee, commission or any similar fee, to any Person, in connection with this Agreement or the Transactions.

2.17 Foreign Corrupt Practices. None of the Company and, to the Knowledge of the Company, any other Person acting for or on behalf of the Company has (i) taken any action, directly or indirectly, in violation of Applicable Law (including the U.S. Foreign Corrupt Practices Act), in furtherance of an offer, payment, promise to pay, or authorization or approval of any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment to any Person (including any Governmental Entity (or employee or representative thereof), government owned or controlled enterprise, public international organization, political party and candidate for public office) private or public, regardless of what form, whether in money, property, or services (A) to obtain favorable treatment for business or Contracts secured, (B) to pay for favorable treatment for business or Contracts secured, (C) to obtain special concessions or for special concessions already obtained, (D) to improperly influence or induce any act or decision or (E) to secure any improper advantage or (ii) established or maintained any fund or asset that has not been accurately recorded in the books and records of the Company. Except as set forth on Schedule 2.17 of the Company Disclosure Schedule, the Company has not conducted or initiated an internal investigation, made a voluntary or other disclosure to a Governmental Entity, or been the subject of any legal proceedings or governmental investigation or inquires or received any written notice or citation from any Governmental Entity related to alleged violations of applicable criminal law including anti-bribery and anti-money laundering laws such as the U.S. Foreign Corrupt Practices Act. No governmental official and no close relative or family member of a governmental official (i) holds a direct or indirect equity ownership or, to the Company's Knowledge, other economic interest, in the Company (excluding any direct or indirect investors in Fiserv SR Holdings LLC, Trident FIS PF Holdings, LLC or Trident IV, L.P.), (ii) serves as a Representative of the Company or (iii) will receive, directly from or on behalf of the Company, any fee or other payment as a result of the consummation of this Transaction (ignoring for purposes hereof any effect resulting from the identity of Acquirer or its operations).

2.18 Environmental, Health and Safety Matters. The Company is not in violation of any material Applicable Law relating to the environment or occupational health and safety, and no material expenditures are required in order to comply with any such Applicable Law. No Hazardous Materials (as defined below) are used or have been used, stored, or disposed of by the Company or, to the Knowledge of the Company, by any other Person on any property owned, leased or used by the Company. For the purposes of the preceding sentence, "**Hazardous Materials**" shall mean (a) materials which are listed or otherwise defined as "hazardous" or "toxic" under any applicable local, state, federal and/or foreign Applicable Law that govern the existence and/or remedy of contamination on property, the protection of the environment from contamination, the control of hazardous wastes, or other activities involving hazardous substances, including building materials, or (b) any petroleum products or nuclear materials.

2.19 Export Control Laws. The Company has conducted its export transactions in all material respects in accordance with applicable provisions of United States export and re-export controls, including the Export Administration Act and Regulations, the Foreign Assets Control Regulations, the International Traffic in Arms Regulations and other controls administered by the United States Department of Commerce and/or the United States Department of State and all other applicable import/export controls in other countries in which the Company conducts business. Without limiting the foregoing: (i) the Company has obtained all material export and import licenses, license exceptions and other consents, notices, waivers, approvals, orders, authorizations, registrations, declarations and filings with any Governmental Entity required for (A) the export, import and re-export of products, services, software and technologies and (B) releases of technologies and software to foreign nationals located in the United States and abroad (collectively, "**Export Approvals**"), (ii) the Company is in compliance in all material respects with the terms of all applicable Export Approvals, (iii) there are no pending Legal Proceedings or, to the Knowledge of the Company, threatened claims against the Company with respect to such Export Approvals, and (iv) to the Knowledge of the Company, there are no actions, conditions or circumstances pertaining to the Company's export transactions that would reasonably be expected to give rise to any future claims.

2.20 Customers and Suppliers.

(a) Except as set forth in Schedule 2.20(a) of the Company Disclosure Schedule, the Company does not have any outstanding material disputes concerning its products and/or services with any customer or distributor who, in the year ended December 31, 2015 or the year ended on the Company Balance Sheet Date, was one of the 20 largest sources of revenues for the Company based on amounts billed (each, a "**Significant Customer**"). Each Significant Customer is listed on Schedule 2.20(a) of the Company Disclosure Schedule. The Company has not received written notice from any Significant Customer that such customer shall not continue as a customer of the Company or that such Significant Customer intends to materially reduce its consumption of Company Products.

(b) The Company does not have any outstanding material dispute concerning products and/or services provided by any supplier who, in the year ended December 31, 2015 or the year ended on the Company Balance Sheet Date, was one of the 10 largest suppliers of products and/or services to the Company based on amounts paid (each, a "**Significant Supplier**"). Each Significant Supplier is listed on Schedule 2.20(b) of the Company Disclosure Schedule. The Company has not received written notice from any Significant Supplier that such supplier shall not continue as a supplier to the Company or that such Significant Supplier intends to terminate or materially modify its existing Contracts with the Company with respect to products and services supplied by such Significant Supplier.

(c) The accounts receivable shown on the Company Balance Sheet (excluding the BWC Receivables) arose in the ordinary course of business, consistent with past practices and represented bona fide transactions. The accounts receivable of the Company arising after the Balance Sheet Date and through the Effective Closing Time (excluding the BWC Receivables) arose or shall arise in the ordinary course of business, consistent with past practices and represented or shall represent bona fide transactions. The BWC Receivables represent bona fide transactions. The Company has sent invoices or plans to send invoices relating to the amounts that are included on Exhibit G as BWC Receivables. No Person has any lien (other than Permitted Encumbrances) on any of such accounts receivable, and no agreement for deduction or discount has been made with respect to any of such accounts receivable. Each account receivable (excluding the BWC Receivables) is free and clear of all Encumbrances (other than Permitted Encumbrances).

2.21 Shareholder Notice. No notice to be given by the Company to Seller pursuant to Applicable Law or the Charter Documents in connection with this Agreement, if any, other than any of the information supplied or to be supplied by Acquirer for inclusion therein, will contain, as of the date of the mailing of such document, any untrue statement of a material fact, nor will it omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

2.22 Breakdown of Revenues; Total Medical Claims Expenses.

(a) Schedule 2.22(a) of the Company Disclosure Schedule sets forth an accurate breakdown of the Company's revenues by product group for the year ended December 31, 2015.

(b) Schedule 2.22(b) of the Company Disclosure Schedule sets forth an accurate breakdown of the Company's revenues by type of revenue (as set forth therein) for the periods set forth therein.

(c) Schedule 2.22(c) of the Company Disclosure Schedule sets forth the total medical claims expense incurred in respect of employees of the Company for the periods set forth therein.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Acquirer as follows:

3.1 Power and Capacity. Seller possesses all requisite power, legal capacity and authority necessary to enter into this Agreement, consummate the Share Purchase and carry out the Transactions that are required to be carried out by Seller.

3.2 Enforceability; Noncontravention.

(a) The execution and delivery of this Agreement and the consummation of the Share Purchase and any of the other Transactions have been duly authorized by all necessary corporate actions on the part of Seller. This Agreement has been duly executed and delivered by Seller and, assuming the due execution and delivery of this Agreement by the other parties hereto, constitutes the valid and legally binding obligation of Seller enforceable against Seller in accordance with its terms, except as may be limited by and subject only to the effect, if any, of (a) applicable bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the enforcement of creditors' rights generally and (b) rules of law governing specific performance, injunctive relief and other equitable remedies.

(b) The execution, delivery and performance by Seller of this Agreement, or its otherwise being bound by it, does not, and the consummation of the Transactions by Seller will not, conflict with, or result in any violation of or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of any benefit under, or require any consent, approval or waiver from any Person pursuant to, or result in the creation of any Encumbrance upon the Company Stock pursuant to (i) any Contract or Order to which Seller is subject or (ii) any Applicable Law.

(c) No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity or any other Person is required by Seller in connection with the execution and delivery of this Agreement or the consummation of the Transactions by Seller that would reasonably be expected to adversely affect the ability of Seller to consummate the Share Purchase or any of the other Transactions.

3.3 Title to Shares. Seller owns of record all of the Company Capital Stock, and has good and valid title to all of such Company Capital Stock, free and clear of all Encumbrances. Seller does not own, and does not have the right to acquire, directly or indirectly, any other Company Capital Stock. Seller is not a party to any option, warrant, purchase right, or other Contract or commitment that could require Seller to sell, transfer, or otherwise dispose of any Company Capital Stock or any interest therein (other than this Agreement). Seller is not a party to any voting trust, proxy, or other agreement or understanding with respect to the voting of any share capital of the Company.

3.4 Litigation.

(a) There are no actions, suits, arbitrations, mediations, proceedings or claims pending or, to the Knowledge of Seller, threatened against Seller or any of its assets or properties that seek to restrain or enjoin the consummation of the Transactions.

(b) There are no outstanding actions, suits, arbitrations, mediations or proceedings by Seller against the Company, or any of its assets or properties.

3.5 Solvency. Seller is not bankrupt or insolvent and has not proposed a voluntary arrangement or made or proposed any arrangement or composition with Seller's creditors or any class of such creditors, and no petition in respect of any such arrangement or composition has been presented. The consummation of the Share Purchase and the other Transactions shall not constitute a fraudulent transfer by Seller under applicable bankruptcy and other similar laws relating to bankruptcy and insolvency of Seller.

3.6 Acknowledgement. Seller has received a copy of the Agreement and has familiarized itself with the terms and conditions contained herein, including provisions relating to payment of the Consideration to be paid to Seller pursuant to Section 1.1 and the indemnification obligations of Seller pursuant to Article 9.

3.7 Tax Withholding Information. Any and all information provided to Acquirer by or on behalf of Seller for purposes of enabling Acquirer to determine the amount to be deducted and withheld from the consideration payable to Seller pursuant to this Agreement under Applicable Law (if any) is true, correct and complete.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES OF ACQUIRER

Acquirer represents and warrants to the Company as follows:

4.1 Organization and Standing. Acquirer is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of organization.

4.2 Authority; Noncontravention.

(a) Acquirer has all requisite corporate power and authority to enter into this Agreement and to consummate the Transactions. The execution and delivery of this Agreement and the consummation of the Transactions have been duly authorized by all necessary corporate action on the part of Acquirer. This Agreement has been duly executed and delivered by Acquirer and, assuming the due execution and delivery of this Agreement by the other parties hereto, constitutes the valid and binding obligation of Acquirer, enforceable against Acquirer in accordance with its terms, subject only to the effect, if any, of (i) applicable bankruptcy and other similar Applicable Laws affecting the rights of creditors generally and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies.

(b) The execution and delivery of this Agreement by Acquirer does not, and the consummation of the Transactions will not, conflict with, or result in any violation of, or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of a benefit under, or require any consent, approval or waiver from any Person pursuant to, (i) any provision of the articles or certificate of incorporation, as applicable, or bylaws or other equivalent organizational or governing documents of Acquirer, in each case as amended to date, or (ii) Applicable Law, except where such conflict, violation, default, termination, cancellation or acceleration, individually or in the aggregate, would not be material to Acquirer's ability to consummate the Share Purchase or to perform their respective obligations under this Agreement.

(c) No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity or any other Person is required by or with respect to Acquirer in connection with the execution and delivery of this Agreement or the consummation of the Transactions by Acquirer that, if not obtained or made, would reasonably be expected to adversely affect the ability of Acquirer to consummate the Share Purchase or any of the other Transactions.

4.3 Sufficiency of Funds. Acquirer will have available to it as of the Closing sufficient funds to consummate the Transactions.

4.4 Litigation. There are no actions, suits, arbitrations, mediations, proceedings or claims pending or to the knowledge of Acquirer threatened against Acquirer that seek to restrain or enjoin the consummation of the Transactions.

4.5 Investment Intent; Solvency. Acquirer is acquiring the Company Capital Stock for its own account, not as a nominee or agent, and not with the view to, or for resale in connection with, any distribution thereof. Acquirer acknowledges and agrees that the Company Capital Stock may not be sold, transferred, offered for sale, pledged, hypothecated or otherwise disposed of without registration under the Securities Act or an applicable exemption therefrom and without compliance with other securities Laws to the extent applicable. After giving effect to the transactions contemplated hereby (including any financing transactions arranged by Acquirer and its Affiliates in connection with the Closing), the Company will be solvent.

4.7 Acknowledgment.

(a) Acquirer acknowledges that the detailed representations and warranties set forth in this Agreement have been negotiated at arm's length among sophisticated Persons and that all information material to its determination to proceed with the transactions contemplated by this Agreement is contained in the representations and warranties of the Company and Seller set forth in Article 2 and Article 3 (including the information set forth in the Company Disclosure Schedule). Except for the representations and warranties set forth in Article 2 and Article 3, Acquirer acknowledges that none of Seller, the Company or any of their respective Representatives makes or has made any other express representation or warranty or any implied representation or warranty to Acquirer regarding Seller, the Company, the Business or any other matter. Acquirer has not relied upon nor will be deemed to have relied upon any representations, oral statements, documents or facts not part of this Agreement in entering into this Agreement or choosing to purchase the Company Capital Stock. Acquirer further agrees that none of Seller, the Company or any other Person shall have or be subject to any liability to Acquirer resulting from the distribution to Acquirer, or Acquirer's use, of any information regarding Seller, the Company, the Business or any other matter, including any information, document or material made available or provided to Acquirer in certain "data rooms," management presentations or offering or information memoranda, or in any other form, in expectation of the transactions contemplated hereby, except as set forth in this Agreement.

(b) Acquirer further acknowledges that notwithstanding anything to the contrary contained herein, including the representations and warranties of the Company and Seller set forth in Article 2 and Article 3 (except as otherwise set forth in the third and fourth sentences of Section 2.20(c)), neither Seller nor the Company makes any express representation or warranty or any implied representation or warranty to Acquirer regarding the BWC Matter, including the BWC Receivables.

ARTICLE 5
CONDUCT PRIOR TO THE CLOSING

5.1 Conduct of the Business of the Company. During the period from the Agreement Date and continuing until the earlier of the termination of this Agreement and the Closing:

(a) the Company shall conduct its business in the usual, regular and ordinary course and in material compliance with Applicable Law (except to the extent expressly provided otherwise in this Agreement);

(b) the Company shall (i) pay all of its debts and Taxes when due, subject to good faith disputes over such debts or Taxes, (ii) pay its monetary obligations when due and perform its other obligations in all material respects when due, (iii) use its commercially reasonable efforts consistent with past practice and policies to collect accounts receivable when due and not extend credit outside of the ordinary course of business consistent with past practice, and (iv) use its commercially reasonable efforts consistent with past practice and policies to preserve intact its present business organizations, keep available the services of its present officers and key employees and preserve its relationships with customers, suppliers, distributors, licensors, licensees, and others having business dealings with it;

(c) the Company shall assure that each new Material Contract it enters into after the Agreement Date will not require the procurement of any consent, waiver or novation or provide for any change in the obligations of any party thereto in connection with, or terminate as a result of the consummation of, the Share Purchase, and shall give reasonable advance notice to Acquirer prior to (i) terminating any Material Contract or taking any affirmative action to cause any right thereunder to lapse or terminate, in each case other than in the ordinary course of business consistent with past practice or (ii) terminating any Material Contract with a supplier of products and/or services to the Company or taking any affirmative action to cause any right thereunder to lapse or terminate, in each case other than in the ordinary course of business consistent with past practice;

(d) the Company shall use its commercially reasonable efforts consistent with past practice and policies to maintain each of its leased premises in accordance with the terms of the applicable lease; and

(e) the Company shall not cause or permit any amendments to the certificate of incorporation or governing documents of the Company.

5.2 Restrictions on Conduct of the Business of the Company. Without limiting the generality or effect of the provisions of Section 5.1, during the period from the Agreement Date and continuing until the earlier of the termination of this Agreement and the Closing, the Company shall not do, cause or permit any of the following (except to the extent expressly provided otherwise herein or as consented to in writing by Acquirer, which consent shall not be unreasonably withheld, conditioned or delayed):

- (a) (i) make any payments to any Company Employees (other than any payment of accrued standard base salary and benefits in accordance with the Company's standard payroll practices and employment agreements), (ii) hire any additional officers or other employees, or any Company Contractors with a base salary or fee in excess of \$125,000; (iii) terminate the employment, change the title, office or position, or materially reduce the responsibilities of any Key Employee or employee holding a director level or higher level position with the Company or (iv) enter into, amend in any material respect or extend the term of any employment or consulting agreement with any officer, employee or Company Contractor with a base salary or fee, as applicable, in excess of \$100,000;
- (b) make any non-cash dividend or other non-cash distributions in respect of any of its share capital, or split, combine or reclassify any of its share capital or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its share capital;
- (c) other than in the ordinary course of business consistent with past practice, transfer or license from any Person any rights to any Intellectual Property or transfer or license to any Person any Company Owned-IP Rights, or transfer or provide a copy of any Company Source Code to any Person;
- (d) other than in the ordinary course of business, (i) enter into any Contract that would constitute a Material Contract or (ii) terminate, adversely amend, or otherwise adversely modify (including by entering into a new Contract with such party or otherwise) or waive any of the terms of any of its Material Contracts;
- (e) issue, deliver or sell or authorize or propose the issuance, delivery or sale of, or purchase or propose the purchase of, any shares of Company Capital Stock or securities convertible into, or subscriptions, rights, warrants or options to acquire, or enter into any Contracts obligating it to issue any such shares or other convertible securities;
- (f) sell, lease, license or otherwise dispose of or encumber any of its material properties or assets, other than sales and nonexclusive licenses of Company Products in the ordinary course of business consistent with past practice;
- (g) commit to any new material Liabilities outside of the ordinary course of business;
- (h) make any capital expenditures, capital additions or capital improvements in excess of \$100,000 individually or \$250,000 in the aggregate;
- (i) materially change the amount of, or terminate, any insurance coverage;
- (j) commence a lawsuit other than (i) for the routine collection of bills or (ii) in such cases where it in good faith determines that failure to commence suit would result in the material impairment of a valuable aspect of its business, provided that it consults with Acquirer prior to the filing of such a suit;
- (k) other than in the ordinary course of business, make or change any material election in respect of Taxes, adopt or change any material accounting method in respect of Taxes, change an annual accounting period, or file any income or material Tax Return or any amendment to an income or material Tax Return, or except as set forth in the Company Disclosure Schedule, enter into any closing agreement or settle any claim or assessment in respect of Taxes;

(l) materially change accounting methods or practices or revalue any of its assets, except in each case as required by changes in GAAP after notice to Acquirer; and/or

(m) take, or agree in writing or otherwise to take, any of the actions described in clauses (a) through (l) in this Section 5.2.

5.3 Notices of Developments. During the period from the Agreement Date and continuing until the earlier of the termination of this Agreement and the Closing, (a) the Company will promptly notify Acquirer of any change outside the ordinary course of business of the Company, (b) the Company will promptly notify Acquirer in writing if it discovers that any representation or warranty made by it in this Agreement was untrue in any material respect. No disclosure pursuant to this Section 5.3 will be deemed to amend or supplement the Company Disclosure Schedule or to prevent or cure any inaccuracy, misrepresentation, breach of warranty or breach of this Agreement.

ARTICLE 6

ADDITIONAL AGREEMENTS

6.1 Filings and Consents

(a) Each party shall use reasonable best efforts to file, as soon as practicable after the Agreement Date, all notices, reports and other documents required to be filed by such party with any Governmental Entity with respect to the Share Purchase and other Transactions, and to submit promptly any additional information requested by any such Governmental Entity. The Company, Seller and Acquirer shall respond as promptly as practicable to any inquiries or requests received from any such Governmental Entity. Subject to the confidentiality provisions of the Confidentiality Agreement, Acquirer and the Company each shall promptly supply the other with any information which may be required in order to effectuate any filings (including applications) pursuant to (and to otherwise comply with its obligations set forth in) this Section 6.1. Except where prohibited by Applicable Law or any Governmental Entity, and subject to the confidentiality provisions of the Confidentiality Agreement, the Company shall: (i) cooperate with Acquirer with respect to any filings with any Governmental Entity made by Acquirer in connection with the Transactions; (ii) permit Acquirer to review (and consider in good faith the views of Acquirer in connection with) any documents before submitting such documents to any Governmental Entity in connection with the Transactions; (iii) inform Acquirer of any payments, fees or penalties by any Governmental Entity in connection with any such filings, and to the extent feasible, not make such payment until it has received Acquirer's consent thereto (which consent shall not be unreasonably withheld, conditioned or delayed); and (iv) promptly provide Acquirer with copies of all filings, notices and other documents (and a summary of any oral presentations) made or submitted by the Company with or to any Governmental Entity in connection with the Transactions. Except where prohibited by Applicable Law or any Governmental Entity, and subject to the confidentiality provisions of the Confidentiality Agreement, Acquirer shall: (i) cooperate with the Company and Seller with respect to any filings with any Governmental Entity made by the Company and/or Seller in connection with the Transactions; (ii) provide the Company a reasonable opportunity to review (and consider in good faith any comments of the Company in connection with) any documents before submitting such documents to any Governmental Entity in connection with the Transactions; and (iii) promptly provide the Company and Seller with copies of all filings, notices and other documents (and a summary of any oral presentations) made or submitted by Acquirer with or to any Governmental Entity in connection with the Transactions.

(b) (1) Seller shall, on or prior to March 31, 2017, prepare and deliver to Acquirer audited financial statements of the Company as of, and for the year ended, December 31, 2016 (with comparative presentation to the corresponding data as of, and for the year ended, December 31, 2015), (i) consisting of a balance sheet, statement of income and statement of cash flows for such annual period, (ii) prepared in accordance with GAAP applied on a consistent basis throughout the periods indicated (except as may be indicated in the notes thereto), (iii) prepared in accordance in all material respects with the books and records of the Company and (iv) that fairly present, in all material respects, the consolidated financial position, results of operations and cash flows of the Company as at the date thereof and for the period indicated therein. Such financial statements shall be accompanied by a report of the independent auditor of the Company. (2) The Company agrees, through the Closing, and Seller agrees, for a period of one (1) year following the Closing, to use commercially reasonable efforts to furnish or cause to be furnished to Acquirer, upon request, as promptly as practicable, such information and assistance reasonably requested by Acquirer (and that is not available from the Company or the Company's Representatives) that is required to be included in any filing Acquirer is required to make with the SEC and/or other Governmental Entity incorporating, containing or referencing financial statements of the Company for any period within the two year period ended December 31, 2016 or any interim period after such date up to the Closing Date, including, without limitation, (i) to the extent such assistance cannot be provided by the Company or the Company's Representatives, reasonably assisting Acquirer in preparing pro forma financial statements which incorporate, contain or reference financial statements of the Company for any annual, quarterly or six-month period within the two year period ended December 31, 2016 or any interim period after such date up to the Closing Date; (ii) requesting the consent of any accounting firm of the Company to file, include, incorporate or otherwise reference such accounting firm's audit opinion of annual period financial statements of the Company, in any filing of the Acquirer with the SEC and/or other Governmental Entity, provided that any out of pocket cost of obtaining such consent shall be the responsibility of Acquirer; and (iii) to the extent such assistance cannot be provided by the Company or the Company's Representatives, providing reasonable assistance to Acquirer in responding to any questions and/or comments of the SEC and/or other Governmental Entity with respect to any financial statements of the Company for any annual, quarterly or six-month period within the two year period ended December 31, 2016 or any interim period after such date up to the Closing Date.

6.2 Directors' and Officers' Insurance; E&O & Cyber Insurance.

(a) For a three (3)-year period following the Closing, Seller shall maintain in effect and pay the cost of directors' and officers' liability insurance with no less favorable terms (including retention) and limits of liability as Seller's current existing directors' and officers' liability policy in effect as of the Agreement Date covering the Covered Persons. To the extent such coverage is not maintained, Seller shall purchase tail insurance coverage under Seller's then existing directors' and officers' liability policy (the "**D&O Tail Insurance Coverage**") for those current and former directors and officers of the Company who are currently covered by Seller's existing directors' and officers' liability insurance policy (the "**Covered Persons**"), which (i) shall provide the Covered Persons with coverage for three (3) years following the Closing Date, to the extent permitted by Applicable Law, and (ii) contains coverage under terms comparable to those applicable to the current directors and officers of the Company (provided that Seller is not required to pay a premium on such policy in an amount that exceeds the premium paid on the currently existing policy).

(b) From and after the Closing until the seventh (7th) anniversary of the Closing Date, to the extent permitted by Applicable Law, the Company shall, and Acquirer shall cause the Company and any successor and assigns, to, fulfill and honor in all material respects all the obligations of the Company, if any, pursuant to indemnification, insurance and exculpation provisions under the Company's Charter Documents, as in effect as of the date hereof, to its directors and officers prior to the Closing to the extent relating to claims arising from or related to facts or events that occurred on or before the Closing Date.

(c) For a three (3)-year period following the Closing, the Company shall, and Acquirer shall cause the Company to, maintain in effect and pay the cost of errors and omissions and cyber insurance with no less favorable terms (including retention) and limits of liability extended under the Company's current insurance policies ("**Continuing Coverage**") for any claims first made during such three (3)-year period following the Closing and which claims are based on wrongful acts actually or allegedly taking place on or before the Closing. If, during such three (3)-year period, the Company ceases to maintain such Continuing Coverage, including in the event the Company is otherwise unable to secure Continuing Coverage that complies with the terms set forth above, then the Company shall, and Acquirer shall cause the Company to, acquire and pay for tail or extended reporting period coverage (the "**E&O & Cyber Tail Insurance Coverage**") that complies with the terms set forth above for the remainder of the three (3)-year post-Closing Date period. From and after the Closing, (x) Acquirer shall cause the Company and its successors and assigns not to, and the Company shall not, cancel or reduce the E&O & Cyber Tail Insurance Coverage and (y) Acquirer shall cause the Company and its successors and assigns to, and the Company shall, continue to honor the obligations thereunder in accordance with its terms, to the extent permitted by Applicable Law.

6.3 No Solicitation.

(a) During the period from the Agreement Date and continuing until the earlier of the termination of this Agreement and the Closing, neither the Company nor Seller will, and the Company and Seller will direct their respective Representatives not to, directly or indirectly, (i) solicit, initiate, seek, entertain, knowingly encourage, knowingly facilitate, support or knowingly induce the making, submission or announcement of any inquiry, expression of interest, proposal or offer that constitutes, or could reasonably be expected to lead to, an Acquisition Proposal, (ii) enter into, participate in, maintain or continue any communications (except solely to provide written notice as to the existence of these provisions) or negotiations regarding, or deliver or make available to any Person any non-public information with respect to, or take any other action regarding, any inquiry, expression of interest, proposal or offer that constitutes, or would reasonably be expected to lead to, an Acquisition Proposal, (iii) agree to, accept, approve, endorse or recommend (or publicly propose or announce any intention or desire to agree to, accept, approve, endorse or recommend) any Acquisition Proposal, (iv) enter into any letter of intent or any other Contract contemplating or otherwise relating to any Acquisition Proposal or (v) enter into any other transaction or series of transactions not in the ordinary course of business consistent with past practice, the consummation of which would reasonably be expected to impede, interfere with, prevent or delay the consummation of the Share Purchase or the other Transactions. Each of the Company and Seller will, and will direct their respective Representatives to, (A) immediately cease and cause to be terminated any and all existing activities, discussions or negotiations with any Persons conducted prior to or on the Agreement Date with respect to any Acquisition Proposal and (B) immediately revoke or withdraw access of any Person (other than Acquirer and its Representatives) to any data room (virtual or actual) containing any non-public information with respect to the Company in connection with an Acquisition Proposal and request from each Person (other than Acquirer and its Representatives) the prompt return or destruction of all non-public information with respect to the Company previously provided to such Person in connection with an Acquisition Proposal. If any Representative, whether in his, her or its capacity as such or in any other capacity, takes any action that the Company or Seller is obligated pursuant to this Section 6.3 not to authorize or permit such Representative to take, then the Company and Seller, respectively, shall be deemed for all purposes of this Agreement to have breached this Section 6.3.

(b) The Company and Seller shall immediately (but in any event, within 24 hours) notify Acquirer orally and in writing after receipt by it (or, to the Knowledge of it, by any of its Representatives), of (i) any Acquisition Proposal, (ii) any inquiry, expression of interest, proposal or offer that constitutes, or would reasonably be expected to lead to, an Acquisition Proposal, (iii) any other notice that any Person is considering making an Acquisition Proposal or (iv) any request for non-public information relating to the Company or for access to any of the properties, books or records of the Company by any Person or Persons other than Acquirer and its Representatives. Such notice shall describe (A) the material terms and conditions of such Acquisition Proposal, inquiry, expression of interest, proposal, offer, notice or request and (B) the identity of the Person or Group making any such Acquisition Proposal, inquiry, expression of interest, proposal, offer, notice or request. The sender of such notice shall keep Acquirer fully informed of the status and details of, and any modification to, any such inquiry, expression of interest, proposal or offer and any correspondence or communications related thereto and shall provide to Acquirer a true, correct and complete copy of such inquiry, expression of interest, proposal or offer and any amendments, correspondence and communications related thereto, if it is in writing, or a reasonable written summary thereof, if it is not in writing. The Company shall provide Acquirer with 48 hours prior notice (or such lesser prior notice as is provided to the members of the Company Board of Directors) of any meeting of the Company Board of Directors at which the Company Board of Directors is reasonably expected to discuss any Acquisition Proposal.

6.4 Confidentiality; Public Disclosure.

(a) The parties hereto acknowledge that Acquirer and the Company have previously executed a non-disclosure agreement, dated as of November 18, 2015 (the "**Confidentiality Agreement**"), which shall continue in full force and effect in accordance with its terms. Each party hereto agrees that it and its Representatives shall hold the terms of this Agreement, and the fact of this Agreement's existence, in strict confidence. At no time shall any party hereto disclose any of the terms of this Agreement (including the economic terms) or any non-public information about a party hereto to any other Person without the prior written consent of the party hereto about which such non-public information relates. Notwithstanding anything to the contrary in the foregoing, a party hereto shall be permitted to disclose any and all terms to (i) its or their financial, tax and legal advisors (each of whom is subject to a similar obligation of confidentiality), (ii) any Governmental Entity or administrative agency, to the extent necessary or advisable in compliance with Applicable Law and the rules of Nasdaq or the TASE and (iii) its or their direct or indirect investors in connection with ordinary private investment fund activities.

(b) Neither the Company or Seller, on the one hand, nor Acquirer, on the other hand, shall issue any press release or other public communications relating to the terms of this Agreement or the Transactions or use another party's name or refer to such party directly or indirectly in connection with the Transactions in any media interview, advertisement, news release, press release or professional or trade publication, or in any print media, whether or not in response to an inquiry, without the prior written approval of the other party, unless required by Applicable Law (in which event a satisfactory opinion of counsel to that effect shall be first delivered to Acquirer prior to any such disclosure). Notwithstanding anything to the contrary contained herein or in the Confidentiality Agreement, Acquirer may make such public communications regarding this Agreement or the Transactions as it is required by Applicable Law or by the rules of the TASE, the SEC or NASDAQ, provided that Acquirer shall, to the extent reasonably practicable, provide a draft of any such communication to Seller not less than two (2) Business Days prior to its release and shall consider in good faith any reasonable changes requested by Seller.

6.5 Commercially Reasonable Efforts. Each of the parties hereto agrees to use its commercially reasonable efforts, and to reasonably cooperate with each other party hereto, to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary or appropriate to consummate and make effective, in the most expeditious manner practicable, the Share Purchase and the other Transactions, including the satisfaction of the respective conditions set forth in Article 7, and including to execute and deliver such other instruments and do and perform such other acts and things as may be necessary or reasonably desirable for effecting completely the consummation of the Share Purchase and the other Transactions. Notwithstanding the foregoing or anything to the contrary contained in this Agreement, (a) Acquirer shall not have any obligation under this Agreement to divest or agree to divest (or cause any of its Subsidiaries to divest or agree to divest) any of its respective businesses, product lines or assets, or to take or agree to take (or cause any of its Subsidiaries to take or agree to take) any other action or to agree (or cause any of its Subsidiaries to agree) to any limitation or restriction on any of its respective businesses, product lines or assets; and (b) Seller and the Company shall not have any obligation under this Agreement (i) to seek any consents, waivers and approvals under any Contracts, or (ii) to pay any amounts in connection with obtaining any consents, waivers and approvals under any Contracts.

6.6 [RESERVED]

6.7 Litigation. Until the Closing, the Company will (i) notify Acquirer in writing promptly after learning of any Legal Proceeding initiated by or against it, or known by the Company to be threatened against the Company, or any of its directors, officers or employees in their capacity as such or relating to their employment, services or relationship with the Company (a "***New Litigation Claim***"), (ii) notify Acquirer of ongoing material developments in any New Litigation Claim and (iii) consult in good faith with Acquirer regarding the conduct of the defense of any New Litigation Claim.

6.8 Access to Information; Post-Closing Cooperation and Assistance.

(a) Through the Effective Closing Time, the Company will afford to Acquirer and its authorized representatives reasonable access during normal business hours as Acquirer may reasonably request to the facilities, offices, properties, technology, processes, books, business and financial records, business plans, budgets and projections, and other information of the Company, and the work-papers of the Company's independent accountants, and otherwise use commercially reasonable efforts to provide such assistance as may be reasonably requested by Acquirer in order that Acquirer have a full opportunity to make such investigation and evaluation as it reasonably desires to make of the business and affairs of the Company; provided, however, that Acquirer will not have access to the personnel records (including performance appraisals, disciplinary actions, grievances and medical records) of the Company.

(b) From and after the Closing, the Company will (and Acquirer will cause the Company to), at its own cost (provided that Seller will reimburse the Company for any third party costs (excluding the costs of employees of the Company and its Affiliates) reasonably incurred by the Company hereunder, promptly after receipt of a written request therefor from the Company), reasonably cooperate with and assist Seller (including by providing Seller with reasonable access during normal business hours to Seller's and Seller's former Affiliates' records for any period prior to the Closing) in connection with Seller's winding up of its and its general partner's respective businesses, including with respect to financial reporting, accounting, tax return preparation, insurance, legacy payroll and transition of network system data files and hard copy records. Such reasonable cooperation and assistance will also include making available information relative to insurance policies of the Company under which Seller is an insured person. Seller will be permitted to communicate and work directly with any insurance provider under such policies regarding any claim involving Seller, including filing a claim, responding to insurance provider requests for information, disputing insurance provider denials of coverage and/or settling any such claims.

6.9 Expenses. Whether or not the Share Purchase is consummated, except as otherwise set forth herein, all costs and expenses incurred in connection with this Agreement and the Transactions (including Transaction Expenses) shall be paid by the party incurring such expense, provided that, if the Share Purchase is consummated, Acquirer may pay Transaction Expenses on the Company's behalf to the extent such Transaction Expenses are set forth on the Company Closing Financial Certificate.

6.10 Designated Employees: Compensation and Benefits. Effective no later than immediately prior to the Closing, the Company shall terminate in full compliance with Applicable Laws, regulations and contractual agreements (including a due process) the employment of each of those Company Employees who are listed on Schedule 6.10 of the Company Disclosure Schedule (the "**Designated Employees**"), and the Company shall use commercially reasonable efforts to enter into a legally enforceable general waiver and release of claims with such Designated Employees, in a form reasonably acceptable to Acquirer.

6.11 Certain Closing Certificates and Documents. The Company shall prepare and deliver to Acquirer a draft of (a) the Company Closing Financial Certificate not later than two (2) Business Days prior to the Closing Date and (b) a final version of the Company Closing Financial Certificate on the Closing Date. In the event that Acquirer notifies the Company that there are reasonably apparent errors in the drafts of the Company Closing Financial Certificate not later than two (2) Business Days prior to the Closing Date, Acquirer and the Company shall discuss such errors in good faith and, if appropriate as reasonably determined by the Company, the Company shall correct such errors prior to delivering the final versions of the same in accordance with this Section 6.11. The Company shall provide to Acquirer, together with the Company Closing Financial Certificate, such supporting documentation, information and calculations as are reasonably necessary for Acquirer to verify and determine the calculations, amounts and other matters set forth in the Company Closing Financial Certificate.

6.12 Tax Matters.

(a) Cooperation on Tax Matters. Each of Acquirer, Seller and the Company shall cooperate fully, as and to the extent reasonably requested by any of the others, in connection with the preparation and filing of Tax Returns and any Legal Proceeding with respect to Taxes. Such cooperation shall include the retention and (upon request therefor) the provision of records and information reasonably relevant to any Tax Returns and/or any such Legal Proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Acquirer, the Company and Seller agree to retain all books and records with respect to Tax matters pertinent to the Company relating to any taxable period beginning before the Closing Date until the later of (i) the seventh (7th) anniversary of the last day of the applicable taxable period or (ii) the expiration of the statute of limitations of the respective taxable periods, and to abide by all applicable record retention laws, regulations and agreements entered into with any Tax Authority.

(b) Preparation of Tax Returns.

(i) The Company shall prepare or cause to be prepared and timely file or cause to be timely filed all Tax Returns of the Company (which Tax Returns shall not include any deduction for expenses that are not properly reportable on the Tax Return of the Company) for all periods ending on or before the Closing Date that are required to be filed on or prior to the Closing Date, shall provide drafts of each such income or other material Tax Return to Acquirer not less than fifteen (15) days prior to the due date for such Tax Return (taking into account any validly obtained extensions of time to file), and shall make any reasonable changes requested by Acquirer in good faith. To the extent not filed on or prior to the Closing Date pursuant to the preceding sentence, Seller's accountants shall prepare and the Company shall timely file (or cause to be timely filed) all Tax Returns of the Company (which Tax Returns shall not include any deduction for expenses that are not properly reportable on the Tax Return of the Company) with respect to all Pre-Closing Tax Periods and Straddle Periods. Such Tax Returns shall be prepared in a manner consistent with past practice and this Agreement, except as otherwise required by Applicable Law. Seller shall cause Seller's accountants to (i) provide drafts of each such Tax Return (and supporting materials) to Acquirer not less than forty-five (45) days prior to the due date for such Tax Return (taking into account any validly obtained extensions of time to file), and (ii) make any reasonable changes requested by Acquirer in good faith, in each case provided such requested change is not inconsistent with the Company's past practice of preparing its Tax Returns. The Company shall promptly provide to Seller true and complete copies of all filed Tax Returns for Pre-Closing Tax Periods and Straddle Periods and pay to the appropriate Tax Authority all Taxes of the Company shown as due on such Tax Returns, and Seller shall reimburse the Company for all Taxes for which Seller is liable pursuant to this Agreement (other than Taxes included in Company Net Working Capital) but which are remitted in respect of any Tax Return to be filed by the Company pursuant hereto upon the written request of the Company, but in no event earlier than seven (7) days prior to the due date for paying such Taxes.

(ii) Except as otherwise required by Applicable Law (in which case Acquirer shall provide advance written notice to Seller and provide Seller with a reasonable opportunity to resolve any difference of opinion with Acquirer, or if necessary, such difference of opinion shall be resolved by the Reviewing Accountant utilizing the procedures outlined in Section 1.2(e)), neither Acquirer nor any of its Affiliates shall (or shall cause or permit the Company to), without the express consent of Seller (which consent shall not be unreasonably withheld, conditioned or delayed), (A) carry back to a Pre-Closing Tax Period any item on the Company's income Tax Return for a Post-Closing Tax Period; (B) amend, refile or otherwise modify any Tax Return relating in whole or in part to the Company with respect to any Pre-Closing Tax Period (including with respect to any Straddle Period); (C) voluntarily initiate any discussion with any Tax Authority regarding Taxes of the Company with respect to any Pre-Closing Tax Period or Straddle Period; (D) make any voluntary disclosure with respect to Taxes of the Company for a Pre-Closing Tax Period or Straddle Period; (E) file Tax Returns for a Pre-Closing Tax Period for the Company in a jurisdiction where the Company has not previously filed Tax Returns; or (F) make, or cause to permit to be made, any Tax election, or adopt or change any method of accounting, or undertake any extraordinary action on the Closing Date that would materially and adversely affect Seller's or the Company's Taxes for any Pre-Closing Tax Period, including: (1) reporting any Transaction Tax Deduction pursuant to the "next day rule" under Treasury Regulations section 1.1502-76(b)(1)(ii)(B) with respect to such deductions; (2) reporting any Acquirer Post-Closing Date Transaction as occurring on the Closing Date without applying the "next day rule" under Treasury Regulations section 1.1502-76(b)(1)(ii)(B) (or any similar provision of Applicable Law); (3) filing any election under Section 338(g) of the Code (or any similar provision of Applicable Law); or (4) electing to ratably allocate items pursuant to an election under Treasury Regulations § 1.1502-76(b)(2) (or any similar provision of Applicable Law).

(c) Utilization of Deductions: Tax Refunds.

(i) To the extent permitted by Applicable Law, all items of loss, deduction and credit of the Company attributable to a Pre-Closing Tax Period (including the portion of a Straddle Period ending on the Closing Date), shall be used for federal income Tax and state income Tax purposes first to offset items of income and gain attributable to such Pre-Closing Tax Period and, thereafter, shall be carried back, to the extent there exist items of income and gain to offset that are attributable to a Pre-Closing Tax Period, prior to being carried forward to Post-Closing Tax Periods.

(ii) Any refund or credit of Taxes (including any interest paid thereon) paid or incurred for any Pre-Closing Tax Period of the Company and the Subsidiaries (a "***Pre-Closing Tax Refund***"), net of any reasonable out-of-pocket expenditures incurred by Acquirer or the Company to obtain such refund, shall be the property of Seller and shall be retained by Seller or promptly paid to Seller by Acquirer (if such amount (or the benefit of such amount, if, for example, a refund is credited against Tax for another year) is received after the Closing Date by Acquirer or the Company, or any of their respective Affiliates). Acquirer and the Company shall cooperate in the filing of claims for Pre-Closing Tax Refunds.

(d) Transaction Tax Deductions.

(i) To the extent permitted by Applicable Law, all Transaction Tax Deductions shall be treated as being incurred in a Pre-Closing Tax Period and deducted on the income Tax Returns of the Company for the Pre-Closing Tax Period, and neither the Company nor Acquirer shall utilize the "next day rule" in Treasury Regulations section 1.1502-76(b)(1)(ii)(B) (or any similar provision of non-U.S., state, or local Law) for purposes of reporting such items on the applicable Tax Returns. If the Company is allowed any Transaction Tax Deduction for any Pre-Closing Tax Period with respect to which the Company has a net operating loss, the amount of such Transaction Tax Deductions that is deemed to carry over to a Post-Closing Tax Period for purposes of this Section 6.12(d) shall be determined by assuming that the Company utilizes all other items of deduction and credit (to the extent such credits may be applied under Applicable Law prior to claiming the Transaction Tax Deductions) to offset income for such Pre-Closing Tax Period (and for any prior Pre-Closing Tax Period to which the net operating loss is carried) before utilizing any Transaction Tax Deductions.

(ii) All Tax Reductions for a Post-Closing Tax Period that result from or are attributable to the utilization of Transaction Tax Deductions in the Post-Closing Tax Period shall be for the benefit of Seller, but only to the extent that such Tax Reduction relates to a Tax year ending no later than December 31, 2019 (if and as applicable). To the extent that Acquirer, the Company, or any of their respective Affiliates receives or realizes a Tax Reduction to which the preceding sentence applies, Acquirer shall, within ten (10) Business Days after receiving such Tax Reduction (if it is in the form of a Tax refund), or filing the Tax Return realizing the Tax Reduction (if it is in the form of a Tax credit, offset or reduction in cash Taxes paid), pay to Seller the amount of such Tax Reduction, but only to the extent that such Tax Reduction is not included as an asset for purposes of computing the Company Net Working Capital. All Tax Reductions computed under this Section 6.12(d) shall be computed assuming that Acquirer, the Company, and their respective Affiliates recognize all other items of income, gain, loss, deduction or credit before recognizing any Transaction Tax Deductions, and the amount of the Tax Reduction shall be determined on a with and without basis.

(iii) Within ten (10) days after filing any income Tax Return of Acquirer, the Company, or any Affiliate thereof for a Post-Closing Tax Period subject to this Section 6.12(d), Acquirer shall provide Seller a written notice setting forth a statement as to whether any available Transaction Tax Deductions were utilized in such income Tax Return, together with an explanation of the basis for its determination that it, the Company or its Affiliates have realized or have not realized a Tax Reduction attributable to the Transaction Tax Deductions in such Post-Closing Tax Period and a schedule with reasonable supporting detail. If Seller disputes the amount of such Tax Reduction, Seller shall notify Acquirer in writing within thirty (30) days of its receipt of such notice and the basis for its objection, and Seller and Acquirer shall act in good faith to resolve any such dispute. If Seller and Acquirer do not resolve such dispute within ten (10) Business Days after receipt by Acquirer of written notice from Seller as set forth above, the amount of the Tax Reduction in question shall be determined by the Reviewing Accountant, which determination of the item shall be no greater than Seller's claim with respect to the amount of the Tax Reduction and no less than Acquirer's initial determination of the Tax Reduction. Acquirer and Seller shall each pay one-half of the fees and costs of the Reviewing Accountant. Acquirer shall provide all reasonably necessary information to the Reviewing Accountant so that the Reviewing Accountant can determine the amount of the Tax Reduction. If Seller is entitled to any payment in addition to amounts previously paid pursuant to this Section 6.12(d) in respect of a Tax Reduction after resolution of the dispute pursuant to this Section 6.12(d)(iii), Acquirer shall pay to Seller such additional amount within ten (10) Business Days after the resolution of the dispute. If and to the extent Seller receives any payment pursuant to this Section 6.12(d) and, subsequent to such payment, there is a final, nonappealable determination that Tax Reductions to which the payments relate are disallowed, Seller shall repay to Acquirer the applicable portion of the payments previously received within thirty (30) Business Days of written request by Acquirer for repayment.

(e) Tax Proceedings. If an audit, investigation or similar proceeding shall be commenced, or a claim shall be made, by any Tax Authority, with respect to Taxes for which Seller may be liable under the terms of this Agreement, Acquirer shall, or shall cause the Company to, promptly notify Seller in writing of such audit, investigation or similar proceeding or claim (a "***Tax Proceeding***"); provided, however, that failure to give such notice shall not affect Seller's indemnification obligations unless such failure prevents Seller from taking meaningful control of such Tax Proceeding or otherwise materially prejudices Seller. Seller shall have the primary right to contest such Tax Proceeding with respect to any Pre-Closing Tax Period (at Seller's expense) and, only with respect to Pre-Closing Tax Periods, shall have discretion and authority to pay, settle or compromise any such Tax Proceeding (including selection of counsel, the pursuit or waiver of any administrative proceeding or the right to pay the Tax and sue for a refund or contest the Tax Proceeding in any permissible manner); provided, however, that (i) Acquirer (or its advisors) may fully participate at Acquirer's sole expense in the Tax Proceeding, and (ii) Seller shall not settle any Tax Proceeding in a manner that could reasonably be expected to increase the Tax liabilities of Acquirer or the Company for Post-Closing Tax Periods without the prior written consent of Acquirer (which consent shall not be unreasonably withheld, conditioned or delayed); provided that no compromise or settlement of such Tax Proceeding may be effected by the party controlling the defense of such Tax Proceeding without the other party's consent unless (A) there is no finding or admission of any violation by such other party of any Applicable Law or any rights of any Person, (B) the settlement fully discharges such other party from any and all Tax claims made against such other party in such Tax Proceeding, and (C) the sole relief provided is monetary damages that are paid in full by the compromising or settling party. The Company shall provide duly completed powers of attorney to permit the foregoing. Seller and Acquirer shall keep each other timely informed with respect to the commencement, status and nature of any Tax Proceeding. Upon the conclusion of any Tax Proceeding with respect to the Company in accordance with the foregoing, whether by way of settlement or otherwise, Acquirer shall cause the Company and an appropriate officer of the Company to execute any and all agreements, instruments or other documents that are necessary or appropriate to conclude such Tax Proceeding. To the extent this Section 6.12(e) conflicts with Article 9, this Section 6.12(e) shall control; provided that Seller may not elect to conduct the defense of any Tax Proceeding where (1) the potential liability of the Company and/or Acquirer thereunder exceeds the maximum amount which may be paid thereto pursuant to the Acquirer Insurance Policy, the Escrow General Fund and the Escrow Fundamental Fund unless Seller posts adequate collateral (whether in a third party escrow account, through a letter of credit or otherwise in a manner reasonably acceptable to Acquirer) in the amount of such excess, (2) the Tax Proceeding involves criminal allegations and/or (3) where material non-monetary relief is sought against the Company and/or Acquirer.

6.13 Notifications. The Company and Seller shall promptly notify Acquirer of any change, occurrence or event that, individually or in the aggregate with any other changes, occurrences and events, would reasonably be expected to cause any of the conditions to the Closing set forth in Sections 7.1 and 7.3 to not be satisfied. Acquirer shall promptly notify the Company and Seller of any change, occurrence or event that, individually or in the aggregate with any other changes, occurrences and events, would reasonably be expected to cause any of the conditions to the Closing set forth in Sections 7.1 and 7.2 to not be satisfied.

6.14 Use of StoneRiver Name.

(a) The Company hereby grants to Seller and its general partner a nonexclusive, nontransferable, and royalty-free license, in each case solely in connection with winding up Seller's and its general partner's respective businesses and reporting regarding the investment in Seller, to use (i) the trademark "StoneRiver" and (ii) all logos and designs incorporating the words "Stone" or "River" (together, the "**Marks**"), including for use on existing emails, letterhead, envelopes, packaging, labels, and business cards and in connection with communications with direct and indirect investors in Seller and as part of the entity names for Seller (StoneRiver Group, L.P.) and Seller's general partner (TF StoneRiver, Inc.).

(b) Seller acknowledges and agrees that the Company has and shall retain sole and exclusive ownership of the Marks and all goodwill and rights related thereto throughout the world, and that all use of the Marks by Seller and its general partner shall inure to the benefit of and be on behalf of the Company. Seller agrees that nothing in this Agreement shall give Seller or its general partner any right, title, or interest in the Marks other than the right to use the Marks in accordance with this Agreement, and Seller agrees that it will not attack or challenge the validity or the Company's ownership of the Marks.

6.15 Acquirer Insurance Policy.

(a) Prior to the Closing, Acquirer shall use commercially reasonable efforts to obtain the Acquirer Insurance Policy on substantially similar terms and conditions as set forth in Exhibit E, provided that, in all events, the Acquirer Insurance Policy, if obtained, shall provide that (i) except in the case of Fraud, the Insurance Company shall have no, and shall waive and not pursue any and all, subrogation rights against Seller and its Affiliates; (ii) Seller and its Affiliates are third party beneficiaries of such waiver; and (iii) the insured cannot amend the Acquirer Insurance Policy with respect to its subrogation provisions or the exclusion provisions without Seller's express written consent. Prior to the Closing, Acquirer shall pay or cause to be paid all of the costs and expenses related to the Acquirer Insurance Policy, if obtained, including the total premium, underwriting costs, brokerage commission, Taxes related to such policy and other fees and expenses of such policy.

(b) If the Acquirer Insurance Policy is not obtained at or prior to the Closing and, following the Closing and prior to the earlier to occur of (x) the Escrow General Release Date and (y) delivery of the notice described in the following sentence, Acquirer obtains the Acquirer Insurance Policy, then Seller shall, within ten (10) Business Days of receipt of a written request from Acquirer, deposit with the Escrow Agent, to establish the Escrow General Fund, an amount equal to (A) the amount of the Seller Cap minus (B) any amounts previously paid by Seller to the Acquirer Indemnified Persons pursuant to Section 9.2(a)(ii) or, to the extent that the Indemnifiable Damages under Section 9.2(a)(iii) shall have resulted from the same facts and circumstances underlying Indemnifiable Damages under Section 9.2(a)(ii), Section 9.2(a)(iii). If the Acquirer Insurance Policy is not obtained at Closing and Acquirer reasonably determines that the Acquirer Insurance Policy cannot or will not be obtained, then Acquirer will notify Seller in writing within two (2) Business Days of such determination.

(c) In the event that (w) the Acquirer Insurance Policy is not obtained at or prior to the Closing and as a result the Escrow General Fund is not established at Closing, (x) as a result of the Escrow General Fund not being established at Closing, claims are made directly against Seller pursuant to Section 9.2(a)(ii) or, to the extent that the Indemnifiable Damages under Section 9.2(a)(iii) shall have resulted from the same facts and circumstances underlying Indemnifiable Damages under Section 9.2(a)(ii), Section 9.2(a)(iii), (y) Acquirer obtains the Acquirer Insurance Policy after Closing (and after submitting such claims) and the Escrow General Fund is then established as set forth in clause (b), and (z) such claims have not been resolved and paid prior to the establishment of the Escrow General Fund, then any such claims will be deemed to have been made against the Escrow General Fund and, notwithstanding the last proviso of Section 9.2(c)(ii), Seller will have no direct liability whatsoever for such claims.

6.16 BWC Matter.

(a) The Company shall maintain control over the negotiations, settlement, and/or any litigation or arbitration of the BWC Matter and any related matters on behalf of the Company, which includes the right to pursue recovery through litigation or otherwise, provided that the Company shall (and Acquirer shall cause the Company following the Closing to) (i) pursue recovery of the BWC Receivables in good faith, using commercially reasonable efforts and (ii) conduct the defense or settlement of any Litigation Claims in a diligent manner. The Company may not enter into any compromise or settlement of the BWC Matter without Seller's prior written consent (not to be unreasonably withheld, conditioned or delayed). The Company shall, to the extent reasonably practicable (and legally permissible), (x) keep Acquirer reasonably informed of the status of the BWC Matter prior to the Closing and (y) keep Seller reasonably informed of the status of the BWC Matter after the Closing.

(b) Following the Closing, Seller shall make Julia A. Jensen ("**Jensen**") reasonably available during normal business hours to provide reasonably requested assistance with respect to the BWC Matter, including with respect to (i) negotiations regarding settlement of the BWC Matter and (ii) a new Contract between the Company and BWC. The Company shall (x) reimburse Jensen's employer for all reasonable costs and expenses incurred in connection with such assistance and (y) pay Jensen's employer \$500 per hour worked by Jensen in providing such assistance.

6.17 Parachute Payments. To the extent the Company would otherwise incur the loss of tax deductions under Section 280G of the Code and the Treasury Regulations thereunder (collectively, "**Section 280G**"), as promptly as practicable after the Agreement Date, Seller shall cause the Company to submit to the stockholders of the Company, for approval by stockholders of the Company holding the number of shares of Company Capital Stock required by the terms of Section 280G(b)(5)(B) of the Code, a written consent in favor of a single proposal to render the parachute payment provisions of Section 280G inapplicable to any and all payments or benefits that might result, separately or in the aggregate, alone or in combination with any other event, in the payment of any amount or the provision of any benefit that would not be deductible by reason of Section 280G or that would be subject to an excise tax under Section 4999 of the Code (together, the "**Section 280G Payments**"). Seller shall cause any such stockholder approval to be sought by the Company in a manner that satisfies all applicable requirements of Section 280G(b)(5)(B) of the Code and the Treasury Regulations thereunder, including Q-7 of Section 1.280G-1 of such Treasury Regulations. Seller agrees that: (a) in the absence of such stockholder approval, no Section 280G Payments shall be made; and (b) the Company shall deliver to Buyer on a timely basis (but in any case at or prior to the Closing) waivers, in form and substance reasonably satisfactory to Buyer, duly executed by each Person who might receive any Section 280G Payment waiving their right to receive any Section 280G Payments in the absence of such stockholder approval.

ARTICLE 7
CONDITIONS TO THE SHARE PURCHASE

7.1 Conditions to Obligations of Each Party to Effect the Share Purchase. The respective obligations of each party hereto to consummate the Transactions shall be subject to the satisfaction or waiver in writing at or prior to the Closing of each of the following conditions:

(a) Illegality. No Order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the Share Purchase shall be in effect, and no action shall have been taken by any Governmental Entity seeking any of the foregoing, and no Applicable Law or Order shall have been enacted, entered, enforced or deemed applicable to the Share Purchase that makes the consummation of the Share Purchase illegal.

(b) Governmental Approvals. Acquirer and the Company shall have timely obtained from each Governmental Entity all approvals, waivers and consents, if any, necessary for consummation of, or in connection with, the Share Purchase and the other Transactions.

7.2 Additional Conditions to Obligations of the Company and Seller. The obligations of the Company and Seller to consummate the Transactions shall be subject to the satisfaction or waiver in writing at or prior to the Closing of each of the following conditions (it being understood that each such condition is solely for the benefit of the Company and Seller and may be waived by the Company and Seller in writing in their sole discretion without notice or Liability to any Person):

(a) Representations, Warranties and Covenants. The representations and warranties made by Acquirer herein shall be true and correct in all material respects (except for such representations and warranties that are qualified by their terms by a reference to materiality or Material Adverse Effect, which representations and warranties as so qualified shall be true and correct in all respects) on and as of the Agreement Date and at and as of the Effective Closing Time as though such representations and warranties were made on and as of such dates (except for representations and warranties that address matters only as to a specified date or dates, which representations and warranties shall be true and correct with respect to such specified date or dates). Acquirer shall have performed and complied in all material respects with all covenants, agreements and obligations herein required to be performed and complied with by them at or prior to the Closing.

(b) Receipt of Closing Deliveries. The Company shall have received each of the agreements, instruments, certificates and other documents set forth in Section 1.3(a).

(c) No Legal Proceedings. No governmental action, proceeding, investigation, regulation or legislation shall have been instituted, threatened in writing before any court, governmental authority or legislative body to enjoin, restrain or prohibit this Agreement or the consummation of the Transaction.

7.3 Additional Conditions to the Obligations of Acquirer. The obligations of Acquirer to consummate the Transactions shall be subject to the satisfaction or waiver at or prior to the Closing of each of the following conditions (it being understood and agreed that each such condition is solely for the benefit of Acquirer and may be waived by Acquirer in writing in its sole discretion without notice or Liability to any Person):

(a) Representations, Warranties and Covenants. (i) Each of the Special Representations (other than the representations and warranties contained in Section 2.10 (Taxes)) shall be true and correct in all respects and (ii) all other representations and warranties of the Company made herein (including Section 2.10 (Taxes)) shall be true and correct in all material respects (except for such representations and warranties that are qualified by their terms by a reference to materiality or Material Adverse Effect, which representations and warranties as so qualified shall be true and correct in all respects) in each case, on and as of the Agreement Date and at and as of the Effective Closing Time as though such representations and warranties were made on and as of such dates (except for representations and warranties that address matters only as to a specified date or dates, which representations and warranties shall be true and correct with respect to such specified date or dates); provided that any inaccuracy in any of the representations and warranties of the Company as of the Effective Closing Time, which inaccuracy results from (x) any matter, event or occurrence arising after the Agreement Date in the Company's ordinary course of business or (y) the failure to obtain any consent of a customer to the Transactions, including a customer notifying the Company of its intent not to continue as a customer of the Company or that such customer intends to materially reduce its consumption of Company Products, shall not result in the condition set forth in this Section 7.3(a) not being satisfied. The Company and Seller shall have performed and complied in all material respects with all covenants (except for covenants made under Section 6.13, which shall be performed and complied with by the Company in all respects), agreements and obligations herein required to be performed and complied with by the Company and/or Seller at or prior to the Closing.

(b) Receipt of Closing Deliveries. Acquirer shall have received each of the agreements, instruments, certificates and other documents set forth in Section 1.3(b); provided that such receipt shall not be deemed to be an agreement by Acquirer that the amounts set forth on the Company Closing Financial Certificate or any of the other agreements, instruments, certificates or documents set forth in Section 1.3(b) is accurate and shall not diminish Acquirer's remedies hereunder if any of the foregoing documents is not accurate.

(c) Injunctions or Restraints on Conduct of Business. No Order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition limiting or restricting Acquirer's ownership or the conduct or operation of the Business following the Closing shall be in effect, and no Legal Proceeding seeking any of the foregoing, or any other injunction, restraint or material damages in connection with the Share Purchase or the other Transactions shall be pending or threatened.

(d) No Legal Proceedings. No Governmental Entity or other Person shall have commenced or threatened to commence any Legal Proceeding challenging or seeking the recovery of a material amount of damages in connection with the Share Purchase or the other Transactions or seeking to prohibit or limit the exercise by Acquirer of any material right pertaining to ownership of Equity Interests of the Company.

(e) No Material Adverse Effect. There shall not have occurred a Material Adverse Effect with respect to the Company.

(f) No Outstanding Securities. Other than the Company Capital Stock, there shall be no other Equity Interests of the Company, share appreciation rights, share units, share schemes, calls or rights outstanding, nor will the Company or Seller be party to any Contract of any character nor will any of them be bound by any obligation to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any Equity Interests of the Company or other rights to purchase or otherwise acquire any Equity Interests of the Company, whether vested or unvested.

ARTICLE 8

TERMINATION

8.1 Termination. At any time prior to the Closing, this Agreement may be terminated and the Share Purchase abandoned by authorized action taken by the terminating party:

(a) by mutual written consent duly authorized by Acquirer, Seller and the Company;

(b) by either Acquirer, on the one hand, or Seller or the Company, on the other hand, by written notice to the other, if the Closing shall not have occurred by the date that is 60 days after the date hereof (the "**Agreement Termination Date**"); provided that the right to terminate this Agreement under this Section 8.1(b) shall not be available to any party whose breach of any covenant, agreement or obligation hereunder will have been the principal cause of, or shall have directly resulted in, the failure of the Closing to occur on or before the Agreement Termination Date;

(c) by Acquirer, on the one hand, or Seller or the Company, on the other hand, by written notice to the other if any Order of a Governmental Entity of competent authority preventing the consummation of the Share Purchase shall have become final and non-appealable;

(d) by Acquirer, by written notice to the Company and Seller, if (i) there shall have been an inaccuracy in any representation or warranty made by, or a breach of any covenant, agreement or obligation of the Company or Seller herein, and such inaccuracy or breach shall not have been cured within ten (10) Business Days after receipt by the Company of written notice of such inaccuracy or breach and, if not cured within such period and at or prior to the Closing, such inaccuracy or breach would result in the failure of any of the conditions set forth in Section 7.1 or Section 7.3 to be satisfied (provided that no such cure period shall be available or applicable to any such breach that by its nature cannot be cured), (ii) there shall have been a Material Adverse Effect with respect to the Company or (iii) the Company shall have breached Section 6.3 or Section 6.4; or

(e) by the Company or Seller, by written notice to Acquirer, if (i) there shall have been an inaccuracy in any representation or warranty made by, or a breach of any covenant, agreement or obligation of Acquirer herein, and such inaccuracy or breach shall not have been cured within ten (10) Business Days after receipt by Acquirer of written notice of such inaccuracy or breach and, if not cured within such period and at or prior to the Closing, such breach would result in the failure of any of the conditions set forth in Section 7.1 or Section 7.2 to be satisfied (provided that no such cure period shall be available or applicable to any such inaccuracy or breach that by its nature cannot be cured) or (ii) Acquirer shall have breached Section 6.4.

8.2 Effect of Termination. In the event of termination of this Agreement as provided in Section 8.1, this Agreement shall forthwith become void and there shall be no Liability on the part of Acquirer, the Company or their respective officers, directors, shareholders or Affiliates; provided that (i) Section 6.4 (Confidentiality; Public Disclosure), Section 6.9 (Expenses), this Section 8.2 (Effect of Termination), Article 10 (General Provisions) and any related definition provisions in or referenced in Exhibit A and the Confidentiality Agreement shall remain in full force and effect and survive any termination of this Agreement and (ii) nothing herein shall relieve any party hereto from Liability in connection with any willful breach of such party's representations, warranties, covenants, agreements or obligations contained herein.

ARTICLE 9

ACQUIRER INSURANCE POLICY, ESCROW FUND AND INDEMNIFICATION

As used in this Agreement, the following terms shall have the meanings indicated below:

"Acquirer Covered Losses" means Indemnifiable Damages caused by any failure of any representation or warranty made by the Company or Seller (including the Special Representations) contained in this Agreement or in any certificate (other than the Closing Financial Certificate) required to be delivered to Acquirer at the Closing pursuant to any provision of this Agreement to be true and correct (whether or not such Indemnifiable Damages could also be claimed under Sections 9.2(a)(iii) through (viii)).

"Acquirer Insurance Policy" means, if obtained, a Representations and Warranties Insurance Policy to be purchased by Acquirer from an insurance company selected by Acquirer's broker (the **"Insurance Company"**), for the benefit of Acquirer, with respect to Acquirer Covered Losses.

"Escrow Fundamental Amount" means an amount in cash equal to \$2,000,000.

"Escrow General Fund" means the amount of the Seller Cap plus all interest accrued thereon. Notwithstanding anything to the contrary contained in this Agreement, until such time as the Acquirer Insurance Policy is obtained, if at all, the Escrow General Fund will not be established.

"**Escrow Fundamental Fund**" means the Escrow Fundamental Amount plus all interest accrued thereon (the Escrow Fundamental Fund, collectively with the Escrow General Fund, shall be referred to as the "**Escrow Fund**").

"**Indemnifiable Damages**" means losses, Liabilities, damages, fees, costs, interest, awards, judgments, penalties and expenses, including costs of litigation and defense and reasonable fees and expenses of lawyers, experts and other professionals that are subject to indemnification pursuant to this Article 9; provided that "**Indemnifiable Damages**" will not include any punitive damages or other damages that are not legally recoverable under Applicable Law as breach of contract damages, except to the extent such damages are payable to a third party in connection with any Third-Party Claim.

"**Seller Cap**" means an amount of \$500,000.

"**Total Cash Escrow Amount**" means a total amount in cash, calculated as of the Closing, equal to (x) the Escrow Fundamental Amount plus (y) only if the Acquirer Insurance Policy is obtained at Closing, the amount of the Seller Cap).

9.1 Acquirer Insurance Policy, Litigation Claims and Escrow Funds.

(a) Subject to the limitations of this Article 9, Acquirer Covered Losses, as finally determined, shall be satisfied (i) first, (A) if the Acquirer Insurance Policy is obtained, from the Escrow General Fund or (B) until such time as the Acquirer Insurance Policy is obtained, if at all, directly against Seller as set forth in the last proviso of Section 9.2(c)(ii), subject to the limitations and exceptions set forth in this Article 9, (ii) second, if the Acquirer Insurance Policy is obtained, from the coverage then available under the Acquirer Insurance Policy, in accordance with the terms and conditions set forth therein, and (iii) third, solely with respect to Fundamental Claims, from the Escrow Fundamental Fund. For the avoidance of doubt (except as otherwise set forth herein), (x) Acquirer shall be required to seek recovery under the Acquirer Insurance Policy, if obtained, for all Acquirer Covered Losses to the extent of the coverage then available under such policy and (y) Acquirer shall be entitled to seek recourse hereunder directly against Seller in respect of any Indemnifiable Damages for Fundamental Claims that are excluded from coverage in the Acquirer Insurance Policy, but only in accordance with the terms, and subject to the limitations, of this Article 9. Subject to the limitations of this Article 9, Litigation Claims, as finally determined, shall be satisfied, first, from the E&O & Cyber Tail Insurance Coverage and thereafter from the Escrow Fundamental Fund, in each case, to the extent of the availability of funds thereunder or therein, respectively (the lesser of (A) such amount of the Litigation Claims minus any proceeds actually received by the Company or Acquirer from the E&O & Cyber Tail Insurance Coverage in connection with such Litigation Claims and (B) \$8,000,000 is referred to herein as the "**Net Settlement Amount**").

(b) On the terms and subject to the conditions set forth in this Article 9, in the Escrow Agreement and, if the Acquirer Insurance Policy is obtained, in the Acquirer Insurance Policy, (i) the Escrow General Fund shall be available to compensate Acquirer (on behalf of itself or any other Acquirer Indemnified Person) for all Acquirer Covered Losses (and shall, subject to the last proviso of Section 9.2(c)(ii), be the sole source of recovery for Acquirer Indemnified Persons against Seller with respect to Indemnifiable Damages under Section 9.2(a)(ii) and Section 9.2(a)(iii) (but only to the extent that the Indemnifiable Damages under such Section 9.2(a)(iii) shall have resulted from the same facts and circumstances underlying the Indemnifiable Damages under such Section 9.2(a)(ii)), except in case of Fraud, willful misconduct or willful misrepresentation) and (ii) the Escrow Fundamental Fund shall be available to compensate Acquirer (on behalf of itself or any other Acquirer Indemnified Person) for: (1) the Fundamental Claims (other than pursuant to Section 9.2(a)(viii)) pursuant to the indemnification obligations of Seller under this Article 9, and in accordance with subsection (a), and (2) 50% of the Adjusted Net Settlement Amount (the "**Litigation Claims Cap**"), *provided*, that in the event that any amount of the Adjusted Net Settlement Amount is recovered by payment from the Escrow Fundamental Fund, Acquirer may, no later than thirty (30) days after such payment, request in writing that Seller replenish the Escrow Fundamental Fund with any such amount which shall have been paid from the Escrow Fundamental Fund in connection with such Litigation Claims within ten (10) Business Days of such written request from Acquirer. So long as the date by which the amount is to be replenished is prior to the Escrow Fundamental Release Date, Seller shall comply with such written request from Acquirer within such ten (10) Business Days. Any amounts so deposited will be subject to the terms of the Escrow Agreement relating to the Escrow Fundamental Fund, including release to Seller on the Escrow Fundamental Release Date. Subject to Section 9.3 and the Escrow Agreement, the Escrow Agent shall hold the Escrow General Fund until the date that is one (1) year following the Closing Date (the "**Escrow General Release Date**") and the Escrow Fundamental Fund until the eighteen (18) month anniversary of the Closing (the "**Escrow Fundamental Release Date**"). No portion of the Escrow Fund, nor any beneficial interest therein, may be pledged, subjected to any Encumbrance, sold, assigned or transferred by Seller or be taken or reached by any legal or equitable process in satisfaction of any debt or other Liability of Seller, in each case prior to the distribution of the Escrow Fund.

9.2 Seller Indemnification.

(a) Without derogating from the above, subject to the limitations and exceptions set forth in this Article 9, from and after the Closing, Seller shall indemnify and hold harmless Acquirer, the Company and their respective officers, directors, agents and employees, and each Person, if any, who controls or may control Acquirer within the meaning of the Securities Act (each of the foregoing being referred to individually as an "**Acquirer Indemnified Person**" and collectively as "**Acquirer Indemnified Persons**") from and against any and all Indemnifiable Damages (provided that any Indemnifiable Damages pursuant to Section 9.2(a)(viii) shall be limited to any reasonable out-of-pocket third party costs (including reasonable legal fees, any settlement amount or final court award) incurred by Acquirer or the Company in connection with defending, settling, or paying any final and non-appealable court judgment in connection with any litigation against the Company in respect of the BWC Matter where CGI and/or BWC, the Ohio Department of Administrative Services or a related Ohio government entity are plaintiff or defendant), to the extent directly or indirectly, whether or not due to a third-party claim, arising out of, resulting from or in connection with:

- (i) any failure of any representation or warranty made by the Company or Seller contained in Section 2.1(a) (Organization, Standing, Power and Subsidiaries), Section 2.1(e) (Capital Structure), Section 2.3 (Authority; Non-contravention), Section 2.10 (Taxes), Article 3 or, solely as it relates to the requirement of Section 7.3(a)(i), in the certificate required to be delivered to Acquirer at the Closing pursuant to Section 1.3(b)(ii) (collectively, the "**Special Representations**" and together with clause (iii) (but only to the extent that the Indemnifiable Damages under such clause (iii) shall have resulted from facts and circumstances other than those underlying Indemnifiable Damages under clause (ii) below) and clauses (iv)-(viii) below of this Section 9.2(a), the "**Fundamental Claims**") to be true and correct;
- (ii) any failure of any representation or warranty made by the Company or Seller in this Agreement (other than the Special Representations) or, solely as it relates to the requirement of Section 7.3(a)(ii) or the last sentence of Section 7.3(a), in the certificate required to be delivered to Acquirer at the Closing pursuant to Section 1.3(b)(ii) to be true and correct;
- (iii) any breach of, or default in connection with, any of the covenants, agreements or obligations made by the Company or Seller herein or in any other agreements contemplated by this Agreement, the Share Purchase or the other Transactions to the extent such breach or default occurs at or prior to the Closing;
- (iv) any breach of, or default in connection with, any of the covenants, agreements or obligations made by Seller herein or in any other agreements contemplated by this Agreement, the Share Purchase or the other Transactions to the extent such breach or default occurs after the Closing;
- (v) any Pre-Closing Taxes and Taxes described in Section 1.6 to the extent not included in the calculation of Company Net Working Capital;
- (vi) any claims by any then current or former holder or alleged then-current or former holder of any Equity Interests of the Company, in their capacity as such or relating to their employment, services or relationship with the Company (including any predecessors), arising out of, resulting from payments allegedly due to them as holders of Equity Interests;
- (vii) any Fraud, willful misconduct or willful misrepresentation in connection with the Transactions; and
- (viii) any reasonable out-of-pocket third party costs (including reasonable legal fees, any settlement amount or final court award) incurred by Acquirer or the Company in connection with defending, settling, or paying any final and non-appealable court judgment in connection with any litigation against the Company in respect of the BWC Matter where CGI and/or BWC, the Ohio Department of Administrative Services or a related Ohio government entity are plaintiff or defendant ("**Litigation Claims**").

(b) Materiality standards or qualifications in any representation, warranty or covenant shall be taken into account only in determining whether a breach of or default in connection with such representation, warranty or covenant (or failure of any representation or warranty to be true and correct) exists, and shall not be taken into account in determining the amount of any Indemnifiable Damages with respect to such breach, default or failure to be true and correct. Any indemnity payments made under this Agreement shall be treated as purchase price adjustments for federal and state income tax purposes. Seller shall not have (x) any right of contribution, indemnification or right of advancement from the Company or Acquirer with respect to any Indemnifiable Damages claimed by an Acquirer Indemnified Person or (y) any right of subrogation against the Company or Acquirer with respect to any indemnification of an Acquirer Indemnified Person by reason of any of the matters set forth in this Section 9.2.

(c) The obligations of Seller under Section 9.2 shall be subject to the following limitations:

(i) except in case of Fraud, willful misconduct or willful misrepresentation, Seller shall not have any liability for Indemnifiable Damages under Section 9.2(a)(ii) or Section 9.2(a)(iii) (but only to the extent that the Indemnifiable Damages under such Section 9.2(a)(iii) shall have resulted from the same facts and circumstances underlying Indemnifiable Damages under such Section 9.2(a)(ii)) unless and until the aggregate of all Indemnifiable Damages under such subsections for which Seller would otherwise be required to provide indemnification exceeds on a cumulative basis an amount equal to \$500,000, and then only to the extent of such excess;

(ii) except in case of Fraud, willful misconduct or willful misrepresentation, Seller shall not have any liability for Indemnifiable Damages under Section 9.2(a)(ii) or Section 9.2(a)(iii) (but only to the extent that the Indemnifiable Damages under such Section 9.2(a)(iii) shall have resulted from the same facts and circumstances underlying Indemnifiable Damages under such Section 9.2(a)(ii)) to the extent the aggregate amount of Indemnifiable Damages under such subsections for which Seller would otherwise be required to provide indemnification exceeds the amounts available from the Escrow General Fund (or, if the Escrow General Fund is not established, exceeds the amount of the Seller Cap). Except in case of Fraud, willful misconduct or willful misrepresentation, the sole source of recovery for any Indemnifiable Damages under Section 9.2(a)(ii) and Section 9.2(a)(iii) (but only to the extent that the Indemnifiable Damages under such Section 9.2(a)(iii) shall have resulted from the same facts and circumstances underlying Indemnifiable Damages under such Section 9.2(a)(ii)) shall be from the Escrow General Fund and, if the Acquirer Insurance Policy is obtained, under the Acquirer Insurance Policy, and the Acquirer Indemnified Persons shall not be permitted to seek recovery directly from Seller, provided that if the Escrow General Fund is not established, then the Acquirer Indemnified Persons shall be permitted to seek recovery directly from Seller, but only to the extent the aggregate amount of Indemnifiable Damages under such subsections does not exceed the amount of the Seller Cap;

(iii) the obligation of Seller to indemnify the Indemnified Persons against any Indemnifiable Damage under Section 9.2 shall be net of any Tax Benefits (defined below) actually recognized by the Indemnified Persons (or in the case of an Indemnified Person that is a flow-through entity for income Tax purposes, by the Indemnified Person and its ultimate beneficial owners) with respect to such Indemnifiable Damages. However, to the extent that an Indemnified Person recognizes such Tax Benefits after the indemnification payment, the Indemnified Person shall pay the amount of such Tax Benefits (but not in excess of the indemnification payment or payments actually received from Seller with respect to such Indemnifiable Damage) to Seller as such Tax Benefits are actually recognized by the Indemnified Person. For this purpose, the Indemnified Person shall be deemed to recognize a "**Tax Benefit**" with respect to Indemnifiable Damages for a taxable year if, and only to the extent that, the Indemnified Person's cumulative liability for Taxes through the end of such taxable year, calculated by excluding any Tax items attributable to the Indemnifiable Damages from all taxable years (through the tax year that includes the third annual anniversary of the date on which the indemnification claim has been made, exceeds the Indemnified Person's actual cumulative liability for Taxes through the end of such taxable year (through the tax year that includes the third annual anniversary of the date on which the indemnification claim has been made, calculated by taking into account any Tax items attributable to the Indemnifiable Damages for all taxable years (through the tax year that includes the third annual anniversary of the date on which the indemnification claim has been made) (to the extent permitted by relevant Tax Laws and treating such Tax items as the last items claimed for any taxable year). For purposes of the foregoing calculation, the Indemnified Person shall be deemed to include any consolidated or combined group of which it is a member. For the avoidance of doubt, any payment (including but not limited to any Pre-Closing Tax Refund) paid to Seller by Acquirer under Section 6.12 shall not be considered a "Tax Benefit" under this Section 9.2;

(iv) all Indemnifiable Damages shall be reduced by the amount of insurance proceeds or other cash receipts or sources of reimbursement actually received by any Acquirer Indemnified Person from third parties, including third party insurers and including under the Acquirer Insurance Policy, if obtained, with respect to such Indemnifiable Damages or the underlying reasons therefor. Acquirer and the Company shall use commercially reasonable efforts to seek recovery under the Acquirer Insurance Policy, if obtained, and the E&O& Cyber Tail Insurance Coverage, and Acquirer and the Company will assign such right of recovery or reimbursement (and any payment received in connection therewith) to Seller upon payment of any such Indemnifiable Damages under this Section 9.2. For clarity, Acquirer shall be required to seek recovery under the Acquirer Insurance Policy, if obtained, and the E&O & Cyber Tail Insurance Coverage, as applicable, for all Acquirer Covered Losses to the extent of the coverage then available under such policies. No party shall take any action to provide that a right of subrogation shall accrue or inure to the benefit of any source of any amounts described in this Section 9.2(c) (iv);

(v) Seller shall not have any liability for Indemnifiable Damages to the extent such Indemnifiable Damages were reflected as a Liability or contra asset in the calculation of Company Net Working Capital;

(vi) Acquirer shall not be entitled to bring any claim for indemnification under Section 9.2(a)(i), Section 9.2(a)(ii) or Section 9.2(a)(iii) for any matter that Acquirer has raised pursuant to Section 1.2 in connection with the determination of the Final Net Working Capital; and

(vii) Except in case of Fraud, and notwithstanding anything to the contrary in this Agreement and in addition to all other limitations set forth in this Section 9.2, the amount of all indemnification payments required to be made by Seller pursuant to Sections 9.2(a)(i) through (vii), shall not, individually or in the aggregate, exceed the Consideration, and with respect to Litigation Claims pursuant to Section 9.2(a)(viii), indemnification shall not exceed the Litigation Claims Cap.

(viii) Any Net Settlement Amount shall be reduced by the amount, if any, by which (x) \$5,000,000 exceeds (y) the aggregate amount of BWC Payment Amounts made to Seller pursuant to Section 1.4(e) (the "**Adjusted Net Settlement Amount**"), calculated as of the date of the underlying Litigation Claim (the "**BWC Claim Date**"). By way of example and for illustration purposes only, if Seller receives the aggregate amount of \$2,000,000 pursuant to the mechanism set forth in Section 1.4(e), then the Net Settlement Amount shall be reduced by \$3,000,000 (\$5,000,000 *minus* \$2,000,000). To the extent Acquirer receives a payment from Seller (whether from the Escrow Fundamental Fund or directly from Seller) pursuant to Section 9.2(a)(viii), and subsequent to such payment, the Company collects additional BWC Receivables and Seller receives any BWC Payment Amount pursuant to Section 1.4(e) or the Company receives any recovery under the E&O & Cyber Tail Insurance Coverage, then the Litigation Claims Cap (and any underlying calculations) shall be recalculated to reflect such additional BWC Payment Amounts pursuant to Section 1.4(e) and/or additional recovery under the E&O & Cyber Tail Insurance Coverage and (A) any amount paid by Seller (whether from the Escrow Fundamental Fund or directly by Seller) that is in excess of the recalculated Litigation Claims Cap shall be paid by Acquirer to Seller within five (5) Business Days of receipt of such amounts (or to the extent that such amount was paid out of the Escrow Fundamental Fund and the date by which payment is to be made is prior to the Escrow Fundamental Release Date, such amount shall be deposited by Acquirer back into the Escrow Fundamental Fund) or (B) any amount of the recalculated Litigation Claims Cap that is in excess of the amount paid by Seller (whether from the Escrow Fundamental Fund or directly by Seller) shall be recovered by Acquirer by payment from the Escrow Fundamental Fund or directly from Seller within five (5) Business Days of receipt of such amounts. In addition to the requirements of Section 9.2(c)(iv), Acquirer shall seek (and shall cause its Affiliates, including the Company, to seek) recovery under the E&O & Cyber Tail Insurance Coverage.

(ix) In the event Acquirer and Seller have any dispute over any calculation of the Litigation Claims Cap (or any underlying calculations), Acquirer and Seller shall confer in good faith for a period of up to ten (10) Business Days following written notice of such disagreement from either party in an attempt to resolve such dispute, and any resolution by them shall be in writing and shall be final and binding on the parties and, to the extent such differences remain unresolved after such ten (10) Business Day period, such differences shall be resolved by the Reviewing Accountant utilizing the procedures outlined in Section 1.2(e).

9.3 Period for Claims; Other Limitations. Except as otherwise set forth in this Section 9.3, the period (the "**Claims Period**") during which claims may be made (i) for Indemnifiable Damages pursuant to Section 9.2(a)(ii) or, to the extent that the Indemnifiable Damages under Section 9.2(a)(iii) shall have resulted from the same facts and circumstances underlying Indemnifiable Damages under Section 9.2(a)(ii), Section 9.2(a)(iii), in each case against the Escrow General Fund (or in the case the Escrow General Fund is not established, directly against Seller as set forth in the last proviso of Section 9.2(c)(ii)) shall commence at the Closing and terminate at 11:59 p.m. Eastern time on the Escrow General Release Date, (ii) for Indemnifiable Damages with respect to all Fundamental Claims (other than pursuant to Section 9.2(a)(viii)) shall commence at the Closing and expire at 11:59 p.m. Eastern time on the date that is six (6) years following the Closing Date; and (iii) pursuant to Section 9.2(a)(viii) shall commence at the Closing and terminate at 11:59 p.m. Eastern time on the date that is four (4) years following the Closing Date.

9.4 Claims.

(a) On or before the last day of the applicable Claims Period, Acquirer may deliver to Seller (with a copy to the Insurance Company, only with respect to Acquirer Covered Losses) one or more certificates signed by any officer of Acquirer (an "**Officer's Certificate**"):

(i) stating that an Indemnified Person is entitled to indemnification under this Article 9 for Indemnifiable Damages and setting forth the specific facts and circumstances, in reasonable detail, relating to such Indemnifiable Damages and forming the basis for such claim;

(ii) stating the amount of such Indemnifiable Damages (or a non-binding, reasonable estimate thereof if the actual amount is not known or not capable of reasonable calculation); and

(iii) stating the specific Section(s) of this Agreement upon which the Acquirer Indemnified Person is relying in seeking such indemnification.

(b) No delay in providing such Officer's Certificate within the applicable Claims Period shall affect an Indemnified Person's rights hereunder, unless (and then only to the extent that) the Indemnifying Parties are prejudiced thereby. Nothing herein shall impair or prohibit Acquirer from updating or amending any Officer's Certificate upon discovery of any discovering additional facts or circumstances with respect to any underlying claim(s) set forth therein.

9.5 Resolution of Objections to Claims.

(a) If Seller objects in writing to any claim or claims by Acquirer made in any Officer's Certificate within the 30-day period following delivery of the Officer's Certificate, Acquirer and Seller shall attempt in good faith for 45 days after Acquirer's receipt of such written objection to resolve such objection. If Acquirer and Seller shall so agree: (i) with respect to indemnification under Section 9.2(a)(viii), if there are amounts remaining from the Escrow Fundamental Fund, a memorandum setting forth such agreement shall be prepared and signed by both parties and delivered to the Escrow Agent reflecting the agreed amount, if any, of such indemnifiable amounts under Section 9.2(a)(viii) that are payable to Acquirer (taking into account the limitations of this Article 9). Acquirer shall be entitled to conclusively rely on any such memorandum and Acquirer shall reclaim an amount of cash from the Escrow Fundamental Funds in accordance with the terms of such memorandum, and Seller shall not have any power or authority to object, and shall not object, to any such claim made by Acquirer or any of the Indemnified Persons against the Escrow Fund with respect to any such amount (for the avoidance of doubt, Seller shall have direct Liability for any remaining indemnifiable amounts under Section 9.2(a)(viii) resulting from any Litigation Claim not fully recovered from the Escrow Fundamental Fund, subject to the terms of this Agreement, including the limitations of this Article 9); (ii) with respect to indemnification under Sections 9.2(a)(i) through 9.2(a)(vii), if there are amounts remaining from the Escrow General Fund, a memorandum setting forth such agreement shall be prepared and signed by both parties and delivered to the Escrow Agent reflecting the agreed amount, if any, of such Indemnifiable Damages that are payable to Acquirer (taking into account the limitations of this Article 9). Acquirer shall be entitled to conclusively rely on any such memorandum and Acquirer shall reclaim an amount of cash from the Escrow General Fund in accordance with the terms of such memorandum and Seller shall not have any power or authority to object, and shall not object, to any such claim made by Acquirer or any of the Indemnified Persons against the Escrow Fund with respect to any such amount; and (iii) thereafter, with respect to Fundamental Claims, a memorandum setting forth any remaining amount agreed upon between the parties as Indemnifiable Damages that are payable to Acquirer (taking into account the limitations of this Article 9) shall be delivered to the Escrow Agent with respect to the Escrow Fundamental Fund. Acquirer shall be entitled to conclusively rely on any such memorandum and Acquirer shall be entitled to reclaim an amount of cash from the Escrow Fundamental Fund in accordance with the terms of such memorandum and Seller shall not have any power or authority to object, and shall not object, to any such claim made by Acquirer or any of the Indemnified Persons against the Escrow Fundamental Fund with respect to any such amount. For the avoidance of doubt, Seller shall have direct Liability for any remaining amount of Indemnifiable Damages resulting from any Fundamental Claim subject to the terms of this Agreement, including the limitations of this Article 9; or

(b) If no such agreement is reached during the 45-day period for good faith negotiation, but in any event upon the expiration of such 45-day period, a legal proceeding to resolve such dispute may be brought in accordance with Section 10.11 below.

9.6 Third-Party Claims.

(a) In the event that Acquirer becomes aware of a potential claim by a third party (a "**Third-Party Claim**") that Acquirer believes may result in a claim for Indemnifiable Damages by or on behalf of an Acquirer Indemnified Person, Acquirer shall provide written notice to Seller setting forth the specific facts and circumstances, in reasonable detail, relating to such Indemnifiable Damages, the amount of Indemnifiable Damages (or a non-binding, reasonable estimate thereof if the actual amount is not known or not capable of reasonable calculation) and the specific Section(s) of this Agreement upon which the Acquirer Indemnified Person may rely in seeking such indemnification relating to the Third-Party Claim as soon as possible after the Acquirer Indemnified Person's receipt of notice of the Third-Party Claim, but in no event later than thirty (30) days thereafter and in no event more than five (5) Business Days after being served with any summons, complaint or similar legal process. Thereafter, the Acquirer Indemnified Person shall deliver to Seller, within five (5) Business Days after the Acquirer Indemnified Person's receipt thereof, copies of all notices and documents, including all court papers, received by the Acquirer Indemnified Person relating to the Third-Party Claim. An Acquirer Indemnified Person's failure to provide such written notices within the time period specified above shall not relieve Seller from its indemnification obligations with respect to such Third-Party Claim, except to the extent the Indemnifying Party is prejudiced as a result of such failure.

(b) Seller shall have the right in its sole discretion to (i) participate in the defense of any Third-Party Claim and (ii) upon written notice to Acquirer, conduct the defense of any Third-Party Claim that (x) seeks monetary damages not greater than one hundred fifty percent (150%) of the amount Seller would be responsible to indemnify hereunder or (y) solely involves Pre-Closing Taxes (provided that Seller may not elect to conduct the defense of any Third Party Claim where (1) the reasonably possible potential liability of the Company and/or Acquirer thereunder exceeds the maximum amount which may be paid thereto pursuant to the Acquirer Insurance Policy, if obtained, the Escrow General Fund and the Escrow Fundamental Fund, (2) the Third Party Claim involves criminal allegations and/or (3) where material non-monetary relief is sought against the Company and/or Acquirer). If Seller elects to assume the defense of a Third-Party Claim, then Seller shall not be liable to Acquirer Indemnified Persons for legal expenses subsequently incurred by Acquirer Indemnified Persons in connection with the defense of the Third-Party Claim, so long as Seller diligently conducts the defense. Seller (if it chooses not to assume the defense of the Third-Party Claim) or Acquirer (if Seller assumes the defense of the Third-Party Claim) shall have the right to receive copies of all pleadings, notices and communications with respect to such Third-Party Claim to the extent that receipt of such documents does not affect any applicable privilege, subject to execution by such party of the other party's (and, if required, such third party's) standard non-disclosure agreement to the extent that such materials contain confidential or propriety information. Seller (if it chooses not to assume the defense of the Third-Party Claim) or Acquirer (if Seller assumes the defense of the Third-Party Claim) shall each be entitled, at its own expense, to participate in, but not to determine or conduct, any defense of the Third-Party Claim or settlement negotiations with respect to the Third-Party Claim; provided, that no compromise or settlement of such Third-Party Claim may be effected by the party controlling the defense of such Third-Party Claim without the other party's consent unless (A) there is no finding or admission of any violation by such other party of any Applicable Law or any rights of any Person, (B) such other party receives a full release of and from any other claims that may be made against such other party by the third party bringing the Third-Party Claim, and (C) the sole relief provided is monetary damages that are paid in full by compromising or settling party; provided, further that for clarity, if indemnification is to be sought hereunder, Acquirer may not enter into any compromise or settlement of such Third-Party Claim without the Indemnifying Party's prior written consent (not to be unreasonably withheld, conditioned or delayed).

9.7 Acquirer Indemnification.

(a) From and after the Closing, Acquirer shall indemnify and hold harmless Seller and its respective officers, directors, agents and employees, and each Person, if any, who controls or may control Seller within the meaning of the Securities Act (each of the foregoing being referred to individually as a "***Seller Indemnified Person***" and collectively as "***Seller Indemnified Persons***") from and against any and all Indemnifiable Damages, to the extent directly or indirectly, whether or not due to a third-party claim, arising out of, resulting from or in connection with:

(i) any failure of any representation or warranty made by Acquirer in this Agreement or in any certificate required to be delivered to Seller at the Closing pursuant to any provision of this Agreement to be true and correct;

(ii) any breach of, or default in connection with, any of the covenants, agreements or obligations made by (A) Acquirer herein or in any other agreements contemplated by this Agreement, the Share Purchase or the other Transactions or (B) the Company (but only to the extent such covenants, agreements or obligations require performance after the Closing) herein or in any other agreements contemplated by this Agreement, the Share Purchase or the other Transactions; and

(iii) the operation or ownership of the Company or the Business after the Closing, including any actions or omissions after the Closing in connection with the Contracts awarded under the BWC RFP or any new Contract with BWC.

9.8 Exclusive Remedy. From and after the Closing, other than with respect to claims based on Fraud, willful misconduct or willful misrepresentation, the indemnification provisions of this Article 9 shall be the sole and exclusive remedy (except for specific performance) with respect to any and all claims arising out of, in connection with or relating to the Company, the Business, the Company Capital Stock, this Agreement, the negotiation and execution of this Agreement or any Contract entered into pursuant to this Agreement (except to the extent otherwise expressly set forth herein or therein) or the performance by the parties hereto or thereto of its or their terms, and no other remedy (excluding specific performance) shall be available pursuant to any contract, misrepresentation, strict liability or tort theory or otherwise by any party and its officers, directors, employees, agents, affiliates, attorneys, consultants, insurers, successors and assigns, all such remedies being hereby expressly waived to the fullest extent permitted under Applicable Law (including claims under the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §9601 et seq.) ("**CERCLA**"). In furtherance of the foregoing, other than with respect to claims based on Fraud, willful misconduct or willful misrepresentation, Acquirer hereby waives, to the fullest extent permitted under Applicable Law, any and all rights, claims and causes of action (except for specific performance) that it may have against Seller or its Affiliates relating to Acquirer's investigation of the Company, the Business, the Company Capital Stock, this Agreement, the negotiation and execution of this Agreement or any Contract entered into pursuant to this Agreement (except to the extent otherwise expressly set forth herein) and the performance by the parties hereto or thereto of its or their terms arising under or based upon any Applicable Law or otherwise. In addition to the foregoing, the amount of indemnification obligations of Seller set forth in this Article 9 shall be the maximum amount of indemnification obligations set forth hereunder, and Acquirer shall not be entitled to a rescission of this Agreement (or any related agreements) or any further indemnification rights or claims of any nature whatsoever, all of which are hereby expressly waived by Acquirer to the fullest extent permitted under Applicable Law (other than with respect to specific performance). FOR THE AVOIDANCE OF DOUBT AND IN FURTHERANCE AND NOT IN LIMITATION OF THE FOREGOING, ACQUIRER EXPRESSLY AGREES THAT, FOR ANY REMEDIAL ACTION SUBJECT TO A CLAIM FOR INDEMNIFICATION UNDER THIS AGREEMENT, ACQUIRER WAIVES AND SHALL NOT ASSERT ANY ACTION UNDER CERCLA, THE RESOURCE CONSERVATION AND RECOVERY ACT (RCRA) OR ANY ANALOGOUS STATE OR LOCAL COUNTERPART OR OTHER APPLICABLE LAW, AND THAT ANY CLAIM FOR INDEMNIFICATION REGARDING ANY REMEDIAL ACTION SHALL BE LIMITED TO, AND GOVERNED BY, THIS ARTICLE 9.

9.9 Offset. No party shall have any right to offset or setoff any payment due to another party under this Agreement or any of the documents and instruments executed and delivered pursuant hereto against any other payment to be made under this Agreement or any of the documents and instruments executed and delivered pursuant hereto or otherwise.

ARTICLE 10 **GENERAL PROVISIONS**

10.1 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by commercial delivery service, or mailed by registered or certified mail (return receipt requested) or sent via facsimile (with confirmation of receipt) to the parties hereto at the following address (or at such other address for a party as shall be specified by like notice):

(a) if to Acquirer, to:

Sapiens International Corporation N.V.
Rabin Science Park
P.O. Box 4011
Nes Ziona 74140, Israel
Attention: CEO

with a copy (which shall not constitute notice) to:

Meitar Liquornik Geva Leshem Tal
16 Abba Hillel Road
Ramat Gan 52506, Israel
Attention: Mike Rimon

(b) If to the Company (prior to Closing) or to Seller, to:

c/o LTCG
11000 Prairie Lakes Dr., Suite 600
Eden Prairie, MN 55344
Attention: Julia A. Jensen

with a copy (which shall not constitute notice) to:

Foley & Lardner LLP
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
Attention: Patrick G. Quick

Any notice given as specified in this Section 10.1 (i) if delivered personally or sent by facsimile transmission shall conclusively be deemed to have been given or served at the time of dispatch if sent or delivered on a Business Day or, if not sent or delivered on a Business Day, on the next following Business Day and (ii) if sent by commercial delivery service or mailed by registered or certified mail (return receipt requested) shall conclusively be deemed to have been received on the third Business Day after the post of the same.

10.2 Interpretation. When a reference is made herein to Articles, Sections, subsections, Schedules or Exhibits, such reference shall be to an Article, Section or subsection of, or a Schedule or an Exhibit to this Agreement unless otherwise indicated. The headings contained herein are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. The words "include," "includes" and "including" when used herein shall be deemed in each case to be followed by the words "without limitation." Where a reference is made to a Contract, instrument or Applicable Law, such reference is to such Contract, instrument or Applicable Law as amended, modified or supplemented, including (in the case of Contracts or instruments) by waiver or consent and (in the case of Applicable Law) by succession of comparable successor Applicable Law and references to all attachments thereto and instruments incorporated therein. Unless the context of this Agreement otherwise requires: (i) words of any gender include each other gender and neutral forms of such words, (ii) words using the singular or plural number also include the plural or singular number, respectively, (iii) the terms "hereof," "herein," "hereto," "hereunder" and derivative or similar words refer to this entire Agreement, (iv) references to clauses without a cross-reference to a Section or subsection are references to clauses within the same Section or, if more specific, subsection, (v) references to any person include the successors and permitted assigns of that person, (vi) references from or through any date shall mean, unless otherwise specified, from and including or through and including, respectively, (vii) the phrases "provide to" and "deliver to" and phrases of similar import mean that a true, correct and complete paper or electronic copy of the information or material referred to has been delivered to the party to whom such information or material is to be provided and (viii) the phrase "made available to" and phrases of similar import means, with respect to any information, document or other material of Acquirer or the Company, that such information, document or material was made available for review by the Company or Acquirer, respectively, and its Representatives in the virtual data room established by Acquirer or the Company, respectively, in connection with this Agreement at least 24 hours prior to the execution of this Agreement or actually delivered (whether by physical or electronic delivery) to the Company or Acquirer, respectively, or its Representatives prior to the execution of this Agreement. The symbol "\$" refers to United States Dollars. The word "extent" in the phrase "to the extent" means the degree to which a subject or other thing extends and such phrase shall not mean simply "if." References to a Person are also to its permitted successors and assigns. All references to "days" shall be to calendar days unless otherwise indicated as a "Business Day." Unless indicated otherwise, all mathematical calculations contemplated by this Agreement shall be rounded to the tenth decimal place, except in respect of payments, which shall be rounded to the nearest whole United States cent.

10.3 Amendment. Subject to Applicable Law, the parties hereto may amend this Agreement by authorized action at any time pursuant to an instrument in writing signed on behalf of each of the parties hereto.

10.4 Extension; Waiver. At any time at or prior to the Closing, any party hereto may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto owed to such party, (ii) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto and (iii) waive compliance with any of the covenants, agreements, obligations or conditions for the benefit of such party contained herein. At any time after the Closing, Acquirer and Seller may, to the extent legally allowed, (A) extend the time for the performance of any of the obligations of the other owed to such party, (B) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto or (C) waive compliance with any of the covenants, agreements, obligations or conditions for the benefit of such party contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing that is with respect to the Company and/or Seller, signed by Seller and with respect to Acquirer, signed by Acquirer. Without limiting the generality or effect of the preceding sentence, no failure to exercise or delay in exercising any right under this Agreement shall constitute a waiver of such right, and no waiver of any breach or default shall be deemed a waiver of any other breach or default of the same or any other provision herein.

10.5 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties hereto and delivered to the other parties hereto; it being understood and agreed that all parties hereto need not sign the same counterpart. The delivery by facsimile or by electronic delivery in PDF format of this Agreement with all executed signature pages (in counterparts or otherwise) shall be sufficient to bind the parties hereto to the terms and conditions set forth herein. All of the counterparts will together constitute one and the same instrument and each counterpart will constitute an original of this Agreement.

10.6 Entire Agreement; Nonassignability; Parties in Interest. This Agreement and the documents and instruments and other agreements specifically referred to herein or delivered pursuant hereto, including all the Exhibits attached hereto, the Schedules, including the Company Disclosure Schedule, (a) constitute the entire agreement among the parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, among the parties hereto with respect to the subject matter hereof, except for the Confidentiality Agreement, which shall continue in full force and effect, and shall survive any termination of this Agreement, in accordance with its terms and (b) are not intended to confer, and shall not be construed as conferring, upon any Person other than the parties hereto any rights or remedies hereunder (except that Article 9 is intended to benefit Indemnified Persons and Section 6.2 is intended to benefit after the Closing Persons who were directors and officers of the Company prior to the Closing) and (c) shall not be assigned by operation of law or otherwise except as otherwise specifically provided herein.

10.7 Assignment. Neither this Agreement nor any of the rights, interests or obligations under this Agreement may be assigned or delegated, in whole or in part, by operation of law or otherwise by any of the parties hereto without the prior written consent of the other parties hereto, and any such assignment without such prior written consent shall be null and void, except that Acquirer may assign its rights and delegate its obligations, in whole or in part, under this Agreement to any direct or indirect wholly owned Subsidiary of Acquirer without the prior consent of any other party hereto; provided that notwithstanding any such assignment, Acquirer shall remain liable for all of its obligations under this Agreement. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties hereto and their respective successors and assigns.

10.8 Severability. In the event that any provision of this Agreement, or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement shall continue in full force and effect and shall be interpreted so as reasonably necessary to effect the intent of the parties hereto. The parties hereto shall use all reasonable efforts to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that shall achieve, to the greatest extent possible, the economic, business and other purposes of such void or unenforceable provision.

10.9 Remedies Cumulative; Specific Performance. Except as otherwise provided herein, any and all remedies herein expressly conferred upon a party hereto shall be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party hereto of any one remedy shall not preclude the exercise of any other remedy and nothing herein shall be deemed a waiver by any party hereto of any right to specific performance or injunctive relief. It is accordingly agreed that, the parties hereto shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which they are entitled at law or in equity, and the parties hereto hereby waive the requirement of any posting of a bond in connection with the remedies described herein.

10.10 Rules of Construction. The parties hereto have been represented by counsel during the negotiation, preparation and execution of this Agreement and, therefore, hereby waive, with respect to this Agreement, each Schedule and each Exhibit attached hereto, the application of any Applicable Law or rule of construction providing that ambiguities in an agreement or other document shall be construed against the party drafting such agreement or document.

10.11 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without reference to such state's principles of conflicts of law. Each of the Parties (i) agrees that any actions or proceedings arising in connection with any dispute, controversy or claim arising under, relating to or in connection with this Agreement or the Transactions (including any dispute or controversy regarding the existence, validity, enforceability or breach of this Agreement), whether in contract, in tort or otherwise, shall be brought, tried and determined only in any court of competent jurisdiction located in the State of Delaware; (ii) irrevocably and unconditionally consents and submits itself and its properties and assets to the jurisdiction of any court located in the State of Delaware in the event of any such action or proceeding; (iii) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court; (iv) waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same; and (v) agrees that it will not bring any action relating to this Agreement or the Transactions in any court other than the aforesaid courts. Each of Acquirer, Seller and the Company agrees that a final judgment in any action or proceeding in such courts as provided above shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Applicable Law.

10.12 Conflicts; Privilege. Acquirer, on behalf of itself and its Affiliates (which, for this purpose, shall be deemed to include the Company after the Closing), hereby irrevocably (a) agrees that, notwithstanding any current or prior representation of the Company by Foley & Lardner LLP ("**Foley**") and/or Jensen (together with Foley, "**Counsel**"), Counsel shall be allowed to represent Seller and each of their respective Affiliates in any matters (including any matters and disputes adverse to Acquirer and/or the Company) that either are existing on the date hereof or arise in the future and relate to this Agreement and the transactions contemplated hereby and waives and consents to the communication and disclosure by Counsel to Seller and such Affiliates in connection with any such representation of any fact known to, or document in the possession of, Counsel arising by reason of Counsel's prior representation of the Company; (b) waives any claim that Acquirer or the Company have or may have that Counsel has a conflict of interest or is otherwise prohibited from engaging in such representation; (c) agrees that, if a dispute arises after the Closing between Acquirer and/or the Company, on the one hand, and Seller or any of its Affiliates, on the other hand, then Counsel may represent Seller or such Affiliate in such dispute even though the interests of Seller or such Affiliate may be directly adverse to Acquirer or the Company and even though Counsel may have represented the Company in a matter substantially related to such dispute or may be handling ongoing matters for Acquirer and/or the Company; and (d) agrees that no communications (including email or other written communications) subject to attorney-client privilege among Counsel and the Company, Seller and/or any of their respective Affiliates that relate in any way to the transactions contemplated by this Agreement shall be subject to disclosure, directly or indirectly, to Acquirer or any Person acting on behalf of Acquirer, and the Company shall, without the necessity of further documentation of transfer, be deemed to have irrevocably assigned and transferred to Seller the attorney-client privilege and the expectation of client confidence with respect to all such communications, and the same shall be controlled by Seller and shall not be claimed by Acquirer or the Company; provided, however, that, with respect to this clause (d), in the event that a dispute arises between Acquirer and/or the Company, on the one hand, and a third party other than a party to this Agreement, on the other hand, after the Closing, the Company may assert the attorney-client privilege to prevent disclosure of confidential communications by Counsel to such third party.

[SIGNATURE PAGE NEXT]

IN WITNESS WHEREOF, the parties hereto have caused this Share Purchase Agreement to be executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

ACQUIRER:

SAPIENS INTERNATIONAL CORPORATION N.V.

By: /s/ Roni Al-Dor
Name: Roni Al-Dor
Title: CEO

THE COMPANY:

STONERIVER, INC.

By: /s/ Julia A. Jensen
Name: Julia A. Jensen
Title: Secretary

SELLER:

STONERIVER GROUP, L.P.

By: /s/ Julia A. Jensen
Name: Julia A. Jensen
Title: Secretary

Exhibit A

DEFINITIONS

As used in this Agreement, the following terms shall have the meanings indicated below.

"Accounting Principles and Methodologies" means (i) GAAP except as noted in Schedule 2.4(a) of the Company Disclosure Schedule and (ii) the accounting methods, policies, practices and procedures noted in Schedule 2.4(a) of the Company Disclosure Schedule, in each case as applied by the Company in preparing the Interim Financial Statements.

"Acquisition Proposal" means any offer, proposal, inquiry or indication of interest (other than an offer, proposal, inquiry or indication of interest by Acquirer) contemplating or otherwise relating to any Acquisition Transaction.

"Acquirer Post-Closing Date Transaction" means any transaction outside the ordinary course of business (except for the transactions contemplated by this Agreement) that is engaged in by the Company after the Closing or at the express written direction of Acquirer.

"Acquisition Transaction" means (i) a merger, consolidation or other business combination of the Company, (ii) a restructuring, recapitalization or liquidation of the Company or (iii) an acquisition or disposition of any stock or material assets (outside of the ordinary course of business) of the Company.

"Affiliate" means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such Person, including any general partner or managing member or director of such Person or any venture capital fund now or hereafter existing that is controlled by one or more general partners or managing members of, or shares the same management company with, such Person, in each case as of the date on which, or at any time during the period for which, the determination of affiliation is being made. For purposes of this definition, the term "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of such Person, whether through the ownership of more than 50% of the voting securities or by Contract or otherwise.

"Applicable Law" means, with respect to any Person, any federal, state, foreign, local, municipal or other law, statute, constitution, legislation, principle of common law, resolution, ordinance, code, edict, decree, rule, directive, license, permit, regulation, ruling or requirement issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Governmental Entity and any Orders applicable to such Person or such Person's Affiliates or to any of their respective assets, properties or businesses.

"Business" means the business of the Company as currently conducted.

"Business Day" means a day (i) other than Saturday or Sunday and (ii) on which commercial banks are open for business in Delaware and in Israel.

"**BWC**" means the Bureau of Workers' Compensation for the State of Ohio.

"**BWC Advance Amount**" means the positive amount, if any, equal to (x) \$3,252,278 minus (y) the BWC Pre-Closing Collections Amount.

"**BWC Advance Hurdle**" means an amount equal to the product of (x) 1.5 multiplied by (y) the BWC Advance Amount.

"**BWC Matter**" means any dispute with the BWC, the Ohio Department of Administrative Services or any related governmental entity in the state of Ohio and/or CGI solely related to the Company's actions taken prior to the Agreement Date under the Contracts awarded under the BWC RFP, including any dispute regarding the BWC Receivables.

"**BWC Payment Amount**" means the amount, calculated as of the close of business on each date that the Company receives any BWC Post-Closing Collections, equal to the sum of (x) the BWC Tier 1 Payment, plus (y) the BWC Tier 2 Payment, plus (z) the BWC Tier 3 Payment, all in respect of the BWC Post-Closing Collections that the Company received that day. For purposes of clarity, an example calculation of the BWC Payment Amount is attached hereto as Exhibit F; in the event of any discrepancy between the terms set forth in this Agreement, on the one hand, and the methodology of the example calculation of the BWC Payment Amount set forth in Exhibit F, the latter will prevail.

"**BWC Payment Report**" means a certificate signed by an officer of Acquirer setting forth Acquirer's calculation of the BWC Payment Amount as of the close of business on each date that the Company receives any BWC Post-Closing Collections, together with reasonable supporting documentation, information and calculations.

"**BWC Pre-Closing Collections Amount**" means the aggregate sum of any amount of the BWC Receivables actually collected after the Agreement Date and prior to the Effective Time by or on behalf of the Company.

"**BWC Post-Closing Collections**" means any amount of the BWC Receivables actually collected from time to time after the Effective Time by or on behalf of the Company, including any amount of BWC Receivables expressly waived by the Company in exchange for consideration under future Contracts with BWC and/or CGI.

"**BWC Receivables**" means the amounts due or to become due from the BWC and/or CGI related to work performed by the Company in connection with the Contracts awarded under the BWC RFP to the extent listed on Exhibit G under the heading "BWC Receivables" and any other amounts previously discounted or written off by agreement of the Company, on the one hand, and CGI or BWC, on the other hand. For purposes of clarity, BWC Receivables excludes the amounts listed on Exhibit G under the heading "Excluded BWC Receivables."

"**BWC RFP**" means the request for proposals issued by BWC identified as RFP OA 1086.

"BWC Tier 1 Payment" means the amount calculated as of the close of business on each date that the Company receives any BWC Post-Closing Collections equal to the product of (x) the least of (i) the BWC Post-Closing Collections on such date, (ii) the positive amount, if any, of (A) the BWC Advance Hurdle minus (B) the aggregate sum of all BWC Post-Closing Collections prior to such date and (iii) if the amount equal to (A) the BWC Advance Hurdle minus (B) the aggregate sum of all BWC Post-Closing Collections prior to such date is zero or a negative number, \$0 multiplied by (y) one-third (1/3).

"BWC Tier 2 Payment" means the amount calculated as of the close of business on each date that the Company receives any BWC Post-Closing Collections equal to the product of (x) the least of (i) the BWC Post-Closing Collections on such date, (ii) the positive amount, if any, equal to (A) the BWC Post-Closing Collections on such date plus (B) the aggregate sum of all BWC Post-Closing Collections prior to such date minus (C) the BWC Advance Hurdle, (iii) if the amount equal to (A) the BWC Post-Closing Collections on such date plus (B) the aggregate sum of all BWC Post-Closing Collections prior to such date minus (C) the BWC Advance Hurdle is zero or a negative number, \$0 and (iv) \$3,000,000 multiplied by (y) two-thirds (2/3).

"BWC Tier 3 Payment" means the amount calculated as of the close of business on each date that the Company receives any BWC Post-Closing Collections equal to the least of (i) the BWC Post-Closing Collections on such date, (ii) the positive amount, if any, equal to (A) the BWC Post-Closing Collections on such date plus (B) the aggregate sum of all BWC Post-Closing Collections prior to such date minus (C) the BWC Advance Hurdle minus (D) \$3,000,000 and (iii) if the amount equal to (A) the BWC Post-Closing Collections on such date plus (B) the aggregate sum of all BWC Post-Closing Collections prior to such date minus (C) the BWC Advance Hurdle minus (D) \$3,000,000 is zero or a negative number, \$0.

"CGI" means CGI Technologies and Solutions Inc.

"Closing Consideration" means an amount in United States Dollars equal to \$100,000,000, minus (A) an amount in cash equal to the Closing Net Working Capital Shortfall or plus (B) an amount in cash equal to the Closing Net Working Capital Surplus, minus (C) any unpaid Transaction Expenses as set forth in the Company Closing Financial Certificate minus (D) the amount of all Company Debt in existence as of the Effective Closing Time as set forth in the Company Closing Financial Certificate (in each case, without duplications), plus (E) the Estimated BWC Advance Amount plus (F) the Reimbursement Amount.

"Closing Net Working Capital Shortfall" means the amount, if any, by which (A) the Company Net Working Capital as set forth in the Company Closing Financial Certificate is less than (B) the Closing Net Working Capital Target.

"Closing Net Working Capital Surplus" means the amount, if any, by which (A) the Company Net Working Capital as set forth in the Company Closing Financial Certificate is more than (B) the Closing Net Working Capital Target.

"Closing Net Working Capital Target" means \$(2,000,000) (negative two million dollars).

"Code" means the Internal Revenue Code of 1986, as amended.

"Company Cash" means the Company's cash and cash equivalents.

"Company Closing Financial Amounts" means (i) Company Net Working Capital, (ii) Transaction Expenses, (iii) Company Debt and (iv) the BWC Advance Amount (including the BWC Pre-Closing Collections Amount).

"Company Closing Financial Certificate" means a certificate executed by the Chief Financial Officer of the Company, dated as of the Closing Date, certifying the Company's good faith estimate of the amount of (i) Company Net Working Capital (including: (A) the Company's balance sheet as of the Effective Time prepared in a manner consistent with GAAP and the Company Balance Sheet, (B) an itemized list of each element of the Company's current assets and (C) an itemized list of each element of the Company's current liabilities including all unpaid Taxes), (ii) incurred but unpaid Transaction Expenses, (iii) the amount of Company Debt as of the Effective Closing Time, including an itemized list of each Company Debt with a description of the nature of such Company Debt and the Person to whom such Company Debt is owed, (iv) the BWC Pre-Closing Collections Amount and (v) the BWC Advance Amount.

"Company Contractor" means any natural person that is a current consultant, advisory board member or independent contractor of the Company, including services providers, (i) as to whom the Company reports its payments on Form 1099, or (ii) that is contracted through staffing firms or onshore or offshore staff augmentation firms, but in each case excluding Company Employees.

"Company Debt" means the amount equal to the sum of all outstanding indebtedness for borrowed money owed to third parties (whether short- or long-term, whether or not due and payable, to the extent they are owed or guaranteed by the Company), including all bank debt and all notes, and all interest, fees expenses or termination payments in connection therewith.

"Company Employee" means any current employee of the Company.

"Company Financial Statements" means, collectively, the Interim Financial Statements and the Audited Financial Statements.

"Company Net Working Capital" means (i) the Company's total Current Assets as of the Effective Time less (ii) the Company's total Current Liabilities as of the Effective Time. For purposes of calculating Company Net Working Capital, the Company's total Current Liabilities shall exclude all Liabilities (v) for incurred but unpaid Transaction Expenses, (w) for Company Debt. For purposes of clarity, an example calculation of the Company Net Working Capital is attached hereto as Exhibit H.

"Company Stock" means the shares of common stock of the Company of a nominal value of \$0.001 per share.

"Company Capital Stock" means the issued and outstanding Capital Stock as of the Closing.

"Contract" means any written or oral legally binding contract, agreement, instrument, commitment or undertaking of any nature (including leases, subleases, licenses, mortgages, notes, guarantees, sublicenses, subcontracts, letters of intent and purchase orders) as of the Agreement Date or as may hereafter be in effect, including all amendments, supplements, exhibits and schedules thereto.

"**Current Assets**" means the aggregate amount of all current asset accounts of the Company listed on Exhibit H under the heading "Current Assets".

"**Current Liabilities**" means the aggregate amount of all current liability accounts of the Company listed on Exhibit H under the heading "Current Liabilities".

"**Encumbrance**" means, with respect to any asset, any mortgage, easement, encroachment, equitable interest, right of way, deed of trust, lien (statutory or other), pledge, charge, security interest, title retention device, conditional sale or other security arrangement, collateral assignment, community property interest, adverse claim of title, ownership or right to use, right of first refusal, restriction or other similar encumbrance of any kind in respect of such asset (including any restriction on the voting of any security or the transfer of any security or other asset) provided that restrictions on transfer of Equity Interests under Applicable Laws shall not constitute an "Encumbrance."

"**Equity Interests**" means, with respect to any Person, any share capital of, or other ownership, membership, partnership, joint venture or equity interest in, such Person or any indebtedness, securities, options, warrants, call, subscription or other rights or entitlements of, or granted by, such Person or any of its Affiliates that are convertible into, or are exercisable or exchangeable for, or giving any Person any right or entitlement to acquire any such capital stock or other ownership, partnership, joint venture or equity interest, in all cases, whether vested or unvested.

"**Escrow Agent**" means U.S. Bank National Association.

"**Estimated BWC Advance Amount**" means the BWC Advance Amount as set forth in the Company Closing Financial Certificate.

"**Estimated BWC Pre-Closing Collections Amount**" means the BWC Pre-Closing Collections Amount as set forth in the Company Closing Financial Certificate.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

"**Fraud**" means fraud, as defined under Title 11 (crimes and criminal procedure) chapter 2 § 222 (general definitions) of the Delaware Code, provided that in no event shall "Fraud" include negligent misrepresentation or negligent conduct.

"**GAAP**" means United States generally accepted accounting principles, consistently applied in accordance with the Company's past practices.

"**Governmental Entity**" means any U.S. federal, supranational, national, state, municipal, local, tribal or foreign government, any court, tribunal, arbitrator, mediator, administrative agency, commission or other governmental official, authority or instrumentality, in each case whether domestic or foreign, any stock exchange or similar self-regulatory organization or any quasi-governmental or private body exercising any regulatory, Taxing or other governmental or quasi-governmental authority (including any governmental or political division, department, agency, commission, instrumentality, official, organization, unit, body or entity and any court or other tribunal).

"**Group**" has the meaning ascribed to such term under Section 13(d) of the Exchange Act, the rules and regulations thereunder and related case law.

"**IRS**" means the United States Internal Revenue Service.

"**Key Employee**" means each of Gary Anderson and Costa John.

"**Knowledge**" of the Company, with respect to any fact or matter, means the actual knowledge of Gary Anderson, Costa John, Sarah Wheeler, Tom Chesbrough, Melissa Penza, Jackie Janowiak, Mike Richards, Julie Kramer, Dave Pigeon and Dennis Pfiffner and the knowledge reasonably expected to be obtained by any such person in the ordinary course of such person's provision of services to the Company.

"**Legal Proceeding**" means any private or governmental action, proceeding, suit, hearing, litigation audit or known third-party investigation, in each case whether civil, criminal, administrative, judicial or investigative, or any appeal therefrom.

"**Liabilities**" (and, with correlative meaning, "**Liability**") means all debts, liabilities and obligations, whether accrued or fixed, absolute or contingent, matured or unmatured, determined or determinable, asserted or unasserted, known or unknown, including those arising under any Applicable Law and those arising under any Contract.

"**LTIP**" shall mean the 2010 Long-Term Incentive Plan of StoneRiver, Inc. (as amended and restated).

"**Material Adverse Effect**" with respect to any entity means any change, event, circumstance or effect (each, an "**Effect**") that, individually or taken together with all other Effects, and regardless of whether or not such Effect constitutes a breach of the representations or warranties made by such entity in this Agreement, is, or would reasonably be expected to, (i) be or become materially adverse in relation to the financial condition, assets (including intangible assets) and liabilities (taken together), business, capitalization or results of operations of such entity, taken as a whole or (ii) have a material adverse effect on the ability of such entity to perform its obligations under this Agreement and the Ancillary Agreements; provided that in determining whether a Material Adverse Effect has occurred with respect to the Company, there should be excluded any Effect, either alone or in combination with other Effects, directly relating to (A) general changes affecting the industries in which the Company primarily operates, (B) changes in Applicable Law or GAAP which are effected after the date of this Agreement, (C) changes in general economic or financial market conditions, (D) acts of war, armed hostilities, sabotage or terrorism, or any escalation or worsening of any such acts of war, armed hostilities, sabotage or terrorism threatened or underway as of the date of this Agreement, (E) earthquakes, hurricanes, floods, or other natural disasters or (F) the impact of the announcement or pendency of the Transactions, except in the cases of clauses (A) through (E), to the extent that such Effect has a materially disproportionate effect on the Company as compared with other similarly situated participants in the industries in which the Company primarily operates.

"**Nasdaq**" means the Nasdaq Global Select Market, any successor stock exchange operated by The NASDAQ Stock Market LLC or any successor thereto.

"**Net Working Capital Shortfall**" means the amount, if any, by which (A) the Final Net Working Capital is less than (B) the Closing Net Working Capital Target.

"**Net Working Capital Surplus**" means the amount, if any, by which (A) the Final Net Working Capital is more than (B) the Closing Net Working Capital Target.

"**Order**" means any judgment, writ, decree, stipulation, determination, decision, award, rule, preliminary or permanent injunction, temporary restraining order or other order of a Governmental Entity.

"**Permitted Encumbrances**" means: (i) statutory liens for Taxes that are not yet due and payable or liens for Taxes being contested in good faith by any appropriate proceedings for which adequate reserves have been established, (ii) statutory liens to secure obligations to landlords, lessors or renters under leases or rental agreements, (iii) easements, rights of way, covenants, restrictions and other encumbrances of record affecting real property leased by the Company, (iv) deposits or pledges made in connection with, or to secure payment of, workers' compensation, unemployment insurance or similar programs mandated by Applicable Law, (v) statutory liens in favor of carriers, warehousemen, mechanics and materialmen, to secure claims for labor, materials or supplies and other like liens, (vi) liens in favor of customs and revenue authorities arising as a matter of Applicable Law to secure payments of customs duties in connection with the importation of goods and (vii) non-exclusive licenses (and licenses that are otherwise non-exclusive but contain time-limited limitations on the Company's right to commercialize Company-Owned IP) of software granted by the Company in the ordinary course of business consistent with past practice.

"**Person**" means any natural person, company, corporation, limited liability company, general partnership, limited partnership, limited liability partnership, trust, estate, proprietorship, joint venture, business organization or Governmental Entity.

"**Post-Closing Tax Period**" means a Taxable period beginning after the Closing Date, including the portion of any Straddle Period that begins after the Closing Date.

"**Pre-Closing Tax Period**" means a Taxable period ending on or before the Closing Date, including the portion of any Straddle Period that ends on the Closing Date.

"**Pre-Closing Taxes**" means any Taxes of the Company for a Taxable period (or portion thereof) ending on or prior to the Closing Date. For clarity, Pre-Closing Taxes shall include all payroll Taxes or other Taxes of the Company arising in connection with any payment required pursuant to this Agreement or the Transactions. In the case of any Taxes of the Company that are imposed on a periodic basis and that are payable for a Straddle Period, such Taxes shall (i) in the case of property, *ad valorem* or other Taxes that accrue based upon the passage of time, be deemed to be Pre-Closing Taxes in an amount equal to the amount of such Taxes for the entire Straddle Period multiplied by a fraction, the numerator of which is the number of days in the Taxable period through and including the Closing Date and the denominator of which is the number of days in the entire Straddle Period; provided that any such Taxes attributable to any property that was owned by the Company on or prior to the Closing Date, but is not owned by the Company as of the Effective Closing Time shall be treated in their entirety as Pre-Closing Taxes, and no portion of any such Taxes attributable to any property that was owned by the Company on or after the Closing Date, but is not owned by the Company as of the Effective Closing Time shall be treated as Pre-Closing Taxes; and (ii) in the case of any other Taxes, be determined by assuming that the Straddle Period consisted of two taxable years or periods, one that ended at the close of the Closing Date and the other that began at the beginning of the day immediately following the Closing Date, and items of income, gain, deduction, loss or credit of the Company for the Straddle Period (other than depreciation or amortization, which shall be prorated in the manner described in clause (i)) shall be allocated between such two taxable years or periods on a "closing of the books basis" by assuming that the books of the Company were closed at the close of the Closing Date.

"Representatives" means, with respect to a Person, such Person's officers, directors, Affiliates, shareholders or employees (including employees of Affiliates), or any investment banker, attorney, accountant, auditor or other advisor or representative retained by any of them and acting on their behalf.

"Securities Act" means the Securities Act of 1933, as amended.

"Straddle Period" means a Taxable Period that includes but does not end on the Closing Date.

"Subsidiary" means any corporation, partnership, limited liability company or other Person of which the Company, either alone or together with one or more Subsidiaries or by one or more other Subsidiaries (i) directly or indirectly owns or purports to own, beneficially or of record securities or other interests representing more than 50% of the outstanding equity, voting power, or financial interests of such Person or (ii) is entitled, by Contract or otherwise, to elect, appoint or designate directors constituting a majority of the members of such Person's board of directors or other governing body.

"TASE" means the Tel Aviv Stock Exchange.

"Tax" (and, with correlative meaning, **"Taxes"** and **"Taxable"**) means (i) any net income, alternative or add-on minimum tax, gross income, estimated, gross receipts, sales, use, ad valorem, value added, transfer, franchise, fringe benefit, share capital, profits, license, registration, withholding, payroll, social security (or equivalent), employment, unemployment, disability, excise, severance, stamp, occupation, premium, property (real, tangible or intangible), environmental or windfall profit tax, custom duty or other tax, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or any penalty, addition to tax or additional amount (whether disputed or not) imposed by any Governmental Entity responsible for the imposition of any such tax (domestic or foreign) (each, a **"Tax Authority"**), (ii) any Liability for the payment of any amounts of the type described in clause (i) of this sentence as a result of being a member of an affiliated, consolidated, combined, unitary or aggregate group for any Taxable period and (iii) any Liability for the payment of any amounts of the type described in clause (i) or (ii) of this sentence as a result of being a transferee of or successor to any Person or as a result of any express or implied obligation to assume such Taxes or to indemnify any other Person.

"**Tax Reduction**" means any Tax refund (including related interest received from the applicable Governmental Entity) or any reduction in Taxes paid by Acquirer, the Company or any of their respective Affiliates.

"**Tax Return**" means any return, statement, report or form (including estimated Tax returns and reports, withholding Tax returns and reports, any schedule or attachment, and information returns and reports) filed or required to be filed with respect to Taxes.

"**Transaction Expenses**" means (i) third-party legal, accounting, financial advisory, consulting, finders or other fees, expenses incurred by or on behalf of the Company or Seller on or before the Effective Closing Time in connection with the Share Purchase, this Agreement and the Transactions, (ii) termination, pre-payments, balloon or similar payments on any Company's outstanding debt accrued on or before the Effective Closing Time, (iii) any payments at Closing pursuant to the LTIP; and (iv) \$99,000 of the premium cost for the Acquirer Insurance Policy, if obtained.

"**Transaction Tax Deduction**" means any and all items of loss, credit or deduction permitted to the Company under Applicable Law and relating to, or arising from (i) any Transaction Expense, (ii) any payment of deferred compensation incurred on or before the Closing Date but properly deductible for income Tax purposes by the Company or any successor thereto in a Post-Closing Tax Period; or (iii) deferred financing expenses in connection with Company Debt.

"**Treasury Regulations**" means the United States Treasury Department's tax regulations issued under the Code.

Other capitalized terms defined elsewhere in this Agreement and not defined in this Exhibit A shall have the meanings assigned to such terms in the following Sections:

INDEX OF DEFINED TERMS

<u>Term</u>	<u>Defined In</u>
Acquirer Covered Losses	Section 9
Acquirer Indemnified Person	Section 9.2(a)
Acquirer Indemnified Persons	Section 9.2(a)
Acquirer Insurance Policy	Section 9
Acquirer Financial Notice	Section 1.2(b)
Adjusted Net Settlement Amount	Section 9.2(c)(viii)
Agreement Termination Date	Section 8.1(b)
Audited Financial Statements	Section 2.4(a)
Beneficiary	Section 1.8(a)
BWC Claim Date	Section 9.2(c)(viii)
CERCLA	Section 9.8
Certificates	Section 1.3(b)(i)
Charter Documents	Section 1.3(b)(iii)

<u>Term</u>	<u>Defined In</u>
Claims Period	Section 9.3
Closing	Section 1.2(j)
Closing Date	Section 1.2(j)
COBRA	Section 2.11(e)
Company Authorizations	Section 2.7(b)
Company Balance Sheet Date	Section 2.4(a)
Company Disclosure Schedule	Section 2
Company Employee Plans	Section 2.11(c)
Company IP Rights	Section 2.9(a)(i)
Company IP Rights Agreements	Section 2.9(a)(ii)
Company License Agreements	Section 2.9(a)(iii)
Company-Owned IP Rights	Section 2.9(a)(iv)
Company Products	Section 2.9(a)(v)
Company Registered Intellectual Property	Section 2.9(a)(vi)
Company Source Code	Section 2.9(a)(vii)
Confidential Information	Section 2.9(b)(c)(xvi)
Confidentiality Agreement	Sec. 6.4(a)
Continuing Coverage	Section 6.2(c)
Counsel	Section 10.12
Covered Persons	Section 6.2(a)
D&O Tail Insurance Coverage	Section 6.2(a)
Designated Employees	Section 6.10
E&O & Cyber Tail Insurance Coverage	Sec 6.2(c)
Effective Time	Section 1.2(j)
ERISA	Section 2.11(c)
ERISA Affiliate	Section 2.11(c)
Escrow Agreement	Section 1.3(b)(viii)
Escrow Fund	Section 9
Escrow Fundamental Amount	Section 9
Escrow Fundamental Fund	Section 9
Escrow Fundamental Release Date	Section 9.1(b)
Escrow General Fund	Section 9
Escrow General Release Date	Section 9.1(b)
Export Approvals	Section 2.19
Final BWC Advance Amount	Section 1.2(f)(vii)
Final Company Debt	Section 1.2(f)(v)
Final Net Working Capital	Section 1.2(f)(i)
Final Transaction Expenses	Section 1.2(f)(iii)
Foley	Section 10.12
Fundamental Claims	Section 9.2(a)(i)
Hazardous Materials	Section 2.18
Indemnifiable Damages	Section 9
Intellectual Property	Section 2.9(a)(viii)
Interim Financial Statements	Section 2.4(a)
Jensen	Section 6.16(b)
Litigation Claims	Section 9.2 (viii)
Litigation Claims Cap	Section 9.1(b)
Marks	Section 6.14(a)
Material Contract	Section 2.15(a) and (b)

<u>Term</u>	<u>Defined In</u>
Net Settlement Amount	Section 9.1(a)
New Litigation Claim	Section 6.7
Notice of Objection	Section 1.2(c)
Officer's Certificate	Section 9.4(a)
Open Source Materials	Section 2.9(a)(ix)
Payor	Section 1.2(h)
PFIC	Section 2.10(u)
Pre-Closing Tax Refund	Section 6.12(c)(ii)
Reimbursement Amount	Section 1.1
Released Party	Section 1.8(a)
Released Parties	Section 1.8(a)
Releasing Party	Section 1.8(a)
Reviewing Accountant	Section 1.2(e)
Section 280G	Section 6.17
Section 280G Payments	Section 6.17
Seller Cap	Section 9
Seller Indemnified Person	Section 9.7(a)
Seller Indemnified Persons	Section 9.7(a)
September Financial Statements	Section 2.4(a)
Shareholder Claim	Section 1.8(a)
Shareholders Agreement	Sec 1.8(b)
Significant Customer	Section 2.20(a)
Significant Supplier	Section 2.20(b)
Special Representations	Section 9.2(a)(i)
Tax Benefit	Section 9.2(c)(iii)
Tax Proceeding	Section 6.12(e)
Third-Party Claim	Section 9.6(a)
Third Party Intellectual Property	Section 2.9(a)(x)
Total Cash Escrow Amount	Section 9
Warn Act	Section 2.11(o)

List of Subsidiaries

Name of Subsidiary	Jurisdiction of Incorporation
Sapiens International Corporation B.V.	Netherlands
Sapiens Israel Software Systems Ltd.	Israel
Sapiens Technologies (1982) Ltd.	Israel
Sapiens Americas Corporation	New York
Sapiens North America Inc.	Ontario, Canada
Sapiens (UK) Limited	United Kingdom
Sapiens France S.A.S.	France
Sapiens Deutschland GmbH	Germany
Sapiens Deutschland Consulting GmbH & Co. KG	Germany
Sapiens Japan Co.	Japan
Sapiens Software Solutions (IDIT) Ltd.	Israel
IDIT Europe	Belgium
Sapiens (Singapore) Insurance Solution Pte. Ltd.	Singapore
Sapiens Software Solution (Life and Pension) Ltd.	Israel
Sapiens (UK) Insurance Software Solutions Limited	United Kingdom
Sapiens NA Insurance Solutions Inc.	Delaware
Formula Insurance Solutions France (F.I.S France)	France
FIS- AU Pty Ltd.	Australia
Neuralmatic Ltd.	Israel
Sapiens Software Solutions (Decision) Ltd.	Israel
Sapiens Decision NA Inc	United States
Knowledge Partners International LLC	United States
Sapiens (UK) Decision Limited	United Kingdom
Sapiens Technologies (1982) India Private Limited	India
Ibexi Solutions Pte Limited	Singapore
Sapiens Software Solutions (Poland) Sp. z o.o. (formerly Insseco Sp. z o.o.)	Poland
Maximum Processing Inc.	Florida
4Sight Business Intelligence Inc.	Texas
StoneRiver, Inc.	Delaware
Sapiens Software Solutions Denmark ApS	Denmark
Sapiens Software Solutions Istanbul YAZILIM HİZMETLERİ İÇ VE DIŞ TİCARET ANONİM ŞİRKETİ	Turkey
Sapiens SA (PTY) Ltd.	South Africa
KnowledgePrice.com	Latvia
Adaptik Corporation	New Jersey

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a)/RULE 15d-14(a) UNDER
THE SECURITIES EXCHANGE ACT OF 1934

I, Roni Al Dor, certify that:

1. I have reviewed this annual report on Form 20-F for the year ended December 31, 2017 of Sapiens International Corporation N.V. (the “**Registrant**”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: April 10, 2018

/s/ Roni Al Dor

Roni Al Dor
President & Chief Executive Officer
(principal executive officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a)/RULE 15d-14(a) UNDER
THE SECURITIES EXCHANGE ACT OF 1934

I, Roni Giladi, certify that:

1. I have reviewed this annual report on Form 20-F for the year ended December 31, 2017 of Sapiens International Corporation N.V. (the “**Registrant**”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: April 10, 2018

/s/ Roni Giladi

Roni Giladi
Vice President and Chief Financial Officer
(principal financial and accounting officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 20-F of Sapiens International Corporation N.V. (the “**Company**”) for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “**Report**”), the undersigned, Roni Al Dor, Chief Executive Officer, and Roni Giladi, Chief Financial Officer, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 10, 2018

/s/ Roni Al Dor

Roni Al Dor
President & Chief Executive Officer
(principal executive officer)

Date: April 10, 2018

/s/ Roni Giladi

Roni Giladi
Vice President & Chief Financial Officer
(principal financial and accounting officer)

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No.'s 333-144595, 333-177834 and 333-213817), pertaining to the 1992 Stock Option and Incentive Plan, 2003 Share Option Plan, 2005 Special Incentive Share Option Plan and 2011 Share Incentive Plan of Sapiens International Corporation N.V., and in the Registration Statement on Form F-3 (No. 333- 207414) of our reports, dated April 10, 2018, with respect to the consolidated financial statements of Sapiens International Corporation N.V. and the effectiveness of internal control over financial reporting of Sapiens International Corporation N.V. included in this Annual Report on Form 20-F for the year ended December 31, 2017.

Tel Aviv, Israel
April 10, 2018

/s/ KOST FORER GABBAY & KASIERER
A Member of EY Global
