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EPAM Systems, Inc.
Form 10-K
February 26, 2019

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

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

OR

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

Commission file number: 001-35418

EPAM SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware 223536104

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

EPAM Systems, Inc.

41 University Drive,

Suite 202

Newtown, Pennsylvania 18940

(Address of principal executive offices, including zip code)

267-759-9000

(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
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Common Stock, par value \$0.001 per share	New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of June 30, 2018 the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$6,392 million based on the closing sale price as reported on the New York Stock Exchange. Solely for purposes of the foregoing calculation, "affiliates" are deemed to consist of each officer and director of the registrant, and each person known to the registrant to own 10% or more of the outstanding voting power of the registrant.

The number of shares of common stock, \$0.001 par value, of the registrant outstanding as of February 12, 2019 was 54,177,444 shares.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant intends to file a definitive Proxy Statement for its 2019 annual meeting of stockholders pursuant to Regulation 14A within 120 days of the end of the registrant's fiscal year ended December 31, 2018. Portions of the registrant's Proxy Statement are incorporated by reference into Part III of this Form 10-K. With the exception of the portions of the Proxy Statement expressly incorporated by reference, such document shall not be deemed filed with this Form 10-K.

EPAM SYSTEMS, INC.
FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2018
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In this annual report, "EPAM," "EPAM Systems, Inc.," the "Company," "we," "us" and "our" refer to EPAM Systems, Inc. and its consolidated subsidiaries.

"EPAM" is a trademark of EPAM Systems, Inc. "ISO 9001:2015" and "ISO 27001:2013" are trademarks of the International Organization for Standardization. "ISAE" is a trademark of the International Federation of Accountants. All other trademarks and servicemarks used herein are the property of their respective owners.

Unless otherwise indicated, information contained in this annual report concerning our industry and the markets in which we operate, including our general expectations and market position, market opportunity and market share, is based on information from various sources (including industry publications, surveys and forecasts and our internal research), on assumptions that we have made, which we believe are reasonable, based on such data and other similar sources and on our knowledge of the markets for our services. The projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate, are subject to a high degree of uncertainty and risk due to a variety of factors, including those described under "Item 1A. Risk Factors" and elsewhere in this annual report. These and other factors could cause results to differ materially from those expressed in the estimates included in this annual report.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains estimates and forward-looking statements, principally in “Item 1. Business,” “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Our estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends, which affect or may affect our businesses and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to several risks and uncertainties and are made in light of information currently available to us. Important factors, in addition to the factors described in this annual report, may materially and adversely affect our results as indicated in forward-looking statements. You should read this annual report and the documents that we have filed as exhibits hereto completely and with the understanding that our actual future results may be materially different from what we expect.

The words “may,” “will,” “should,” “could,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “intend,” “potentially,” “continue” or the negative of these terms or other comparable terminology and similar words are intended to identify estimates and forward-looking statements. Estimates and forward-looking statements speak only as of the date they were made. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. As a result of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this annual report might not occur and our future results, level of activity, performance or achievements may differ materially from those expressed in these forward-looking statements due to, including, but not limited to, the factors mentioned above, and the differences may be material and adverse. Because of these uncertainties, you should not place undue reliance on these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required under applicable law.

GEOGRAPHICAL REFERENCES

We use the collective terms “CIS” and “APAC” to describe a portion of our geographic operations and assets. In our operations, CIS refers to Armenia, Belarus, Kazakhstan, Russia and Ukraine. APAC, which stands for Asia Pacific, includes all of Asia (including India) and Australia.

PART I

Item 1. Business

Company Background

EPAM is a leading global provider of software product development and digital platform engineering services to many Fortune 500 and 1000 customers located around the world, primarily in North America, Europe, Asia and Australia. We focus on helping our customers thrive in a market constantly challenged by the pressures of digitization through our innovative and scalable software solutions, high quality business consulting and experience design, and a continually evolving mix of advanced capabilities, blending our engineering and technology capabilities with business and experience consulting to deliver true end-to-end value. We focus on building long-term partnerships with customers, enabling them to reimagine their businesses through a digital lens. Our industry expertise includes financial services, travel and consumer, software and hi-tech, business information and media, life sciences and healthcare, as well as other industries in which we are continuously growing.

Our historical core competency, software development and product engineering services, and our work with global enterprise leaders in enterprise software platforms and emerging technology companies, created our foundation for the evolution of our other offerings, which include advanced technology software solutions, intelligent enterprise services and digital engagement. Our strategic acquisitions have expanded our service capabilities such as digital strategy and design, consulting and test automation. We expect our strategic acquisitions will continue to enable us to offer a broader range of services to our customers from a wide variety of locations.

Business Strategy

Our service offerings have been evolving to provide more customized and integrated solutions to our customers where we combine best-in-class software engineering with customer experience design, business consulting and technology innovation services. We are continually expanding our service capabilities, moving beyond traditional services into business consulting, design and physical product development and areas such as artificial intelligence, robotics and virtual reality.

EPAM's key service offerings and solutions include the following practice areas:

Engineering

Our engineering foundation underpins how we architect, build and scale next-generation software solutions and agile delivery teams. Our engineering expertise allows us to build enterprise technologies that improve business processes, offer smarter analytics and result in greater operational excellence through requirements analysis and platform selection, deep and complex customization, cross-platform migration, implementation and integration.

We use our experience, custom tools and specialized knowledge to integrate our customers' chosen application platforms with their internal systems and processes and to create custom solutions filling the gaps in their platforms' functionality in order to address the needs of the customers' users and customers. We address our customers' increased need for tighter enterprise integration between software development, testing and maintenance with private, public and mobile infrastructures through our infrastructure management services. These solutions cover the full lifecycle of infrastructure management including application, database, network, server, storage and systems operations management, as well as monitoring, incident notification and resolution. We deliver maintenance and support services through our proprietary distributed project management processes and tools, which reduce the time and costs related to maintenance, enhancement and support activities.

We have deep expertise and the ability to offer a comprehensive set of software product development services including product research, customer experience design and prototyping, program management, component design and integration, full lifecycle software testing, product deployment and end-user customization, performance tuning, product support and maintenance, managed services, as well as porting and cross-platform migration. We focus on software products covering a wide range of business applications as well as product development for multiple mobile platforms and embedded software product services.

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Operations

We turn our customers' operations into intelligent enterprise hubs with our proprietary platforms, integrated engineering practices and smart automation. Developing a digital experience or product from end-to-end requires input and expertise from a variety of professionals with a broad range of skills. Our multidisciplinary teams and global delivery framework come together to deliver well-rounded technology solutions that bring competitive advantage to our customers. In addition to utilizing our dedicated delivery centers, which allow us to deploy key delivery talent, we work closely with leading companies in various industries to enable our customers to better leverage technology and address the simultaneous pressures of driving value for their consumer and offering a more engaging experience.

Optimization

We turn process optimization into real transformation by using process automation and cognitive techniques to transform legacy processes and deliver streamlined operations that increase revenues and reduce costs for our customers. We rely on our teams, methodologies and tools to optimize every stage of software delivery for improved quality and better features with each release.

We maintain a dedicated group of testing and quality assurance professionals with experience across a wide range of technology platforms and industry verticals, who perform software application testing, test management, automation and consulting services focused on helping customers improve their existing software testing and quality assurance practices. We employ industry-recognized and proprietary defect tracking tools and frameworks to deliver a comprehensive range of testing services that identify threats and close loopholes to protect our customers' business systems from information loss.

Consulting

Over the years, as a complement to our core engineering skills, we have added capabilities in business consulting to give us an agile, hybrid approach to the market. Our consulting services drive deeper relationships as we help our customers with larger and more complex challenges. Our industry, technology and experience consulting services are interconnected to deliver maximum impact for our customers. The functional business expertise of our professionals is supplemented by a thorough understanding of technology platforms and their interactions as well as application of data science and machine learning to deliver best insights into our customers' business.

Our technical advisory services help customers stay ahead of current technology changes and innovate, where innovation beyond technology is also delivered through collaborative workshops, challenges and new organizational models.

Design

We apply design thinking to digital and service strategy, user experience and the product lifecycle with a focus on innovative design ideas and product development. Our digital and service design practice provides strategy, design, creative and program management services for customers looking to improve the user experience.

We are continuously looking to strengthen and grow our design and consulting practices as evidenced by recent business acquisitions. During 2018, we acquired Continuum Innovation LLC, which will enhance our consulting, physical design and product development capabilities and Think Limited, which will enhance our global product and design offerings.

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Global Delivery Model

We believe the development of a robust global delivery model creates a key competitive advantage, enabling us to better understand and meet our customers' diverse needs and to provide a compelling value proposition. We continuously grow our delivery platform both organically and through strategically acquired locations and personnel with diversified skills that support our strategy. We had 26,760 revenue generating personnel as of December 31, 2018, which mainly includes our core information technology professionals as well as designers, consultants and scientists.

We serve our customers through on-site, off-site and offshore locations across the world and use strategically located delivery centers to offer a strong, diversified and cost-effective delivery platform. Our largest delivery centers are located in Belarus, Ukraine and Russia.

As of December 31, 2018, we had 8,242 IT professionals located in Belarus. The majority of these IT professionals are located in Minsk, the capital of Belarus, which is well-positioned to serve as a prime IT outsourcing destination given its strong industrial base and established educational infrastructure. Furthermore, the government in Belarus strongly supports the technology industry and encourages investment in this sector through various long-term tax incentives.

Our locations in Ukraine and Russia offer many of the same benefits as Belarus, including educational infrastructure, availability of qualified software engineers and government support of the technology industry. As of December 31, 2018, we had 5,836 IT professionals in Ukraine and 4,438 IT professionals in Russia. Our delivery model has not been materially affected by the political and economic uncertainty in Ukraine and Russia to date.

Our other significant locations with IT professionals are the United States with 1,787, Hungary with 1,337, Poland with 1,194, India with 1,053 and China with 470 as of December 31, 2018.

Customers

We maintain a geographically diverse client base, which primarily consists of Fortune 500 and 1000 customers located in North America, Europe, CIS and APAC. Our focus on delivering quality service is reflected in established relationships with many of our customers, with 54.8% and 30.9% of our revenues in 2018 coming from customers that had used our services for at least five and ten years, respectively. Our sustained growth and increased capabilities are furthered by both organic growth and strategic acquisitions. We continually evaluate potential acquisition targets that can expand our vertical-specific domain expertise, geographic footprint, service portfolio, client base and management expertise.

As we remain committed to diversifying our client base and adding more customers to our client mix, we expect revenue concentration from our top customers to continue to decrease over the long-term. The following table shows revenues from the top five and ten customers in the respective year as a percentage of revenues for that year:

	% of Revenues for		
	Year Ended		
	December 31,		
	2018	2017	2016
Top five customers	22.3 %	24.0 %	28.4 %
Top ten customers	31.6 %	33.9 %	38.4 %

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of this annual report for additional information related to revenue.

See Note 15 "Segment Information" in the notes to our consolidated financial statements in this Annual Report on Form 10-K for information regarding long-lived assets and customer revenues by geographic location as well as financial information related to our reportable segments.

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Industry Expertise

Strong industry-specific knowledge, backed by extensive experience merging technology with the business processes of our customers, allows us to deliver tailored solutions to various industry verticals. Our customers operate in five main industry verticals as well as a number of other verticals in which we are increasing our presence.

Financial Services. We have significant experience working with global investment banks, commercial and retail lending institutions, credit card and payment solution companies, wealth management institutions, fund operators and various other providers of financial services. We assist these customers with challenges stemming from new regulations, compliance requirements, customer-based needs and risk management. Our financial services domain experts have been recognized with industry awards for engineering and deploying unique applications and business solutions that facilitate growth, competitiveness, and customer loyalty while driving cost efficiency for global financial institutions.

Travel and Consumer. Our capabilities span a range of platforms, applications and solutions that businesses in travel and hospitality use to serve their customers, capture management efficiencies, control operating expenses and grow revenues. Some of the world's leading airlines, hotel providers and travel agencies rely on our knowledge in creating high-quality tools for operating and managing their business. Within this vertical, we also serve global, regional and local retailers, online retail brands, consumer goods manufacturers and distributors and online marketplaces. We deliver a wide range of services to retail and eCommerce customers from complex system modernizations to leading edge innovations in multi-channel sales and distribution. We have transformed organizations to use technology to expand and revolutionize their business models. Our services directly impact the consumer experience of our customers' brands, and allow our customers to reach more consumers.

Software and Hi-Tech. We provide complex software product development services to meet software and technology companies' constant need for innovation and agility. We help some of the most prominent software brands in the world build, what we believe to be the best software. Through our extensive experience with many industry leaders in Hi-Tech R&D, software engineering and integration, we have developed proprietary internal processes, methodologies and IT infrastructure, which give us an edge when it comes to serving customers in the Hi-Tech and Software Product markets. Our services span the complete software development lifecycle for software product development using our comprehensive development methodologies, testing, performance tuning, deployment, maintenance and support.

Business Information and Media. We help our business information and media customers build products and solutions for all modern platforms including web media streaming and mobile information delivery. Our solutions help customers develop new revenue sources, accelerate the creation, collection, packaging and management of content and reach broader audiences. We serve varied customers in this vertical including search engine providers, entertainment media, news providers, broadcasting companies, financial information providers, content distributors, knowledge management organizations and advertising networks.

Life Sciences and Healthcare. We help our customers in the Healthcare industry respond to changing regulatory environments and improve the quality of care while managing the cost of care. Our professionals deliver an end-to-end experience that includes strategy, architecture, development and managed services to customers ranging from the traditional healthcare providers to innovative startups. In the Life Sciences category, we partner with global pharmaceutical, medical technology and biotechnology companies to deliver sophisticated scientific informatics and innovative enterprise technology solutions. Our personnel in Life Sciences leverage their vast technology expertise to offer deep scientific and mathematical knowledge to broad-based initiatives. Our Life Sciences solutions enable customers to speed research and accelerate time-to-market while improving collaboration, knowledge management and operational excellence.

Emerging Verticals. We also serve the diverse technology needs of customers in the energy, telecommunications, automotive and manufacturing industries, as well as government customers. These customers are included in our Emerging Verticals, which are further discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of this annual report.

Sales and Marketing

We market and sell our services through our senior management, sales and business development teams, account managers, and professional staff. Our client service professionals and account managers, who maintain direct customer relationships, play an integral role in engaging with current customers to identify and pursue potential business opportunities. This strategy has been effective in promoting repeat business and growth from within our existing client base and we believe that our reputation as a reliable provider of software engineering solutions drives additional business from inbound requests and referrals. In addition to effective client management, our sales model also utilizes an integrated sales and marketing approach that leverages a dedicated sales team to identify and acquire new accounts.

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We maintain a marketing team, which coordinates corporate-level branding efforts such as participation in and hosting of industry conferences and events as well as sponsorship of programming competitions. We have been recognized by many top global independent research agencies, such as Forrester, Gartner, Zinnov and HFS and by publications such as Forbes and Fortune.

Employees

Our employees are a key factor in our ability to grow our revenues and serve our customers. We have dedicated full-time employees who oversee all aspects of our human capital management process including a professional talent acquisition team whose objective is to locate and attract qualified and experienced IT professionals within various EPAM locations. It is critical that we effectively plan our short-term and long-term recruitment needs and deploy the necessary personnel and processes to optimize utilization and quickly satisfy the demands of our customers. As our business grows, we also focus on hiring and retaining individuals with appropriate skills to fill our executive, finance, legal, HR and other key management positions.

At December 31, 2018, 2017 and 2016, we had a total of 30,156, 25,962 and 22,383 employees, respectively. Of these employees, as of December 31, 2018, 2017 and 2016, respectively, 26,760, 22,998 and 19,670 were revenue generating IT professionals.

In our competitive industry, the ability to hire and retain highly-skilled information technology professionals is critical to our success. We believe the quality of our employees serves as a key point of differentiation in how we deliver a superior value proposition to our customers. To attract, retain and motivate our IT professionals, we offer a challenging work environment, ongoing skills development initiatives, attractive career advancement, and promotion opportunities thus providing an environment and culture that rewards entrepreneurial initiative and performance.

We dedicate significant resources to the training, continuing education and career development programs of our entry-level and experienced IT professionals. We believe in the importance of supporting educational initiatives and we sponsor employees' participation in internal and external training and certifications. Entry-level IT professionals undergo a rigorous training program that consists of approximately three to six months of classroom training, as well as numerous hours of hands-on training through actual engagements. This comprehensive program results in employees who are highly proficient and possess deep technical expertise that enables them to immediately serve our customers' needs. For our mid-level and senior IT professionals, we offer continuing education programs aimed at helping them advance in their careers. We also provide mentoring opportunities, management and soft skills training, intensive workshops and management and technical advancement programs in order to support the development of middle and senior management through formal leadership training, evaluation, development and promotion.

Historically, we developed our base of IT professionals by hiring highly-qualified, experienced professionals from Eastern Europe and by recruiting students from the region's leading universities. We have established EPAM delivery centers near many of these university campuses and we continue supporting the universities through EPAM-branded research labs, developing training courses and curriculum, providing teaching equipment and engaging students to identify their talents in information technology. Our strong relationships with these leading technical institutions provide us access to a highly-qualified talent pool. In addition, in recent years, we have been exploring additional markets, such as India, as a new source of talent.

We believe that we maintain a good working relationship with our employees and our employees have not entered into any collective bargaining agreements (other than broad industry-wide agreements as required in certain countries in Europe and Mexico) or engaged in any labor disputes.

Competition

The markets in which we compete are changing rapidly and we face competition from both global technology solutions providers as well as those based primarily in specific geographies with lower cost labor such as Eastern Europe, India and China. We believe that the principal competitive factors in our business include technical expertise and industry knowledge, end-to-end solution offerings, reputation and track record for high-quality and on-time delivery of work, effective employee recruiting, training and retention, responsiveness to customers' business needs, scale, financial stability and price.

We face competition from various technology services providers such as Accenture, Atos, Capgemini, Cognizant Technology Solutions, Deloitte Digital, DXC Technology, Exlservice, Genpact, GlobalLogic, Globant, HCL

Technologies, HP Enterprise, IBM Services, Infosys, Luxoft Holding, Inc., Mindtree, Perficient, Tata Consultancy Services, Virtusa Corporation, and Wipro, among others. Additionally, we compete with numerous smaller local companies in the various geographic markets in which we operate.

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We believe that our focus on complex software product development solutions, our technical employee base, and our development and continuous improvement in process methodologies, applications and tools position us well to compete effectively in the future.

Quality Management and Information Security

We are continuously investing in applications, tools and infrastructure to manage all aspects of our global delivery process in order to manage quality and security risks, while providing control and visibility across all project lifecycle stages both internally and to our customers. We maintain processes and infrastructure to protect our clients' and their customers' confidential and sensitive information and allocate resources to ensure information security, cybersecurity and data privacy. We have made significant investments in the appropriate people, processes and technology to establish and manage compliance with confidentiality policies, laws and regulations governing our activities, such as the European Union data protection legal framework referred to as the General Data Protection Regulation ("GDPR"), among others.

We focus on establishing stringent security standards and internal controls and meet the standards of ISO 27001:2013 and ISO 9001:2015. We are an ISAE 3402 Type 2 certified IT services provider. This certification is issued by an auditor in compliance with the globally recognized assurance standard. The certification, along with others we hold, provide our customers with independent third-party verification of our information security, quality management and general controls practices.

We have developed sophisticated project management techniques facilitated through our proprietary Project Management Tools, a web-based collaborative environment for software development, which we consider critical for visibility into project deliverables, resource management, team messaging and project-related documents. These tools promote collaboration and effective oversight, reduce work time and costs, and increase quality for our IT management and our customers.

Corporate and Social Responsibility

We are committed to integrating positive social, environmental and ethical practices into our business operations and strategy. This commitment is key to our continual development as a business and drives value for our employees, customers, business partners, the community and other stakeholders. We practice the principles established in our Code of Ethical Conduct by making positive contributions to the communities in which we operate and championing corporate social responsibility efforts.

Through our focused efforts in the areas of Education, Environment, and Community, we are committed to sharing the expertise and attributes of our highly skilled global workforce to effectively support the needs of, and positively add to the world at large and the communities where we work and live. By understanding our impact on local, regional and global communities, we strive to create positive change and opportunities in areas where it is needed most. Such efforts include our global technology education initiatives, through which we provide innovative, industry-relevant technology training and mentorship programs to students globally as well as through other technology conferences, seminars, and hackathon events where we encourage social innovation and jumpstart collaboration among our local tech communities.

We believe responsible stewardship of the environment is critical, and we take this responsibility seriously. We continually strive to improve our environmental performance through implementation of sustainable development and environmental practices. In addition, as an innovation-driven business, EPAM's success depends on hiring the most talented employees in the industry. We are committed to respecting our employees' fundamental human rights at work. We similarly expect our suppliers, vendors, and subcontractors and all other third-party companies that comprise EPAM's supply chain to respect human rights and to avoid complicity in human rights abuses. EPAM seeks to provide our customers with exceptional personnel, which includes people with varied and diverse characteristics, to drive the innovation and thought diversity for which we are known. We aim to continuously retain and supply a pipeline of qualified, diverse candidates to foster this goal.

Intellectual Property

Protecting our intellectual property rights is important to our business. We have invested, and will continue to invest, in research and development to enhance our domain knowledge and create complex, specialized solutions for our customers. We rely on a combination of intellectual property laws, trade secrets, confidentiality procedures and

contractual provisions to protect our intellectual property. We require our employees, vendors and independent contractors to enter into written agreements upon the commencement of their relationships with us, which assign to us all intellectual property and work product made, developed or conceived by them in connection with their employment with us. These agreements also provide that any confidential or proprietary information disclosed or otherwise made available by us remains confidential.

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We also enter into confidentiality and non-disclosure agreements with our customers. These customary agreements cover our use of our customers' software systems and platforms as our customers usually own the intellectual property in the products we develop for them. Furthermore, we usually grant a perpetual, worldwide, royalty-free, nonexclusive, transferable and non-revocable license to our customers to use our preexisting intellectual property, but only to the extent necessary in order to use the software or systems we developed for them.

Regulations

Due to the industry and geographic diversity of our operations and services, our operations are subject to a variety of rules and regulations. Several foreign and U.S. federal and state agencies regulate various aspects of our business. See "Item 1A. Risk Factors — Risks Relating to Our Business — We are subject to laws and regulations in the United States and other countries in which we operate, including export restrictions, economic sanctions and the Foreign Corrupt Practices Act, or FCPA, and similar anti-corruption laws. If we are not in compliance with applicable legal requirements, we may be subject to civil or criminal penalties and other remedial measures".

Corporate Information

EPAM Systems, Inc. was incorporated in the State of Delaware on December 18, 2002. Our predecessor entity was founded in 1993. Our principal executive offices are located at 41 University Drive, Suite 202, Newtown, Pennsylvania 18940 and our telephone number is 267-759-9000. We maintain a website at <http://www.epam.com>. Our website and the information accessible through our website are not incorporated into this annual report.

We make certain filings with the Securities and Exchange Commission ("SEC"), including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments and exhibits to those reports. We make such filings available free of charge through the Investor Relations section of our website, <http://investors.epam.com>, as soon as reasonably practicable after they are filed with the SEC. The filings are also available through the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or by calling 1-800-SEC-0330. In addition, the SEC maintains a website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically through the EDGAR System.

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Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock. Listed below, not necessarily in order of importance or probability of occurrence, are the most significant risk factors applicable to us. Additionally, forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. See “Special Note Regarding Forward-Looking Statements”.

Risks Relating to Our Business

We may be unable to effectively manage our rapid growth or achieve anticipated growth, which could place significant strain on our management personnel, systems and resources.

We have experienced rapid growth and significantly expanded our business over the past several years, both organically and through strategic acquisitions. Our rapid growth has placed, and will continue to place, significant demands on our management and our administrative, operational and financial infrastructure. Continued expansion increases the challenges we face in:

- recruiting, training and retaining sufficiently skilled professionals and management personnel;
- adhering to and further improving our high-quality process execution standards and maintaining high levels of customer satisfaction;
- managing a larger number of customers in a greater number of industries and locations;
- maintaining effective oversight of personnel and delivery centers;
- coordinating effectively across geographies and business units to execute our strategic plan; and
- developing and improving our internal administrative, operational and financial infrastructure.

Moreover, we intend to continue our expansion for the foreseeable future and pursue available opportunities. As we introduce new services or enter into new markets, we may face new market, technological, operational, compliance and administrative risks and challenges. As a result of these and other challenges associated with expansion, we may not be able to achieve our anticipated growth and our business, prospects, financial condition and results of operations could be materially adversely affected.

Our failure to successfully attract, hire, train and retain new personnel with the qualifications necessary to fulfill the needs of our existing and future customers could materially adversely affect our ability to provide high quality services to those customers.

The ability to hire and retain highly skilled information technology professionals, including project managers, IT engineers and other technical personnel, is critical to our success. To maintain and renew existing engagements and obtain new business, we must attract, hire, train and retain personnel with diverse skill sets and competencies, including those with management experience, across the geographically diverse locations in which we operate. Competition for highly skilled professionals is intense in the markets where we operate, and we may experience significant employee turnover rates due to such competition. If we are unable to attract, hire, train or retain highly skilled personnel, our ability to meet and develop ongoing and future business could be jeopardized and our business, financial condition and results of operations could be adversely affected.

A significant increase in the attrition rate among professionals with specialized skills could decrease our operating efficiency and productivity and could lead to a decline in demand for our services. In addition, any reductions in headcount for economic or business reasons, however temporary, could negatively affect our reputation as an employer, and our ability to hire personnel to meet our business requirements may suffer.

Increases in wages for our people and other compensation expense could prevent us from sustaining our competitive advantage and result in dilution to our stockholders.

Wage costs for industry professionals in the emerging markets in which we have significant operations and delivery centers are lower than comparable wage costs in more developed countries. However, wage costs in the service industry in these countries may increase at a faster rate than in the past, which ultimately may make us less competitive unless we are able to increase the efficiency and productivity of our people. Wage inflation may also increase our cost of providing services and reduce our profitability.

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Additionally, we have granted certain equity-based awards under our stock incentive plans and entered into other stock-based compensation arrangements in the past, and expect to continue this practice. The expenses associated with stock-based compensation may reduce the attractiveness to us of issuing equity awards under our equity incentive plan. However, if we do not grant equity awards, or if we reduce the value of equity awards we grant, we may not be able to attract and retain key personnel. If we grant more equity awards to attract and retain key personnel, the expenses associated with such additional equity awards could materially adversely affect our results of operations. Furthermore, any new regulations, volatility in the stock market and other factors could diminish our use and the value of our equity-based awards. This could put us at a competitive disadvantage or cause us to consider changes to our pay structure. The issuance of equity-based compensation also results in additional dilution to our stockholders.

Our success depends substantially on the continuing efforts of our senior executives and other key personnel, and our business may be severely disrupted if we lose their services.

Our future success heavily depends upon the continued services of our senior executives and other key employees. If one or more of our senior executives or key employees are unable or unwilling to continue in their present positions, it could disrupt our business operations, and we may not be able to replace them easily or at all. In addition, competition for senior executives and key personnel in our industry is intense, and we may be unable to retain our senior executives and key personnel or attract and retain new senior executives and key personnel in the future, in which case our business may be severely disrupted. If any of our senior executives or key personnel, such as business development managers, joins a competitor or forms a competing company, we may lose customers, suppliers, know-how and key personnel to them.

Our profitability will suffer if we are not able to maintain our resource utilization and productivity levels.

Our profitability is significantly impacted by our utilization and productivity levels of fixed-cost resources, such as our professionals as well as other resources such as computers and office space. Our ability to manage our utilization levels depends significantly on our ability to hire and train high-performing professionals, to plan effectively for future needs, to staff projects appropriately, and on the general economy and its effect on our customers and their business decisions regarding the use of our services. If we experience a slowdown or stoppage of work for any customer or on any project for which we have dedicated personnel or facilities, we may not be able to reallocate these assets to other customers and projects to keep their utilization and productivity levels high. If we are not able to maintain optimal resource utilization levels without corresponding cost reductions or price increases, our profitability will suffer.

Our global business exposes us to operational and economic risks.

We are a global company with substantial international operations. The global nature of our business creates operational and economic risks.

Risks inherent in conducting international operations include:

- foreign exchange fluctuations;
- application and imposition of protective legislation and regulations relating to import or export, including tariffs, quotas and other trade protection measures;
- difficulties in enforcing intellectual property and/or contractual rights;
- complying with a wide variety of foreign laws;
- potentially adverse tax consequences;
- competition from companies with more experience in a particular country or with international operations; and
- overall foreign policy and variability of foreign economic conditions.

Our global operations are conducted predominantly in U.S. dollars, however we generate a significant portion of our revenues and incur expenditures in various currencies other than U.S. dollars. The majority of our customers are in North America and Western Europe, while most of our personnel and delivery centers are located in lower cost locations. These factors expose us to foreign exchange risks relating to revenues, compensation, purchases, capital expenditures, receivables and other balance-sheet items. As we continue to leverage our global delivery model, a larger portion of our revenues and incurred expenses may be in currency other than U.S. dollars. In some countries, we may be subject to regulatory or practical restrictions on the movement of cash and the exchange of foreign currencies, which would limit our ability to use cash across our global operations and increase our exposure to

currency fluctuations. This risk could increase as we continue expanding our global operations, which may include entering emerging markets that may be more likely to impose these types of restrictions. Currency exchange volatility caused by political or economic instability or other factors, could also materially impact our results. See “Item 7A. Quantitative and Qualitative Disclosures About Market Risk.”

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Our industry is sensitive to the economic environment and the industry tends to decline during general economic downturns. Given our significant revenues from North America and Europe, if those economies weaken or slow, pricing for our