SAPIENS INTERNATIONAL CORP N V
Form 20-F
June 29, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

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

OR

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from ____________ to _______________

Commission file number 0-20181

SAPIENS INTERNATIONAL CORPORATION N.V.

(Exact name of Registrant as specified in its charter)

NETHERLANDS ANTILLES
(Jurisdiction of incorporation or organization)

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

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

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

Common Shares, par value 0.01 per share
(Title of Class)

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, 2004 the issuer had 11,748,935 Common Shares, par value 0.01 per share outstanding.

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

Yes x No o

Indicate by checkmark which financial statement item the registrant has elected to follow:

Item 17 o Item 18 x

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INTRODUCTION

Definitions

In this annual report, unless the context otherwise requires:

References to Sapiens, the Company, us, we and our refer to Sapiens International Corporation N.V. (the Registrant), a Netherlands Antil company, and its consolidated subsidiaries.

References to our shares, Common Shares and similar expressions refer to the Registrant s Common Shares, par value 0.01 per share.

References to dollars , US dollar or $ are to United States Dollars.

References to NIS are to New Israel Shekels, the Israeli currency.

Cautionary Statement Regarding Forward-Looking Statements

Certain matters discussed in 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, may, will, plan and similar expressions. Such statements reflect our current views with respect to future events and are subject to certai 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 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 Consolidated 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, 2002, 2003 and 2004 and the balance sheet data as at December 31, 2003 and 2004 from our consolidated financial statements included elsewhere in this annual report. The selected consolidated statement of operations financial data for the years ended December 31, 2000 and 2001 and the balance sheet data for the years ended December 31, 2000, 2001 and 2002 are derived from our audited financial statements not included in this annual report. Certain financial data for 2000 and 2001 were reclassified to conform to the 2002 presentation and certain financial data for 2003 were reclassified to conform to the 2004 presentation. You should read the selected consolidated financial data together with our consolidated financial statements included elsewhere in this annual report and with Item 5, Operating and Financial Review and Prospects. Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

Note regarding the Reverse Stock Split:

We implemented a 1-for-5 reverse stock split of our Common Shares on June 16, 2003 to meet the listing requirements of the Nasdaq National Market (Nasdaq). On January 15, 2003, Nasdaq informed us that our Common Shares would be delisted from Nasdaq due to our failure to maintain compliance with the $1.00 minimum bid price requirement for continued listing on Nasdaq (the Minimum Bid Price Requirement). We requested and were granted a hearing before a Nasdaq Listing Qualifications Panel in order to present a definitive plan to regain compliance with the Minimum Bid Price Requirement, and thereby avoid the delisting of the Common Shares from Nasdaq.

On February 18, 2003, our Board of Directors approved a definitive plan to regain compliance with the Minimum Bid Price Requirement by implementing a 1-for-5 reverse stock split of the Common Shares. We presented this plan to implement a reverse stock split to the Nasdaq Panel at a hearing on February 27, 2003. On March 25, 2003, Nasdaq notified us that it approved of our plan to implement the reverse stock split and that our shares would continue to be traded on Nasdaq provided that we regained compliance with the Minimum Bid Price Requirement by June 16, 2003 and maintained compliance for at least ten consecutive days thereafter.

On June 11, 2003, at a Special General Meeting, our shareholders approved the implementation of the reverse stock split and amendments to our Articles of Association that were required to effect the reverse stock split. As a result of the reverse stock split, our authorized capital of 48,300,000 became divided into 20 million Common Shares (instead of 100 million) and the par value of the Common Shares was changed to 2.30 (instead of 0.46). On June 16, 2003, we achieved compliance with the Minimum Bid Price Requirement and we have maintained such compliance through the date of this annual report.

All historical share amounts and per share data in this annual report have been retroactively restated to reflect the reverse stock split.

On August 26, 2004, at the Annual General Meeting, our shareholders approved an increase in the number of authorized Common Shares to 30,000,000 and a change in the par value of all authorized shares to one Eurocent (0.01). As a result, the total nominal capital of the Company is 310,000, reflecting 30,000,000 Common Shares and 1,000,000 Preferred Shares.

Selected Financial Data:	**Year Ended December 31, 2000**	**2001**	**2002**	**2003**	**2004**
	(In thousands, except per share data)				
Revenues:					
Products	$ 43,995	$ 33,924	$ 42,008	$ 32,580	$ 26,781
Consulting and other services	28,749	29,511	22,820	19,738	21,023
Total revenues	72,744	63,435	64,828	52,318	47,804
Cost of revenues:					
Cost of products	30,283	23,711	22,567	17,489	$ 16,578
Cost of consulting and other services	20,652	18,902	13,543	11,118	10,186
Impairment of capitalized software development costs					901
Total cost of revenues	50,935	42,613	36,110	28,607	27,665
Gross profit	21,809	20,822	28,718	23,711	20,139
Operating Expenses:					
Research and development, net	10,317	5,458	6,017	3,656	2,531
Selling, marketing, general and administrative, net	46,682	28,725	23,782	21,539	19,260
Aborted Merger Costs	1,252				
Restructuring Costs	2,558		481		
Total operating expenses	60,809	34,183	30,280	25,195	21,791
Operating loss	39,000	13,361	1,562	1,484	1,652
Financial expenses, net	632	3,187	971	958	2,410
Other expenses (income), net	403	665	1,173	(244)	552
Loss before taxes on income	40,035	17,213	3,706	2,198	4,614
Taxes on income (benefit)	(1,949)	726	1,408	(19)	217
Minority interests in earnings of a subsidiary		31	39	8	11
Net loss	38,086	17,970	5,153	2,187	4,842
Settlement of redeemable shares in a subsidiary					299
Dividends on preferred shares	107				
Net loss to shareholders of Common Shares	$ 38,193	$ 17,970	$ 5,153	$ 2,187	$ 5,141
Basic and diluted net loss per share	$ 8.46	$ 3.91	$ 1.03	$ 0.20	$ 0.46
Weighted average number of shares used in computing basic and diluted loss per share	4,511	4,600	4,999	10,693	11,273

Balance Sheet Data:	At December 31, 2000	2001	2002	2003	2004
Cash and cash equivalents	$ 17,038	$ 16,087	$ 22,001	$ 31,775	$ 10,942
Working capital	7,890	1,637	9,615	20,373	2,767
Total assets	92,400	68,380	65,152	76,723	68,734
Long-term debt and other liabilities	7,430	7,365	7,787	24,783	23,281
Total shareholders equity	18,896	10,207	15,895	13,929	12,080

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 and Our Industry

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

In October 2001, we announced a new strategic initiative focusing on the insurance and financial services industries. Since then, we narrowed our focus to concentrate on the insurance industry. Our goal is to rise to a position of global leadership in delivering strategic business software solutions to this market. Implementing this new strategy requires us, among other things, to design appropriate software solutions, maintain sufficient sales and marketing resources, recruit, train and hire sufficient professional services personnel and face intense competition. We have experienced delays in penetration of the insurance industry, and such delays have contributed to a decline in our short-term results. We expect that additional time will be required to implement our strategy. Our future efforts to gain acceptance for our solutions may still not succeed. Our inability to carry out our strategy in a timely manner, or the failure of the strategy could have a material adverse affect on our short and medium term results and on our capability to grow and achieve our long-term goals.

We have a history of losses, and we anticipate that our revenues for the short to medium term will decline while our expenses may increase as a result of maintaining of our research and development and marketing efforts and increased interest costs.

We incurred net losses of approximately $2.2 million and $5.1 million for the years ended December 31, 2003 and December 31, 2004, respectively, and even greater losses in prior periods. We cannot predict the extent of our future losses and when, or if, we may become profitable on a sustained basis. Due to the delay in the implementation of our strategy of offering solutions to the insurance industry and possible decline in orders from existing customers, we anticipate that our revenues in the short to medium term will decline. At the same time, expenses may increase in the foreseeable future as we maintain our research and development, sales and marketing activities. In addition, following our offering of approximately $17.1 principal amount of convertible debentures in December 2003, we have the obligation to pay the debenture holders interest and to pay the principal amount when the debentures are due. Our research and development, marketing and sales efforts may prove more costly than we currently anticipate, and we may not succeed in the long term in increasing our revenues sufficiently to offset the expenses of those efforts and of paying interest on the debentures. If we fail to increase our revenues at a greater rate than our expenses, we will not be able to achieve profitability.

Our working capital has declined significantly and we need to raise capital.

Our liquidity has been reduced due to the drop in our cash reserves available. We will need to raise capital in order to continue financing our business activities and to continue meeting our other obligations. There is no assurance that we will be able to obtain financing at all, or if we do, that it will be on favorable terms. In addition, if we issue capital stock to investors, in order to raise cash, our existing shareholders will experience dilution.

The failure of our new solutions to achieve market acceptance or continued delays in our current or future efforts to develop software solutions could erode our competitive position.

The failure to successfully develop, enhance or modify our software solutions, or the failure to do so on a timely basis, could limit our revenue growth and competitive position. We may need to rapidly develop and introduce additional software and enhancements to our existing solutions to satisfy our current customers and maintain our competitive position in the marketplace. We may also need to modify our software so that it can operate with new or enhanced software that may be introduce