

Financial Section

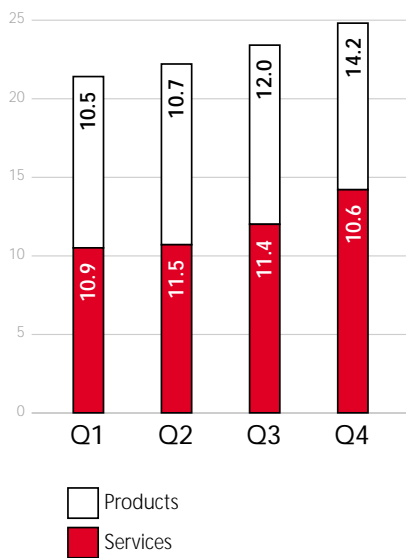


[contents](#)

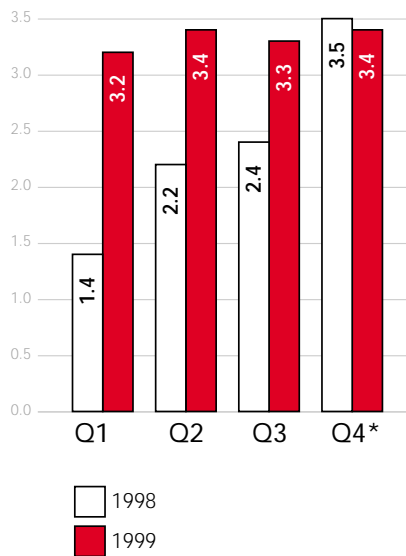
Quarterly Information	19	Management's Discussion and Analysis	20-26
Report of Independent Auditors	27	Consolidated Financial Statements	28-36
Notes to Consolidated Financial Statements	37-56		

Quarterly Information (unaudited)

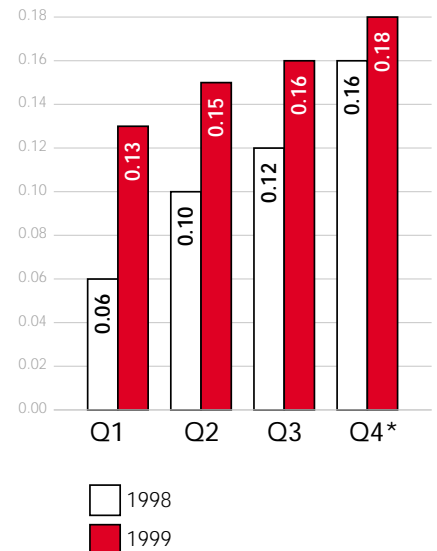
Revenue (\$ millions)
1999



Operating (\$ millions)
Income



Diluted EPS



* Not including one time costs

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with our financial statements and notes thereto. Certain matters discussed below and throughout this annual report are forward-looking statements that are based on our beliefs and assumptions as well as information currently available to us. Such forward-looking statements may be identified by the use of the words "anticipate," "believe," "estimate," "expect," "plan" and similar expressions. Such statements reflect our current views with respect to future events and are subject to certain risks and uncertainties. While we believe such forward-looking statements are based on reasonable assumptions, should one or more of the underlying assumptions prove incorrect, or these risks or uncertainties materialize, our actual results may differ materially from those described herein. Please read the section below entitled "Factors That May Affect Future Results" to review conditions that we believe could cause actual results to differ materially from those contemplated by the forward-looking statements.

Results of Operations

Revenues. Total revenues in 1999 increased 29% to \$91.8 million from \$71.0 million in 1998, and \$44.6 million in 1997. Revenues in the European region rose 19% to \$60.5 million and represented 66% of total revenues compared with 72% in 1998. Revenues in the Americas increased 49% to \$26.2 million, representing 29% of revenues in 1999 versus 25% in the prior year; revenues in the Asia-Pacific region rose 114% in 1999 to \$5.1 million or 5% of total revenues compared with 3% in 1998. We expect that a significant portion of our revenues will continue to be denominated in European currencies, mainly the euro, and a growing portion of our revenues will be denominated in the Japanese yen. As a result, movements in the exchange rates between the US dollar and the euro and/or the US dollar and the Japanese yen could have a material unfavorable impact on our revenues and results of operations.

Product revenues rose 27% in 1999 to \$47.4 million, after increasing 81% in 1998 and 50% in 1997. The increase in product revenues in 1999 is due primarily to revenues generated from the Sapiens EuroMigration™ and *Sapiens eMerge* solution offerings, only partly offset by lower revenue from "year 2000" related products.

Consulting and other services revenues increased 31% to \$44.4 million from \$33.8 million in 1998, and \$24.1 million in 1997. The increase in 1999 is primarily attributable to the acquisition of Syspart, a consulting firm based in Germany; the consolidation of the results of Sapiens Japan, following the purchase of an additional 70.1% of the shares of that company and the inclusion for a full year of the consulting activities of SAIC, acquired in 1998.

Gross Profit. Gross profit increased 26% to \$46.1 million from \$36.7 million in 1998 and \$24.6 million in 1997. Gross margin was 50.2%, 51.7% and 55.2% in 1999, 1998 and 1997, respectively. Product revenue gross profit rose 27% in 1999 to \$31.0 million from \$24.5 million in 1998; product gross margin was 65.5% in 1999 compared with 65.9% in 1998. The decline in product gross margin is due principally to the unfavorable movement of exchange rates. We believe that product gross margin may decline in the future due to adverse movements in exchange rates, the increasing utilization of third party personnel in the implementation of projects (mainly EuroMigration), and an

increase in the rate of royalties payable to the Office of the Chief Scientist of the Government of Israel ("OCS") pursuant to programs entitling the Government to receive royalties on sales of products developed as a result of research and development efforts so funded.

Consulting and other services gross profit increased 24% to \$15.1 million in 1999 from \$12.2 million in 1998. Consulting and other services gross margin declined in 1999 to 34.0% from 36.0% in the prior year due mainly to the impact of the industry-wide slowdown on development efforts prior to January 1, 2000. We believe that consulting and other services gross margin is at the high end of the sustainable range and may decline in the future. Additionally, changes in the relative proportions of product revenues and consulting and other services revenues in the total revenue mix may affect total gross margin in the future.

Research and Development. Research and development expenditures, before capitalization of software development costs and royalty-bearing grants, increased 9% in 1999 to \$9.9 million from \$9.1 million in 1998, and \$8.0 million in 1997. Net research and development expenditures rose 22% in 1999 to \$5.0 million from \$4.1 million in 1998, and \$3.3 million in 1997.

The increase in research and development expenditures is due primarily to higher average labor costs reflecting the highly competitive market for software engineers. We believe that a significant level of investment for research and development is essential for us to attain market leadership and to achieve our long-term business objectives. Accordingly, we anticipate that research and development expenditures will increase significantly in the future due mainly to the development of our Internet application integration and business-to-business (B2B)-Internet technologies. However, there can be no assurance that these development efforts will be successful or will not be rendered obsolete by future technology developments or acquisitions.

Software development costs capitalized were \$2.8 million in 1999 compared with \$3.0 million in 1998. Amortization of capitalized software development costs, included in cost of products, was \$2.8 million in 1999 and \$3.1 million in 1998.

A portion of our R&D expenditures is funded by the Office of the Chief Scientist ("OCS") in Israel pursuant to programs entitling the Government to receive royalties on sales of products developed as a result of research projects so funded. We received R&D funding of \$2.0 million in 1999 (20.6% of gross R&D expenditures) compared with \$1.9 million (21.2% of gross R&D expenditures) in 1998. Royalty expense pursuant to the OCS funding programs, included in cost of products, was \$1.1 million and \$0.8 million in 1999 and 1998, respectively.

In 1999 the financial terms of the OCS research and development funding program was modified by law. We believe that these modifications significantly reduce the attractiveness of the OCS program and, consequently, we do not anticipate that we will continue to participate in such programs. As a result, we expect that net research and development expenditures will increase significantly in the future.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 22% to \$27.9 million in 1999 from \$22.9 million in 1998 and \$16.3 million in 1997. Expressed as a percent of revenues, selling, general and administrative expenses declined to 30.4% in 1999 from 32.3% in 1998. The increase in selling,

general and administrative expenses in 1999 is due principally to the expansion of our direct operations in Europe (mainly Germany, the Netherlands and Spain) and in Japan, promotional activities related to the launch of the *Sapiens eMerge* e-business solution offerings, and product marketing efforts related to our B2B-Internet initiative. We expect that our selling, general and administrative expenses will increase significantly in 2000 to support revenue growth based on our *eMerge* solution as well as to develop our B2B-Internet subsidiary's marketing infrastructure.

We recorded a restructuring charge in the amount of \$2.0 million, which represents the involuntary termination benefits provided to 40 employees who were dismissed as a result of our change in strategic direction to e-business solutions.

Taxes on Income. The net tax benefit was \$1.7 million in 1999 compared with a net tax expense of \$55 thousand in 1998 and \$57 thousand in 1997. The tax benefit in 1999 reflects the reduction of a portion of the valuation allowances recorded by certain of our foreign subsidiaries due mainly to the actual or expected realization of the underlying deferred tax assets. We will continue to evaluate the realizability of deferred tax assets on a regular basis.

Net Income. Net income increased 34% to \$13.1 million in 1999 from \$9.7 million in 1998 and \$4.5 million in 1997. Preferred stock dividends in 1998 were \$0.4 million compared with \$0.6 million in 1997. We expect that dividends on preferred shares will be lower in 2000 due mainly to the full year impact of conversions of preferred shares to common shares during 1999.

Liquidity and Capital Resources

Cash, cash equivalents and short-term investments at the end of 1999 were \$16.8 million compared with \$33.0 million at the end of 1998, and \$23.1 million at the end of 1997. Approximately \$2.3 million of our short-term investments were pledged as collateral for certain short-term debt compared with \$8.5 million at the end of 1998. The decrease is due primarily to the liquidation of collateralized short-term investments in the payment of the Senior Subordinated Notes.

Net cash used in operations in 1999 was \$27 thousand compared with net cash provided by operations of \$17.6 million in 1998 and net cash used in operations of \$378 thousand in 1997. The decrease in 1999 was due primarily to higher trade receivables which resulted mainly from payment delays by a number of our year 2000 project customers.

Net cash used in investing activities was \$4.2 million in 1999, \$7.3 million in 1998 and \$2.9 million in 1997. The decrease in 1999 was due principally to the sale of short-term investments in connection with the payment of the Senior Subordinated Notes. Capital expenditures, which totaled \$2.2 million in 1999, included investments in software and computer systems for research and development purposes and computer and communication systems for new regional offices.

Net cash used in financing activities totaled \$7.0 million in 1999 compared with \$119 thousand in 1998 and net cash provided by financing activities of \$7.1 million in 1997. The increase in 1999 is due mainly to the payment of the Senior Subordinated Notes.

We believe that available working capital and credit lines will be sufficient for the next 12 months to meet our operating requirements. Depending upon our future growth, the success of our strategic initiatives and acquisition opportunities, we will consider from time to time various financing alternatives and may seek to raise additional capital to finance our growth and strategic efforts through equity or debt financing or to enter into strategic arrangements.

Qualitative and Quantitative 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 actively monitor these exposures. To manage the volatility relating to these exposures, we may enter into various derivative transactions. 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. It is our policy and practice to use derivative financial instruments only to manage exposures. We do not use financial instruments for trading purposes and are not a party to any leveraged derivatives.

Foreign Currency Risk. We conduct our business in various foreign currencies, primarily those of Europe and to a lesser extent of Japan, Israel, Canada, and Australia. We monitor our foreign currency exposure and, from time to time, will enter into currency forward contracts to hedge sales transactions. We use such contracts to hedge exposure to changes in foreign currency exchange rates associated with revenue denominated in a foreign currency and anticipated costs to be incurred in a foreign currency. In doing so, we seek to minimize the risk that the fair value of sales of our products and services and cash flow required for the Company's expenses denominated in a currency other than the functional currency, the US dollar, will be affected by changes in exchange rates.

The following table summarizes the Company's foreign currency forward exchange agreements. The table presents the notional amounts (dollars in millions) and the weighted average exchange rates by expected (contractual) maturity dates of derivative instruments. Notional values and average contract rates are calculated based on forward rates at December 31, 1999.

	Year ended December 31			Total
	2000	2001	2002-04	
Forward contracts to sell foreign currencies for U.S. dollars				
French Francs				
Notional value	\$ 4.5	-	-	\$ 4.5
Average contract rate	5.824			
Euro				
Notional value	\$ 0.5	-	-	\$ 0.5
Average contract rate	1.008			
Japanese Yen				
Notional value	\$ 0.5	-	-	\$ 0.5
Average contract rate	101.684			

Interest Rate Risk. Our interest expenses are most sensitive to changes in the London Interbank Offered Rate (LIBOR) as our short-term borrowings bear a LIBOR-based interest rate. Excess liquidity invested in short-term investments bears minimal interest rate risk.

At December 31, 1999, we had approximately \$3.6 million outstanding on our short-term credit agreements and \$268 thousand recorded as long-term lease obligations. The potential loss to the Company over one year that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rates of all applicable financial assets and liabilities on December 31, 1999 would be approximately \$40 thousand.

Impact of Inflation

Inflation has not had a significant impact on our operating results to date. However, a major portion of our expenses are paid in New Israel Shekels ("NIS") and are affected by changes in the Consumer Price Index in Israel ("Israel CPI"). If inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of such devaluation lags behind inflation, the US dollar value of the Company's Israel CPI-linked NIS expenses will increase.

Factors That May Affect Future Results

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 condition or results of operations.

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

Our turnkey solutions are generally sold as fixed-price projects with delivery requirements spanning more than one year. If our actual cost-to-complete of these projects differs significantly from the estimated cost-to-complete, there could be a material adverse effect on our results of operations and financial position. The sales cycle for our solutions is variable, typically ranging between a few weeks to several months from initial contact with the potential client to the signing of a contract. Occasionally sales require substantially more time. Delays in executing client contracts may affect our revenue and cause our operating results to vary widely. Our turnkey solutions are generally priced in excess of \$1 million and are delivered over periods of time ranging from several months to several years. Payment terms are generally based on periodic payments or on the achievement of milestones. Any delays in payment or on the achievement of milestones may have a material adverse impact on our financial position.

The market for software products and related services, in general, is highly competitive and the market for e-business solutions is evolving at a fierce pace. Our principal competitors generally have significantly greater resources than do we. Price reductions or declines in demand for our solutions and services, whether as a result of competition, technological change, changes in the level of application development, reengineering or maintenance performed

internally by our customers or potential customers would have a material adverse effect on our results of operations and financial position.

The operating results of many software and services companies reflect seasonal trends, and we expect to be affected by such trends in the future. Although we have not experienced consistent seasonal fluctuations in operational results to date, we believe that it is likely that we will experience relatively higher revenues in the fourth quarter and relatively lower revenues in the first quarter due mainly to customers' annual purchasing and budgetary practices. To the extent future operations in Europe constitute a high percentage of our total revenues, we anticipate that we may also experience relatively weaker demand in the third quarter as a result of reduced activities in Europe during the summer months.

Variations in our revenue and operating results could occur as a result of a number of other factors, such as the budgeting and purchasing practices of our customers, the length of the customer product evaluation process, the timing of our customers' system conversions, the timing and cost of new product introductions and product enhancements, and the timing of any acquisitions and associated costs. Employee hiring and utilization rates may also affect our revenues and results of operations.

We have experienced significant annual increases in revenue since 1996. This growth has placed, and if it continues will place, a significant strain on the Company's management, operations and resources. To accommodate its recent growth, we are implementing a variety of new or expanded business systems, procedures and controls. There can be no assurance that the implementation of such systems, procedures, controls and other internal systems can be completed successfully. If our growth continues, we will be required to hire and integrate large numbers of new employees. There can be no assurance that we will be able to successfully recruit and integrate new employees. Competition for highly skilled employees, including sales, technical and management personnel, is high in the software and services industry. Our failure to manage growth effectively, including our failure to attract talented employees or retain the services of key personnel, could have a material adverse effect on our results of operations and financial position.

As part of our growth strategy, we may, from time to time, acquire or invest in complementary businesses, products or technologies. We frequently evaluate the tactical or strategic opportunity available related to complementary businesses, products or technologies. The process of integrating an acquired company's business into our operations and/or of investing in new technologies, such as our B2B-Internet initiative, may result in unforeseen operating difficulties and large expenditures and may absorb significant management attention that would otherwise be available for the ongoing development of our business. Moreover, there can be no assurance that the anticipated benefits of any acquisition or investment will be realized. Future acquisitions or investments contemplated and/or consummated could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, amortization expenses related to goodwill and other intangible assets, any of which could have a material adverse effect on our operating results and financial condition.

Additional factors that may cause actual results to differ materially from our expectations include industry specific factors; our ability to continuously develop, introduce and deliver commercially viable solutions and technologies, and the market's rate of acceptance of the solutions we offer; our ability to keep pace with market and technology

changes and to compete successfully; and our ability to manage the competitive risks associated with the strategic alliances that we have entered into.

Our products focus specifically on organizations' business-critical applications including those related to specialized redevelopment issues such as the adoption of the single European currency. The provisions of our sales contracts limit our exposure to potential liability claims. Although we carry errors and omissions insurance against such claims, there can be no assurance that such insurance will continue to be available on acceptable terms, if at all, or that such insurance will provide us with adequate protection against any such claims. A significant liability claim against us could have a material adverse effect on our results of operations and financial position.

The Company's share price, has been and will continue to be, subject to significant volatility. If revenues or earnings in any quarter fail to meet the investment community's expectations, there could be an immediate and significant impact on the Company's share price. The share price may also be affected by broader market trends or the economic and political situation in the markets in which we operate.



Report of Independent Auditors

to the Shareholders of

Sapiens International Corporation N.V.

We have audited the consolidated balance sheets of Sapiens International Corporation N.V. and its subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles in the United States.

Tel Aviv, Israel
January 27, 2000

KOST FORER & GABBAY
A Member of Ernst & Young International

Consolidated Balance Sheets

	December 31	
	<u>1999</u>	<u>1998</u>
	U.S. dollars in thousands	
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,735	\$ 20,222
Short-term investments including amounts pledged of \$2,318 and \$8,500 as of December 31, 1999 and 1998, respectively (Note 3 and Note 11)	8,055	12,826
Trade receivables (net of allowance for doubtful accounts of \$2,511 and \$2,057 as of December 31, 1999 and 1998, respectively)	31,943	16,351
Other current assets (Note 4)	<u>7,118</u>	<u>4,180</u>
Total current assets	<u>55,851</u>	<u>53,579</u>
Property and equipment, net (Note 5)	<u>5,207</u>	<u>5,068</u>
Other assets:		
Capitalized software development costs, net of accumulated amortization of \$13,050 and \$10,854 as of December 31, 1999 and 1998, respectively (Note 6a)	9,312	9,080
Goodwill, net of accumulated amortization of \$2,398 and \$364 as of December 31, 1999 and 1998, respectively (Note 6c)	10,056	3,077
Other, net of accumulated amortization of \$2,389 and \$2,207 as of December 31, 1999 and 1998, respectively (Note 6b)	<u>4,679</u>	<u>2,520</u>
Total other assets	<u>24,047</u>	<u>14,677</u>
Total assets	<u>\$ 85,105</u>	<u>\$ 73,324</u>

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

Consolidated Balance Sheets

	December 31	
	1999	1998
	U.S. dollars in thousands	
Liabilities and shareholders' equity		
Current liabilities:		
Short-term bank debt (Note 8a)	\$ 3,590	\$ 5,182
Current portion of long-term debt (Note 8b)	67	92
Senior subordinated notes payable	-	8,743
Trade payables	3,495	3,092
Other liabilities and accrued expenses (Note 7)	15,988	12,401
Deferred revenues	<u>2,392</u>	<u>3,041</u>
Total current liabilities	<u>25,532</u>	<u>32,551</u>
Long-term liabilities:		
Long-term debt (Note 8b)	7,930	7,273
Other long-term liabilities (Note 9)	<u>229</u>	<u>385</u>
Total long-term liabilities	<u>8,159</u>	<u>7,658</u>
Shareholders' equity:		
Cumulative convertible preferred shares (authorized 608,000 par value Dutch Guilder 1) issued and outstanding 4,500 at December 31, 1999 and 5,250 at December 31, 1998	4	4
Common shares (authorized 40,000,000 par value Dutch Guilder 1); 1999 - 21,677,278 issued and 21,464,511 outstanding; 1998 - 20,264,423 issued and 20,051,656 outstanding	8,694	7,996
Additional paid-in capital	69,593	63,494
Treasury shares	(2,423)	(2,423)
Common shares accrued as dividends	967	720
Accumulated other comprehensive loss	(3,450)	(2,055)
Accumulated deficit	<u>(21,971)</u>	<u>(34,621)</u>
Total shareholders' equity	<u>51,414</u>	<u>33,115</u>
Total liabilities and shareholders' equity	<u>\$ 85,105</u>	<u>\$ 73,324</u>

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

Consolidated Statements of Income

	Year ended December 31		
	1999	1998	1997
	U.S. dollars in thousands		
Revenues:			
Products	\$ 47,390	\$ 37,181	\$ 20,507
Consulting and other services	<u>44,440</u>	<u>33,799</u>	<u>24,057</u>
Total revenues	<u>91,830</u>	<u>70,980</u>	<u>44,564</u>
Cost of revenues:			
Products	16,354	12,690	4,473
Consulting and other services	<u>29,333</u>	<u>21,611</u>	<u>15,507</u>
Total cost of revenues	<u>45,687</u>	<u>34,301</u>	<u>19,980</u>
Gross profit	46,143	36,679	24,584
Operating expenses:			
Research and development, net (Note 16a)	5,021	4,112	3,258
Selling, general and administrative, net	27,880	22,921	16,316
Restructuring costs (Note 1c)	<u>2,019</u>	<u>—</u>	<u>—</u>
Total operating expenses	<u>34,920</u>	<u>27,033</u>	<u>19,574</u>
Operating income	11,223	9,646	5,010
Financial income, net	412	457	107
Other expenses, net	<u>(220)</u>	<u>(328)</u>	<u>(417)</u>
Income before income taxes	11,415	9,775	4,700
Income tax benefit (expense)	<u>1,678</u>	<u>(55)</u>	<u>(57)</u>
	13,093	9,720	4,643
Share in losses of equity investments	—	—	(203)
Minority interests in (income) losses	<u>(25)</u>	<u>15</u>	<u>104</u>
Net income	<u>\$ 13,068</u>	<u>\$ 9,735</u>	<u>\$ 4,544</u>
Dividends on preferred shares (Note 13h)	<u>\$ (418)</u>	<u>\$ (645)</u>	<u>\$ (2,406)</u>
Net income to shareholders of common shares	<u>\$ 12,650</u>	<u>\$ 9,090</u>	<u>\$ 2,138</u>
Basic earnings per share (Note 16b)	<u>\$ 0.61</u>	<u>\$ 0.48</u>	<u>\$ 0.14</u>
Diluted earnings per share (Note 16b)	<u>\$ 0.53</u>	<u>\$ 0.43</u>	<u>\$ 0.12</u>

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

Statements of Changes in Shareholders' Equity

	Preferred Shares	Common Shares	Additional Paid-in Capital	Treasury Shares	Common Shares Accrued as Dividends	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
U.S. dollars in thousands								
Balance as of January 1, 1997	\$ 229	\$ 4,553	\$ 52,608	\$ (2,423)	\$ -	\$ (726)	\$ (47,050)	\$ 7,191
Comprehensive income:								
Net income	-	-	-	-	-	-	4,544	<u>4,544</u>
Other comprehensive loss:								
Unrealized gains on securities, net of reclassification adjustment	-	-	-	-	-	-	-	3
Foreign currency translation adjustment	-	-	-	-	-	-	-	<u>(329)</u>
Other comprehensive loss	-	-	-	-	-	(326)	-	<u>(326)</u>
Comprehensive income								<u>4,218</u>
Issue of Series D ₁ , D ₂ and E preferred shares (Note 13a)	4	-	7,770	-	-	-	-	7,774
Conversion of preferred shares to common shares:								
Series "A"	(25)	1,660	(1,635)	-	-	-	-	-
Series "B"	(204)	296	(92)	-	-	-	-	-
Series "D ₁ "	-	179	(179)	-	-	-	-	-
Series "E"	-	32	(32)	-	-	-	-	-
Common shares issued in acquisition of distribution rights	-	35	415	-	-	-	-	450
Additional shares issued in class action	-	65	(65)	-	-	-	-	-
Common shares issued as private placement expenses	-	77	(77)	-	-	-	-	-
Employee stock options exercised	-	283	898	-	-	-	-	1,181
Compensation expense recorded on issue of warrants	-	-	47	-	-	-	-	47
Cash dividends on preferred shares	-	-	-	-	-	-	(792)	(792)
Common shares issued as dividends on Series B, D ₁ and E preferred shares	-	20	220	-	-	-	(240)	-
Common shares accrued as dividends on preferred shares	-	-	-	-	335	-	(335)	-
Balance as of December 31, 1997	<u>\$ 4</u>	<u>\$ 7,200</u>	<u>\$ 59,878</u>	<u>\$ (2,423)</u>	<u>\$ 335</u>	<u>\$ (1,052)</u>	<u>\$ (43,873)</u>	<u>\$ 20,069</u>

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

Statements of Changes in Shareholders' Equity

	Preferred Shares	Common Shares	Additional Paid-in Capital	Treasury Shares	Common Shares Accrued as Dividends	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
U.S. dollars in thousands								
Balance as of January 1, 1998	\$ 4	\$ 7,200	\$ 59,878	\$ (2,423)	\$ 335	\$ (1,052)	\$ (43,873)	\$ 20,069
Comprehensive income:								
Net income	-	-	-	-	-	-	9,735	<u>9,735</u>
Other comprehensive loss:								
Unrealized losses on securities, net of reclassification adjustment	-	-	-	-	-	-	-	(51)
Foreign currency translation adjustment	-	-	-	-	-	-	-	<u>(952)</u>
Other comprehensive loss	-	-	-	-	-	(1,003)	-	<u>(1,003)</u>
Comprehensive income								<u>8,732</u>
Conversion of preferred shares to common shares:								
Series "D ₁ "	-	39	(39)	-	-	-	-	-
Series "D ₂ "	-	71	(71)	-	-	-	-	-
Employee stock options exercised	-	500	1,821	-	-	-	-	2,321
Warrants exercised	-	39	293	-	-	-	-	332
Compensation expense recorded on issue of warrants	-	-	27	-	-	-	-	27
Common shares issued as dividends on Series D ₁ and D ₂ preferred shares	-	12	86	-	(98)	-	-	-
Common shares accrued as dividends on preferred shares	-	-	-	-	483	-	(483)	-
Shares issued in connection to prior security issuance	-	24	(24)	-	-	-	-	-
Shares issued in connection with an acquisition	-	111	1,523	-	-	-	-	<u>1,634</u>
Balance as of December 31, 1998	<u>\$ 4</u>	<u>\$ 7,996</u>	<u>\$ 63,494</u>	<u>\$ (2,423)</u>	<u>\$ 720</u>	<u>\$ (2,055)</u>	<u>\$ (34,621)</u>	<u>\$ 33,115</u>

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

Statements of Changes in Shareholders' Equity

	Preferred Shares	Common Shares	Additional Paid-in Capital	Treasury Shares	Common Shares Accrued as Dividends	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
U.S. dollars in thousands								
Balance as of January 1, 1999	\$ 4	\$ 7,996	\$ 63,494	\$ (2,423)	\$ 720	\$ (2,055)	\$ (34,621)	\$ 33,115
Comprehensive income:								
Net income	-	-	-	-	-	-	13,068	<u>13,068</u>
Other comprehensive loss:								
Unrealized losses on securities, net of reclassification adjustment	-	-	-	-	-	-	-	(261)
Foreign currency translation adjustment	-	-	-	-	-	-	-	<u>(1,134)</u>
Other comprehensive loss	-	-	-	-	-	(1,395)	-	<u>(1,395)</u>
Comprehensive income								<u>11,673</u>
Conversion of preferred shares to common shares:								
Series "D ₁ "	-	73	(73)	-	-	-	-	-
Employee stock options exercised	-	352	1,996	-	-	-	-	2,348
Warrants exercised	-	109	1,180	-	-	-	-	1,289
Compensation expense recorded on issue of warrants	-	-	57	-	-	-	-	57
Common shares issued as dividends on Series D ₁ preferred shares	-	17	154	-	(171)	-	-	-
Common shares accrued as dividends on preferred shares	-	-	-	-	418	-	(418)	-
Shares issued in connection with acquisitions	-	<u>147</u>	<u>2,785</u>	-	-	-	-	<u>2,932</u>
Balance as of December 31, 1999	<u>\$ 4</u>	<u>\$ 8,694</u>	<u>\$ 69,593</u>	<u>\$ (2,423)</u>	<u>\$ 967</u>	<u>\$ (3,450)</u>	<u>\$ (21,971)</u>	<u>\$ 51,414</u>

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

Consolidated Statements of Cash Flows

	Year ended December 31		
	1999	1998	1997
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net income	\$ 13,068	\$ 9,735	\$ 4,544
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	6,024	5,364	3,834
Amortization of deferred gain on sale - leaseback transaction	(160)	(223)	(276)
Gain in value (and accrued interest) on short-term investments	(222)	(452)	(636)
Share in losses of equity investments	-	-	203
Loss (gain) on disposal of property and equipment	(11)	(93)	217
Compensation expense related to restricted share awards and warrants issued	57	27	47
Changes in trade receivables	(16,790)	(1,137)	(2,882)
Changes in other receivables and prepaid expenses	(2,959)	209	(1,251)
Changes in deferred taxes	(1,443)	-	-
Changes in payables and other liabilities	2,409	4,180	(4,178)
Net cash provided by (used in) operating activities	(27)	17,610	(378)
Cash flows from investing activities:			
Purchase of property and equipment	(2,174)	(2,404)	(1,560)
Increase in capitalized software development costs	(2,814)	(3,025)	(3,092)
Purchase of short-term investments	(3,253)	(4,620)	(3,280)
Proceeds from sale of short-term investments	8,124	4,322	4,787
Proceeds from sale of property and equipment	103	11	206
Purchase of other assets	(1,059)	(613)	-
Cash paid for purchase of Sapiens Japan (excluding cash and cash equivalents) (1)	184	-	-
Cash paid for purchase of Syspart (excluding cash and cash equivalents) (2)	(3,360)	-	-
Cash paid for purchase of SAIC (excluding cash and cash equivalents) (3)	-	(1,002)	-
Net cash used in investing activities	(4,249)	(7,331)	(2,939)

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

Consolidated Statements of Cash Flows

	Year ended December 31		
	1999	1998	1997
	U.S. dollars in thousands		
Cash flows from financing activities:			
Cash dividends on preferred shares	\$ -	\$ -	\$ (792)
Amortization of bond issuance costs	142	141	142
Proceeds received on exercise of options and warrants	3,637	2,199	1,181
Net proceeds from issuance of preferred shares	-	-	7,774
Decrease in short-term bank debt	(1,973)	(1,753)	(99)
Payment of Senior Subordinated Notes	(8,743)	-	-
Payment of long-term liabilities	(48)	(930)	(1,098)
Payments received on long-term notes receivable	-	224	-
Net cash provided by (used in) financing activities	<u>(6,985)</u>	<u>(119)</u>	<u>7,108</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(226)</u>	<u>(276)</u>	<u>(329)</u>
Net increase (decrease) in cash and cash equivalents	<u>(11,487)</u>	9,884	3,462
Cash and cash equivalents at beginning of year	<u>20,222</u>	<u>10,338</u>	<u>6,876</u>
Cash and cash equivalents at end of year	<u>\$ 8,735</u>	<u>\$ 20,222</u>	<u>\$ 10,338</u>
(1) The net fair value of the assets acquired of Sapiens Japan (see Note 1b) was as follows:			
Working capital deficiency (excluding cash and cash equivalents)	\$ (74)		
Fixed assets, net	73		
Long-term liabilities	(1,177)		
Excess of cost over net fair values upon acquisition	<u>1,762</u>		
	584		
Less amounts financed by the issuance of shares (see Note 13f)	<u>(768)</u>		
	<u>\$ (184)</u>		
(2) The net fair value of the assets acquired of Syspart (see Note 1b) was as follows:			
Working capital deficiency (excluding cash and cash equivalents)	\$ (1,249)		
Fixed assets, net	99		
Excess of cost over net fair values upon acquisition	<u>6,674</u>		
	5,524		
Less amounts financed by the issuance of shares (see Note 13g)	<u>(2,164)</u>		
	<u>\$ 3,360</u>		

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

Consolidated Statements of Cash Flows

	Year ended December 31		
	1999	1998	1997
	U.S. dollars in thousands		
(3) The net fair value of the assets acquired of SAIC (see Note 1b) was as follows:			
Working capital deficiency (excluding cash and cash equivalents)		\$ (215)	
Fixed assets, net		10	
Excess of cost over net fair values upon acquisition		<u>2,491</u>	
		2,286	
Less amounts financed by the issuance of shares (see Note 13e)		<u>(1,284)</u>	
		<u>\$ 1,002</u>	
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	<u>\$ 750</u>	<u>\$ 1,055</u>	<u>\$ 1,758</u>
Income taxes	<u>\$ 261</u>	<u>\$ 407</u>	<u>\$ 146</u>
Non-cash transactions:			
Issue of common shares in exchange for distribution rights	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 450</u>
Investment in affiliate in exchange for reduction of debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 104</u>
Common shares accrued as dividends	<u>\$ 418</u>	<u>\$ 483</u>	<u>\$ 335</u>
Common shares issued as dividends on preferred shares	<u>\$ 171</u>	<u>\$ 98</u>	<u>\$ 240</u>
Issue of common shares in purchases of subsidiaries	<u>\$ 2,932</u>	<u>\$ 1,634</u>	<u>\$ -</u>

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

note 1

BUSINESS AND ORGANIZATION
a. General:

Sapiens is a leading provider of enterprise-wide solutions for the rapid development of scaleable mission-critical software applications. These solutions consist primarily of rapid application development ("RAD"), integration of legacy systems into new applications and technologies, mapping and management of enterprise IT assets, and reengineering services that integrate the Company's rule-based object technology, efficient RAD methodology, and extensive consulting expertise.

The Company delivers strategic, end-to-end, customized e-business solutions to its customers, enabling them to capitalize on their IT assets in the transition to e-business. The Company offers both cross-industry solutions as well as those for specific vertical markets. The Company's approach for delivering e-business solutions focuses on analysis of customers' requirements, Web/application development, technical implementation, integration, project management, and long-term support services. The Company also offers a specialized solution for the migration of European IT systems to the euro currency.

b. Acquisition of companies:

(1) In May 1999, the Company acquired an additional 70.1% of the outstanding shares of Sapiens Japan Co., a Japanese corporation (hereafter - "Sapiens Japan"). The Company previously owned 19.9% of the outstanding shares of Sapiens Japan Co. The total consideration was approximately \$1.5 million of which 48% was paid in cash and 52% in Sapiens common stock. An amount of \$1,762 (including the pre-existing investment) out of the total acquisition cost was attributed to goodwill and is being amortized over its estimated useful life.

Pro forma information in accordance with APB 16 has not been provided as the net income and earnings per share of Sapiens Japan for 1998 and 1999 were not material in relation to total consolidated net income and earnings per share.

(2) In May 1999, the Company acquired all of the shares of Syspart (Deutschland) GmbH, a German corporation (hereafter - "Syspart"). The total consideration was approximately \$6 million (including \$354 of costs related to the acquisition) of which 64% was paid in cash and 36% in Sapiens common stock. An amount of \$6,674 out of the total acquisition cost was attributed to goodwill and is being amortized over its estimated useful life. The acquisition agreement called for payment of an additional amount contingent upon the actual performance of Syspart. Such payment will be recorded as additional goodwill, when the performance goals have been achieved.

Pro forma information in accordance with APB 16 has not been provided as the net income and earnings per share of Syspart for 1998 and 1999 were not material in relation to total consolidated net income and earnings per share.

(3) In July 1998, the Company acquired all of the shares of Societe Auxilliare d'informatique et de communication, a French corporation (hereafter - SAIC). The total consideration was approximately \$2 million (including \$205 of costs related to the acquisition) of which 51% was paid in cash and 49% in Sapiens common stock (including

60,000 shares of common stock set aside in escrow as a contingent payment). An amount of \$2,000 out of the total acquisition cost was attributed to goodwill and is being amortized over its estimated useful life. The acquisition agreement called for payment of an additional amount contingent upon the actual performance of SAIC. Such payment will be recorded as additional goodwill, when the performance goals have been achieved.

Pro-forma information in accordance with APB 16 has not been provided as the net income and earnings per share of SAIC for 1997 and 1998 were not material in relation to total consolidated net income and earnings per share.

c. Restructuring costs:

In 1999, the Company recorded restructuring charges of \$2,019 of which \$990 was paid in 1999 and \$1,029 was accrued as a short-term liability as of December 31, 1999. The restructuring costs consist of employee termination benefits associated with the involuntary terminations of 40 employees. The involuntary terminations result from the change in the Company's strategy to focus on e-business and Internet-related technologies.

note 2

SIGNIFICANT ACCOUNTING POLICIES

a. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

The currency of the primary economic environment in which the operations of the Company and most of its subsidiaries are conducted is the U.S. dollar ("dollar"). Thus the dollar is the functional and reporting currency of the Company and most of its subsidiaries.

For the Company and its subsidiaries whose functional currency is the dollar, transactions and balances denominated in dollars are presented at their original amounts. Gains and losses arising from non-dollar transactions and balances are included in the determination of net income or loss.

The financial statements of certain subsidiaries whose functional currency is their local currency are translated into dollars in accordance with the principles set forth in Statement No. 52 "Foreign Currency Translation" ("SFAS No. 52") of the Financial Accounting Standards Board of the United States. Assets and liabilities are translated using the year-end rate of exchange; results of operations are translated at average exchange rates. The resulting aggregate translation adjustments are reported as a component of shareholders' equity.

c. Principles of consolidation:

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

d. Cash equivalents:

Cash equivalents consist of interest-bearing demand deposits, money market funds and highly liquid debt instruments originally purchased with a maturity of three months or less.

e. Marketable securities:

The Company applies SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Available-for-sale securities are carried at fair value.

Unrealized gains and losses for available-for-sale securities are presented as a separate component of shareholders' equity as other comprehensive income/loss. Realized gains and losses are determined using specifically identified costs.

f. Property and equipment, net:

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets:

Equipment and furniture	4 - 15 years
Computers and software	3 - 5 years
Motor vehicles	3 - 6 years
Leasehold improvements	(over the shorter of the term of the lease or the estimated useful life of the asset)

g. Capitalized software development costs:

Research and development costs incurred in the process of developing new products or product improvements, are charged to expense as incurred, net of participation by the Office of the Chief Scientist in the Israeli Ministry of Industry and Trade ("the OCS").

Statement of Financial Accounting Standards (SFAS) No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company's product development process, technological feasibility is established upon completion of a detailed program design.

Capitalized software costs are amortized by the greater of the amount computed using: (i) the ratio that current gross revenues from sales of the software bear to the total of current and anticipated future gross revenues from sales of that software, or (ii) the straight-line method over the estimated useful life of the software product (three to five years). The Company assesses 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.

h. Other assets:

Other assets are stated at cost. Amortization is computed using the straight-line method as follows:

Prepaid royalties	15 years
Distribution rights	7 years
Bond issue costs	(over the duration of the debt)
Acquired technology	5-8 years

i. Goodwill:

Goodwill is amortized by the straight-line method over a period of up to ten years. The Company examines the realization of goodwill and other intangible assets annually and the appropriateness of the amortization period based on the estimated future undiscounted cash flows derived from the asset. Any impairment loss is recognized in the statement of operations.

j. Revenue recognition:

Product revenues include fixed-price contracts (which include the sale of software technology and services), software license sales, and fees for the use of software. Revenues from fixed-price contracts are recognized using the percentage of completion method based on the relationship of actual costs incurred to total costs estimated to be incurred over the duration of the contract. Revenues earned under software licensing agreements with end-users are recognized in accordance with Statement of Position (SOP) 97-2 "Software Revenue Recognition" (as amended by SOP 98-4), upon delivery of the software when collection is probable, all license payments are due within one year, the license fee is otherwise fixed or determinable, vendor-specific objective evidence exists to allocate the total fee to the elements of the arrangement and persuasive evidence of an arrangement exists. Fees for the use of software are recognized when earned.

Consulting and other services revenue includes consulting, training and post-contract maintenance services. Revenues from consulting, maintenance and training services are recognized ratably over the contractual period or as services are performed.

Deferred revenues are comprised principally of advance payments under maintenance contracts.

k. Advertising expenses:

Advertising expenses are charged to income as incurred.

l. Royalty-bearing grants:

Royalty-bearing grants from the Government of Israel for funding of marketing activities and for research and development are recognized at the time the Company is entitled to such grants on the basis of the related costs incurred.

m. Income taxes:

Deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences and income tax credits. Temporary differences result primarily from differences between the tax bases of assets and liabilities and their financial reporting amounts. Deferred tax assets and liabilities are measured by applying enacted statutory tax rates applicable to the future years in which deferred tax assets or liabilities are expected to be settled or realized. Valuation allowances are established to reduce deferred tax assets to the amounts expected to be realized. Income tax expense consists of the taxes payable for the current period and the change during the period in deferred tax assets and liabilities.

n. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, short-term investments, trade receivables and notes receivable. The Company's cash and cash equivalents are invested in deposits with major international financial institutions. Management believes that the financial institutions that hold the Company's investments are financially sound, and accordingly, minimal credit risk exists with respect to these investments. The Company has established an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers and other information. In certain circumstances, the Company may require letters of credit, other collateral or additional guarantees.

o. Financial instruments:

The estimated fair value of financial instruments has been determined by the Company using available market information and valuation methodologies. Considerable judgment is required in estimating fair values. Accordingly, the estimates may not be indicative of the amounts the Company could realize in a current market exchange. The carrying amounts of cash and cash equivalents, accounts receivable, short-term investments, short-term loans and accounts payable approximate fair values.

The carrying amounts of the Company's long-term borrowings approximate their fair value. Fair values were estimated using discounted cash flow analyses, based on prevailing market borrowing rates.

p. Derivatives:

Gains or losses related to qualifying hedges of firm commitments are deferred and included as part of the measurement of the results of the underlying hedged transactions.

q. Basic and diluted earnings (loss) per share:

Basic earnings (loss) per share is computed based on the weighted average number of common shares outstanding during each year including contingent shares. Diluted earnings per share is computed based on the weighted average number of common shares outstanding during each year, plus the dilutive potential of common shares considered outstanding during the year, in accordance with SFAS No. 128, "Earnings Per Share".

The total number of shares related to outstanding securities excluded from the calculations of diluted net income per share were 93,506 for the year ended December 31, 1999, because they were antidilutive for part of the period.

r. Stock-based compensation:

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), in accounting for its employee stock options plans. Under APB 25, when the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The Company has adopted SFAS No. 123, "Accounting for Stock-Based Compensation" with respect to warrants issued to non-employees. SFAS No. 123 requires use of option valuation models to measure the fair value of the warrants at the grant date.

s. Segment reporting:

The Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", in 1997. SFAS No. 131 supercedes SFAS No. 14, replacing the "industry segment approach" with the "management approach", whereby companies report financial and descriptive information about their operating segments. Operating segments are revenue-producing components of the enterprise for which separate financial information is produced internally and are subject to evaluation by the chief operating decision-maker in deciding the allocation of resources to segments.

t. Impact of recently issued accounting standards:

In June 1998, the Financial Accounting Standards Board issued No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities". This statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. The FASB has issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133". The statement defers for one year the effective date of SFAS No. 133. The rule will apply to all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company does not expect the impact of this new statement on the Company's consolidated balance sheets or results of operations to be material.

u. Reclassification:

Certain prior year amounts have been reclassified to conform with the current year's presentation.

note 3**SHORT-TERM INVESTMENTS**

At December 31, 1999 and 1998, a portion of the Company's short-term investments were classified as available-for-sale securities and were carried at fair value. Gross realized gains on sales of these securities included in earnings in 1999, 1998 and 1997 totaled \$222, \$328 and \$343, respectively. Gross realized losses on sales of these securities in 1999, 1998 and 1997 totaled \$0, \$63 and \$46, respectively.

The aggregate fair value, gross unrealized holding gains, gross unrealized holding losses and amortized cost for securities at fair value by major security type at December 31, 1999 and 1998, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. dollars in thousands				
December 31, 1999:				
U.S. treasury securities	\$ 24	\$ 6	\$ -	\$ 30
Non-U.S. corporate debt securities	<u>7,898</u>	<u>204</u>	<u>(77)</u>	<u>8,025</u>
	<u>\$ 7,922</u>	<u>\$ 210</u>	<u>\$ (77)</u>	<u>\$ 8,055</u>
December 31, 1998:				
U.S. treasury securities	\$ 3,922	\$ -	\$ -	\$ 3,922
Non-U.S. corporate debt securities	<u>8,541</u>	<u>394</u>	<u>(31)</u>	<u>8,904</u>
	<u>\$ 12,463</u>	<u>\$ 394</u>	<u>\$ (31)</u>	<u>\$ 12,826</u>

The scheduled maturities of available-for-sale marketable securities as of December 31, 1999 are as follows:

	Amortized Cost	Estimated Fair Value
U.S. dollars in thousands		
Due within one year	\$ 2,873	\$ 3,046
Due after one year through five years	5,049	5,009
Due after five years	<u>-</u>	<u>-</u>
	<u>\$ 7,922</u>	<u>\$ 8,055</u>

note 4 OTHER CURRENT ASSETS

	December 31	
	1999	1998
	U.S. dollars in thousands	
Sales and other taxes receivable	\$ 2,913	\$ 387
Prepaid expenses	1,747	1,277
Deferred taxes	957	326
Other receivables	<u>1,501</u>	<u>2,190</u>
	<u>\$ 7,118</u>	<u>\$ 4,180</u>

note 5 PROPERTY AND EQUIPMENT, NET

	Cost		Accumulated Depreciation	
	December 31		December 31	
	1999	1998	1999	1998
	U.S. dollars in thousands			
Equipment and furniture	\$ 2,267	\$ 2,103	\$ 1,158	\$ 967
Computers and software	9,115	7,858	6,078	5,063
Motor vehicles	209	351	130	234
Leasehold improvements	<u>1,566</u>	<u>1,486</u>	<u>584</u>	<u>466</u>
	<u>\$ 13,157</u>	<u>\$ 11,798</u>	<u>\$ 7,950</u>	<u>\$ 6,730</u>

Depreciation expense totaled \$1,839, \$1,670 and \$1,476 for the years ended December 31, 1999, 1998 and 1997, respectively.

note 6**OTHER LONG-TERM ASSETS**

- a.** Amortization expense for capitalized software development costs for 1999, 1998 and 1997 was \$2,842, \$3,059 and \$2,129, respectively. Amortization expense is included in cost of products.
- b.** Other assets, net of amortization, are comprised of the following:

	Cost		Accumulated Depreciation	
	December 31		December 31	
	1999	1998	1999	1998
	U.S. dollars in thousands			
Prepaid royalties	\$ 2,083	\$ 2,001	\$ 966	\$ 761
Bond issuance costs	1,279	1,279	1,279	1,137
Other assets	<u>4,248</u>	<u>1,447</u>	<u>686</u>	<u>309</u>
	<u>\$ 7,610</u>	<u>\$ 4,727</u>	<u>\$ 2,931</u>	<u>\$ 2,207</u>

Amortization of other assets charged to expense was \$622, \$382 and \$313 for the years 1999, 1998 and 1997, respectively.

- c.** Goodwill amortization amounted to \$863, \$210 and \$60 for the years 1999, 1998 and 1997, respectively.

note 7**OTHER LIABILITIES AND ACCRUED EXPENSES**

	December 31	
	1999	1998
	U.S. dollars in thousands	
Employee and related payroll accruals	\$ 5,331	\$ 2,772
Sales and other taxes payable	5,508	3,420
Interest payable	35	186
Accrued restructuring costs (Note 1c)	1,029	–
Accrued expenses	<u>4,085</u>	<u>6,023</u>
	<u>\$ 15,988</u>	<u>\$ 12,401</u>

note **8****DEBT****a. Short-term debt:**

The Company's short-term debt is comprised of short-term loans with maturities of less than three months. These loans bear interest at rates ranging between the London Interbank Offered Rate plus 0.65% to plus 0.75% and on Japanese Yen borrowings at a rate of 2.625%. A portion of the Company's short-term loans requires that the Company pledge cash or short-term investments as collateral for its borrowings (Note 11).

The Company has available unsecured revolving credit line facilities for borrowings of up to a total of \$17 million. Under the terms of these credit line agreements, the Company is not required to pledge assets, but is required to maintain certain financial ratios. Borrowings under these agreements bear interest at rates ranging between the London Interbank Offered Rate plus 0.75% to plus 1% and on New Israeli Shekel ("NIS") borrowings, at the prime rate of interest in Israel.

b. Long-term debt:

	Rate of Interest	Maturity	December 31	
			1999	1998
	%		U.S. dollars in thousands	
Convertible subordinated notes				
("Old Notes" - conversion		September 20,		
price \$32 per common share)	5	2003	\$ 6,930	\$ 6,930
Capital lease obligations (Note 10)	—		268	311
Other loans	5 – 8		<u>799</u>	<u>124</u>
			7,997	7,365
Less - current portion			<u>(67)</u>	<u>(92)</u>
			\$ 7,930	\$ 7,273

Long-term debt maturities after December 31, 1999 are as follows (U.S. dollars in thousands):

2000	\$ 67
2001	808
2002	45
2003	6,980
Thereafter	<u>97</u>
	\$ 7,997

Interest expense was \$0.9 million, \$1.0 million and \$1.1 million for the years 1999, 1998 and 1997, respectively.

note 9

OTHER LONG-TERM LIABILITIES

	December 31	
	1999	1998
	U.S. dollars in thousands	
Deferred gain on sale - leaseback (1)	\$ 225	\$ 385
Other	<u>4</u>	<u>—</u>
	<u>\$ 229</u>	<u>\$ 385</u>

(1) In 1995, the Company entered into a sale-leaseback transaction on a facility, which resulted in a gain of \$1,165. Under the sale-leaseback transaction, the Company deferred and is amortizing the gain over the lease term of five years. The Company has exercised its option to renew the lease for five additional years, terminating in August 2005.

note 10

COMMITMENTS AND CONTINGENT LIABILITIES

a. The Company partially finances its research and development expenditures under programs sponsored by the Office of the Chief Scientist ("OCS") of Israel for the support of research and development activities conducted in that country.

In exchange for participation in the programs by the OCS, the Company agreed to pay 3%-5% of total net sales of software developed within the framework of these programs. The royalties will be paid up to a maximum amount equaling 100%-150% of the grant provided by the OCS, linked to the dollar. Repayment of such grants is not required in the event that there are no sales of products developed within the framework of such funded programs.

As of December 31, 1999, the Company had a contingent liability to pay royalties of approximately \$12 million.

b. The Company leases various office equipment, office space, and motor vehicles through operating and capital leases. Future minimum lease payments for the next five years and thereafter are as follows:

	Operating Leases	Capital Leases
	U.S. dollars in thousands	
2000	\$ 1,471	\$ 67
2001	1,350	67
2002	1,241	67
2003	1,226	67
2004 and thereafter	<u>1,226</u>	<u>111</u>
Total future minimum lease payments	<u>\$ 6,514</u>	379
Less - amount representing interest		(111)
Principal payments remaining on capital lease obligations		<u>\$ 268</u>

Rent expense for the years ended December 31, 1999, 1998 and 1997 was \$1,776, \$1,358 and \$1,218, respectively.

note 11**SECURITY INTERESTS AND PLEDGES**

The Company has pledged \$2.3 million of its short-term investments as collateral for certain short-term debt.

All of the Company's leased assets are pledged to the finance companies that provided the lease financing.

The Company also pledged bank guarantees in the amount of \$0.6 million as security for the building that was sold and leased back in 1995.

note 12**INCOME TAXES**

At December 31, 1999, the Company had net operating loss carryforwards for U.S. federal income tax purposes of approximately \$8,899, which are available to offset future federal taxable income and expire in years 2008 to 2012 and tax credits of \$774, which generally expire in 2002 to 2010. In addition, the Company had net operating loss carryforwards relating to non-U.S. subsidiaries totaling approximately \$13,086, which are available to offset future taxable income. Generally, such amounts expire in years 2000 to 2003, or, in some cases, have no expiration dates.

The subsidiaries incorporated in Israel have been granted "Approved Enterprise" status which entitles them to a four-year tax holiday beginning from the first year in which the companies have accumulated taxable income.

The income tax effect of temporary differences that result in recognition of deferred tax assets and liabilities at December 31, 1999 and 1998 are presented below.

	December 31, 1999		December 31, 1998	
	Current	Non-current	Current	Non-current
	U.S. dollars in thousands			
Deferred tax assets:				
Net operating losses carryforward	\$ -	\$ 8,686	\$ -	\$ 11,135
Tax credits carryforward	-	774	-	716
Other temporary differences	<u>957</u>	<u>2,334</u>	<u>613</u>	<u>196</u>
Gross deferred tax assets	957	11,794	613	12,047
Less - valuation allowance	<u>-</u>	<u>(10,198)</u>	<u>(287)</u>	<u>(12,047)</u>
Net deferred tax asset	<u>\$ 957</u>	<u>\$ 1,596</u>	<u>\$ 326</u>	<u>\$ -</u>

The Company has provided a valuation allowance against a majority of the deferred tax assets in respect of its tax losses carryforward and other temporary differences due to its previous history of losses and current uncertainty concerning its ability to realize these deferred tax assets in the future.

Provisions for income tax expense are comprised of the following:

	Year ended December 31		
	1999	1998	1997
	U.S. dollars in thousands		
Current (foreign)	\$ 549	\$ 381	\$ 141
Deferred (foreign)	<u>(2,227)</u>	<u>(326)</u>	<u>(84)</u>
	<u>\$ (1,678)</u>	<u>\$ 55</u>	<u>\$ 57</u>

The Company is not subject to income taxes in the Netherlands Antilles. All of the Company's provision for taxes on income relates to operations in jurisdictions other than the Netherlands Antilles. The effective income tax rate varies from period to period because each jurisdiction in which the Company operates 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). In addition, the provision for income taxes for the fiscal years ended December 31, 1999, 1998 and 1997, does not include the recognition of a majority of the deferred tax assets relating to the net operating losses of the Company's subsidiaries worldwide. The main reconciling item from the statutory tax rate of the Company to the effective tax rate is the non-recognition of tax benefits from accumulated net operating losses carryforward among the various subsidiaries worldwide due to the uncertainty of the realization of such tax benefits.

note 13 SHAREHOLDERS' EQUITY

- a. In February 1997, the Company completed a \$4,000 private placement of 4,000 of Series D1 convertible preferred shares ("the Series D1 preferred shares"). The Series D1 preferred shares are convertible into the Company's common shares at a price not to exceed the lower of \$5.95 per share or 15% below the market value of the common share during a specified period of time. For each common share issued to the investors upon conversion of their Series D1 shares, the investors will receive a warrant to purchase 0.5 common shares at an exercise price of \$4.28 per share. The Company has the option to redeem the shares in cash or in common shares at the end of five years from the date of issuance.

In March 1997, the Company issued an additional 2,000 of Series E convertible preferred shares, ("the Series E preferred shares") for \$2,000. The Series E preferred shares are convertible into the Company's common shares at a price not to exceed the lower of \$4.50 per share or 15% below the market value of the common share during a specified period of time. For each common share issued to the investors upon conversion of their Series E preferred shares, the investors will receive a warrant to purchase 0.5 common shares at an exercise price of \$4.75 per share. The Company has the option to redeem the shares in cash or in common shares at the end of five years from the date of issuance.

In August 1997, the Company issued an additional 2,000 of Series D2 convertible preferred shares ("the Series D2 preferred shares") for \$2,000. The Series D2 preferred shares are convertible into the Company's common shares at a price not to exceed the lower of \$7.30 per share or 15% below the market value of the common share during a specified period of time. For each common share issued to the investors upon conversion of their Series D2 preferred shares, the investors will receive a warrant to purchase 0.5 common shares at an exercise price of \$9.73 per share. The Company has the option to redeem the shares in cash or in common shares at the end of five years from the date of issuance.

As of December 31, 1999, 2,500 Series D1, 700 Series D2 and 300 Series E preferred shares had been converted to common shares at the respective conversion prices and, as a result, 790,551 common shares and warrants to purchase 431,234 common shares were issued. In 1999, warrants exercised were 35,912 at \$4.28, 34,721 at \$4.75 and 77,655 at \$9.73.

b. The following is a summary of the preferred shares as of December 31, 1999 giving effect to the above changes:

	December 31, 1999	
	<u>Authorized</u>	<u>Outstanding</u>
	<u>Number of Shares</u>	
Series A	100,000	–
Series B	500,000	–
Series D ₁	4,000	1,500
Series D ₂	2,000	1,300
Series E	<u>2,000</u>	<u>1,700</u>
	<u>608,000</u>	<u>4,500</u>

c. In 1997, the Company issued 144,000 common shares to the placement agents in connection with the private placement transactions.

d. In February 1998, the Company issued 50,000 common shares in connection with the purchase of 80% of InsureTech Alternatives Inc.

e. In July 1998, the Company issued 171,300 common shares in connection with the purchase of SAIC (see Note 1b).

f. In August 1999, the Company issued 78,000 common shares in connection with the purchase of additional 70.1% of Sapiens Japan (see Note 1b).

g. In August 1999, the Company issued 216,400 common shares in connection with the purchase of Syspart (see Note 1b).

h. Dividends:

In 1997, the Company paid dividends on its Series A and Series B convertible preferred shares in the amount of \$967. These dividends were paid \$792 in cash and \$175 by the issuance of 37,327 common shares.

Additionally in 1997, the Company issued 14,658 common shares in respect of \$65 in dividends on its Series D₁ and E preferred shares. These dividends are only paid at the time of conversion of the Series D₁ and E preferred shares.

In 1998, the Company accrued dividends to be paid in the form of common stock on its series D₁, D₂ and E preferred stock in the amount of \$483, of which \$61 was paid by the issuance of 14,310 common shares. Additionally, the Company issued 9,539 common shares in respect of \$37 in dividends, which were accrued in 1997.

Included in the amount of dividends on preferred shares in 1998 and 1997 is the amortization of the discount to the market price on the conversion of convertible shares at the date of the grant given to Series D₁, D₂ and E preferred shareholders in the amount of \$162 and \$1,038, respectively. Combined, this amount represents 15% of the market value of the share at the date of the grant of the convertible securities multiplied by the number of convertible securities issued. This amount is a charge for Earnings Per Share calculations only.

In 1999, the Company accrued dividends to be paid in the form of common stock on its series D₁, D₂ and E preferred stock in the amount of \$418, of which, \$57 was paid by the issuance of 11,199 common shares. Additionally, the Company issued 10,527 common shares in respect of \$54 in dividends, which were accrued in 1997 and 11,679 common shares in respect of \$60 in dividends, which were accrued in 1998.

i. Stock option plan:

Stock options granted under the Company's 1992 Stock Option and Incentive Plan ("the Plan") are exercisable at the fair market value at date of grant and, subject to termination of employment, expire ten years from the date of grant and are generally exercisable in four equal annual installments commencing one year from the date of grant. In both January 1997 and October 1998, the Company increased the number of shares available for grant by 1.1 million shares and approved grants of such shares, on each of those dates, respectively. The new grants vest in equal installments over a period of four years.

In 1999, 701,000 employee options to purchase common shares were exercised, and the Company received proceeds of approximately \$2.3 million.

A summary of the stock options activities in 1999, 1998 and 1997 is as follows:

	Year ended December 31					
	1999		1998		1997	
	Amount	Exercise Price	Amount	Exercise Price	Amount	Exercise Price
Outstanding at January 1	3,860,950	\$ 2.25-6.875	3,405,600	\$ 2.25-2.68	2,174,425	\$ 2.25
Granted	1,409,150	\$ 6.875-9.50	1,547,500	\$ 3.375-6.875	1,827,900	\$ 2.25-2.68
Exercised	(701,000)	\$ 2.25-6.875	(992,950)	\$ 2.25-2.68	(504,650)	\$ 2.25
Canceled	(226,325)	\$ 2.25-8.625	(99,200)	\$ 2.25-2.68	(92,075)	\$ 2.25
Outstanding at December 31	<u>4,342,775</u>	<u>\$ 2.25-9.50</u>	<u>3,860,950</u>	<u>\$ 2.25-6.875</u>	<u>3,405,600</u>	<u>\$ 2.25-2.68</u>

The amount of options exercisable as of December 31, 1999, 1998 and 1997 was 1,778,275, 2,695,000 and 1,884,507, respectively.

The options outstanding as of December 31, 1999, have been classified by range of exercise price as follows:

Exercise Price	Options Outstanding as of December 31 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable as of December 31 1999	Weighted average Exercise Price
\$ 2.25 – \$ 3.375	1,948,375	6.54	\$ 2.53	1,587,400	\$ 2.44
\$ 6.5 – \$ 9.5	<u>2,394,400</u>	9.18	\$ 7.92	<u>190,875</u>	\$ 6.64
	<u>4,342,775</u>			<u>1,778,275</u>	

Under SFAS No. 123, pro forma information regarding net income and earnings per share is required as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 1999, 1998 and 1997: risk-free interest rates of 6%, 5% and 5% respectively, dividend yields of 0%, volatility factors of the expected market price of the Company's common shares of 0.702, 0.465 and 0.517, respectively and a weighted-average expected life of the options of 6, 10 and 10 years, respectively.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from traded options, and because changes in the subjective assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable measure of the fair value of its employee stock options.

The weighted-average fair value of the options at their grant dates in 1999, 1998 and 1997 was \$2.78, \$2.02 and \$1.83, respectively.

For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period. Because SFAS No. 123 is applicable only to options granted subsequent to December 31, 1994, its pro forma effect will not be fully reflected until the year 2002.

Pro forma information under SFAS 123:

	Year ended December 31		
	1999	1998	1997
	U.S. dollars in thousands		
Net income as reported	<u>\$ 12,650</u>	<u>\$ 9,090</u>	<u>\$ 2,138</u>
Pro forma net income	<u>\$ 6,457</u>	<u>\$ 6,713</u>	<u>\$ 795</u>
Pro forma basic earnings per share	<u>\$ 0.30</u>	<u>\$ 0.35</u>	<u>\$ 0.05</u>
Pro forma diluted earnings per share	<u>\$ 0.26</u>	<u>\$ 0.30</u>	<u>\$ 0.04</u>

j. Warrants:

In 1997, the Company issued 787,000 warrants to the placement agents in connection with the private placements implemented at an exercise price ranging from \$2.00 to \$3.50. As of December 31, 1999, 3,100 warrants had been exercised.

In 1999, 1998 and in 1997, the Company granted warrants to service providers at an exercise price ranging from \$2 to \$9 per share (the market value of the share at the grant date). As required by SFAS No. 123, these warrants were measured at fair value (according to the Black-Scholes option pricing model) and are expensed accordingly.

note 14

EMPLOYEE RIGHTS UPON RETIREMENT

The Company has various defined contribution plans for employees of its subsidiaries around the world. Most of the plans are those required according to the laws of the country in which the subsidiary operates. Contributions made under the plans are invested with financial institutions. Benefits under the plans are based on contributions from employees and the Company and earnings on insurance contracts or other investment instruments in which the contributions are invested.

Expense for contributions made to these plans was \$921, \$786 and \$497 for 1999, 1998 and 1997, respectively.

note 15**OPERATING SEGMENTS DATA**

a. The Company operates in a single industry as a provider of software solutions.

b. Geographical information:

	Year ended December 31		
	1999	1998	1997
	U.S. dollars in thousands		
1. Revenues:			
U.K.	\$ 12,426	\$ 10,970	\$ 9,200
France	26,364	25,212	5,037
North America	25,905	17,765	14,168
Germany	10,711	3,745	1,431
Israel	6,870	8,285	7,756
All other	<u>9,554</u>	<u>5,003</u>	<u>6,972</u>
	<u>\$ 91,830</u>	<u>\$ 70,980</u>	<u>\$ 44,564</u>
2. Long-lived assets:			
France	\$ 2,250	\$ 2,996	\$ 482
Netherlands Antilles	2,050	2,324	3,285
Israel	13,294	13,426	12,445
Germany	6,150	38	37
All other	<u>5,510</u>	<u>961</u>	<u>963</u>
	<u>\$ 29,254</u>	<u>\$ 19,745</u>	<u>\$ 17,212</u>

c. Major customer:

In 1998, revenues from one customer represented approximately 28% of the Company's total revenues.

note 16**SELECTED STATEMENT OF OPERATIONS DATA****a. Research and development costs:**

	Year ended December 31		
	1999	1998	1997
	U.S. dollars in thousands		
Total costs	\$ 9,872	\$ 9,054	\$ 7,974
Less - capitalized software development costs	(2,814)	(3,025)	(3,092)
Less - royalty-bearing grants	(2,037)	(1,917)	(1,624)
Research and development costs, net	<u>\$ 5,021</u>	<u>\$ 4,112</u>	<u>\$ 3,258</u>

b. Earnings per share data:

The following table sets forth the computation of basic and diluted earnings per share.

	Year ended December 31		
	1999	1998	1997
	U.S. dollars in thousands		
1) Numerator			
Net income to shareholders of common shares	\$ 12,650	\$ 9,090	\$ 2,138
Effect of dilutive securities:			
Preferred share dividends (*)	<u>366</u>	<u>—</u>	<u>—</u>
Numerator for diluted earnings per share			
- income available to shareholders of common shares	<u>\$ 13,016</u>	<u>\$ 9,090</u>	<u>\$ 2,138</u>
*) The effect of the inclusion of the convertible preferred shares in 1998 and 1997 would be antidilutive.			
2) Denominator			
Weighted average number of shares	20,732	18,870	15,168
Contingent common stock to be issued as dividends	<u>81</u>	<u>96</u>	<u>42</u>
Denominator for basic earnings per share	<u>20,813</u>	<u>18,966</u>	<u>15,210</u>
Effect of dilutive securities:			
Employee stock options	2,016	1,860	2,397
Warrants issued to third parties	665	561	344
Convertible preferred shares (*)	<u>1,064</u>	<u>—</u>	<u>—</u>
Dilutive potential common shares	<u>3,745</u>	<u>2,421</u>	<u>2,741</u>
Denominator for diluted earnings per share - adjusted weighted average shares, assumed conversions and exercise of options and/or warrants	<u>24,558</u>	<u>21,387</u>	<u>17,951</u>

*) The effect of the inclusion of the convertible preferred shares in 1998 and 1997 would be antidilutive.

note 17

SUBSEQUENT EVENT (UNAUDITED)

In April, 2000, the Company completed a private placement of 600,000 shares ("Shares") of its subsidiary, eZoneXchange.com, Inc. ("eZoneXchange"), for \$15 million. The investor also received a warrant to purchase an additional 2.25% of the common stock of eZoneXchange at the same private placement share price of \$25 per share. The Shares are redeemable by the investor during the fifth year following the date of the transaction for 50% in cash and 50% in shares of Sapiens common stock amounting to \$15 million plus 5% interest per annum. The warrant expires in the event that the Shares are redeemed. Sapiens may repurchase the Shares at specified prices.

Corporate Directory

Corporate Officers and Principal Executives

Ron Zuckerman
Chief Executive Officer

Dan Falk
President and Chief Operating Officer

Lauri Hanover
Executive Vice President, Chief Financial
Officer

Yehuda Doron
Executive Vice President, Worldwide Sales,
Marketing and Business Development and
Chief Executive Officer, eZoneXchange.com

Steve Kronengold
Executive Vice President, Secretary and
General Counsel

Dror Ginossar
Executive Vice President, Products and
Solutions

Avi Nir
Executive Vice President,
Human Resources and Administration

Gil Arbel
Executive Vice President, Americas

Yaacov Sivan
Executive Vice President, Europe

Arie Rochman
Vice President, Asia Pacific

Arik Even-Tov
Vice President, Global Solutions

Yair Spitzer
Vice President, UK

Saadia Essoudry
Vice President, France and Belgium

Helmut Hilgers
Vice President, Germany

Yechiel Gepner
Vice President, Israel

Board of Directors

Ron Zuckerman, Chairman
Michel Berty
Kenneth J. Bialkin
Harold H. Leach
L. Robert Libutti
Tsvi Misinai
Shlomo (Shai) Sole
Holland Intertrust (ANTILLES) N.V.

SAPIENS is a registered trademark. Sapiens eMerge, Sapiens eMerge Loan, Sapiens eMerge Insure, Sapiens eMerge Supply Chain, Sapiens EVM, Sapiens ECR, Sapiens EuroMigration, Sapiens Component Integrator and Sapiens i.way, are trademarks of Sapiens International Corporation N.V. Other brands and product names are trademarks or registered trademarks of their respective holders. Brand and product names are mentioned herein for reference purposes only.

This annual report is dedicated to the memory of our dear colleague Paul Panovka.

Sapiens International Corporation N.V.

Landhuis Joonchi
Kaya Richard J. Beajon
Curacao, Netherlands Antilles
www.sapiens.com

Executive Offices

Yitzhak Rabin Science Park
P.O. Box 2211
Rehovot 76120, Israel
Tel: 972-8-938-2777
Fax: 972-8-938-2730

AMERICAS

Sapiens Americas
2525 Meridian Parkway
Suite 300
Durham, NC 27713
USA
Tel: 1-919-405-1500
Fax: 1-919-405-1700

EUROPE

France
Sapiens France S.A.
Les Mercuriales
40, rue Jean Jaures
93170 Bagnolet, Cedex
Tel: 33-1-4972-4848
Fax: 33-1-4972-4849

Germany

Sapiens Deutschland GmbH
In der Au 25
D-61440 Oberursel
Tel: 49-61-716-2720
Fax: 49-61-716-27295

Israel

Sapiens Israel
Software Systems Ltd.
P.O. Box 2211
Rehovot 76120
Tel: 972-8-938-2888
Fax: 972-8-938-2855

Netherlands

Sapiens Netherlands
Transpolis Building
Schiphol Airport
Polarisavenue 53
2132 JH Hoofddorp
Tel: 31-23-568-4770
Fax: 31-23-568-4771

Spain

Sapiens Informatica Espana
Plaza de Colon 2
Torre II, 6B
28046 Madrid
Tel: 34-91-310-4645
Fax: 34-91-319-7534

Switzerland

Sapiens Schweiz AG
Gueterstrasse 97
CH-4002 Basel Postfach
Tel: 41-61-206-9300
Fax: 41-61-206-9309

UK

Sapiens UK Ltd.
Harman House, 1 George St
Uxbridge, Middlesex UB8 1QQ
Tel: 44-1895-464-000
Fax: 44-1895-463-098

ASIA PACIFIC

Sapiens Australia
Level 17, 201 Miller Street
North Sydney, NSW 2060
Australia
Tel: 61-2-8923-2532
Fax: 61-2-8923-2525

Japan

Sapiens Japan
Queen's Tower C 11F
2-3-5 Minatomirai, Nishi-ku
Yokohama 220-6211
Tel: 81-45-682-4777
Fax: 81-45-682-4780

Independent Auditors

Kost Forer & Gabbay
A Member of Ernst & Young International
2 Kremnetski Street
Tel Aviv 67899
Israel

Transfer Agent

American Stock Transfer & Trust Company
40 Wall Street, 46 Floor
New York, NY 10005
Tel: 1-212-936-5100

Investor Relations

Lippert/Heilshorn & Associates
800 Third Avenue
New York, NY 10022
Tel: 1-212-838-3777
Fax: 1-212-838-4568

Annual Meeting

The annual general meeting of stockholders is scheduled to take place at 10:00 a.m. on Monday, July 12, 2000 at Sapiens International Corporation N.V., Curacao, Netherlands Antilles.