EPAM Systems, Inc.
Form 424B4
February 09, 2012
Table of Contents

Filed pursuant to Rule 424(b)(4)
Registration No. 333-174827

PROSPECTUS

6,000,000 Shares

EPAM Systems, Inc.

Common Stock

$12.00 per share

This is the initial public offering of our common stock. We are selling 2,000,000 shares of common stock and the selling stockholders named in this prospectus are selling 4,000,000 shares. We will not receive any proceeds from the sale of the shares of common stock by the selling stockholders. The initial public offering price is $12.00 per share of common stock.

Our shares of common stock have been approved for listing on the New York Stock Exchange under the symbol EPAM, subject to official notice of issuance.

Investing in our common stock involves risks. See Risk Factors beginning on page 9.

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

	Per Share	Total
Public offering price	$ 12.00	$ 72,000,000
Underwriting discount	$ 0.84	$ 5,040,000
Proceeds to EPAM Systems, Inc. (before expenses)	$ 11.16	$ 22,320,000
Proceeds to the selling stockholders (before expenses)	$ 11.16	$ 44,640,000

We have granted the underwriters the right to purchase an additional 900,000 shares of common stock from us to cover over-allotments.

The underwriters expect to deliver the shares to purchasers on or about February 13, 2012 through the book-entry facilities of the Depository Trust Company.

Citigroup **UBS Investment Bank** **Barclays Capital** **RenCap**

Stifel Nicolaus Weisel **Cowen and Company**

February 7, 2012

Table of Contents

We are responsible for the information contained in this prospectus or contained in any free writing prospectus prepared by or on behalf of us that we have referred to you. Neither we, nor the underwriters, have authorized anyone to provide you with additional information or information different from that contained in this prospectus or in any free writing prospectus filed with the Securities and Exchange Commission and we take no responsibility for any other information that others may give you. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, operating results or financial condition may have changed since such date.

TABLE OF CONTENTS

For investors outside the United States: **Neither we nor any of the underwriters have taken any action that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.**

In this prospectus, EPAM, EPAM Systems, Inc., the company, we, us and our refer to EPAM Systems, Inc. and its consolidated subsidiar

EPAM is a trademark of EPAM Systems, Inc. CMMI is a trademark of the Software Engineering Institute of Carnegie Mellon University. ISO 9001:2000 and ISO 27001:2005 are trademarks of the International Organization for Standardization. All other trademarks and servicemarks used herein are the property of their respective owners.

Table of Contents

SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary may not contain all of the information that you should consider before deciding to invest in our common stock. You should read this entire prospectus carefully, including Risk Factors and the consolidated financial statements and notes to those statements.

Our Company

We are a leading global IT services provider focused on complex software product development services, software engineering and vertically-oriented custom development solutions. Since our inception in 1993, we have been serving independent software vendors, or ISVs, and technology companies. These companies produce advanced software and technology products that demand sophisticated software engineering talent, tools, methodologies and infrastructure to deliver solutions that support functionality and configurability to sustain multiple generations of platform innovation. The foundation we have built serving ISVs and technology companies has enabled us to differentiate ourselves in the market for software engineering skills and technology capabilities. Our work with these clients exposes us to their customers challenges across a variety of industry verticals. This has enabled us to develop vertical-specific domain expertise and grow our business in multiple industry verticals, including Banking and Financial Services, Business Information and Media, Travel and Hospitality and Retail and Consumer.

Our historical core competency is full lifecycle software development services including design and prototyping, product development and testing, component design and integration, product deployment, performance tuning, porting and cross-platform migration. Our delivery centers in Belarus, Ukraine, Russia, Hungary, Kazakhstan and Poland are strategically located in centers of software engineering talent and educational excellence across Central and Eastern Europe, or CEE, and the Commonwealth of Independent States, or the CIS. Our applications, tools, methodologies and infrastructure allow us to seamlessly deliver services and solutions from our delivery centers to global clients, thereby further strengthening our relationships with them. We also have client management locations in the United States, United Kingdom, Germany, Sweden, Russia, Switzerland and Kazakhstan. We believe we are the only SAS 70 Type II certified IT services provider with multiple delivery centers in CEE, based on our analysis of publicly available information of IT services providers. This certification is a widely recognized auditing standard developed by the American Institute of Certified Public Accountants, or AICPA, and it serves as additional assurance to our clients that are required to validate the controls in place to protect the security of their sensitive data.

We believe the quality of our employees underpins our success and serves as a key point of differentiation in how we deliver a superior value proposition to our clients. Our highly-skilled information technology, or IT, professionals, combined with our extensive experience in delivering custom solutions that meet our clients pressing business needs, has allowed us to develop a deep culture of software engineering excellence.

Our clients primarily consist of *Forbes Global 2000* corporations located in North America, Europe and the CIS. Selected companies among our top 30 clients based on 2010 revenues include Barclays, Citigroup, The Coca-Cola Company, Expedia, Google, InterContinental Hotels Group, Kingfisher, MTV Networks, Oracle, Renaissance Capital, SAP, Sberbank, Thomson Reuters, UBS and Wolters Kluwer. We maintain a geographically diverse client base with 52.8% of our 2010 revenues from clients located in North America, 26.4% from clients in Europe and 19.1% from clients in the CIS. Our focus on delivering quality to our clients is reflected by an average of 92.8% and 77.3% of our revenues in 2010 coming from clients that had used our services for at least two and three years, respectively.

Our revenues have grown from $69.8 million in 2006 to $221.8 million in 2010, representing a four-year compound annual growth rate, or CAGR, of 33.5%. Our net income has grown from $9.7 million to $28.3

Table of Contents

million over the same period, representing a CAGR of 30.6%. For the nine months ended September 30, 2011, our revenues and net income were $239.4 million and $32.0 million, respectively, representing a 58.5% and 91.7% increase over the comparable period of the prior year.

Our Industry

Corporations are increasingly offshoring their research and development, or R&D, and software product development needs to respond to industry challenges. Offshore IT services providers, or IT services providers with substantial development and delivery operations outside a majority of their clients home countries, have enabled corporations to effectively respond to shrinking product lifecycles and increased global competition by streamlining development and improving time-to-market. The shortage of vertical-specific research and software product development talent and the favorable cost of offshore outsourcing resources continue to encourage organizations to increase outsourcing of their R&D and software product development spending. According to IDC, an independent third-party research firm, worldwide offshore R&D / software development services spending will grow at an estimated five-year CAGR of 11.8% through 2014 to $14.0 billion.

Many corporations throughout the world have found it difficult to access high-quality IT talent and, as such, the offshore outsourcing model has become an embedded component of IT services delivery. The demand for offshore outsourcing is driven by clients seeking not only cost-effective solutions, but also improved productivity and quality. Outsourcing can result in significant productivity improvement and operating cost reduction, as organizations choose IT services providers with specialized knowledge and processes. According to IDC, offshore IT services spending in the United States and Europe, the Middle East and Africa will grow at an estimated five-year CAGR of 6.1% through 2014 to $40.2 billion.

The growing acceptance of the offshore delivery model, beyond the traditional India-based IT services providers, has created significant opportunities for CEE-based IT services providers. CEE-based IT services providers now compete against the largest and more-established global IT services providers and have been recognized by independent third-party research firms such as IDC for providing complex IT services. As a result, according to the Central and Eastern European Outsourcing Association, the volume of IT outsourcing and custom software product development services exported from CEE was expected to increase between 10% and 30% in 2010, depending on the country. Factors contributing to this growth include the availability of highly-educated, multilingual IT professionals, the cultural compatibility with the European market and corporations diversifying their use of offshore IT services to multiple delivery locations and IT services providers.

Our Approach

Since our inception, we have focused on software product development, which we have refined through repeat, multi-year engagements with major ISVs, including three of the top seven ISVs by revenues according to Software Magazine. Unlike custom application development, which is usually tailored to very specific business requirements, software products of ISVs must be designed with a high level of product configurability and operational performance to address the needs of a diverse set of end-users working in multiple industries and operating in a variety of deployment environments. This demands a strong focus on upfront design and architecture, strict software engineering practices, and extensive testing procedures.

Our focus on software product development services for ISVs and technology companies requires high-quality software engineering talent, advanced knowledge of up-to-date methodologies and productivity tools, and strong project management practices. As a result, we have developed a culture focused on innovation, technology leadership and process excellence, which helps us maintain a strong reputation with our clients for technical expertise and high-quality project delivery.

Table of Contents

Our work with ISVs and technology companies, including both global leaders in enterprise software platforms and emerging, innovative technology companies focusing on new trends, exposes us to their customers business and strategic challenges, allowing us to develop vertical-specific domain expertise. In this sense, our experience with ISV and technology company clients enables us to grow our business in multiple industries, including Banking and Financial Services, Business Information and Media, Travel and Hospitality and Retail and Consumer.

Our Strengths and Strategies

Our objective is to be a leader in providing high-quality software engineering services for leading global ISVs and emerging technology companies, and use our accumulated technology and industry expertise to become a strategic vendor of choice for delivering complex software solutions and other complimentary and diversified IT services to industry-leading companies across a range of verticals. We continue to leverage the following core strengths and strategies to achieve this objective:

Strengthen technical expertise. We have spent over a decade working with industry-leading ISVs and technology companies to develop various key features of their product portfolios. Our focus on complex software product development has shaped key aspects of our service offerings as well as our culture of software engineering excellence, enabling us to accelerate expansion of our services into other key industry verticals. We plan to continue focusing on software engineering services for industry-leading ISVs and emerging technology companies to further develop our technical expertise and advance our knowledge of new software engineering and technology trends.

Deepen vertical expertise. We have traditionally focused on enterprises that are technology- and information-centric, where our deep software development expertise is highly valued. To further enhance our client solutions in each of our verticals, we have recruited IT professionals with significant industry expertise and understanding of vertical-specific business operations and issues. We plan to continue enhancing our deep expertise in different verticals by recruiting IT professionals with industry expertise.

Attract, develop and retain highly-skilled employees. We place a high priority on attracting, training and retaining our employees, which we believe is integral to our continued ability to meet the challenges of the most complex software product development projects.

Develop and enhance scalable proprietary processes, applications and tools. To streamline and accelerate the software development process, we have created a full suite of proprietary software development lifecycle processes, applications and tools. From managing every aspect of a development project, to automated testing tools, to management and hosting options for delivered solutions, our applications and tools help ensure that our clients achieve faster turn-around times, high-quality results and superior value.

Selectively pursue strategic acquisitions. We have historically pursued strategic acquisitions focused on expanding our vertical-specific domain expertise, geographic footprint, service portfolio, client base and management expertise. Furthermore, as part of our strategy to expand our geographic footprint with high-quality global resources, we may pursue acquisitions of companies with significant presence in China, Latin America or elsewhere.

Risk Factors

Before you invest in our common stock, you should carefully consider all the information in this prospectus, including the information set forth under Risk Factors. We believe our primary challenges are:

We may be unable to effectively manage our rapid growth, which could place significant strain on our management personnel, systems and resources. We may not be able to achieve anticipated growth, which could materially adversely affect our business, financial condition and results of operations.

Table of Contents

If we fail to attract and retain highly-skilled IT professionals, we may not have the necessary resources to properly staff projects, and competition for such IT professionals could materially adversely affect our business, financial condition and results of operations.

Increases in wages and other compensation expense for our IT professionals could prevent us from sustaining our competitive advantage.

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 revenues are highly dependent on clients primarily located in the United States and Europe. Worsening economic conditions or factors that negatively affect the economic health of the United States or Europe could materially adversely affect our business, financial condition and results of operations.

Emerging markets such as CIS and CEE countries are subject to greater risks than more developed markets, including significant legal, economic, tax and political risks.

Our greater than 5% stockholders, directors and executive officers and entities affiliated with them will own approximately 77.2% of the outstanding shares of our common stock after this offering, which includes approximately 43.6% of the outstanding shares of our common stock after this offering which will be owned by affiliates of Siguler Guff & Company. These insiders will therefore continue to have substantial control over us after this offering and could limit your ability to influence the outcome of key transactions, including a change of control.

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 prospectus or the registration statement of which it forms a part.

Table of Contents

THE OFFERING

Common stock offered by us	2,000,000 shares
Common stock offered by the selling stockholders	4,000,000 shares
Total common stock offered in this offering	6,000,000 shares
Over-allotment option	900,000 shares offered by us
Common stock to be outstanding after this offering	41,125,981 shares (or 42,025,981 shares if the over-allotment option is exercised in full)
Use of proceeds	We estimate that the net proceeds to us from this offering will be approximately $18.5 million, or approximately $28.6 million if the underwriters exercise their over-allotment option in full, at an initial public offering price of $12.00 per share after deducting estimated underwriting discounts and commissions and estimated offering expenses. We intend to use the net proceeds of this offering for general corporate purposes, such as for working capital, for acquiring facilities, and for potential strategic acquisitions of, or investments in, other businesses or technologies that we believe will complement our current business and expansion strategies.
	We will not receive any of the proceeds from the sale of common stock by the selling stockholders. See Use of Proceeds.
Dividend policy	We do not intend to pay dividends on our common stock. We plan to retain any earnings for use in the operation of our business and to fund future growth.
Listing	Our shares of common stock have been approved for listing on the New York Stock Exchange (the NYSE) under the symbol EPAM, subject to official notice of issuance.
Risk factors	See Risk Factors beginning on page 9 and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.

Table of Contents

Unless the context otherwise requires, all references to the number of shares of common stock to be outstanding after this offering are based on 38,999,032 shares of common stock outstanding as of September 30, 2011 and excludes:

- 6,701,384 shares of common stock issuable upon the exercise of outstanding options as of September 30, 2011 at a weighted average exercise price of $4.66 per share;
- 627,560 shares of common stock remaining available for issuance as of September 30, 2011 under our 2006 Stock Option Plan;
- 9,246,800 shares of common stock reserved for issuance under our 2012 Long-Term Incentive Plan, as described under Compensation Discussion and Analysis Employee Benefit Plans 2012 Long Term Incentive Plans and Awards and pursuant to which our board of directors expects to issue an aggregate of 1,600,000 options after the closing of this offering;
- 600,000 shares of common stock reserved for issuance under our 2012 Non-Employee Directors Compensation Plan, as described under Compensation Discussion and Analysis EPAM Systems, Inc. 2012 Non-Employee Directors Compensation Plan, pursuant to which 11,764 restricted shares of common stock were awarded in January 2012 to our non-employee directors; and
- 194,800 restricted shares of common stock in the aggregate awarded in January 2012 to one of our executives.

All references to the number of shares of common stock to be outstanding after this offering include:

- 53,336 shares of common stock expected to be issued upon the completion of this offering in relation to our 2010 acquisition of Instant Information Inc.; and
- 73,613 shares of common stock to be issued and sold in this offering upon the exercise of vested stock options at a weighted average exercise price of approximately $3.16 per share.

Unless specifically stated otherwise, the information in this prospectus reflects and assumes the following:

- no exercise by the underwriters of their option to purchase up to 900,000 additional shares of common stock from us solely to cover over-allotments;
- the conversion immediately prior to completion of this offering of all outstanding Series A-1, Series A-2 and Series A-3 convertible preferred stock into a total of 21,840,128 shares of common stock;
- the expiration as of December 31, 2011 of the contractual put option relating to our 18,112 shares of puttable common stock;
- no exercise of options outstanding as of September 30, 2011, except for 73,613 shares of common stock to be issued and sold in this offering upon the exercise of vested stock options at a weighted average exercise price of approximately $3.16 per share; and

the filing of our third amended and restated certificate of incorporation and the adoption of our amended and restated bylaws immediately prior to the completion of this offering.

The information in this prospectus also reflects the 8 for 1 common stock split effected on January 19, 2012.

Table of Contents

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following summary consolidated financial and other data of EPAM should be read in conjunction with, and are qualified by reference to, Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this prospectus.

The consolidated statements of income data for each of the three years ended December 31, 2010, 2009 and 2008 and the consolidated balance sheet data as of December 31, 2010 and 2009 are derived from the audited consolidated financial statements of EPAM included elsewhere in this prospectus, and should be read in conjunction with those consolidated financial statements and notes thereto. The consolidated balance sheet data as of December 31, 2008 are derived from the audited consolidated financial statements of EPAM not included in this prospectus. The consolidated statements of income data for the nine months ended September 30, 2011 and 2010, and the consolidated balance sheet data as of September 30, 2011, are derived from the unaudited condensed consolidated financial statements of EPAM included elsewhere in this prospectus, and should be read in conjunction with those condensed unaudited consolidated financial statements and notes thereto. The consolidated balance sheet data as of September 30, 2010 are derived from the unaudited consolidated financial statements of EPAM not included in this prospectus. The unaudited interim period financial information, in the opinion of management, includes all adjustments, which are normal and recurring in nature, necessary for the fair presentation of the periods shown. The operating results in any interim period are not necessarily indicative of the results that may be expected for any annual period.

	Nine Months Ended September 30,		Year Ended December 31,		
	2011	2010	2010	2009	2008
	(in thousands, except per share data)				
Consolidated Statements of Income Data:					
Revenues	$ 239,401	$ 151,050	$ 221,824	$ 149,939	$ 160,632
Operating expenses:					
Cost of revenues (exclusive of depreciation and amortization)	145,948	92,403	132,528	88,027	91,205
Selling, general and administrative expenses	46,420	31,574	47,635	39,248	53,913
Depreciation and amortization expense	5,732	4,519	6,242	5,618	4,889
Goodwill impairment loss	1,697				
Other operating expenses, net	23	2,614	2,629	1,064	400
Income from operations	$ 39,581	$ 19,940	$ 32,790	$ 15,982	$ 10,225
Interest income	986	482	562	227	1,474
Interest (expense)	(37)	(64)	(76)	(185)	(129)
Other income	51				
Foreign exchange (loss)	(3,138)	(1,429)	(2,181)	(1,617)	(3,819)
Income before provision for income taxes	$ 37,443	$ 18,929	$ 31,095	$ 14,407	$ 7,751
Provision for income taxes	5,474	2,251	2,787	879	3,701
Net income	$ 31,969	$ 16,678	$ 28,308	$ 13,528	$ 4,050
Net income per share of common stock:					
Basic (common)	$ 0.14	$ 0.54	$ 0.84	$ 0.23	$ 0.00
Basic (puttable common)	$ 0.40	$ 0.58	$ 0.84	$ 0.23	$ 0.00
Diluted (common)	$ 0.14	$ 0.51	$ 0.79	$ 0.22	$ 0.00
Diluted (puttable common)	$ 0.37	$ 0.54	$ 0.79	$ 0.22	$ 0.00
Shares used in calculation of net income per share of common stock:					
Basic (common)	17,078	17,057	17,056	16,719	16,050

Basic (puttable common)	44	149	141	153	114
Diluted (common)	20,156	19,032	19,314	18,474	17,980
Diluted (puttable common)	44	149	141	153	114
Pro forma net income per share of common stock(1):					
Basic	$ 0.82		$ 0.88		
Diluted	$ 0.74		$ 0.83		
Shares used in calculation of pro forma net income per share of common stock:					
Basic	38,962		38,490		
Diluted	43,334		40,748		
Other Data:					
Adjusted net income(2)	$ 36,459	$ 20,129	$ 33,169	$ 16,834	$ 9,315

Table of Contents

(1) Immediately prior to completion of this offering, all Series A-1, Series A-2 and Series A-3 convertible preferred stock will automatically convert to common stock. We made pro forma adjustments to our historical results of operations for the fiscal year ended December 31, 2010 and for the nine months ended September 30, 2011 to show the pro forma effect of the conversion of all of our Series A-1, A-2 and A-3 convertible preferred stock into a total of shares of common stock as if such events had occurred on January 1, 2010.

(2) To supplement our net income presented in accordance with accounting principles generally accepted in the United States of America, referred to as GAAP, we use the non-GAAP financial measure of adjusted net income, which is adjusted from net income, the most comparable GAAP measure, to exclude stock-based compensation and certain other items. Although the nature of many of these income and expense items is recurring, we have historically excluded such impact from internal performance assessments. We believe that excluding items such as stock-based compensation, legal settlement costs, acquired intangible amortization, goodwill impairment charges, as well as write-off and recovery specified below, helps investors compare our operating performance with our results in prior periods and compare us and similar companies. This non-GAAP financial measure is provided as additional information to help our investors compare business trends among different reporting periods on a consistent basis and to enhance investors overall understanding of the historical and current financial performance of our continuing operations.

This non-GAAP financial measure should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. In addition, our calculation of this non-GAAP financial measure may be different from the calculation used by other companies, and therefore comparability may be limited.

The following table provides a reconciliation of net income to adjusted net income for the periods indicated:

	Nine Months Ended September 30,		Year Ended December 31,		
	2011	2010	2010	2009	2008
	(in thousands)				
Reconciliation of Adjusted Net Income:					
Net income	$ 31,969	$ 16,678	$ 28,308	$ 13,528	$ 4,050
Adjustments:					
Stock-based compensation	2,154	1,753	2,939	2,411	2,797
Legal settlement(a)		2,609	2,609		
Acquired intangible amortization	639	752	999	895	654
Goodwill write-off(b)	1,697				
Write-off and recovery(c)		(1,663)	(1,686)		1,814
Adjusted net income	$ 36,459	$ 20,129	$ 33,169	$ 16,834	$ 9,315

(a) In September 2010, the Company entered into a settlement agreement and release with a former officer and his related parties. See Note 15 to our audited consolidated financial statements included elsewhere in this prospectus.

(b) Goodwill impairment and respective write-off is related to an impairment in the Other reportable segment. See Note 2 to our unaudited condensed consolidated financial statements included elsewhere in this prospectus.

(c) Write-off and recovery is related to a single client receivable written off in 2008 and subsequently recovered in 2010.

	As of September 30,	As of December 31,

	2011	2010	2010	2009	2008
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 67,399	$ 38,157	$ 54,004	$ 52,927	$ 30,658
Accounts receivable, net	50,927	30,417	41,488	27,450	28,224
Unbilled revenues, net	33,417	32,914	23,883	13,952	9,777
Property and equipment, net	34,063	24,642	25,338	23,053	19,136
Total assets	209,758	147,840	170,858	135,407	106,924
Accrued expenses	15,845	9,142	15,031	4,928	7,103
Deferred revenue	3,981	3,674	5,151	4,417	990
Revolving line of credit				7,000	
Total liabilities	41,006	24,943	35,900	30,196	18,793
Preferred stock; Series A-1 convertible redeemable preferred stock and Series A-2 convertible redeemable preferred stock	85,940	68,377	68,377	87,413	82,990
Total stockholders equity	$ 82,679	$ 53,577	$ 66,249	$ 16,534	$ 4,098

Table of Contents

RISK FACTORS

You should carefully consider the following risks and all of the other information set forth in this prospectus before deciding to invest in shares of our common stock. If any of the following risks actually occurs, our business, financial condition and results of operations would likely suffer. In such case, the trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In particular, 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, which could place significant strain on our management personnel, systems and resources.

We have experienced rapid growth and significantly expanded our business recently. Our revenues grew from $160.6 million in 2008 to $221.8 million in 2010 and from $151.0 million in the first nine months of 2010 to $239.4 million in the first nine months of 2011. We have also supplemented our organic growth with strategic acquisitions. As of September 30, 2011, we had 6,554 IT professionals, as compared to 2,890 IT professionals as of December 31, 2007. We intend to continue our expansion in the foreseeable future to pursue existing and potential market opportunities.

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 IT professionals and management personnel;
- adhering to and further improving our high-quality and process execution standards and maintaining high levels of client satisfaction;
- managing a larger number of clients in a greater number of industries and locations;
- maintaining effective oversight of personnel and delivery centers;
- preserving our culture, values and entrepreneurial environment; and
- developing and improving our internal administrative infrastructure, particularly our financial, operational, communications and other internal systems.

Moreover, as we introduce new services or enter into new markets, we may face new market, technological and operational risks and challenges with which we are unfamiliar, and it may require substantial management efforts and skills to mitigate these risks and challenges. As a result of any of these problems associated with expansion, our business, financial condition and results of operations could be materially adversely affected.

We may not be able to achieve anticipated growth, which could materially adversely affect our business and prospects.

We intend to continue our expansion in the foreseeable future to pursue existing and potential market opportunities. As we introduce new services or enter into new markets, we may face new market, technological and operational risks and challenges with which we are unfamiliar, and we may not be able to mitigate these risks and challenges to successfully grow those services or markets. We may not be able to achieve our anticipated growth, which could materially adversely affect our business and prospects.

If we fail to attract and retain highly skilled IT professionals, we may not have the necessary resources to properly staff projects, and failure to successfully compete for such IT professionals could materially adversely affect our ability to provide high quality services to our clients.

Our success depends largely on the contributions of our IT professionals and our ability to attract and retain qualified IT professionals. Competition for IT professionals in the markets in which we operate can be intense and, accordingly, we may not be able to retain or hire all of the IT professionals necessary to meet our ongoing and future business needs. Any reductions in headcount for economic or business reasons, however temporary, could negatively affect our reputation as an employer and our ability to hire IT professionals to meet our business requirements.

The total attrition rates among our IT professionals who have worked for us for at least six months were 10.9%, 11.2% and 9.4% for 2008, 2009 and 2010, respectively. We may encounter higher attrition rates in the future. A significant increase in the attrition rate among IT professionals with specialized skills could decrease our operating efficiency and productivity and could lead to a decline in demand for our services. The competition for highly-skilled IT professionals may require us to increase salaries, and we may be unable to pass on these increased costs to our clients.

In addition, our ability to maintain and renew existing engagements and obtain new business will depend, in large part, on our ability to attract, train and retain skilled IT professionals, including experienced management IT professionals, which enables us to keep pace with growing demands for outsourcing, evolving industry standards and changing client preferences. If we are unable to attract and retain the highly-skilled IT professionals we need, we may have to forgo projects for lack of resources or be unable to staff projects optimally. Our failure to attract, train and retain IT professionals with the qualifications necessary to fulfill the needs of our existing and future clients or to assimilate new IT professionals successfully could materially adversely affect our ability to provide high quality services to our clients.

Increases in wages and other compensation expense for our IT professionals could prevent us from sustaining our competitive advantage.

Wage costs for IT professionals in CIS and CEE countries are lower than comparable wage costs in more developed countries. However, wage costs in the CIS and CEE IT services industry 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 IT professionals as well as the prices we can charge for our services. Increases in wage costs may reduce our profitability. In addition, the issuance of equity-based compensation to our IT professionals would also result 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. We currently do not maintain key man life insurance for any of the senior members of our management team or other key personnel. 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 joins a competitor or forms a competing company, we may lose clients, suppliers, know-how and key IT professionals and staff members to them. Also, if any of our business development managers, who generally keep a close relationship with our clients, joins a competitor or forms a competing company, we may lose clients, and our revenues may be materially adversely affected. Additionally, there could be unauthorized disclosure or use of our technical knowledge, practices or procedures by such personnel. If any dispute arises between our senior executives or key personnel and us, any non-competition, non-solicitation and non-disclosure agreements we have with our senior executives or key personnel might not provide effective protection to us, especially in CIS and CEE countries where some of our senior executives and most of our key employees reside, in light of uncertainties with legal systems in CIS and CEE countries.

Table of Contents

Emerging markets such as the CIS and CEE countries are subject to greater risks than more developed markets, including significant legal, economic, tax and political risks.

We have significant operations in CIS countries, including Belarus, Russia, Ukraine and Kazakhstan and in Hungary, which is a CEE country. Investors in emerging markets such as CIS and CEE countries should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic, tax and political risks. Investors should also note that emerging economies such as the economies of Belarus, Russia, Ukraine, Kazakhstan and Hungary are subject to rapid change and that the information set forth in this prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, an investment in our common stock is appropriate. See Risks Related to Conducting Business in the CIS and CEE Countries.

We generate a significant portion of our revenues from a small number of clients, and any loss of business from these clients could materially reduce our revenues.

We have derived, and believe that in the foreseeable future we will continue to derive, a significant portion of our revenues from a small number of clients. During 2009, 2010 and the first nine months of 2011, our largest client, Thomson Reuters, accounted for over 10% of our revenues. In the aggregate, our top ten clients accounted for 36.8%, 35.3%, 42.6%, and 45.1% of our revenues in 2008, 2009, 2010 and the first nine months of 2011, respectively.

Our ability to maintain close relationships with these and other major clients is essential to the growth and profitability of our business. However, the volume of work performed for a specific client is likely to vary from year to year, especially since we generally are not our clients exclusive IT services provider and we do not have long-term commitments from any clients to purchase our services. A major client in one year may not provide the same level of revenues for us in any subsequent year. The IT services we provide to our clients, and the revenues and net income from those services, may decline or vary as the type and quantity of IT services we provide change over time. Furthermore, our reliance on any individual client for a significant portion of our revenues may give that client a certain degree of pricing leverage against us when negotiating contracts and terms of service.

In addition, a number of factors other than our performance could cause the loss of or reduction in business or revenues from a client, and these factors are not predictable. For example, a client may decide to reduce spending on technology services or sourcing from us due to a challenging economic environment or other factors, both internal and external, relating to its business. These factors, among others, may include corporate restructuring, pricing pressure, changes to its outsourcing strategy, switching to another IT services provider or returning work in-house.

The loss of any of our major clients, or a significant decrease in the volume of work they outsource to us or the price at which we sell our services to them, could materially adversely affect our revenues and thus our results of operations.

Our revenues, operating results and profitability may experience significant variability and, as a result, it may be difficult to make accurate financial forecasts.

Our revenues, operating results and profitability have varied in the past and are likely to vary in the future, which could make it difficult to make accurate financial forecasts. Factors that are likely to cause these variations include:

the number, timing, scope and contractual terms of IT projects in which we are engaged;

delays in project commencement or staffing delays due to difficulty in assigning appropriately skilled or experienced IT professionals;

Table of Contents

- the accuracy of estimates of resources, time and fees required to complete fixed-price projects and costs incurred in the performance of each project;
- changes in pricing in response to client demand and competitive pressures;
- changes in the allocation of onsite and offshore staffing;
- the business decisions of our clients regarding the use of our services;
- the ability to further grow revenues from existing clients;
- the available leadership and senior technical resources compared to junior engineering resources staffed on each project;
- seasonal trends, primarily our hiring cycle and the budget and work cycles of our clients;
- delays or difficulties in expanding our operational facilities or infrastructure;
- the ratio of fixed-price contracts to time-and-materials contracts in process;
- employee wage levels and increases in compensation costs, including timing of promotions and annual pay increases;
- unexpected changes in the utilization rate of our IT professionals;
- unanticipated contract or project terminations;
- the timing of collection of accounts receivable;
- the continuing financial stability of our clients; and
- general economic conditions.

If we are unable to make accurate financial forecasts, it could materially adversely affect our business, financial condition and results of operations.

We do not have long-term commitments from our clients, and our clients may terminate contracts before completion or choose not to renew contracts.

Our clients are generally not obligated for any long-term commitments to us. Although a substantial majority of our revenues are generated from repeated business, which we define as revenues from a client who also contributed to our revenues during the prior year, our engagements with our clients are typically for projects that are singular in nature. In addition, our clients can terminate many of our master services agreements and work orders with or without cause, and in most cases without any cancellation charge. Therefore, we must seek to obtain new engagements when our current engagements are successfully completed or are terminated as well as maintain relationships with existing clients and secure new clients to expand our business.

There are a number of factors relating to our clients that are outside of our control which might lead them to terminate a contract or project with us, including:

- financial difficulties for the client;
- a change in strategic priorities, resulting in elimination of the impetus for the project or a reduced level of technology spending;
- a change in outsourcing strategy resulting in moving more work to the client s in-house technology departments or to our competitors;
- the replacement by our clients of existing software with packaged software supported by licensors; and
- mergers and acquisitions or significant corporate restructurings.

Table of Contents

Failure to perform or observe any contractual obligations could result in cancellation or non-renewal of a contract, which could cause us to experience a higher than expected number of unassigned employees and an increase in our cost of revenues as a percentage of revenues, until we are able to reduce or reallocate our headcount. The ability of our clients to terminate agreements makes our future revenues uncertain. We may not be able to replace any client that elects to terminate or not renew its contract with us, which could materially adversely affect our revenues and thus our results of operations.

In addition, some of our agreements specify that if a change of control of our company occurs during the term of the agreement, the client has the right to terminate the agreement. If any future event triggers any change-of- control provision in our client contracts, these master services agreements may be terminated, which would result in loss of revenues.

Our revenues are highly dependent on clients primarily located in the United States and Europe. Worsening economic conditions or factors that negatively affect the economic health of the United States or Europe could reduce our revenues and thus adversely affect our results of operations.

The recent crisis in the financial and credit markets in North America, Europe and Asia led to a global economic slowdown, with the economies of those regions showing significant signs of weakness. The IT services industry is particularly sensitive to the economic environment, and tends to decline during general economic downturns. We derive a significant portion of our revenues from clients in North America and Europe. If the North American or European economies further weaken or slow, pricing for our services may be depressed and our clients may reduce or postpone their technology spending significantly, which may in turn lower the demand for our services and negatively affect our revenues and profitability.

The current financial crisis in Europe (including concerns that certain European countries may default in payments due on their national debt) and the resulting economic uncertainty could adversely impact our operating results unless and until economic conditions in Europe improve and the prospects of national debt defaults in Europe decline. To the extent that these adverse economic conditions continue or worsen, they will likely continue to have a number of negative effects on our business.

If we are unable to successfully anticipate changing economic and political conditions affecting the markets in which we operate, we may be unable to effectively plan for or respond to those changes, and our results of operations could be adversely affected.

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

Our profitability is significantly impacted by our utilization levels of fixed-cost resources, including human resources as well as other resources such as computers and office space, and our ability to increase our productivity levels. We have expanded our operations significantly in recent years through organic growth and strategic acquisitions, which has resulted in a significant increase in our headcount and fixed overhead costs.

Some of our IT professionals are specially trained to work for specific clients or on specific projects and some of our offshore development centers are dedicated to specific clients or specific projects. Our ability to manage our utilization levels depends significantly on our ability to hire and train high-performing IT professionals and to staff projects appropriately and on the general economy and its effect on our clients and their business decisions regarding the use of our services. If we experience a slowdown or stoppage of work for any client or on any project for which we have dedicated IT professionals or facilities, we may not be able to efficiently reallocate these IT professionals and facilities to other clients 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.

Table of Contents

We face intense competition from onshore and offshore IT services companies, and increased competition, our inability to compete successfully against competitors, pricing pressures or loss of market share could materially adversely affect our business.

The market for IT services is highly competitive, and we expect competition to persist and intensify. We believe that the principal competitive factors in our markets are reputation and track record, industry expertise, breadth and depth of service offerings, quality of the services offered, language, marketing and selling skills, scalability of infrastructure, ability to address clients timing requirements and price.

We face competition from offshore IT services providers in other outsourcing destinations with low wage costs such as India and China, as well as competition from large, global consulting and outsourcing firms and in-house IT departments of large corporations. Clients tend to engage multiple IT services providers instead of using an exclusive IT services provider, which could reduce our revenues to the extent that clients obtain services from other competing IT services providers. Clients may prefer IT services providers that have more locations or that are based in countries more cost-competitive or more stable than some CIS and CEE countries.

Our ability to compete successfully also depends in part on a number of factors beyond our control, including the ability of our competitors to recruit, train, develop and retain highly-skilled IT professionals, the price at which our competitors offer comparable services and our competitors responsiveness to client needs. Some of our present and potential competitors may have substantially greater financial, marketing or technical resources. Our current and potential competitors may also be able to respond more quickly to new technologies or processes and changes in client demands; may be able to devote greater resources towards the development, promotion and sale of their services than we can; and may also make strategic acquisitions or establish cooperative relationships among themselves or with third parties that increase their ability to address the needs of our clients. Client buying patterns can change if clients become more price sensitive and accepting of low-cost suppliers. Therefore, we cannot assure you that we will be able to retain our clients while competing against such competitors. Increased competition, our inability to compete successfully, pricing pressures or loss of market share could materially adversely affect our business.

We are investing substantial cash in new facilities and physical infrastructure, and our profitability could be reduced if our business does not grow proportionately.

We have made and continue to make significant contractual commitments related to capital expenditures on construction or expansion of our delivery centers, such as in Minsk, Belarus. We may encounter cost overruns or project delays in connection with new facilities. These expansions will likely increase our fixed costs and if we are unable to grow our business and revenues proportionately, our profitability may be reduced.

Our revenues are highly dependent on a limited number of industries, and any decrease in demand for outsourced services in these industries could reduce our revenues and adversely affect our results of operations.

A substantial portion of our clients are concentrated in five specific industry verticals: ISVs and Technology, Banking and Financial Services, Business Information and Media, Travel and Hospitality, and Retail and Consumer. Clients in ISVs and Technology accounted for 37.0%, 38.5%, 31.0%, and 26.7% of our revenues in 2008, 2009, 2010 and the first nine months of 2011, respectively. Clients in Banking and Financial Services accounted for 13.4%, 11.4%, 19.3%, and 22.5% of our revenues in 2008, 2009, 2010 and the first nine months of 2011, respectively. Our business growth largely depends on continued demand for our services from clients in these five industry verticals and other industries that we may target in the future, as well as on trends in these industries to outsource IT services.

A downturn in any of our targeted industries, a slowdown or reversal of the trend to outsource IT services in any of these industries or the introduction of regulations that restrict or discourage companies from outsourcing could result in a decrease in the demand for our services and materially adversely affect our business, financial condition and results of operations. For example, a worsening of economic conditions in the financial services industry and significant consolidation in that industry may reduce the demand for our services and negatively affect our revenues and profitability.

Other developments in the industries in which we operate may also lead to a decline in the demand for our services in these industries, and we may not be able to successfully anticipate and prepare for any such changes. For example, consolidation in any of these industries or acquisitions, particularly involving our clients, may decrease the potential number of buyers of our services. Our clients may experience rapid changes in their prospects, substantial price competition and pressure on their profitability. This, in turn, may result in increasing pressure on us from clients in these key industries to lower our prices, which could adversely affect our results of operations.

If we are not successful in managing increasingly large and complex projects, we may not achieve our financial goals and our results of operations could be adversely affected.

To successfully market our service offerings and obtain larger and more complex projects, we need to establish close relationships with our clients and develop a thorough understanding of their operations. In addition, we may face a number of challenges managing larger and more complex projects, including:

- maintaining high-quality control and process execution standards;
- maintaining planned resource utilization rates on a consistent basis;
- maintaining productivity levels and implementing necessary process improvements;
- controlling costs;
- maintaining close client contact and high levels of client satisfaction; and
- maintaining effective client relationships.

Our ability to successfully manage large and complex projects depends significantly on the skills of our management personnel and IT professionals, some of whom do not have experience managing large-scale or complex projects. In addition, large and complex projects may involve multiple engagements or stages, and there is a risk that a client may choose not to retain us for additional stages or may cancel or delay additional planned engagements. Such cancellations or delays may make it difficult to plan our project resource requirements. If we fail to successfully obtain engagements for large and complex projects, we may not achieve our revenue growth and other financial goals. Even if we are successful in obtaining such engagements, a failure by us to effectively manage these large and complex projects could damage our reputation, cause us to lose business, impact our margins and adversely affect our business and results of operations.

If we are unable to adapt to rapidly changing technologies, methodologies and evolving industry standards we may lose clients and our business could be materially adversely affected.

Rapidly changing technologies, methodologies and evolving industry standards characterize the market for our services. Our future success will depend in part upon our ability to anticipate developments in IT services, enhance our existing services and to develop and introduce new services to keep pace with such changes and developments and to meet changing client needs. The process of developing our client solutions is extremely complex and is expected to become increasingly complex and expensive in the future due to the introduction of new platforms, operating systems, technologies and methodologies. Our ability to keep up with technology, methodology and business changes is subject to a number of risks, including that:

- we may find it difficult or costly to update our services, applications, tools and software and to develop new services quickly enough to meet our clients needs;

- we may find it difficult or costly to make some features of our software work effectively and securely over the Internet or with new or changed operating systems;

Table of Contents

- we may find it difficult or costly to update our software and services to keep pace with business, evolving industry standards, methodologies, regulatory and other developments in the industries where our clients operate; and

- we may find it difficult to maintain a high level of quality in implementing new technologies and methodologies.

We may not be successful in anticipating or responding to these developments in a timely manner, or if we do respond, the services, technologies or methodologies we develop or implement may not be successful in the marketplace. Further, services, technologies or methodologies that are developed by our competitors may render our services non-competitive or obsolete. Our failure to enhance our existing services and to develop and introduce new services to promptly address the needs of our clients could cause us to lose clients and materially adversely affect our business.

We face risks associated with having a long selling and implementation cycle for our services that require us to make significant resource commitments prior to realizing revenues for those services.

We have a long selling cycle for our IT services, which requires significant investment of human resources and time by both our clients and us. Before committing to use our services, potential clients require us to expend substantial time and resources educating them on the value of our services and our ability to meet their requirements. Therefore, our selling cycle is subject to many risks and delays over which we have little or no control, including our clients decision to choose alternatives to our services (such as other IT services providers or in-house resources) and the timing of our clients budget cycles and approval processes. If our sales cycle unexpectedly lengthens for one or more large projects, it would negatively affect the timing of our revenues and hinder our revenues growth. For certain clients, we may begin work and incur costs prior to concluding the contract. A delay in our ability to obtain a signed agreement or other persuasive evidence of an arrangement, or to complete certain contract requirements in a particular quarter, could reduce our revenues in that quarter.

Implementing our services also involves a significant commitment of resources over an extended period of time from both our clients and us. Our clients may experience delays in obtaining internal approvals or delays associated with technology, thereby further delaying the implementation process. Our current and future clients may not be willing or able to invest the time and resources necessary to implement our services, and we may fail to close sales with potential clients to which we have devoted significant time and resources. Any significant failure to generate revenues or delays in recognizing revenues after incurring costs related to our sales or services process could materially adversely affect our business.

We may not be able to recognize revenues in the period in which our services are performed, which may cause our margins to fluctuate.

Our services are performed under both time-and-material and fixed-price contract arrangements. All revenues are recognized pursuant to applicable accounting standards. We recognize revenues when realized or realizable and earned, which is when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured. If there is an uncertainty about the project completion or receipt of payment for the services, revenues are deferred until the uncertainty is sufficiently resolved.

Additionally, we recognize revenues from fixed-price contracts based on the proportional performance method. In instances where final acceptance of the system or solution is specified by the client, revenues are deferred until all acceptance criteria have been met. In absence of a sufficient basis to measure progress towards completion, revenues are recognized upon receipt of final acceptance from the client. Our failure to meet all the acceptance criteria, or otherwise meet a client s expectations, may result in our having to record the cost related to the performance of services in the period that services were rendered, but delay the timing of revenue recognition to a future period in which all acceptance criteria have been met.

Table of Contents

If our pricing structures are based on inaccurate expectations and assumptions regarding the cost and complexity of performing our work, then our contracts could be unprofitable.

We negotiate pricing terms with our clients utilizing a range of pricing structures and conditions. Our pricing is highly dependent on our internal forecasts and predictions about our projects and the marketplace, which might be based on limited data and could turn out to be inaccurate. If we do not accurately estimate the costs and timing for completing projects, our contracts could prove unprofitable for us. We face a number of risks when pricing our contracts, as many of our projects entail the coordination of operations and personnel in multiple locations with different skill sets and competencies. Our pricing and cost estimates for the work that we perform sometimes include anticipated long-term cost savings from transformational and other initiatives that we expect to achieve and sustain over the life of the contract. There is a risk that we will underprice our projects, particularly with fixed-price contracts, fail to accurately estimate the costs of performing the work or fail to accurately assess the risks associated with potential contracts. In particular, any increased or unexpected costs, delays or failures to achieve anticipated cost savings, or unexpected risks we encounter in connection with the performance of this work, including those caused by factors outside our control, could make these contracts less profitable or unprofitable.

In addition, a number of our contracts contain pricing terms that condition a portion of the payment of fees by the client on our ability to meet defined performance goals, service levels and completion schedules set forth in the contracts. Our failure to meet such performance goals, service levels or completion schedules or our failure to meet client expectations in such contracts may result in less profitable or unprofitable engagements.

Our profitability could suffer if we are not able to maintain favorable pricing rates.

Our profitability and operating results are dependent on the rates we are able to charge for our services. Our rates are affected by a number of factors, including:

- our clients perception of our ability to add value through our services;
- our competitors pricing policies;
- bid practices of clients and their use of third-party advisors;
- the mix of onsite and offshore staffing;
- employee wage levels and increases in compensation costs, including timing of promotions and annual pay increases;
- our ability to charge premium prices when justified by market demand or the type of service; and
- general economic conditions.

If we are not able to maintain favorable pricing for our services, our profitability could suffer.

If we are unable to collect our receivables from, or bill our unbilled services to, our clients, our results of operations and cash flows could be materially adversely affected.

Our business depends on our ability to successfully obtain payment from our clients of the amounts they owe us for work performed. We usually bill and collect on relatively short cycles. We maintain allowances against receivables and unbilled services. Actual losses on client balances could differ from those that we currently anticipate and, as a result, we might need to adjust our allowances. There is no guarantee that we will accurately assess the creditworthiness of our clients. Weak macroeconomic conditions and related turmoil in the global financial system could also result in financial difficulties, including limited access to the credit markets, insolvency, or bankruptcy for our clients, and, as a result, could cause clients to delay payments to us, request modifications to their payment arrangements that could increase our receivables balance, or default on their payment obligations to us. Timely collection of client balances also depends on our ability to complete our contractual commitments and bill and collect our contracted revenues. If we are unable to meet our contractual

Table of Contents

requirements, we might experience delays in collection of and/or be unable to collect our client balances, and if this occurs, our results of operations and cash flows could be materially adversely affected. Moreover, in the event of delays in payment from our governmental and quasi-governmental clients, we may have difficulty collecting on receivables owed. In addition, if we experience an increase in the time to bill and collect for our services, our cash flows could be materially adversely affected.

Our ability to generate and retain business depends on our reputation in the marketplace.

Our services are marketed to clients and prospective clients based on a number of factors. Since many of our specific client engagements involve unique services and solutions, our corporate reputation is a significant factor in our clients evaluation of whether to engage our services. We believe the EPAM brand name and our reputation are important corporate assets that help distinguish our services from those of our competitors and also contribute to our efforts to recruit and retain talented employees. However, our corporate reputation is potentially susceptible to damage by actions or statements made by current or former clients, competitors, vendors, adversaries in legal proceedings, government regulators, as well as members of the investment community and the media. There is a risk that negative information about our company, even if based on false rumor or misunderstanding, could adversely affect our business. In particular, damage to our reputation could be difficult and time-consuming to repair, could make potential or existing clients reluctant to select us for new engagements, resulting in a loss of business, and could adversely affect our recruitment and retention efforts. Damage to our reputation could also reduce the value and effectiveness of the EPAM brand name and could reduce investor confidence in us.

We have incurred, and may continue to incur, significant stock-based compensation expenses which could adversely impact our net income.

We have granted certain options under our stock incentive plans and entered into certain other stock-based compensation arrangements in the past, as a result of which we have recorded $2.8 million, $2.4 million and $2.9 million as stock-based compensation expenses for the years ended December 31, 2008, 2009 and 2010, respectively, and $1.8 million and $2.2 million for the nine months ended September 30, 2010 and 2011, respectively.

GAAP prescribes how we account for stock-based compensation which could adversely or negatively impact our results of operations or the price of our common stock. GAAP requires us to recognize stock-based compensation as compensation expense in the statement of operations generally based on the fair value of equity awards on the date of the grant, with compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award. The expenses associated with stock-based compensation may reduce the attractiveness of issuing equity awards under our equity incentive plan. However, if we do not grant equity awards, or if we reduce the number 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.

Our effective tax rate could be materially adversely affected by several factors.

We conduct business globally and file income tax returns in multiple jurisdictions. Our effective tax rate could be materially adversely affected by several factors, including changes in the amount of income taxed by or allocated to the various jurisdictions in which we operate that have differing statutory tax rates; changing tax laws, regulations and interpretations of such tax laws in multiple jurisdictions; and the resolution of issues arising from tax audits or examinations and any related interest or penalties.

We report our results of operations based on our determination of the amount of taxes owed in the various jurisdictions in which we operate. We have transfer pricing arrangements among our subsidiaries in relation to various aspects of our business, including operations, marketing, sales and delivery functions. U.S. transfer pricing regulations, as well as regulations applicable in CIS and CEE countries in which we operate, require that

Table of Contents

any international transaction involving associated enterprises be on arm s-length terms. We consider the transactions among our subsidiaries to be on arm s-length terms. The determination of our consolidated provision for income taxes and other tax liabilities requires estimation, judgment and calculations where the ultimate tax determination may not be certain. Our determination of tax liability is always subject to review or examination by authorities in various jurisdictions.

If a tax authority in any jurisdiction reviews any of our tax returns and proposes an adjustment, including as a result of a determination that the transfer prices and terms we have applied are not appropriate, such an adjustment could have a negative impact on our business. The U.S. Internal Revenue Service has begun an examination of our federal income tax returns for the tax year ended December 31, 2008, and the State of New Jersey Division of Taxation has begun an examination of our state returns for tax years ended December 31, 2007 through 2011. The results from these and other tax examinations and audits may differ from the liabilities recorded in our consolidated financial statements and could materially adversely affect our financial condition and results of operations.

Our earnings could be adversely affected if we change our intent not to repatriate earnings in the CIS and CEE or such earnings become subject to U.S. tax on a current basis.

We do not accrue incremental U.S. taxes on all CIS and CEE earnings as these earnings (as well as other foreign earnings for all periods) are considered to be indefinitely reinvested outside of the United States. While we have no plans to do so, events may occur in the future that could effectively force us to change our intent not to repatriate our foreign earnings. If we change our intent and repatriate such earnings, we will have to accrue the applicable amount of taxes associated with such earnings and pay taxes at a substantially higher rate than our effective income tax rate in 2010. These increased taxes could materially adversely affect our financial condition and results of operations.

Our operating results may be negatively impacted by the loss of certain tax benefits provided by the governments of Belarus, Hungary and Russia to companies in our industry.

Our subsidiary in Belarus is a member of the Belarus Hi-Tech Park, in which member technology companies are exempt or levied at a reduced rate on a variety of taxes, including a 100% exemption from Belarusian income tax (which as of the date of this prospectus was 24%) and an exemption from the value added tax, for a period of 15 consecutive years effective July 1, 2006. In addition, our subsidiary in Hungary benefits from a tax credit of 10% of qualified salaries, taken over a four-year period, for up to 70% of the total tax due for that period. We have been able to take the full 70% credit for 2007, 2008, 2009 and 2010. Our subsidiary in Russia benefits from a substantially reduced rate on social contributions and an exemption on value added tax in certain circumstances, which is a benefit to qualified IT companies in Russia. If the tax holiday relating to our Belarusian subsidiary, the tax incentives relating to our Hungarian subsidiary or the lower tax rates and social contributions relating to our Russian subsidiary are changed, terminated, not extended or comparable new tax incentives are not introduced, we expect that our effective income tax rate and/or our operating expenses would increase significantly, which could materially adversely affect our financial condition and results of operations. See Management s Discussion and Analysis of Financial Condition and Results of Operations Certain Income Statement Line Items Provision for Income Taxes.

Our ability to expand our business and procure new contracts or enter into beneficial business arrangements could be affected by non-competition clauses in our agreements with existing clients.

Some of our agreements with clients contain time-based restrictions on reassigning personnel from those clients accounts to the accounts of competitors of such clients. These clauses may restrict our ability to offer services to different clients in a specific industry or market. For example, we have agreed that, for periods ranging from six months to one year after the completion of either the services we have provided to certain clients or the termination of our service agreements with such clients, we will not assign any of our employees that have worked on services or projects for such clients to the development or distribution of any services or projects that compete directly or indirectly with the services or projects that we have provided such clients. Moreover, we may in the future enter into agreements with clients that restrict our ability to accept assignments from, or render similar services to, those clients customers, require us to obtain our clients prior written consent to provide services to their customers or restrict our

Table of Contents

ability to compete with our clients, or bid for or accept any assignment which our client is bidding for or is negotiating. These restrictions may hamper our ability to compete for and provide services to other clients in a specific industry in which we have expertise and could materially adversely affect our business, financial condition and results of operations.

Our agreement with one of our largest clients gives it the option to assume the operations of one of our offshore development centers, and the exercise of that option could result in a loss of future revenues and adversely affect our results of operations.

During the four-year term of our agreement with one of our largest clients, which ends in December 2014 unless extended by the client, the client is entitled to request us to transfer to it or its designees all of the operating relationships, including employment relationships with the employees dedicated to the offshore development center and contracts with subcontractors, at a pre-determined transfer price dependent on the experience level of the transferred employee and the duration such employee worked on projects for the client. We are required to transfer assets that have already been financed by the client under our agreement, such as our offshore development center dedicated to the client, at a de minimis pre-agreed price. Since our client has already financed such assets, the carrying value of such assets is de minimis. In addition to the above amounts, the client is also required to pay a negotiated value or book value for the assets to be transferred that have not already been financed by the client. This client accounted for 2.9% and 6.1% of our revenues in 2010 and the first nine months of 2011, respectively. In addition, under our agreement, the client has the right to step in and take over all or part of the offshore development center in certain instances, including if we are in material default under certain provisions of our agreement, such as those related to the level or quality of our services, or the client has determined it is otherwise obliged to do so in emergencies or for regulatory reasons. In the event the client takes over any services we provide under our agreement, it will not be obligated to pay us for the provision of those services. If the client exercises these rights, we would lose future revenues related to the services we provide to the client, as well as lose some of our assets and key employees, and our losses may not be fully covered by the contractual payment, which could adversely affect our results of operations.

Undetected software design defects, errors or failures may result in loss of or delay in market acceptance of our services or in liabilities that could materially adversely affect our business.

Our software development solutions involve a high degree of technological complexity and have unique specifications and could contain design defects or software errors that are difficult to detect and correct. Errors or defects may result in the loss of current clients and loss of, or delay in, revenues, loss of market share, loss of client data, a failure to attract new clients or achieve market acceptance, diversion of development resources and increased support or service costs. We cannot assure you that, despite testing by us and our clients, errors will not be found in new software product development solutions, which could result in litigation and other claims for damages against us and thus could materially adversely affect our business.

Disruptions in internet infrastructure, telecommunications or significant failure in our IT systems could harm our service model, which could result in a reduction of our revenue.

Part of our service model is to maintain active voice and data communications, financial control, accounting, customer service and other data processing systems between our clients offices, our delivery centers and our client management locations (including our headquarters in Newtown, PA). Our business activities may be materially disrupted in the event of a partial or complete failure of any of these internet, IT or communication systems, which could be caused by, among other things, software malfunction, computer virus attacks, conversion errors due to system upgrading, damage from fire, earthquake, power loss, telecommunications failure, unauthorized entry, demands placed on internet infrastructure by growing numbers of users and time spent online or increased bandwidth requirements or other events beyond our control. Loss of all or part of the infrastructure or systems for a period of time could hinder our performance or our ability to complete client projects on time which, in turn, could lead to a reduction of our revenue or otherwise materially adversely affect our business and business reputation.

Table of Contents

Our computer networks may be vulnerable to security risks that could disrupt our services and cause us to incur losses or liabilities that could adversely affect our business.

Our computer networks may be vulnerable to unauthorized access, computer hackers, computer viruses, worms, malicious applications and other security problems caused by unauthorized access to, or improper use of, systems by third parties or employees. A hacker who circumvents security measures could misappropriate proprietary information, including personally identifiable information, or cause interruptions or malfunctions in our operations. Although we intend to continue to implement security measures, computer attacks or disruptions may jeopardize the security of information stored in and transmitted through our computer systems. Actual or perceived concerns that our systems may be vulnerable to such attacks or disruptions may deter our clients from using our solutions or services. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches.

Data networks are also vulnerable to attacks, unauthorized access and disruptions. For example, in a number of public networks, hackers have bypassed firewalls and misappropriated confidential information, including personally identifiable information. It is possible that, despite existing safeguards, an employee could misappropriate our clients proprietary information or data, exposing us to a risk of loss or litigation and possible liability. Losses or liabilities that are incurred as a result of any of the foregoing could adversely affect our business.

If we cause disruptions to our clients businesses or provide inadequate service, our clients may have claims for substantial damages against us, which could cause us to lose clients, have a negative effect on our reputation and adversely affect our results of operations.

If our IT professionals make errors in the course of delivering services to our clients or fail to consistently meet service requirements of a client, these errors or failures could disrupt the client s business, which could result in a reduction in our revenues or a claim for substantial damages against us. In addition, a failure or inability to meet a contractual requirement could seriously damage our reputation and affect our ability to attract new business.

The services we provide are often critical to our clients businesses. Certain of our client contracts require us to comply with security obligations including maintaining network security and backup data, ensuring our network is virus-free, maintaining business continuity planning procedures, and verifying the integrity of employees that work with our clients by conducting background checks. Any failure in a client s system or breach of security relating to the services we provide to the client could damage our reputation or result in a claim for substantial damages against us. Any significant failure of our equipment or systems, or any major disruption to basic infrastructure like power and telecommunications in the locations in which we operate, could impede our ability to provide services to our clients, have a negative impact on our reputation, cause us to lose clients, and adversely affect our results of operations.

Under our contracts with our clients, our liability for breach of our obligations is in some cases limited pursuant to the terms of the contract. Such limitations may be unenforceable or otherwise may not protect us from liability for damages. In addition, certain liabilities, such as claims of third parties for which we may be required to indemnify our clients, are generally not limited under our contracts. The successful assertion of one or more large claims against us in amounts greater than those covered by our current insurance policies could materially adversely affect our business, financial condition and results of operations. Even if such assertions against us are unsuccessful, we may incur reputational harm and substantial legal fees.

Our subcontracting practices may expose us to technical uncertainties, potential liabilities and reputational harm.

In order to meet our personnel needs, increase workforce flexibility, and improve pricing competitiveness, we use subcontractors and freelancers primarily to perform short-term assignments in certain specialty areas or on other projects where it is impractical to use our employees, or where we need to supplement our resources.

Table of Contents

We also use subcontractors for internal assignments, such as assisting in development of internal systems, recruiting, training, human resources consulting and administration, and other similar support functions. Despite certain advantages of subcontracting, such arrangements also give rise to a number of risks.

Although we try to source competent and credible third parties as our subcontractors, they may not be able to deliver the level of service that our clients expect us to deliver. Furthermore, we enter into confidentiality agreements with our subcontractors, but we cannot guarantee that they will not breach the confidentiality of us or our clients and misappropriate our or our clients proprietary information and technology in the course of providing service. We, as the party to the contract with the client, are directly responsible for the losses our subcontractors cause our clients. Under the subcontracting agreements we enter into, our subcontractors generally promise to indemnify us for damages caused by their breach, but we may be unable to collect under these agreements. Moreover, their breaches may damage our reputation, cause us to lose existing business and adversely affect our ability to acquire new business in the future.

There may be adverse tax and employment law consequences if the independent contractor status of our IT professionals or the exempt status of our employees is successfully challenged.

Some of our IT professionals are retained as independent contractors. Although we believe that we have properly classified these individuals as independent contractors, there is nevertheless a risk that the IRS or another federal, state, provincial or foreign authority will take a different view. Furthermore, the tests governing the determination of whether an individual is considered to be an independent contractor or an employee are typically fact sensitive and vary from jurisdiction to jurisdiction. Laws and regulations that govern the status and misclassification of independent contractors are subject to change or interpretation by various authorities. If a federal, state, provincial or foreign authority or court enacts legislation or adopts regulations that change the manner in which employees and independent contractors are classified or makes any adverse determination with respect to some or all of our independent contractors, we could incur significant costs under such laws and regulations, including for prior periods, in respect of tax withholding, social security taxes or payments, workers compensation and unemployment contributions, and recordkeeping, or we may be required to modify our business model, any of which could materially adversely affect our business, financial condition and results of operations. There is also a risk that we may be subject to significant monetary liabilities arising from fines or judgments as a result of any such actual or alleged non-compliance with federal, state, provincial or foreign tax laws. Further, if it were determined that any of our independent contractors should be treated as employees, we could possibly incur additional liabilities under our applicable employee benefit plans.

In addition, we have classified all of our U.S. employees as exempt under the Federal Labor Standards Act, or the FLSA. If it were determined that any of our U.S. employees should be classified as non-exempt under the FLSA, we may incur costs and liabilities for back wages, unpaid overtime, fines or penalties and/or be subject to employee litigation.

Our insurance coverage may be inadequate to protect us against losses.

Although we maintain some insurance coverage, including professional liability insurance, property insurance coverage for certain of our facilities and equipment and business interruption insurance coverage for certain of our operations, we do not insure for all risks in our operations. If any claims for injury are brought against us, or if we experience any business disruption, litigation or natural disaster, we might incur substantial costs and diversion of resources.

Most of the agreements we have entered into with our clients require us to purchase and maintain specified insurance coverage during the terms of the agreements, including commercial general insurance or public liability insurance, umbrella insurance, product liability insurance, and workers compensation insurance. Some of these types of insurance are not available on reasonable terms or at all in CIS and CEE countries. Although to date no client has brought any claims against us for such failure, our clients have the right to terminate these agreements as a result of such failure.

Table of Contents

Our business could be negatively affected if we incur legal liability, including with respect to our indemnification obligations, in connection with providing our solutions and services.

If we fail to meet our contractual obligations or otherwise breach obligations to our clients, we could be subject to legal liability. We may enter into non-standard agreements because we perceive an important economic opportunity or because our personnel did not adequately adhere to our guidelines. In addition, the contracting practices of our competitors may cause contract terms and conditions that are unfavorable to us to become standard in the marketplace. If we cannot or do not perform our obligations, we could face legal liability and our contracts might not always protect us adequately through limitations on the scope and/or amount of our potential liability. If we cannot, or do not, meet our contractual obligations to provide solutions and services, and if our exposure is not adequately limited through the terms of our agreements, we might face significant legal liability and our financial condition and results of operations could be materially adversely affected.

In the normal course of business and in conjunction with certain client engagements, we have entered into contractual arrangements through which we may be obligated to indemnify clients or other parties with whom we conduct business with respect to certain matters. These arrangements can include provisions whereby we agree to defend and hold the indemnified party and certain of their affiliates harmless with respect to claims related to matters including our breach of certain representations, warranties or covenants, or out of our intellectual property infringement, our gross negligence or willful misconduct, and certain other claims. Payments by us under any of these arrangements are generally conditioned on the client making a claim and providing us with full control over the defense and settlement of such claim. It is not possible to determine the maximum potential amount under these indemnification agreements due to the unique facts and circumstances involved in each particular agreement, and any claims under these agreements may not be subject to liability limits or exclusion of consequential, indirect or punitive damages. Historically, we have not made payments under these indemnification agreements so they have not had any impact on our operating results, financial position, or cash flows. However, if events arise requiring us to make payment for indemnification claims under our indemnification obligations in contracts we have entered, such payments could have a material impact on our financial condition and results of operations.

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

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

Table of Contents

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

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

We may not be able to prevent unauthorized use of our intellectual property, and our intellectual property rights may not be adequate to protect our business and competitive position.

We rely on a combination of copyright, trademark, unfair competition and trade secret laws, as well as confidentiality agreements and other methods to protect our intellectual property rights. As of September 30, 2011, we had registered intellectual property consisting of 13 U.S. trademarks, two non-U.S. trademarks, one Russian copyright and 60 active domain names. Implementation of intellectual property-related laws in CIS and CEE countries has historically been lacking, primarily because of ambiguities in the laws and difficulties in enforcement. Accordingly, protection of intellectual property rights and confidentiality in CIS and CEE countries may not be as effective as that in the United States or other countries.

To protect our and our clients proprietary information and other intellectual property, we require our employees, independent contractors, vendors and clients to enter into written confidentiality agreements with us. These agreements may not provide meaningful protection for trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. Policing unauthorized use of proprietary technology is difficult and expensive. The steps we have taken may be inadequate to prevent the misappropriation of our and our clients proprietary technology. Reverse engineering, unauthorized copying or other misappropriation of our and our clients proprietary technologies, tools and applications could enable third parties to benefit from our or our clients technologies, tools and applications without paying us for doing so, and our clients may hold us liable for that act and seek damages and compensation from us, which could harm our business and competitive position.

We rely on our trademarks, trade names, service marks and brand names to distinguish our services and solutions from the services of our competitors, and have registered or applied to register several of these trademarks. We cannot assure you that our trademark applications will be approved. Third parties may oppose our trademark applications, or otherwise challenge our use of our trademarks. For instance, in 2005, we entered into a Consent of Use and Settlement Agreement that allowed a third party to use the mark ePAM (as capitalized in the foregoing) and restricted our ability to do so. For more information see Business Intellectual Property. In the event that our trademarks are successfully challenged, we could be forced to rebrand our services and solutions, which could result in loss of brand recognition, and could require us to devote resources to advertising and marketing new brands. Further, we cannot assure you that competitors will not infringe our trademarks, or that we will have adequate resources to enforce our trademarks.

We may need to enforce our intellectual property rights through litigation. Litigation relating to our intellectual property may not prove successful and might result in substantial costs and diversion of resources and management attention.

In addition, we rely on certain third-party software to conduct our business. If we lose the licenses which permit us to use such software, they may be difficult to replace and it may be costly to do so.

Table of Contents

We may face intellectual property infringement claims that could be time-consuming and costly to defend. If we fail to defend ourselves against such claims, we may lose significant intellectual property rights and may be unable to continue providing our existing services.

Our success largely depends on our ability to use and develop our technology, tools, code, methodologies and services without infringing the intellectual property rights of third parties, including patents, copyrights, trade secrets and trademarks. We may be subject to litigation involving claims of patent infringement or violation of other intellectual property rights of third parties. We typically indemnify clients who purchase our services and solutions against potential infringement of intellectual property rights, which subjects us to the risk of indemnification claims. These claims may require us to initiate or defend protracted and costly litigation on behalf of our clients, regardless of the merits of these claims and are often not subject to liability limits or exclusion of consequential, indirect or punitive damages. If any of these claims succeed, we may be forced to pay damages on behalf of our clients, redesign or cease offering our allegedly infringing services or solutions, or obtain licenses for the intellectual property such services or solutions allegedly infringe. If we cannot obtain all necessary licenses on commercially reasonable terms, our clients may be forced to stop using our services or solutions.

The holders of patents and other intellectual property rights potentially relevant to our service offerings may make it difficult for us to acquire a license on commercially acceptable terms. Also, we may be unaware of intellectual property registrations or applications relating to our services that may give rise to potential infringement claims against us. There may also be technologies licensed to and relied on by us that are subject to infringement or other corresponding allegations or claims by third parties which may damage our ability to rely on such technologies.

Further, our current and former employees and/or subcontractors could challenge our exclusive rights in the software they have developed in the course of their employment. In Russia and certain other countries in which we operate, an employer is deemed to own the copyright in works created by its employees during the course, and within the scope, of their employment, but the employer may be required to satisfy additional legal requirements in order to make further use and dispose of such works. While we believe that we have complied with all such requirements, and have fulfilled all requirements necessary to acquire all rights in software developed by our independent contractors and/or subcontractors, these requirements are often ambiguously defined and enforced. As a result, we cannot assure that we would be successful in defending against any claim by our current or former employees, independent contractors and/or subcontractors challenging our exclusive rights over the use and transfer of works those employees, independent contractors and/or subcontractors created or requesting additional compensation for such works.

We are subject to additional risks as a result of our recent and possible future acquisitions and the hiring of new employees who may misappropriate intellectual property from their former employers. The developers of the technology that we have acquired or may acquire may not have appropriately created, maintained or enforced intellectual property rights in such technology. Indemnification and other rights under acquisition documents may be limited in term and scope and may therefore provide little or no protection from these risks. Parties making infringement claims may be able to obtain an injunction to prevent us from delivering our services or using technology involving the allegedly infringing intellectual property. Intellectual property litigation is expensive and time-consuming and could divert management s attention from our business. A successful infringement claim against us, whether with or without merit, could, among others things, require us to pay substantial damages, develop non-infringing technology, or rebrand our name or enter into royalty or license agreements that may not be available on acceptable terms, if at all, and would require us to cease making, licensing or using products that have infringed a third party s intellectual property rights. Protracted litigation could also result in existing or potential clients deferring or limiting their purchase or use of our software product development services or solutions until resolution of such litigation, or could require us to indemnify our clients against infringement claims in certain instances. Any intellectual property claim or litigation in this area, whether we ultimately win or lose, could damage our reputation and materially adversely affect our business, financial condition and results of operations.

Table of Contents

Our global operations expose us to numerous and sometimes conflicting legal and regulatory requirements, and violations or unfavorable interpretation by authorities of these regulations could harm our business.

Because we provide IT services to clients throughout the world, we are subject to numerous, and sometimes conflicting, legal rules on matters as diverse as import/export controls, content requirements, trade restrictions, tariffs, taxation, sanctions, government affairs, internal and disclosure control obligations, data privacy and labor relations, particularly in the CIS and CEE countries in which we operate. Our systems and operations are located almost entirely in the CIS and CEE and laws and regulations that are applicable to us, but not to our competitors, may impede our ability to develop and offer services that compete effectively with those offered by our non-CIS or -CEE based competitors and generally available worldwide. Violations of these laws or regulations in the conduct of our business could result in fines, criminal sanctions against us or our officers, prohibitions on doing business, damage to our reputation and other unintended consequences such as liability for monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to process information and allegations by our clients that we have not performed our contractual obligations. Due to the varying degrees of development of the legal systems of the countries in which we operate, local laws might be insufficient to protect our rights. Our failure to comply with applicable legal and regulatory requirements could materially adversely affect our business.

We are subject to laws and regulations in the United States and other countries in which we operate concerning our operations, including export restrictions, U.S. economic sanctions and the Foreign Corrupt Practices Act, or FCPA, and similar anti-bribery laws. If we are not in compliance with applicable legal requirements, we may be subject to civil or criminal penalties and other remedial measures.

Our operations are subject to laws and regulations restricting our operations, including activities involving restricted countries, organizations, entities and persons that have been identified as unlawful actors or that are subject to U.S. sanctions imposed by the Office of Foreign Assets Control, or OFAC, or other international economic sanctions that prohibit us from engaging in trade or financial transactions with certain countries, businesses, organizations and individuals. We are subject to the FCPA, which prohibits U.S. companies and their intermediaries from bribing foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment, and other laws concerning our international operations. The FCPA s foreign counterparts contain similar prohibitions, although varying in both scope and jurisdiction. We operate in many parts of the world that have experienced governmental corruption to some degree, and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices.

We are currently in the process of developing and implementing formal controls and procedures to ensure that we are in compliance with the FCPA, OFAC sanctions, and similar sanctions, laws and regulations. The implementation of such procedures may be time consuming and expensive, and could result in the discovery of issues or violations with respect to the foregoing by us or our employees, independent contractors, subcontractors or agents of which we were previously unaware.

Any violations of these laws, regulations and procedures by our employees, independent contractors, subcontractors and agents could expose us to administrative, civil or criminal penalties, fines or restrictions on export activities (including other U.S. laws and regulations as well as foreign and local laws) and would adversely affect our reputation and the market for shares of our common stock and may require certain of our investors to disclose their investment in our company under certain state laws. If we are not in compliance with export restrictions, U.S. or international economic sanctions or other laws and regulations that apply to our operations, we may be subject to civil or criminal penalties and other remedial measures.

Anti-outsourcing legislation, if adopted, could harm our ability to compete effectively and impair our ability to service our clients.

The issue of companies outsourcing services to organizations operating in other countries is a topic of political discussion in many countries, including the United States, which is our largest source of revenues. Many

26

organizations and public figures in the United States and Europe have publicly expressed concern about a perceived association between offshore outsourcing IT services providers and the loss of jobs in their home countries. For example, measures aimed at limiting or restricting outsourcing by U.S. companies are periodically considered in Congress and in numerous state legislatures to address concerns over the perceived association between offshore outsourcing and the loss of jobs in the United States. A number of U.S. states have passed legislation that restricts state government entities from outsourcing certain work to offshore IT services providers. Given the ongoing debate over this issue, the introduction and consideration of other restrictive legislation is possible. If enacted, such measures may broaden restrictions on outsourcing by federal and state government agencies and on government contracts with firms that outsource services directly or indirectly, impact private industry with measures such as tax disincentives or intellectual property transfer restrictions, and/or restrict the use of certain business visas. In the event that any of these measures becomes law, our ability to service our clients could be impaired and our business, financial condition and results of operations could be materially adversely affected.

Legislation enacted in certain European jurisdictions and any future legislation in Europe or any other country in which we have clients restricting the performance of services from an offshore location could also materially adversely affect our business, financial condition and results of operations. For example, legislation enacted in the United Kingdom, based on the 1977 EC Acquired Rights Directive, has been adopted in some form by many European Union countries, and provides that if a company outsources all or part of its business to an IT services provider or changes its current IT services provider, the affected employees of the company or of the previous IT services provider are entitled to become employees of the new IT services provider, generally on the same terms and conditions as their original employment. In addition, dismissals of employees who were employed by the company or the previous IT services provider immediately prior to that transfer are automatically considered unfair dismissals that entitle such employees to compensation. As a result, in order to avoid unfair dismissal claims, we may have to offer, and become liable for, voluntary redundancy payments to the employees of our clients who outsource business to us in the United Kingdom and other European Union countries who have adopted similar laws. This legislation could materially affect our ability to obtain new business from companies in the United Kingdom and European Union and to provide outsourced services to companies in the United Kingdom and European Union in a cost-effective manner.

In addition, from time to time, there has been publicity about negative experiences associated with offshore outsourcing, such as theft and misappropriation of sensitive client data. Current or prospective clients may elect to perform certain services themselves or may be discouraged from transferring services from onshore to offshore IT services providers to avoid negative perceptions that may be associated with using an offshore IT services provider. Any slowdown or reversal of the existing industry trends toward offshore outsourcing would seriously harm our ability to compete effectively with competitors that provide services from within the country in which our clients operate.

Our international sales and operations are subject to many uncertainties.

Revenues from clients outside North America represented 45.5% of our revenues for 2010 and 48.3% for the nine months ended September 30, 2011. We anticipate that clients outside North America will continue to account for a material portion of our revenues in the foreseeable future and may increase as we expand our international presence, particularly in Europe and the CIS. In addition, the majority of our employees, along with our development and delivery centers, are located in the CIS and CEE. As a result, we may be subject to risks inherently associated with international operations, including risks associated with foreign currency exchange rate fluctuations, which may cause volatility in our reported income, and risks associated with the application and imposition of protective legislation and regulations relating to import or export or otherwise resulting from foreign policy or the variability of foreign economic conditions.

Additional risks associated with international operations include difficulties in enforcing intellectual property and/or contractual rights, the burdens of complying with a wide variety of foreign laws, potentially adverse tax consequences, tariffs, quotas and other barriers and potential difficulties in collecting accounts

27

Table of Contents

receivable. In addition, we may face competition in other countries from companies that may have more experience with operations in such countries or with international operations. Additionally, such companies may have long-standing or well-established relationships with desired clients, which may put us at a competitive disadvantage. We may also face difficulties integrating new facilities in different countries into our existing operations, as well as integrating employees that we hire in different countries into our existing corporate culture. Our international expansion plans may not be successful and we may not be able to compete effectively in other countries. There can be no assurance that these and other factors will not impede the success of our international expansion plans or limit our ability to compete effectively in other countries.

Restrictions on immigration may affect our ability to compete for and provide services to clients in the United States or other countries, which could hamper our growth and cause our revenues to decline.

The vast majority of our employees are nationals of CIS and CEE countries. Some of our projects require a portion of the work to be undertaken at our clients facilities which are sometimes located outside the CIS and CEE. The ability of our employees to work in the United States, Europe, the CIS and other countries outside the CIS and CEE depends on their ability to obtain the necessary visas and work permits. Historically, the process for obtaining visas for nationals of CIS and CEE countries to certain countries, including the United States and Europe, has been lengthy and cumbersome. Immigration laws in the United States and in other countries are subject to legislative change, as well as to variations in standards of application and enforcement due to political forces and economic conditions. Particularly given the recent global economic downturn, it is possible that there could be a change in the existing laws or the enactment of new legislation imposing restrictions on the deployment of work visa holders at client locations, which could adversely impact our ability to do business in the jurisdictions in which we have clients. However, it is generally difficult to predict the political and economic events that could affect immigration laws, or the restrictive impact they could have on obtaining or maintaining business visas for our employees. Our reliance on visas for a number of employees makes us vulnerable to such changes and variations as it affects our ability to staff projects with employees who are not citizens of the country where the work is to be performed. As a result, we may not be able to obtain a sufficient number of visas for our employees or we may encounter delays or additional costs in obtaining or maintaining such visas in which case we may not be able to provide services to our clients on a timely and cost-effective basis or manage our sales and delivery centers as efficiently as we otherwise could, any of which could hamper our growth and cause our revenues to decline.

If we fail to integrate or manage acquired companies efficiently, or if the acquired companies are difficult to integrate, divert management resources or do not perform to our expectations, we may not be able to realize the benefits envisioned for such acquisitions, and our overall profitability and growth plans could be materially adversely affected.

On occasion we have expanded our service capabilities and gained new clients through selective acquisitions. Our ability to successfully integrate an acquired entity and realize the benefits of an acquisition requires, among other things, successful integration of technologies, operations and personnel. Challenges we face in the acquisition and integration process include:

- integrating operations, services and personnel in a timely and efficient manner;
- diverting significant management attention and financial resources from our other operations and disrupting our ongoing business;
- unforeseen or undisclosed liabilities and integration costs;
- incurring liabilities from the acquired businesses for infringement of intellectual property rights or other claims for which we may not be successful in seeking indemnification;

incurring debt, amortization expenses related to intangible assets, large and immediate write-offs, assuming unforeseen or undisclosed liabilities, or issuing common stock that would dilute our existing stockholders ownership;

generating sufficient revenues and net income to offset acquisition costs;

Table of Contents

- potential loss of, or harm to, employee or client relationships;
- properly structuring our acquisition consideration and any related post-acquisition earn-outs and successfully monitoring any earn-out calculations and payments;
- failing to realize the potential cost savings or other financial benefits and/or the strategic benefits of the acquisition;
- retaining key senior management and key sales and marketing and research and development personnel, particularly those of the acquired operations;
- potential incompatibility of solutions, services and technology or corporate cultures;
- consolidating and rationalizing corporate, information technology and administrative infrastructures;
- integrating and documenting processes and controls;
- entry into unfamiliar markets; and
- increased complexity from potentially operating additional geographically dispersed sites, particularly if we acquire a company or business with facilities or operations outside of the countries in which we currently have operations.

In addition, the primary value of many potential acquisition targets in the IT services industry lies in their skilled IT professionals and established client relationships. Transitioning these types of assets to our business can be particularly difficult due to different corporate cultures and values, geographic distance and other intangible factors. For example, some newly acquired employees may decide not to work with us or to leave shortly after their move to our company and some acquired clients may decide to discontinue their commercial relationships with us. These challenges could disrupt our ongoing business, distract our management and employees and increase our expenses, including causing us to incur significant one-time expenses and write-offs, and make it more difficult and complex for our management to effectively manage our operations. If we are not able to successfully integrate an acquired entity and its operations and to realize the benefits envisioned for such acquisition, our overall growth and profitability plans may be adversely affected.

International hostilities, terrorist activities, other violence or war, natural disasters, pandemics and infrastructure disruptions, could delay or reduce the number of new service orders we receive and impair our ability to service our clients.

Hostilities involving the United States and acts of terrorism, violence or war, such as the attacks of September 11, 2001 in the United States, the attacks of July 7, 2005 in the United Kingdom, the attacks of April 11, 2011 in Belarus, the continuing conflict in Iraq and Afghanistan, the recent conflict in Libya, natural disasters, global health risks or pandemics or the threat or perceived potential for these events could materially adversely affect our operations and our ability to provide services to our clients. We may be unable to protect our people, facilities and systems against any such occurrences. Such events may cause clients to delay their decisions on spending for IT services and give rise to sudden significant changes in regional and global economic conditions and cycles. These events also pose significant risks to our people and to physical facilities and operations around the world, whether the facilities are ours or those of our clients, which could materially adversely affect our financial results. By disrupting communications and travel, giving rise to travel restrictions, and increasing the difficulty of obtaining and retaining highly-skilled and qualified IT professionals, these events could make it difficult or impossible for us to deliver services to some or all of our clients. Travel restrictions could cause us to incur additional unexpected labor costs and expenses or could restrain our ability to retain the skilled IT professionals we need for our operations. In addition, any extended disruptions of electricity, other public utilities or network services at our facilities, as well as system failures at, or security breaches in, our facilities or systems, could also adversely affect our ability to serve our clients.

Table of Contents

We may need additional capital, and a failure by us to raise additional capital on terms favorable to us, or at all, could limit our ability to grow our business and develop or enhance our service offerings to respond to market demand or competitive challenges.

We believe that our current cash, cash flow from operations, revolving line of credit and the proceeds from this offering should be sufficient to meet our anticipated cash needs for at least the next 12 months. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain another credit facility. The sale of additional equity securities could result in dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financing covenants that would restrict our operations. Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors perception of, and demand for, securities of IT services companies;
- conditions of the United States and other capital markets in which we may seek to raise funds;
- our future results of operations and financial condition;
- government regulation of foreign investment in the CIS and CEE; and
- economic, political and other conditions in the CIS and CEE.

Risks Related to Conducting Business in the CIS and CEE Countries

Companies doing business in emerging markets, such as CIS and CEE countries, are subject to significant economic risks.

CIS and CEE countries are generally considered to be emerging markets. Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including significant economic risks. CEE includes Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Republic of Macedonia, Romania, Russia, Serbia and Montenegro, Slovakia, Slovenia, the former Yugoslav Republic of Macedonia, Turkey and Ukraine. The CIS is comprised of constituents of the former U.S.S.R., including Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. The economies of CIS and CEE countries, like other emerging economies, are vulnerable to market downturns and economic slowdowns elsewhere in the world. The economies of Belarus, Russia, Ukraine, Hungary and other CIS and CEE countries where we operate have experienced periods of considerable instability and have been subject to abrupt downturns. Although economies in CIS and CEE countries showed positive trends until 2008, including annual increases in the gross domestic product, relatively stable currencies, strong domestic demand, rising real wages and a reduced rate of inflation, these trends were interrupted by the global financial crisis in late 2008, in which CIS and CEE countries experienced adverse economic and financial effects including a substantial decrease in the gross domestic product s growth rate, depreciation of local currencies and a decline in domestic and international demand for their products and services, particularly natural resources products on which they are dependent. More recently, the negative trends of the global economy and volatility in the financial markets, partially due to the recent debt crisis in Europe, have resulted in decreased growth outlooks for CIS and CEE countries, particularly those dependent on Western Europe for trade.

Belarus inherited a heavy industrial base from the Soviet era and managed to grow its economy between 2000 and 2010 despite very tight state control of the economy and limited private enterprise. While Belarus managed to avoid the worst effects of the global economic downturn in 2008, facilitated by years of considerable government spending and cheap oil imports from Russia. In 2011, Belarus has faced a serious balance-of-payment crisis as a result of the upward revision of gas import prices and increased public sector salaries. This has led to inflation, a shortage of goods and has required the government to significantly devalue its currency and

Table of Contents

move to a flexible exchange rate policy, to raise interest rates and to launch the privatization of a number of state-owned enterprises. Belarus has also sought financial assistance from the International Monetary Fund, or the IMF, Russia and other CIS countries, but as of December 2011, there was uncertainty whether Belarus would receive the financial assistance it previously requested from the IMF, due to political disagreements regarding Belarus commitments to the reforms requested by the IMF. It is uncertain whether the government will be able to effectively manage the current financial crisis and implement the reforms requested by the IMF.

From 2000 to 2008, the Russian economy experienced positive trends, such as annual increases in the gross domestic product, a relatively stable Russian ruble, strong domestic demand, rising real wages and a reduced rate of inflation. However, these trends were interrupted by the global financial crisis in late 2008, which led to a substantial decrease in the growth rate of Russia s gross domestic product, significant depreciation of the Russian ruble and a decline in domestic demand. The Russian government has taken certain anti-crisis measures using the stabilization fund and hard currency reserves in order to soften the impact of the global economic downturn on the Russian economy and support the value of the Russian ruble. More recently, the weaker global economic landscape and financial market volatility threatened to put pressure on Russia s operating environment, affecting its credit environment and financial sector. The full impact of the previous global economic downturn and the current volatility in the global economy and financial markets is not yet clear, and, should global economic conditions deteriorate significantly, it is possible that the Russian economy could continue to decline in the near future.

Despite political instability in Ukraine between 2000 and 2008, its economy made significant progress during this period. However, the global financial crisis in 2008 had a significant impact on Ukraine s economy, including the collapse or bailout of certain Ukrainian banks and significant liquidity constraints for others. The negative outlook in Ukraine s economy may continue as commodity prices of Ukrainian exports remain low and access to foreign credit is limited, which contributes to exchange rate volatility, high inflation and a growing budget deficit. Continuing political instability also adds to the economic instability.

In Hungary, budget deficits as a percentage of GDP have remained relatively high over the last several years and the Hungarian economy has been marked by a large current account deficit, rapid credit growth and a reliance of Hungarian businesses and consumers on foreign currency loans. These factors left Hungary especially vulnerable to the global financial crisis. At the end of October 2008, the Hungarian government adopted a set of policies agreed upon with the European Union, the European Central Bank and the IMF to bolster Hungary s near-term stability and improve its long-term growth potential by ensuring fiscal sustainability and strengthening the financial sector. These challenging economic conditions, the continuing turmoil in the global economy, financial markets and macroeconomic policies made by the government in response to these conditions could materially adversely affect our business in Hungary.

As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies such as in the CIS and CEE could dampen foreign investment in these markets and materially adversely affect their economies. In addition, a deterioration in macroeconomic conditions, such as the recent debt crisis in Europe, could require us to reassess the value of goodwill on certain of our assets, recorded as the difference between the fair value of the assets of the business acquired and its purchase price. This goodwill is subject to impairment tests on an ongoing basis. Weakening macroeconomic conditions in the countries in which we operate and/or a significant difference between the performance of an acquired company and the business case assumed at the time of acquisition could require us to write down the value of the goodwill or a portion of such value.

These risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on CIS and CEE countries, including elements of the information provided in this prospectus. Similar statistics may be obtainable from other non-official sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Further economic instability in Belarus, Russia, Ukraine, Hungary or other CIS or CEE countries where we operate and any future deterioration in the international economic situation could materially adversely affect our business, financial condition and results of operations.

Table of Contents

Inflation in Belarus, Russia, Ukraine and other CIS countries and government efforts to combat inflation may contribute significantly to economic uncertainty in the CIS and could materially adversely affect our financial condition, results of operations and the market value of our shares of common stock.

Economies in CIS countries such as Belarus, Russia and Ukraine have periodically experienced high rates of inflation. According to The World Bank and Bloomberg, the inflation rate, as measured by the consumer price index, was as follows:

- the annual inflation rate in Belarus was 14.8% in 2008, 12.9% in 2009 and 10.0% in 2010;

- the annual inflation rate in Russia was 14.1% in 2008, 11.7% in 2009, 7.0% in 2010 and 9.1% in the first nine months of 2011; and

- the annual inflation rate in Ukraine was 25.2% in 2008, 15.9% in 2009, 9.6% in 2010 and 9.0% in the first nine months of 2011.

In addition, in 2011, significant inflation has been reported in Belarus. The National Statistical Committee of Belarus estimated that inflation was approximately 74.5% in the first nine months of 2011. In 2010 and the first nine months of 2011 we had 1.2% and 0.7% of our revenues, respectively, denominated in Belarusian rubles.

The measures currently used by the Belarusian government to control this recent inflation include monetary policy and pricing instruments, including increasing interest rates and the use of anti-monopoly laws to prevent the increase in pricing of goods, as well as privatization and using foreign borrowings to replenish the budget and stabilize local currency. Inflation, government actions to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in Belarus. Belarus may experience high levels of inflation in the future. The Russian and Ukrainian governments have historically implemented similar measures as Belarus to fight inflation.

Periods of higher inflation may slow economic growth in those countries. For instance, in October 2011, the government of Belarus implemented a flexible exchange rate policy, which devalued the currency against the U.S. dollar and could cause inflation in Belarus over time. Inflation also is likely to increase some of our costs and expenses, which we may not be able to pass on to our clients and, as a result, may reduce our profitability. Inflationary pressures could also affect our ability to access financial markets and lead to counter-inflationary measures that may harm our financial condition, results of operations or adversely affect the market price of our securities.

Fluctuations in currency exchange rates could materially adversely affect our financial condition and results of operations.

The Belarusian ruble, the Russian ruble, the Ukrainian hryvnia, the Hungarian forint and other CIS currencies have experienced significant fluctuations against foreign currencies, including the U.S. dollar, in recent years. For example,

- In February 2009 and May 2011, the National Bank of the Republic of Belarus devalued the exchange rate of the Belarusian ruble against the U.S. dollar by 20.5% and 56.3%, respectively; in October 2011 the bank adopted a free floating rate policy, triggering 52.0% additional depreciation in the Belarusian ruble against the U.S. dollar;

The Russian ruble depreciated against the U.S. dollar by 27.6% in 2009, as compared to the 2008 average exchange rate, and appreciated against the U.S. dollar by 4.3% in 2010, as compared to the 2009 average exchange rate. Since the increase in financial markets volatility commencing in early August 2011, the Russian ruble depreciated against the U.S. dollar by over 8.0%;

Since September 2008, the interbank U.S. dollar/Ukrainian hryvnia exchange rate has fluctuated significantly; the Ukrainian hryvnia depreciated against the U.S. dollar by 53.3% in 2009, as compared to

Table of Contents

the 2008 average exchange rate and, in 2010, the hryvnia appreciated against the U.S. dollar by 1.4% as compared to the 2009 average exchange rate; and over the course of 2011, the hryvnia remained relatively stable against the U.S. dollar; and

The Hungarian forint depreciated against the U.S. dollar by 17.1% in 2009, as compared to the 2008 average exchange rate, and depreciated against the U.S. dollar by 3.1% in 2010, as compared to the 2009 average exchange rate.

The majority of our revenues are in U.S. dollars, British pounds, Russian rubles and euros, and the majority of our expenses, particularly salaries of IT professionals, are denominated in U.S. dollars but payable in Belarusian rubles or in other local currencies at the exchange rate in effect at the time. However, to the extent that we increase our business and revenues which are denominated in Belarusian rubles, Ukrainian hryvnia, Hungarian forints or other local currencies, we will also increase our receivables denominated in those currencies and therefore also increase our exposure to fluctuations in their exchange rates against the U.S. dollar, our reporting currency. Similarly, any capital expenditures, such as for computer equipment, which are payable in the local currency of the countries in which we operate but are imported to such countries, and any deposits we hold in local currencies, can be materially affected by depreciation of the local currency against the U.S. dollar and the effect of such depreciation on the local economy. See Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures about Market Risk and Inflation in Belarus, Russia, Ukraine and other CIS countries and government efforts to combat inflation may contribute significantly to economic uncertainty in the CIS and could materially adversely affect our financial condition, results of operations and the market value of our shares of common stock.

The banking and financial systems in the CIS remain less developed than those in some more developed markets, and a banking crisis could place liquidity constraints on our business and materially adversely affect our business and financial condition.

Banking and other financial systems in the CIS are less developed and regulated than in some more developed markets, and legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. Banks in the CIS generally do not meet the banking standards of more developed markets, and the transparency of the banking sector lags behind international standards. Furthermore, in Russia, Belarus and other CIS countries, bank deposits made by corporate entities generally are not insured. As a result, the banking sector remains subject to periodic instability. Another banking crisis, or the bankruptcy or insolvency of banks through which we receive or with which we hold funds, particularly in Belarus, may result in the loss of our deposits or adversely affect our ability to complete banking transactions in the CIS, which could materially adversely affect our business and financial condition.

Political and governmental instability in CIS and CEE countries could materially adversely affect our business and operations in these countries.

Since the early 1990s, Belarus, Russia, Ukraine, Hungary and other CIS and CEE countries have sought to transform from one-party states with a centrally planned economy to democracies with a market economy of various degrees. As a result of the sweeping nature of various reforms, and the failure of some of them, the political systems of many CIS and CEE countries remain vulnerable to popular dissatisfaction, including demands for autonomy from particular regional and ethnic groups.

We have significant operations in Minsk, the capital of Belarus. Belarus has been governed since 1994 by President Alexander Lukashenko, who was most recently reelected in December 2010. The president has a wide range of powers including the power to call elections, appoint the executive arms of the government, make judicial appointments and appointments to local executive and administrative bodies and issue edicts, orders and decrees which have the force of law. Progress on structural reform and a reduction in the extent of direct state support in the economy has been slow in Belarus, and reforms of this nature are likely to be politically unpopular. No assurance, however, can be given that Belarus will implement further structural reform policies or reduce state support of the economy.

Table of Contents

We have significant operations in Russia. Since 1991, Russia has sought to transform itself from a single party state with a centrally-planned economy to a market economy. Political conditions in Russia were highly volatile in the 1990s, as evidenced by the frequent conflicts among executive, legislative and judicial authorities, which negatively affected Russia s business and investment climate. During the presidency of Vladimir Putin and the current presidency of Dmitry Medvedev, the political and economic situation in Russia has generally become more stable. However, there is still a risk of significant changes to the political and economic environment, potential changes in the direction of the reforms or reversal of the reforms. On December 4, 2011, parliamentary elections took place in Russia, as a result of which United Russia, the ruling party, gained 53% of seats, compared to 70% in the previous parliament. Following the elections, a number of non-violent public protests took place in Moscow and other Russian cities, claiming violations and fraud during the elections, and demanding, among other things, cancellation of the election results and re-elections. In September 2011, both Dmitry Medvedev and United Russia supported Vladimir Putin as the presidential candidate in the next presidential election scheduled for March 4, 2012, while Dmitry Medvedev was offered the office of prime minister. Besides Vladimir Putin, nine other persons have been registered as candidates for the presidency, including the leaders of the opposition parties. The outcome of the presidential election and the potential shift in government policy may affect the direction and speed of economic and political reforms and negatively impact the economic and political environment in Russia.

We have delivery centers in Ukraine. Since obtaining independence in 1991, Ukraine has undergone substantial political transformation to become an independent sovereign state and has been on the path of economic transition to a market economy. The 2010 presidential election and the subsequent removal of the Ukrainian prime minister from office created tensions between the Ukrainian president, Viktor Yanukovych, the government and the parliament. A number of factors could adversely affect political stability in Ukraine, including political polarization in Ukrainian society resulting from what is seen as insufficiently balanced or controversial positions of the president and the government on various domestic and foreign policy issues, and growing opposition of certain factions in the parliament and certain political parties and associations which are not represented in the parliament to what are broadly seen as significant concessions made by the president and the government to Russia. Recent political developments have also highlighted potential inconsistencies between Ukraine s constitution and various laws and presidential decrees. After Ukraine s refusal to join the Customs Union was ratified by Russia, Kazakhstan and Belarus in June 2011, the Customs Union has taken a number of additional restrictive measures with respect to imports from Ukraine. If political instability continues or heightens, it may have negative effects on the Ukrainian economy and our operations in Ukraine.

We have delivery centers in Hungary. Hungary was established as a parliamentary republic in 1989 and joined the European Union in 2004. In April 2010, Prime Minister Viktor Orbán s political party won a two-thirds parliamentary majority and has sought to centralize power, to make changes to formerly independent government institutions, to draft a new constitution and to impose taxes on telecommunications, energy, retail and banking institutions in an effort to meet budget deficit targets. The politics of Hungary remain volatile, as shown by large protests in May 2011 against the ruling party s actions. Political instability as a reaction to the government s actions could negatively affect the Hungarian economy and political environment.

Current and future changes in the Belarusian, Russian, Ukrainian, Hungarian and other CIS and CEE governments, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms. Any disruption or reversal of reform policies could lead to political or governmental instability or the occurrence of conflicts among powerful economic groups, which could materially adversely affect our business and operations in CEE and the CIS.

A deterioration in political and economic relations among the CIS countries in which we operate and/or between CIS countries and the United States and the European Union could materially adversely affect our business and operations in the CIS.

Political and economic relations between Belarus, Russia, Ukraine and the other countries in which we operate are complex, and recent conflicts have arisen between their governments. Political, ethnic, religious, historical and

34

Table of Contents

other differences have, on occasion, given rise to tensions and, in certain cases, military conflict between countries of the CIS which can halt normal economic activity and disrupt the economies of neighboring regions.

A significant portion of Belarus energy imports come from Russia, and Russia is Belarus most significant trading partner. A number of oil and gas pipelines from Russia to European Union member states run through Belarus, and a significant portion of Russian energy exports are delivered through Belarus. Russia is also one of Belarus main sovereign lenders. Belarus and Russia have had a number of disagreements regarding the level of duty to be imposed on Russian crude oil exports to Belarus, which comprise a significant part of Belarus energy resources and are important for Belarus oil refinery industry. In June 2010, Belarus and Russia had a dispute regarding the timing of payments due from Belarus to Russia for gas supplied by Russia and from Russia to Belarus for the transit of Russian gas to the European Union, which resulted in a disruption of gas flows to the European Union.

The relationship between Russia and Ukraine has been historically strained due to, among other things, disagreements over the prices and methods of payment for gas delivered by Russia to, or for transportation through, Ukraine, issues relating to the temporary stationing of the Russian Black Sea Fleet in the territory of Ukraine and a Russian ban on imports of meat and milk products from Ukraine and anti-dumping investigations conducted by Russian authorities in relation to certain Ukrainian goods. Results of the current litigation against ex-Prime Minister Yulia Timoshenko, who was sentenced to 7 years in prison, could add to political instability and tension in relationships with the European Union and the United States. The possible accession by Ukraine to the North Atlantic Treaty Organization has also been a significant source of tension between Russia and Ukraine. Following the presidential election in February 2010, Ukraine s relations with Russia have generally improved; however, any further adverse changes in Ukraine s relations with Russia, in particular any such changes adversely affecting supplies of energy resources from Russia to Ukraine or Ukraine s revenues derived from transit charges for Russian oil and gas, may have negative effects on the Ukrainian economy as a whole.

Although we operate in the CIS through local subsidiaries, governmental officials and consumers may associate us and our brand with a particular CIS country or with the United States. Any deterioration in political and economic relations among CIS countries in which we operate could materially adversely affect our business, financial condition and results of operations.

The conflicts among CIS countries and conflicts within CIS countries have, in some instances, also strained their relationship with the United States and the European Union which, at times, has negatively impacted their financial markets. For instance, the December 2010 Belarus presidential elections coincided with large-scale street protests and were criticized as anti-democratic by the foreign ministers of some European nations and by the United States and Canada. In January 2011, the European Union and the United States announced financial and travel sanctions against the Belarusian government and Belarusian state-owned enterprises. In June 2011, the European Union agreed to a series of new sanctions against certain additional Belarusian individuals and enterprises. In August 2011, the United States imposed further economic sanctions against certain additional Belarusian individuals and enterprises, and, in response, Belarus announced it would suspend an agreement with the United States to reduce certain uranium stockpiles held in Belarus. The United States passed further sanctions against certain Belarusian individuals and enterprises in January 2012. No assurance can be given that Belarus will improve relations with the European Union and the United States or that further restrictions will not be imposed by the European Union or the United States in relation to these points of tension or that such frictions will not affect the political and economic environment in Belarus. Trade and economic sanctions, including existing European Union and United States sanctions and asset freezes, prevent us from dealing with certain entities and persons in Belarus and impose legal compliance costs and risks on our business operations in that country.

The emergence of new or escalated tensions among CIS countries could further exacerbate tensions between CIS countries and the United States and the European Union, which may have a negative effect on their economy, our ability to obtain financing on commercially reasonable terms, and the level and volatility of the trading price of our shares of common stock. Any of the foregoing circumstances could materially adversely affect our business and operations in the CIS.

35

Table of Contents

The legal systems in CIS countries can create an uncertain environment for business activity, which could materially adversely affect our business and operations in the CIS.

The legal framework to support a market economy remains new and in flux in Belarus, Russia, Ukraine and other CIS countries and, as a result, these legal systems can be characterized by:

- inconsistencies between and among laws and governmental, ministerial and local regulations, orders, decisions, resolutions and other acts;
- gaps in the regulatory structure resulting from the delay in adoption or absence of implementing regulations;
- selective enforcement of laws or regulations, sometimes in ways that have been perceived as being motivated by political or financial considerations;
- limited judicial and administrative guidance on interpreting legislation;
- relatively limited experience of judges and courts in interpreting recent commercial legislation;
- a perceived lack of judicial and prosecutorial independence from political, social and commercial forces;
- inadequate court system resources;
- a high degree of discretion on the part of the judiciary and governmental authorities; and
- underdeveloped bankruptcy procedures that are subject to abuse.

In addition, as is true of civil law systems generally, judicial precedents generally have no binding effect on subsequent decisions. Not all legislation and court decisions in CIS countries are readily available to the public or organized in a manner that facilitates understanding. Enforcement of court orders can in practice be very difficult. All of these factors make judicial decisions difficult to predict and effective redress uncertain. Additionally, court claims and governmental prosecutions may be used in furtherance of what some perceive to be political aims.

The untested nature of much of recent legislation in the countries in which we operate and the rapid evolution of their legal systems may result in ambiguities, inconsistencies and anomalies in the application and interpretation of laws and regulations. Any of these factors may affect our ability to enforce our rights under our contracts or to defend ourselves against claims by others, or result in our being subject to unpredictable requirements, and could materially adversely affect our business and operations in the CIS.

These uncertainties also extend to property rights. For example, during the transformation of Russia, Belarus, Ukraine and other CIS countries from centrally planned economies to market economies, legislation has generally been enacted in each of these countries to protect private property against uncompensated expropriation and nationalization. However, there is a risk that due to the lack of experience in enforcing these provisions and due to political factors, these protections would not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our entities, their assets or portions thereof, potentially without adequate compensation, could materially adversely affect our business, financial condition and results of operations.

Selective or arbitrary government action, including in connection with agreements to provide services to local governments, could materially adversely affect our business and operations in the CIS.

Many commercial laws and regulations in the CIS are relatively new and have been subject to limited interpretation. As a result, their application can be unpredictable. Government authorities have a high degree of discretion in Belarus, Russia, Ukraine and other CIS countries and have at times exercised their discretion in ways that may be perceived as selective or arbitrary, and sometimes in a manner that is seen as being influenced by political or commercial considerations. These governments also have the power, in certain circumstances, to

Table of Contents

interfere with the performance of, nullify or terminate contracts. Selective or arbitrary actions have included withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in documentation as pretexts for court claims and other demands to invalidate and/or to void transactions, apparently for political purposes. We cannot assure you that regulators, judicial authorities or third parties in Belarus, Russia, Ukraine and other CIS countries will not challenge our compliance (including that of our subsidiaries) with applicable laws, decrees and regulations. Selective or arbitrary government action could materially adversely affect our business, financial condition and results of operations.

The Russian government has taken various actions in recent years against business people and companies operating in Russia that have been perceived as having been politically motivated, including actions for technical violations of law or violations of laws that have been applied retroactively, such as violations of tax laws. In 2008, for example, government officials publicly criticized transfer pricing arrangements used by a Russian-based company that is publicly traded in the United States, claiming that such arrangements constituted tax evasion. These claims resulted in a steep decline in that company s stock price. Such actions have on occasion resulted in significant fluctuations in the market prices of the securities of businesses operating in Russia, a weakening of investor confidence in Russia and doubts about the progress of market and political reforms in Russia. Government officials may apply contradictory or ambiguous laws or regulations in ways that could materially adversely affect our business and operations in the CIS.

We must comply with laws and regulations relating to the formation, administration and performance of government contracts in the CIS and CEE countries where we provide services to the local governments, including Belarus, Russia and Ukraine. Any failure to comply with applicable local laws, regulations and procedures could result in contract termination, damage to our reputation, price or fee reductions or suspension or debarment from contracting with the government, each of which could materially adversely affect our business, financial condition and results of operations. In addition, governments may revise existing contract rules and regulations or adopt new contract rules and regulations at any time and for any reason. Any of these changes could impair our ability to obtain new contracts or renew or enforce contracts under which we currently provide services. Any new contracting methods could be costly or administratively difficult for us to implement, which could materially adversely affect our business and operations in the CIS.

Changes in the tax system in CIS or CEE countries or arbitrary or unforeseen application of existing rules could materially adversely affect our financial condition and results of operations.

There have been significant changes to the taxation systems in CIS countries in recent years as the authorities have gradually replaced legislation regulating the application of major taxes such as corporate income tax, VAT, corporate property tax and other taxes with new legislation. Tax authorities in CIS and CEE countries, including Belarus, Russia and Ukraine, have also been aggressive in their interpretation of tax laws and their many ambiguities, as well as in their enforcement and collection activities. Technical violations of contradictory laws and regulations, many of which are relatively new and have not been subject to extensive application or interpretation, can lead to penalties. High-profile companies can be particularly vulnerable to aggressive application of unclear requirements. Many companies must negotiate their tax bills with tax inspectors who may demand higher taxes than applicable law appears to provide. Our tax liability may become greater than the estimated amount that we have expensed to date and paid or accrued on our balance sheets, particularly if the tax benefits we receive in Belarus and Hungary are changed or removed. See Risks Relating to Our Business Our operating results may be negatively impacted by the loss of certain tax benefits provided by the governments of Belarus, Hungary and Russia to companies in our industry. Any additional tax liability, as well as any unforeseen changes in tax laws, could materially adversely affect our future results of operations, financial condition or cash flows in a particular period.

The tax environment in Russia historically has been complicated by contradictions in Russian tax law. For example, tax laws are unclear with respect to the deductibility of certain expenses, and tax authorities may disagree with positions we have taken that we consider to be in compliance with current law. This uncertainty

37

Table of Contents

could result in a greater than expected tax burden and potentially exposes us to significant fines and penalties and enforcement measures, despite our best efforts at compliance.

In October 2006, the Supreme Arbitration Court of Russia issued a ruling that introduced the concept of an unjustified tax benefit, which is a benefit that may be disallowed for tax purposes. Specific examples cited by the court include benefits obtained under transactions lacking a business purpose (*i.e.*, when the only purpose of a deal or structure is to derive tax benefits). The tax authorities have actively sought to apply this concept when challenging tax positions taken by taxpayers. Although the intention of the ruling was to combat tax abuse, in practice there is no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the court. In addition, the tax authorities and the courts have indicated a willingness to interpret broadly the application of criminal responsibility for tax violations.

Historically, Ukraine had a number of laws related to various taxes imposed by both central and regional governmental authorities. These taxes include value added tax, corporate income tax (profits tax), customs duties and payroll (social) taxes. In January 2011, the majority of the new tax code in Ukraine came into effect, and aims to create a comprehensive legal framework for tax reform and provide for a wide range of changes to the existing tax system in the areas of tax collection and administration. Among other things, the new Ukraine tax code provides for a decrease in the rate of the corporate income tax over the next several years, a decrease in the VAT rate beginning in 2014 and for taxation of interest accrued on bank deposits beginning in 2015. There can be no assurance that the adoption of the tax code will have a positive effect on the Ukrainian tax system, in which differing opinions regarding legal interpretations often exist both among and within governmental ministries and organizations, including the tax administration, creating uncertainties and areas of conflict. Tax declarations or returns, together with other matters of legal compliance, such as customs and currency control matters, are subject to review and investigation by a number of authorities, which may impose fines, penalties and interest charges for noncompliance. In practice, the Ukrainian tax authorities tend to interpret the tax laws in an arbitrary way that rarely favors taxpayers. These circumstances generally create tax risks in Ukraine that are more significant than those typically found in countries with more developed tax systems.

Our subsidiaries in Ukraine also currently benefit from regulations that permit companies in the IT services industry to employ independent contractors and significantly reduce our social security tax obligations in Ukraine. Substantially all of our IT professionals in Ukraine are independent contractors. Should Ukraine change its tax regulations and no longer permit the IT services industry to employ independent contractors, our operating expenses in Ukraine would substantially increase, which could materially adversely affect our financial condition and results of operations.

The tax systems in CIS and CEE countries in which we operate impose additional burdens and costs on our operations in such countries, and complicate our tax planning and related business decisions. The uncertainty involved potentially exposes us to significant fines, penalties and enforcement measures despite our best efforts at compliance, which could result in a greater than expected tax burden on our subsidiaries. These factors raise the risk of a sudden imposition of arbitrary or onerous taxes on our operations in these countries. This could adversely affect our financial condition and results of operations.

We may be exposed to liability for actions taken by our subsidiaries.

In certain cases (in particular, under the laws of Russia) we may be jointly and severally liable for obligations of our subsidiaries. We may also incur secondary liability and, in certain cases, liability to creditors for obligations of our subsidiaries in certain instances involving bankruptcy or insolvency. This type of liability could result in significant obligations and could materially adversely affect our financial condition and results of operations.

38

Table of Contents

Our CIS subsidiaries can be forced into liquidation on the basis of formal noncompliance with certain legal requirements.

We operate in CIS countries primarily through locally organized subsidiaries. Certain provisions of Russian law and the laws of other CIS countries may allow a court to order liquidation of a locally organized legal entity on the basis of its formal noncompliance with certain requirements during formation, reorganization or during its operations.

For example, in Russian corporate law, if the net assets of a Russian joint stock company calculated on the basis of Russian accounting standards are lower than its charter capital as at the end of its third or any subsequent financial year, the company must either decrease its charter capital or liquidate. If the company fails to comply with these requirements, governmental or local authorities can seek the involuntary liquidation of such company in court, and the company s creditors will have the right to accelerate their claims or demand early performance of the company s obligations as well as demand compensation of any damages.

Similarly, there have also been cases in CIS countries in which formal deficiencies in the establishment process of a legal entity or noncompliance with provisions of law have been used by courts as a basis for liquidation of a legal entity. Weaknesses in the legal systems of CIS countries create an uncertain legal environment, which makes the decisions of a court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation of any of our subsidiaries were to occur, such liquidation could materially adversely affect our financial condition and results of operations.

Crime and corruption could disrupt our ability to conduct our business.

Political and economic changes in the CIS countries where we operate in recent years have resulted in significant dislocations of authority. The local and international press have reported the existence of significant organized criminal activity, particularly in large metropolitan centers. Property crime in large cities has increased substantially. In addition, the local and international press have reported high levels of corruption, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further the interests of the state and individual officials, as well as private businesses, including competitors and corporate raiders. Corruption in the CIS countries in which we operate is pervasive and, in some cases, is worsening. The governments in CIS countries, including Belarus, Russia and Ukraine have recently pursued campaigns against corruption, the results of which are currently uncertain. For example, the Ukrainian parliament is currently considering new anti-corruption legislation which contains provisions relating to measures to prevent corruption, introduces a more detailed regulation of responsibility for involvement in corruption and provides for international cooperation in combating corruption. In addition, in August 2010, a new anti-money laundering law entered into force in Ukraine extends the list of entities that are required to monitor financial transactions, extends the list of state agencies authorized to conduct state financial monitoring, and broadens the list of reasons on the basis of which a financial transaction may be subject to monitoring. However, there is no assurance that such laws or other laws enacted elsewhere will be applied with any effectiveness by the local authorities, and the continuing effects of corruption, money laundering and other criminal activity could have a negative effect on the economies of these countries and could materially adversely affect our business in the CIS.

Additionally, some members of the media in the countries in which we operate regularly publish disparaging articles in return for payment. The depredations of organized or other crime, demands of corrupt officials or claims that we have been involved in official corruption could result in negative publicity which could disrupt our ability to conduct our business.

Table of Contents

Social instability in CIS countries could lead to increased support for centralized authority and a rise in nationalism, which could harm our business.

Social instability in CIS countries, coupled with difficult economic conditions, could lead to labor and social unrest. Labor and social unrest may have political, social and economic consequences, such as increased support for centralized authority and a rise in nationalism. These sentiments could lead to restrictions on foreign ownership of companies in our industry or large-scale nationalization or expropriation of foreign-owned assets or businesses. There is relatively little experience in enforcing legislation enacted to protect private property against nationalization or expropriation. As a result, we may not be able to obtain proper redress in the courts, and we may not receive adequate compensation if in the future CIS governments decide to nationalize or expropriate some or all of our assets. If this occurs, our business could be harmed.

In addition, ethnic, religious, historical, regional and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict. The spread of violence, or its intensification, could have significant political consequences, including the imposition of a state of emergency in some parts or throughout CIS countries. These events could materially adversely affect the investment environment in CIS countries.

Any U.S. or other foreign judgments that may be obtained against us may be difficult to enforce in Belarus, Russia, Ukraine and other CIS countries.

Although we are a Delaware corporation, subject to suit in the United States and other courts, many of our assets are located in Belarus, Russia, Ukraine and other CIS countries and one of our directors and his assets are located outside the United States. Although arbitration awards are generally enforceable in CIS countries, judgments obtained in the United States or in other foreign courts, including those with respect to U.S. federal securities law claims, may not be enforceable in many CIS countries, including Belarus, Russia and Ukraine. There is no mutual recognition treaty between the United States and Belarus, Russia or Ukraine. Therefore, it may be difficult to enforce any U.S. or other foreign court judgment obtained against any of our operating subsidiaries in CIS countries.

We face risks similar to those in Belarus, Russia and Ukraine in other CIS or CEE countries or elsewhere.

We currently have operations in Belarus, Russia, Ukraine, Kazakhstan, Poland and Hungary. We may acquire additional operations in other CIS or CEE countries or elsewhere. As with Belarus, Russia, Ukraine, Kazakhstan, Poland and Hungary, such countries are emerging markets subject to greater political, economic, social, tax and legal risks than more developed markets. In many respects, the risks inherent in transacting business in such countries are similar to those in Belarus, Russia and Ukraine, especially those risks set out above in Risks Related to Conducting Business in the CIS and CEE Countries.

Risks Related to Our Common Stock and This Offering

Insiders will continue to have substantial control over us after this offering and could limit your ability to influence the outcome of key transactions, including a change of control.

Our greater than 5% stockholders, directors and executive officers and entities affiliated with them will own approximately 77.2% of the outstanding shares of our common stock after this offering, which includes approximately 43.6% of the outstanding shares of our common stock after this offering which will be owned by affiliates of Siguler Guff & Company. As a result, these stockholders, if acting together, would be able to influence or control matters requiring approval by our stockholders, including the election of directors, the approval of merger, consolidation or sale of all or substantially all of our assets and other significant business or corporate transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. The concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

Table of Contents

There may not be an active, liquid trading market for our common stock.

Prior to this offering, there has been no public market for shares of our common stock. We cannot predict the extent to which investor interest in our company will lead to the development of a trading market on the NYSE or how liquid that market may become. If an active trading market does not develop, you may have difficulty selling any of our common stock that you purchase. The initial public offering price of shares of our common stock was determined by negotiation between us and the underwriters and may not be indicative of prices that will prevail following the completion of this offering. The market price of shares of our common stock may decline below the initial public offering price, and you may not be able to resell your shares of our common stock at or above the initial public offering price.

We expect that our stock price will fluctuate significantly, and you may not be able to resell your shares of common stock at or above the initial public offering price.

The trading price of our common stock is likely to be volatile and subject to wide price fluctuations in response to various factors, including:

- market conditions in the broader stock market in general, or in the IT industry in particular;
- sales of large blocks of our stock;
- the release of lock-ups or other transfer restrictions;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- introduction of new services by us or our competitors;
- additions or departures of key personnel;
- changes in financial estimates or recommendations in securities analysts reports;
- regulatory developments;
- litigation and governmental investigations; and
- economic and political conditions or events.

These and other factors may cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the liquidity of our common stock. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have instituted securities class action litigation against the company that issued the stock. If any of our stockholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert our management s time and attention from our business.

The trading market for our common stock will also be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover us downgrade our stock, or if our results of operations do not meet their expectations, our stock price could decline.

The requirements of being a public company may strain our resources, divert management s attention and affect our ability to attract and retain qualified board members.

As a public company, we will incur significant legal, accounting and other expenses that we have not incurred as a private company, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with the Sarbanes-Oxley Act of 2002, as amended, the Dodd-Frank Wall Street Reform and Consumer Protection Act and related rules implemented or to be implemented by the Securities and Exchange Commission and the rules of the NYSE. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly, although we are currently unable to estimate these costs with any degree of certainty. Complying with these laws and regulations may be especially difficult and costly for us because we may have difficulty locating sufficient personnel in CIS and CEE with experience and expertise relating to GAAP and U.S. public company reporting requirements, and such personnel may command higher salaries relative to what similarly experienced personnel would command in the United States. These laws and regulations could also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers and will require our management and personnel to devote a substantial amount of time to comply with these rules and regulations. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale.

Sales of substantial amounts of our common stock in the public market following this offering, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. Upon completion of this offering, we will have 41,125,981 outstanding shares of common stock (42,025,981 shares of common stock if the underwriters exercise in full their option to purchase additional shares) assuming no exercise of outstanding options. The shares of common stock sold pursuant to this offering will be immediately tradable without restriction or further registration under the Securities Act of 1933, as amended, or the Securities Act.

We, each of our directors and officers and the selling stockholders have agreed, subject to certain exceptions, not to sell or dispose of any common stock during the period ending 180 days after the date of this prospectus without the prior written consent of Citigroup Global Markets Inc., UBS Securities LLC and Barclays Capital Inc. Certain stockholders have also agreed, pursuant to the Registration Rights Agreements and subject to certain exceptions, not to sell or dispose of any common stock during the period ending 180 days after the date of this prospectus without our prior written consent which, in most cases pursuant to the underwriting agreement relating to this offering, can only be granted with the consent of Citigroup Global Markets Inc., UBS Securities LLC and Barclays Capital Inc. In addition, certain optionholders have agreed, subject to certain exceptions, that without our prior written consent, they will not, during the period ending 180 days after the date of this prospectus, sell or dispose of any options. When the lock-up period expires, we and our locked-up security holders will be able to sell our shares in the public market. See Shares Eligible for Future Sale and Underwriting.

Certain holders of common stock will have rights, subject to conditions, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. We also intend to register the offer and sale of all shares of common stock that we may issue under our equity compensation plans. Once we register the offer and sale of shares for the holders of registration rights and optionholders, they can be freely sold in the public market upon issuance, subject to the restrictions described under Shares Eligible for Future Sale.

Table of Contents

Provisions in our certificate of incorporation and bylaws and under Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.

Our third amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could depress the trading price of our common stock by acting to discourage, delay or prevent a change of control of our company or changes in our management that our stockholders may deem advantageous. These provisions include:

- limiting the ability of stockholders to call a special stockholder meeting;
- limiting the ability of stockholders to act by written consent;
- providing that the board of directors is expressly authorized to make, alter or repeal our bylaws;
- establishing advance notice requirements for nominations for elections to our board of directors and for proposing matters that can be acted upon by stockholders at stockholder meetings; and
- requiring the approval by holders of at least two-thirds of our outstanding capital stock entitled to vote generally in the election of directors to amend any of the foregoing provisions.

These anti-takeover defenses could discourage, delay or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and cause us to take other corporate actions that you desire.

Delaware law may delay or prevent a change in control, and may discourage bids for our common stock at a premium over its market price.

We are subject to the provisions of section 203 of the Delaware General Corporation Law. These provisions prohibit large stockholders, in particular a stockholder owning 15% or more of the outstanding voting stock, from consummating a merger or combination with a corporation unless this stockholder receives board approval for the transaction or 66 $^{2}/3$% of the shares of voting stock not owned by the stockholder approve the merger or transaction. These provisions of Delaware law may have the effect of delaying, deferring or preventing a change in control, and may discourage bids for our common stock at a premium over its market price.

We do not intend to pay any cash dividends in the foreseeable future.

We currently intend to retain our future earnings, if any, in the foreseeable future, to repay indebtedness and to fund the development and growth of our business. We do not intend to pay any dividends to holders of our common stock. As a result, capital appreciation in the price of our common stock, if any, will be your only source of gain on an investment in our common stock.

Our management will have broad discretion over the use of the proceeds from this offering and may not apply the proceeds of this offering in ways that increase the value of your investment.

Our management will have broad discretion to use the net proceeds we receive from this offering, and you will be relying on its judgment regarding the application of these proceeds. We expect to use the net proceeds from this offering as described under the heading Use of Proceeds. However, management may not apply the net proceeds of this offering in ways that increase the value of your investment.

Table of Contents

New investors in our common stock will experience immediate and substantial book value dilution after this offering.

The initial public offering price of our common stock will be substantially higher than the pro forma net tangible book value per share of the outstanding common stock immediately after this offering. Based on an initial public offering price of $12.00 per share and our net tangible book value as of September 30, 2011, if you purchase our common stock in this offering, you will pay more for your shares of common stock than the amounts paid by our existing stockholders for their shares of common stock and you will suffer immediate dilution of approximately $7.42 per share of common stock in pro forma net tangible book value. As a result of this dilution, in the event of a liquidation investors purchasing stock in this offering would receive significantly less than the full purchase price paid in this offering.

Any material weaknesses or significant deficiencies in our internal controls could result in a material misstatement in our consolidated financial statements as well as result in our inability to file periodic reports timely as required by federal securities laws, which could materially adversely affect our business and stock price.

We are required to design, implement and maintain effective internal control over financial reporting and disclosure controls and procedures. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company s annual or interim consolidated financial statements will not be prevented or detected on a timely basis. Commencing with our fiscal year ending December 31, 2012, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. If, in the future, we have weaknesses or deficiencies in our internal controls, they could result in a material misstatement in our annual or interim consolidated financial statements or cause us to fail to meet our obligations to file periodic financial reports with the Securities and Exchange Commission. We also may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting as contemplated by Section 404 of the Sarbanes-Oxley Act of 2002 or our independent registered public accounting firm may issue an adverse opinion on the effectiveness of our internal control over financial reporting. Any of these failures could result in adverse consequences that could materially adversely affect our business, including potential action by the Securities and Exchange Commission, the NYSE or other regulatory authorities against us, possible defaults under our debt agreements, stockholder lawsuits, delisting of our stock and general damage to our reputation.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Forward-Looking Statements

We have made statements under the captions Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and in other sections of this prospectus that are forward-looking statements. These statements may relate to, but are not limited to, expectations of future operating results or financial performance, capital expenditures, use of proceeds from this offering, introduction of new services, legal and regulatory compliance, plans for growth and future operations, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. These risks and other factors include, but are not limited to, those described under Risk Factors. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expect, plan, anticipate, believe, estimate, predict, intend, po continue or the negative of these terms or other comparable terminology. Actual results, level of activity, performance or achievements may differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, and these differences may be material and adverse.

We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the SEC, we do not plan to publicly update or revise any forward-looking statements after we distribute this prospectus, whether as a result of any new information, future events or otherwise. Potential investors should not place undue reliance on our forward-looking statements. Before you invest in our common stock, you should be aware that the occurrence of any of the events described under Risk Factors and elsewhere in this prospectus could materially adversely affect our business, prospects, operating results and financial condition.

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately $18.5 million, or approximately $28.6 million if the underwriters exercise their over-allotment option in full, at an initial public offering price of $12.00 per share of common stock, after deducting estimated underwriting discounts and commissions and estimated offering expenses.

The principal purposes of this offering are to obtain additional capital for the purposes discussed below, to create a public market for our common stock for the benefit of our stockholders and our employees who have received equity compensation and to facilitate our future access to the public capital markets. We intend to use the net proceeds of this offering for general corporate purposes, such as for working capital, for acquiring facilities, and for potential strategic acquisitions of, or investments in, other businesses or technologies that we believe will complement our current business and expansion strategies.

We will not receive any of the proceeds from the sale of common stock by the selling stockholders.

DIVIDEND POLICY

We currently anticipate that we will retain all available funds for use in the operation and expansion of our business, and do not anticipate paying any cash dividends in the foreseeable future.

Table of Contents

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of September 30, 2011:

- on an actual basis; and

- on an as adjusted basis, giving effect to (1) the conversion of all outstanding Series A-1, Series A-2, Series A-3 convertible preferred stock into an aggregate of 21,840,128 shares of common stock immediately prior to completion of this offering, (2) our receipt of the net proceeds from the sale by us in this offering of shares of common stock at a public offering price of $12.00 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, (3) the expiration as of December 31, 2011 of the contractual put option relating to our puttable common stock, (4) the issuance of 53,336 shares of common stock upon completion of this offering in relation to our 2010 acquisition of Instant Information Inc. and (5) 73,613 shares of common stock to be issued and sold in this offering upon the exercise of vested stock options.

This table should be read in conjunction with Selected Consolidated Financial and Other Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this prospectus.

	September 30, 2011	
	Actual	As Adjusted [1]
	(in thousands)	
Cash and cash equivalents(2)	$ 67,399	$ 87,095
Redeemable preferred stock and puttable common stock:		
Preferred stock: $.001 par value, 5,000,000 authorized, 2,054,935 Series A-1 convertible redeemable preferred stock issued and outstanding, actual; no shares authorized, issued and outstanding on an as adjusted basis; $.001 par value, 945,114 authorized, 384,804 Series A-2 convertible redeemable preferred stock issued and outstanding, actual; no shares authorized, issued and outstanding on an as adjusted basis	$ 85,940	$
Puttable common stock, $.001 par value, 18,112 issued and outstanding, actual; no shares authorized, issued and outstanding on an as adjusted basis	133	
Stockholders equity:		
Common stock, $.001 par value; 160,000,000 authorized; 18,857,712 shares issued and 17,140,792 shares outstanding, actual; 160,000,000 shares authorized, 42,842,901 issued and 41,125,981 outstanding on an as adjusted basis	17	41
Preferred stock: $.001 par value, 290,277 authorized Series A-3 convertible preferred stock issued and outstanding, actual; $.001 par value, 40,000,000 shares authorized (the terms of which are currently unspecified), no shares issued and outstanding on an as adjusted basis		
Additional paid-in capital	21,612	126,181
Retained earnings	79,687	79,292
Treasury stock	(15,972)	(15,972)
Accumulated other comprehensive loss	(2,665)	(2,665)
Total stockholders equity	82,679	186,877

Total capitalization	$ 168,752	$ 186,877

(1) If the underwriters option to purchase an additional 900,000 shares of common stock from us in this offering is exercised in full, the as adjusted amount of each of cash and cash equivalents, additional paid-in capital and total capitalization would increase by approximately $10.0 million, and we would have 43,742,901 shares of our common stock issued and 42,025,981 outstanding.

(2) Our cash and cash equivalents as of September 30, 2011 reflects the payment of approximately $1.2 million of our estimated offering expenses paid as of that date.

Table of Contents

DILUTION

Dilution is the amount by which the portion of the offering price paid by the purchasers of our common stock in this offering exceeds the net tangible book value per share of our common stock after the offering. Our pro forma net tangible book value as of September 30, 2011 was $168.8 million or $4.33 per share of common stock. Pro forma net tangible book value per share is determined by dividing our tangible net worth, total assets less total liabilities, by the aggregate number of shares of common stock outstanding. After giving effect to the sale by us of the shares of common stock in this offering, at a public offering price of $12.00 per share and the receipt of the net proceeds, our pro forma net tangible book value as of September 30, 2011 would have been $188.5 million or $4.58 per share. This represents an immediate increase in pro forma net tangible book value to existing stockholders of $0.25 per share and an immediate dilution to new investors of $7.42 per share. The following table illustrates this per share dilution:

Initial public offering price		$ 12.00
Pro forma net tangible book value per share as of September 30, 2011	$ 4.33	
Increase in pro forma net tangible book value per share attributable to new investors	0.25	
Pro forma net tangible book value per share after this offering		4.58
Dilution per share to new investors		$ 7.42

Dilution is determined by subtracting pro forma net tangible book value per share after the offering from the initial public offering price per share.

The following table sets forth, on a pro forma basis, as of September 30, 2011, the number of shares of common stock purchased from us, the total consideration paid, or to be paid, and the average price per share paid, or to be paid, by existing stockholders and by the new investors, at a public offering price of $12.00 per share before deducting estimated underwriting discounts and commissions, and offering expenses payable by us:

	Shares Purchased		Total Consideration		Average Price Per
	Number	Percent	Amount	Percent	Share
Existing stockholders	39,125,981	95%	$ 97,571,604	80%	$ 2.49
New investors	2,000,000	5	24,000,000	20	12.00
Total	41,125,981	100%	$ 121,571,604	100%	$ 2.96

Sales by the selling stockholders in this offering will reduce the number of shares of common stock held by existing stockholders to 35,125,981, or approximately 85%, and will increase the number of shares of common stock to be purchased by new investors to 6,000,000, or approximately 15%, of the total shares of common stock outstanding after the offering.

The foregoing tables assume no exercise of the underwriters over-allotment option or of stock options outstanding as of September 30, 2011. If the underwriters over-allotment option is exercised in full, the number of shares held by the new investors will be increased to 6,900,000, or approximately 16% of the total number of shares of common stock outstanding after this offering. At September 30, 2011, 6,701,384 shares of common stock were subject to outstanding options, at a weighted average exercise price of $4.66. To the extent these options are exercised there will be further dilution to new investors.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected consolidated financial and other data of EPAM should be read in conjunction with, and are qualified by reference to, Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this prospectus.

The consolidated statements of income data for each of the three years ended December 31, 2010, 2009 and 2008 and the consolidated balance sheet data as of December 31, 2010 and 2009 are derived from the audited consolidated financial statements of EPAM included elsewhere in this prospectus, and should be read in conjunction with those consolidated financial statements and notes thereto. The consolidated statements of income data for the two years ended December 31, 2007 and 2006 and the consolidated balance sheet data as of December 31, 2008, 2007 and 2006 are derived from audited consolidated financial statements of EPAM not included in this prospectus. The consolidated statements of income data for the nine months ended September 30, 2011 and 2010, and the consolidated balance sheet data as of September 30, 2011, are derived from the condensed unaudited consolidated financial statements of EPAM included elsewhere in this prospectus, and should be read in conjunction with those condensed unaudited consolidated financial statements and notes thereto. The consolidated balance sheet data as of September 30, 2010 are derived from the unaudited consolidated financial statements of EPAM not included in this prospectus. The unaudited interim period financial information, in the opinion of management, includes all adjustments, which are normal and recurring in nature, necessary for the fair presentation of the periods shown. The operating results in any interim period are not necessarily indicative of the results that may be expected for any annual period.

	Nine Months Ended September 30,		Year Ended December 31,				
	2011	2010	2010	2009	2008	2007	2006
	(in thousands, except per share data)						
Consolidated Statements of Income Data:							
Revenues	$ 239,401	$ 151,050	$ 221,824	$ 149,939	$ 160,632	$ 114,045	$ 69,801
Operating expenses:							
Cost of revenues (exclusive of depreciation and amortization)	145,948	92,403	132,528	88,027	91,205	59,759	40,903
Selling, general and administrative expenses	46,420	31,574	47,635	39,248	53,913	36,466	14,971
Depreciation and amortization expense	5,732	4,519	6,242	5,618	4,889	2,537	1,696
Goodwill impairment loss	1,697	0					
Other operating expenses, net	23	2,614	2,629	1,064	400	190	19
Income from operations	$ 39,581	$ 19,940	$ 32,790	$ 15,982	$ 10,225	$ 15,093	$ 12,212
Interest income	986	482	562	227	1,474	738	335
Interest (expense)	(37)	(64)	(76)	(185)	(129)	(181)	(4)
Other income	51	0	0	0	0	0	0
Foreign exchange gain (loss)	(3,138)	(1,429)	(2,181)	(1,617)	(3,819)	(220)	339
Income before provision for income taxes	$ 37,443	$ 18,929	$ 31,095	$ 14,407	$ 7,751	$ 15,430	$ 12,882
Provision for income taxes	5,474	2,251	2,787	879	3,701	3,462	3,147
Net income	$ 31,969	$ 16,678	$ 28,308	$ 13,528	$ 4,050	$ 11,968	$ 9,735
Net income per share of common stock:							
Basic (common)	$ 0.14	$ 0.54	$ 0.84	$ 0.23	$ 0.00	$ 0.24	$ 0.21
Basic (puttable common)	$ 0.40	$ 0.58	$ 0.84	$ 0.23	$ 0.00	$ 0.24	$
Diluted (common)	$ 0.14	$ 0.51	$ 0.79	$ 0.22	$ 0.00	$ 0.23	$ 0.21
Diluted (puttable common)	$ 0.37	$ 0.54	$ 0.79	$ 0.22	$ 0.00	$ 0.23	$

Shares used in calculation of net income per share of common stock:							
Basic (common)	17,078	17,057	17,056	16,719	16,050	16,831	16,323
Basic (puttable common)	44	149	141	153	114	20	
Diluted (common)	20,156	19,032	19,314	18,474	17,980	18,671	16,330
Diluted (puttable common)	44	149	141	153	114	20	
Pro forma net income per share of common stock[1]:							
Basic	$ 0.82		$ 0.88				
Diluted	$ 0.74		$ 0.83				
Shares used in calculation of pro forma net income per share of common stock:							
Basic	38,962		38,490				
Diluted	43,334		40,748				

Table of Contents

(1) Immediately prior to completion of this offering, all Series A-1, Series A-2 and Series A-3 convertible preferred stock will automatically convert to common stock. We made pro forma adjustments to our historical results of operations for the fiscal year ended December 31, 2010 and for the nine months ended September 30, 2011 to show the pro forma effect of the conversion of all of our Series A-1, A-2 and A-3 convertible preferred stock into a total of shares of common stock as if such events had occurred on January 1, 2010.

	As of September 30,		As of December 31,				
	2011	2010	2010	2009	2008	2007	2006
	(in thousands)						
Consolidated Balance Sheet Data:							
Cash and cash equivalents	$ 67,399	$ 38,157	$ 54,004	$ 52,927	$ 30,658	$ 26,495	$ 15,741
Accounts receivable, net	50,927	30,417	41,488	27,450	28,224	28,942	17,999
Unbilled revenues, net	33,417	32,914	23,883	13,952	9,777	5,444	1,300
Property and equipment, net	34,063	24,642	25,338	23,053	19,136	5,778	3,371
Total assets	209,758	147,840	170,858	135,407	106,924	86,116	52,104
Accrued expenses	15,845	9,142	15,031	4,928	7,103	11,075	1,916
Deferred revenue	3,981	3,674	5,151	4,417	990	4,733	2,507
Revolving line of credit				7,000		6,903	
Total liabilities	41,006	24,943	35,900	30,196	18,793	35,731	17,373
Preferred stock; Series A-1 convertible redeemable preferred stock and Series A-2 convertible redeemable preferred stock	85,940	68,377	68,377	87,413	82,990	31,448	27,954
Total stockholders equity	$ 82,679	$ 53,577	$ 66,249	$ 16,534	$ 4,098	$ 18,324	$ 6,777

51

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the information under Selected Consolidated Financial and Other Data and our consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Risk Factors and elsewhere in this prospectus.

Overview

We are a leading global IT services provider focused on complex software product development services, software engineering and vertically-oriented custom development solutions. Since our inception in 1993, we have been serving independent software vendors, or ISVs, and technology companies. The foundation we have built serving ISVs and technology companies has enabled us to differentiate ourselves in the market for software engineering skills and technology capabilities. Our work with these clients exposes us to their customers challenges across a variety of industry verticals. This has enabled us to develop vertical-specific domain expertise and grow our business in multiple industry verticals, including Banking and Financial Services, Business Information and Media, Travel and Hospitality and Retail and Consumer.

Our delivery centers in Belarus, Ukraine, Russia, Hungary, Kazakhstan and Poland are strategically located in centers of software engineering talent and educational excellence across Central and Eastern Europe, or CEE, and the Commonwealth of Independent States, or the CIS. Our applications, tools, methodologies and infrastructure allow us to seamlessly deliver services and solutions from our delivery centers to global clients, thereby further strengthening our relationships with them. We also have client management locations in the United States, United Kingdom, Germany, Sweden, Russia, Switzerland and Kazakhstan.

Our clients primarily consist of *Forbes Global 2000* corporations located in North America, Europe and the CIS. Selected companies among our top 30 clients based on 2010 revenues include Barclays, Citigroup, The Coca-Cola Company, Expedia, Google, InterContinental Hotels Group, Kingfisher, MTV Networks, Oracle, Renaissance Capital, SAP, Sberbank, Thomson Reuters, UBS and Wolters Kluwer. Our focus on delivering quality to our clients is reflected by an average of 92.8% and 77.3% of our revenues in 2010 coming from clients that had used our services for at least two and three years, respectively.

Factors Affecting Our Results of Operations

We have benefited significantly from growth in the global software development services industry. Growth in the industry is driven by the needs of major corporations to maintain and upgrade the technology and services required to operate in a cost-efficient manner. Software companies are also increasingly outsourcing work to IT services providers in order to streamline and reduce the cost of the software development process. The CEE software development services market is growing rapidly due to its large pool of skilled IT professionals, highly-developed infrastructure, strong government support and incentives, the geographic and cultural proximity between CEE countries and Europe and the desire of clients to diversify their use of software development services to multiple delivery locations.

The growth in the global software development services industry has also increased the cost of attracting and retaining high quality IT professionals in CEE and the CIS at a higher rate than we have historically faced. In addition, we face competition from offshore IT services providers in emerging outsourcing destinations with low wage costs such as India and China and our clients buying patterns could change if they become more price sensitive and accepting of low-cost suppliers. We believe the EPAM brand name and our reputation are important corporate assets that help distinguish our services from those of our competitors and also contribute to our efforts to recruit and retain talented employees in CEE and the CIS. We seek to accurately manage our

Table of Contents

pricing and cost estimates when negotiating contract terms with our clients to ensure we are able to maintain appropriate levels of project profitability while providing a high quality of service. We also seek to maintain optimal resource utilization levels and productivity with the efficient allocation of our IT professionals and facilities in our development centers in CEE and the CIS.

We believe that the most significant factors affecting our results of operations include:

- Market demand for software development services;
- Economic growth rates in the industries and countries in which our clients operate;
- Shortages of skilled IT professionals in the United States and Europe;
- ISVs and technology companies increasingly outsourcing work to IT service professionals to more efficiently scale their operations with strong software engineering skills;
- Wage rates in countries where we operate, particularly in CEE countries where most of our employees are based; and
- Changes in foreign exchange rates, especially relative changes in exchange rates between the U.S dollar and the British pound, euro, Russian ruble and Hungarian forint.

Our results of operations in any given period are also directly affected by company-specific factors, including:

- Our ability to obtain new clients and generate repeat business from existing clients;
- Our ability to expand the quality, range and delivery of our portfolio of service offerings and our expertise relative to our competitors;
- Our ability to efficiently manage and utilize our IT professionals; and
- Our ability to identify, integrate and effectively manage businesses that we acquire.

Certain Income Statement Line Items

Revenues

Revenues are derived primarily from providing software development services to our clients. During the third quarter of 2008, we started to experience a decrease in demand for our services as a result of the global economic downturn, which also continued to adversely affect demand during 2009. However, in 2010 and the first nine months of 2011 we experienced rapid growth in demand for our services and significantly expanded our business. In 2010, revenues increased by 47.9% to $221.8 million from $149.9 million in 2009, and increased by 58.5% to $239.4 million in the first nine months of 2011 from $151.1 million in the first nine months of 2010. We discuss below the breakdown of our revenues by service offering, vertical, client location, contract type and client concentration. Revenues consist of IT services revenues and reimbursable expenses and other revenues, which primarily include travel and entertainment costs that are chargeable to clients.

Table of Contents

Revenues by Service Offering

Software development includes software product development, custom application development services and enterprise application platforms services, and has historically represented, and we expect to continue to represent, the substantial majority of our business. The following table sets forth revenues by service offering by amount and as a percentage of our revenues for the periods indicated:

	Nine Months Ended September 30,				Year Ended December 31,					
	2011		2010		2010		2009		2008	
Service Offering	(in thousands, except percent)									
Software development	$ 157,025	65.5%	$ 103,055	68.3%	$ 149,658	67.5%	$ 105,397	70.3%	$ 117,313	72.9%
Application testing services	48,523	20.3	30,540	20.2	44,459	20.0	28,489	19.0	27,096	16.9
Application maintenance and support	20,502	8.6	13,110	8.7	19,262	8.7	11,828	7.9	10,917	6.8
Infrastructure services	6,353	2.7	1,270	0.8	2,823	1.3			94	0.1
Licensing	2,686	1.1	1,093	0.7	1,849	0.8	2,094	1.4	2,184	1.4
Reimbursable expenses and other revenues	4,312	1.8	1,982	1.3	3,773	1.7	2,131	1.4	3,028	1.9
Revenues	$ 239,401	100.0%	$ 151,050	100.0%	$ 221,824	100.0%	$ 149,939	100.0%	$ 160,632	100.0%

Revenues by Vertical

The foundation we have built with ISVs and technology companies has enabled us to leverage our strong domain knowledge and industry-specific knowledge capabilities to become a premier IT services provider to a range of additional verticals such as Banking and Financial Services, Business Information and Media, Travel and Hospitality and Retail and Consumer. The following table sets forth revenues by vertical by amount and as a percentage of our revenues for the periods indicated:

	Nine Months Ended September 30,				Year Ended December 31,					
	2011		2010		2010		2009		2008	
Vertical	(in thousands, except percent)									
ISVs and Technology	$ 63,977	26.7%	$ 48,351	32.0%	$ 68,727	31.0%	$ 57,695	38.5%	$ 59,494	37.0%
Banking and Financial Services	53,801	22.5	27,672	18.3	42,835	19.3	17,069	11.4	21,534	13.4
Business Information and Media	46,622	19.5	32,047	21.2	45,749	20.6	28,587	19.1	22,385	13.9
Travel and Hospitality	28,618	12.0	12,780	8.5	18,780	8.5	9,869	6.6	5,271	3.3
Retail and Consumer	20,539	8.6	11,745	7.8	17,681	8.0	9,856	6.6	12,318	7.7
Other verticals	21,532	8.9	16,473	10.9	24,279	10.9	24,732	16.4	36,602	22.8
Reimbursable expenses and other revenues	4,312	1.8	1,982	1.3	3,773	1.7	2,131	1.4	3,028	1.9

Revenues	$ 239,401	100.0%	$ 151,050	100.0%	$ 221,824	100.0%	$ 149,939	100.0%	$ 160,632	100.0%

Table of Contents

Revenues by Client Location

Our revenues are sourced from three geographic markets: North America, Europe and the CIS. We present our revenues by client location based on the location of the specific client site that we serve, irrespective of the location of the headquarters of the client or the location of the delivery center where the work is performed. As such, revenues by client location differ from the segment information in our consolidated financial statements included elsewhere in this prospectus, which is not solely based on the geographic location of the clients but rather is based on managerial responsibility for a particular client regardless of client location. The following table sets forth revenues by client location by amount and as a percentage of our revenues for the periods indicated:

	Nine Months Ended September 30,				Year Ended December 31,					
	2011		2010		2010		2009		2008	
Client Location	(in thousands, except percent)									
North America	**$ 119,301**	**49.9%**	**$ 81,091**	**53.7%**	**$ 117,027**	**52.8%**	**$ 80,168**	**53.5%**	**$ 79,881**	**49.7%**
Europe	**$ 75,951**	**31.7%**	**$ 39,136**	**25.9%**	**$ 58,567**	**26.4%**	**$ 32,635**	**21.8%**	**$ 24,536**	**15.3%**
United Kingdom	50,267	21.0	21,545	14.3	32,584	14.7	18,785	12.5	16,247	10.1
Other	25,684	10.7	17,591	11.6	25,983	11.7	13,850	9.3	8,289	5.2
CIS	**$ 39,837**	**16.6%**	**$ 28,841**	**19.1%**	**$ 42,457**	**19.1%**	**$ 35,005**	**23.3%**	**$ 53,187**	**33.1%**
Russia	31,041	13.0	21,239	14.1	31,488	14.2	24,503	16.3	42,853	26.7
Other	8,796	3.6	7,602	5.0	10,969	4.9	10,502	7.0	10,334	6.4
Reimbursable expenses and other revenues	4,312	1.8	1,982	1.3	3,773	1.7	2,131	1.4	3,028	1.9
Revenues	$ 239,401	100.0%	$ 151,050	100.0%	$ 221,824	100.0%	$ 149,939	100.0%	$ 160,632	100.0%

Revenues by Contract Type

Our services are performed under both time-and-material and fixed-price arrangements. Our engagement models depend on the type of services provided to a client, the mix and locations of professionals involved and the business outcomes our clients are looking to achieve. Historically, the majority of our revenues have been generated under time-and-material contracts. Under time-and-material contracts, we are compensated for actual time incurred by our IT professionals at negotiated hourly, daily or monthly rates. Fixed-price contracts require us to perform services throughout the contractual period and we are paid in installments on pre-agreed intervals. We expect time-and-material arrangements to continue to comprise the majority of our revenues in the future.

The following table sets forth revenues by contract type by amount and as a percentage of our revenues for the periods indicated:

Nine Months Ended September 30,		Year Ended December 31,		
2011	2010	2010	2009	2008

Contract Type										
	(in thousands, except percent)									
Time-and-material	$ 208,031	86.9%	$ 129,907	86.0%	$ 188,961	85.2%	$ 122,514	81.7%	$ 130,416	81.2%
Fixed-price	24,373	10.2	18,069	12.0	27,241	12.3	23,200	15.5	25,004	15.6
Licensing	2,685	1.1	1,092	0.7	1,849	0.8	2,094	1.4	2,184	1.3
Reimbursable expenses and other revenues	4,312	1.8	1,982	1.3	3,773	1.7	2,131	1.4	3,028	1.9
Revenues	$ 239,401	100.0%	$ 151,050	100.0%	$ 221,824	100.0%	$ 149,939	100.0%	$ 160,632	100.0%

Revenues by Client Concentration

We have grown our revenues from our clients by continually expanding the scope and size of our engagements, and we have grown our key client base through internal business development efforts and several strategic acquisitions.

Our focus on delivering quality to our clients is reflected by an average of 92.8% and 77.3% of our revenues in 2010 coming from clients that had used our services for at least two and three years, respectively. In addition,

Table of Contents

we have significantly grown the size of existing accounts. The number of clients that accounted for over $5.0 million in annual revenues increased to 11 in 2010 from two in 2009, and the number of clients that generated at least $0.5 million in revenues increased to 75 in 2010 from 64 in 2009.

The following table sets forth revenues contributed by our top five and top ten clients by amount and as a percentage of our revenues for the periods indicated:

	Nine Months Ended September 30,				Year Ended December 31,					
	2011		2010		2010		2009		2008	
	(in thousands, except percent)									
Top five clients	$ 79,064	33.0%	$ 45,445	30.1%	$ 65,908	29.7%	$ 35,444	23.6%	$ 38,545	24.0%
Top ten clients	108,074	45.1	65,080	43.1	94,529	42.6	53,001	35.3	59,076	36.8

In 2010, our largest client, Thomson Reuters accounted for over 10% of our revenues. The volume of work we perform for specific clients is likely to vary from year to year, as we are typically not any client s exclusive external IT services provider, and a major client in one year may not contribute the same amount or percentage of our revenues in any subsequent year.

Operating Expenses

Cost of Revenues (Exclusive of Depreciation and Amortization)

The principal components of our cost of revenues (exclusive of depreciation and amortization) are salaries, employee benefits and stock compensation expense, travel costs and subcontractor fees. Salaries and other compensation expenses of our IT professionals are allocated to cost of revenues regardless of whether they are actually performing services during a given period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses represent expenses associated with promoting and selling our services and include such items as senior management, administrative personnel and sales and marketing personnel salaries, stock compensation expense and related fringe benefits, legal and audit expenses, commissions, insurance, operating lease expenses, travel costs and the cost of advertising and other promotional activities. In addition, we pay a membership fee of 1% of revenues collected in Belarus to the administrative organization of the Belarus Hi-Tech Park.

Our selling, general and administrative expenses have increased primarily as a result of our expanding operations, acquisitions, and the hiring of a number of senior managers to support our growth. We expect our selling, general and administrative expenses to continue to increase in absolute terms as our business expands but will generally remain steady or slightly decrease as a percentage of our revenues.

Provision for Income Taxes

Determining the consolidated provision for income tax expense, deferred income tax assets and liabilities and related valuation allowance, if any, involves judgment. As a global company, we are required to calculate and provide for income taxes in each of the jurisdictions in which we operate. During 2008, 2009 and 2010, we had $10.9 million, $14.3 million and $30.3 million, respectively, in income before provision for income taxes attributed to our foreign jurisdictions. The statutory tax rate in our foreign jurisdictions is lower than the statutory U.S. tax rate. Additionally, we have secured special tax benefits in Belarus and Hungary as described below. As a result, our provision for income taxes is low in comparison to income before taxes due to the benefit received from increased income earned in low tax jurisdictions. The foreign tax rate differential represents this significant reduction. Changes in the geographic mix or estimated level of annual pre-tax income can also affect our overall effective income tax rate.

Table of Contents

Our provision for income taxes also includes the impact of provisions established for uncertain income tax positions, as well as the related net interest. Tax exposures can involve complex issues and may require an extended period to resolve. Although we believe we have adequately reserved for our uncertain tax positions, we cannot assure you that the final tax outcome of these matters will not be different from our current estimates. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit, statute of limitation lapse or the refinement of an estimate. To the extent that the final tax outcome of these matters differs from the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made.

Our subsidiary in Belarus is a member of the Belarus Hi-Tech Park, in which member technology companies are 100% exempt from the current Belarusian income tax rate of 24%. The On High-Technologies Park Decree, which created the Belarus Hi-Tech Park, is in effect for a period of 15 years from July 1, 2006.

Our subsidiary in Hungary benefits from a tax credit of 10% of annual qualified salaries, taken over a four-year period, for up to 70% of the total tax due for that period. We have been able to take the full 70% credit for 2007, 2008, 2009 and 2010 and expect to continue to do so in the foreseeable future.

Our domestic income before provision for income taxes differs from the North America segment operating profit because segment operating profit is a management reporting measure, which does not take into account most corporate expenses, as well as the majority of non-operating costs and stock compensation expenses. We do not hold our segment managers accountable for these expenses, as they cannot influence these costs within the scope of their operating authority, nor do we believe it is practical to allocate these costs to specific segments as they are not directly attributable to any specific segment. All our segments are treated consistently with respect to such expenses when determining segment operating profit.

Results of Operations

The following table sets forth a summary of our consolidated results of operations by amount and as a percentage of our revenues for the periods indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this prospectus. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	Nine Months Ended September 30,				Year Ended December 31,					
	2011		2010		2010		2009		2008	
	(in thousands, except percent)									
Revenues	**$ 239,401**	**100.0%**	**$ 151,050**	**100.0%**	**$ 221,824**	**100.0%**	**$ 149,939**	**100.0%**	**$ 160,632**	**100.0%**
Operating expenses:										
Cost of revenues (exclusive of depreciation and amortization)(1)	145,948	61.0	92,403	61.2	132,528	59.7	88,027	58.7	91,205	56.8
Selling, general and administrative expenses(2)	46,420	19.4	31,574	20.9	47,635	21.5	39,248	26.2	53,913	33.6
Depreciation and amortization expense	5,732	2.4	4,519	3.0	6,242	2.8	5,618	3.7	4,889	3.0
Goodwill impairment loss	1,697	0.7		0.0						
Other operating expenses, net	23	0.0	2,614	1.7	2,629	1.2	1,064	0.7	400	0.2

Income from operations	**39,581**	**16.5%**	**19,940**	**13.2%**	**$ 32,790**	**14.8%**	**$ 15,982**	**10.7%**	**$ 10,225**	**6.4%**
Interest income	986	0.4	482	0.3	562	0.3	227	0.2	1,474	0.9
Interest (expense)	(37)	0.0	(64)	0.0	(76)	(0.0)	(185)	(0.1)	(129)	(0.1)
Other income	51	0.0		0.0		0.0		0.0		0.0
Foreign exchange (loss)	(3,138)	(1.3)	(1,429)	(0.9)	(2,181)	(1.0)	(1,617)	(1.1)	(3,819)	(2.4)
Income before provision for income taxes	**37,443**	**15.6%**	**18,929**	**12.5%**	**$ 31,095**	**14.1%**	**$ 14,407**	**9.7%**	**$ 7,751**	**4.8%**
Provision for income taxes	5,474	2.3	2,251	1.5	2,787	1.3	879	0.7	3,701	2.3
Net income	**$ 31,969**	**13.4%**	**$ 16,678**	**11.0%**	**$ 28,308**	**12.8%**	**$ 13,528**	**9.0%**	**$ 4,050**	**2.5%**

(1) Includes stock-based compensation expense of $947, $774, $1,314, $785 and $771 for the nine months ended September 30, 2011 and 2010, and years ended December 31, 2010, 2009 and 2008, respectively.

(2) Includes stock-based compensation expense of $1,207, $979, $1,625, $1,626 and $2,026 for the nine months ended September 30, 2011 and 2010, and years ended December 31, 2010, 2009 and 2008, respectively.

Table of Contents

Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

Revenues

Revenues were $239.4 million in the first nine months of 2011, representing an increase of 58.5% from $151.1 million in the first nine months of 2010. The increase was primarily driven by the following factors:

- Strong performance across all of our key verticals. In particular, Banking and Financial Services continued to experience an increase in revenues on strong demand from existing clients, with revenues growing by $26.1 million, or 94.4%, to $53.8 million in the first nine months of 2011 as compared to $27.7 million in the first nine months of 2010.

- Strong performance across all of our geographies. Revenues from Europe grew 94.1% to $76.0 million in the first nine months of 2011 from $39.1 million in the first nine months of 2010, and revenues from North America grew 47.1% to $119.3 million in the first nine months of 2011 from $81.1 million in the first nine months of 2010. Revenues from Russia increased to $31.0 million in the first nine months of 2011 from $21.2 million in the first nine months of 2010.

- Revenues from existing clients continued to increase in the first nine months of 2011. Revenues attributable to our top ten clients as of September 30, 2011 increased by 66.1% in the first nine months of 2011 as compared to the first nine months of 2010. This represented 48.6% of the overall increase in revenues in the first nine months of 2011.

Cost of Revenues (Exclusive of Depreciation and Amortization)

Cost of revenues (exclusive of depreciation and amortization) was $145.9 million in the first nine months of 2011, representing an increase of 57.9% from $92.4 million in the first nine months of 2010. The increase was primarily attributable to a net increase of 1,728 IT professionals from September 30, 2010 to September 30, 2011, to support the growth in demand for our services. As a percentage of revenues, cost of revenues (exclusive of depreciation and amortization) decreased to 61.0% in the first nine months of 2011 from 61.2% in the first nine months of 2010.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $46.4 million in the first nine months of 2011, representing an increase of 47.0% from $31.6 million in the first nine months of 2010. The growth was primarily attributable to increased overhead costs and non-production staff required to support the growth in the business. In the first nine months of 2011, non-production staff headcount increased by 387, or 48.5%, from 798 at September 30, 2010, stock compensation expense increased from $1.0 million to $1.2 million and facilities expenses increased by $2.4 million, or 36.0%, to $8.9 million as compared to the first nine months of 2010. As a percentage of revenues, selling, general and administrative expenses decreased to 19.4% in the first nine months of 2011 from 20.9% in the first nine months of 2010.

Depreciation and Amortization Expense

Depreciation and amortization expense was $5.7 million in the first nine months of 2011, representing an increase of 26.8% from $4.5 million in the first nine months of 2010. The increase was primarily attributable to additional capital expenditures in IT equipment to support the growth in the headcount. As a percentage of revenues, depreciation and amortization expense decreased to 2.4% in the first nine months of 2011 from 3.0% in the first nine months of 2010.

Goodwill Impairment Loss

As a result of an operating loss in the Other reporting unit for the three months ended June 30, 2011, we performed a goodwill impairment test. In assessing impairment in accordance with Accounting Standards Codification, (ASC) No. 350, Intangibles-Goodwill and Other, we determined that the fair value of the Other reporting unit, based on the total of the expected future discounted cash flows directly related to the reporting

Table of Contents

unit, was below the carrying value of the reporting unit. We completed the second step of the goodwill impairment test, resulting in an impairment charge of $1.7 million. We do not believe it is necessary to perform an impairment test for the remaining reporting units since they continue to demonstrate strong earnings growth and operating margins, and no indicators of impairment currently exist.

Interest Income

Interest income was $1.0 million in the first nine months of 2011, representing an increase of 104.6% from $0.5 million in the first nine months of 2010. The increase was primarily driven by the interest paid on cash and cash equivalents which increased 48.5% from an average balance of $39.6 million during the first nine months of 2010 to $58.8 million during the first nine months of 2011.

Foreign Exchange (Loss)

Foreign exchange loss was $3.1 million in the first nine months of 2011, representing an increase of 119.6% from a $1.4 million loss in the first nine months of 2010. The increase was primary attributable to the movement of the Russian ruble, Belarusian ruble and the euro against the U.S. dollar.

Provision for Income Taxes

Provision for income taxes was $5.5 million in the first nine months of 2011, increasing from $2.3 million in the first nine months of 2010. The increase was primarily attributable to significant growth in consolidated pre-tax income, an increase in our clients need for onsite resources in North America and the United Kingdom, which increased our consolidated effective tax rate, a relative shift in offshore services performed in Belarus, where we are currently entitled to a 100% exemption from Belarusian income tax, to Ukraine and, to a lesser extent, Russia, both of which have significantly higher tax rates. In the first nine months of 2011, our effective tax rate was 14.6% as compared to our effective tax rate of 11.9% in the first nine months of 2010.

2010 Compared to 2009