

ALIGN TECHNOLOGY INC  
Form 10-Q  
October 30, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 0-32259

ALIGN TECHNOLOGY, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)  
2560 Orchard Parkway  
San Jose, California 95131  
(Address of principal executive offices)  
(408) 470-1000  
(Registrant's telephone number, including area code)

94-3267295  
(I.R.S. Employer Identification Number)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

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The number of shares outstanding of the registrant's Common Stock, \$0.0001 par value, as of October 24, 2014 was 80,289,814.

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## PART I—FINANCIAL INFORMATION

## ITEM 1 FINANCIAL STATEMENTS

## ALIGN TECHNOLOGY, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net revenues	\$189,876	\$164,506	\$563,053	\$481,914
Cost of net revenues	44,822	39,416	135,272	120,284
Gross profit	145,054	125,090	427,781	361,630
Operating expenses:				
Sales and marketing	52,368	45,224	161,642	135,352
General and administrative	28,285	27,487	84,533	84,862
Research and development	12,854	10,915	39,523	33,113
Impairment of goodwill	—	—	—	40,693
Impairment of long-lived assets	—	—	—	26,320
Total operating expenses	93,507	83,626	285,698	320,340
Income from operations	51,547	41,464	142,083	41,290
Interest and other income (expenses), net	(1,999	) 449	(1,491	) (874
Net income before provision for income taxes	49,548	41,913	140,592	40,416
Provision for income taxes	11,301	7,376	34,301	18,542
Net income	\$38,247	\$34,537	\$106,291	\$21,874
Net income per share:				
Basic	\$0.47	\$0.43	\$1.31	\$0.27
Diluted	\$0.47	\$0.42	\$1.29	\$0.26
Shares used in computing net income per share:				
Basic	80,629	79,967	80,924	80,592
Diluted	82,014	81,848	82,443	82,549

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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ALIGN TECHNOLOGY, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income	\$38,247	\$34,537	\$106,291	\$21,874
Net change in cumulative translation adjustment	(257	) 171	(155	) 109
Change in unrealized gains (losses) on available-for-sale securities, net of tax	(191	) 203	(81	) 20
Other comprehensive income (loss)	(448	) 374	(236	) 129
Comprehensive income	\$37,799	\$34,911	\$106,055	\$22,003

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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ALIGN TECHNOLOGY, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (in thousands, except per share data)

	September 30, 2014 (unaudited)	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$180,676	\$242,953
Marketable securities, short-term	244,820	127,040
Accounts receivable, net of allowances for doubtful accounts and returns of \$1,813 and \$1,733, respectively	130,047	113,250
Inventories	15,983	13,968
Prepaid expenses and other current assets	44,146	47,465
Total current assets	615,672	544,676
Marketable securities, long-term	136,017	101,978
Property, plant and equipment, net	86,447	75,743
Goodwill and intangible assets, net	82,926	85,362
Deferred tax assets	19,714	15,766
Other assets	7,513	8,622
Total assets	\$948,289	\$832,147
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$24,517	\$17,718
Accrued liabilities	86,600	80,345
Deferred revenues	87,443	77,275
Total current liabilities	198,560	175,338
Other long-term liabilities	27,273	22,839
Total liabilities	225,833	198,177
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value (5,000 shares authorized; none issued)	—	—
Common stock, \$0.0001 par value (200,000 shares authorized; 80,516 and 80,583 issued and outstanding, respectively)	8	8
Additional paid-in capital	775,523	729,578
Accumulated other comprehensive income	60	294
Accumulated deficit	(53,135	) (95,910 )
Total stockholders' equity	722,456	633,970
Total liabilities and stockholders' equity	\$948,289	\$832,147

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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ALIGN TECHNOLOGY, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

	Nine Months Ended September 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 106,291	\$ 21,874
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	20,870	14,501
Depreciation and amortization	13,469	12,647
Stock-based compensation	29,348	21,265
Excess tax benefit from share-based payment arrangements	(18,887	) (21,849
Impairment of goodwill	—	40,693
Impairment of long-lived assets	—	26,320
Other non-cash operating activities	7,368	1,200
Changes in assets and liabilities:		
Accounts receivable	(24,930	) (5,936
Inventories	(2,033	) 467
Prepaid expenses and other assets	(2,349	) 256
Accounts payable	3,788	(318
Accrued and other long-term liabilities	12,402	(671
Deferred revenues	9,957	8,415
Net cash provided by operating activities	155,294	118,864
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition, net of cash acquired	—	(7,652
Purchase of property, plant and equipment	(16,957	) (15,172
Purchase of marketable securities	(350,611	) (213,990
Proceeds from maturities of marketable securities	124,101	32,229
Proceeds from sales of marketable securities	72,276	6,943
Other investing activities	(182	) (2,347
Net cash used in investing activities	(171,373	) (199,989
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock	17,373	28,291
Common stock repurchases	(77,417	) (95,105
Excess tax benefit from share-based payment arrangements	18,887	21,849
Employees' taxes paid upon the vesting of restricted stock units	(5,761	) (3,931
Other financing activities	—	(6
Net cash used in financing activities	(46,918	) (48,902
Effect of foreign exchange rate changes on cash and cash equivalents	720	(520
Net decrease in cash and cash equivalents	(62,277	) (130,547
Cash and cash equivalents, beginning of the period	242,953	306,386
Cash and cash equivalents, end of the period	\$ 180,676	\$ 175,839
The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.		



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ALIGN TECHNOLOGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by Align Technology, Inc. (“we”, “our”, or “Align”) in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) and contain all adjustments, including normal recurring adjustments, necessary to present fairly our results of operations for the three and nine months ended September 30, 2014 and 2013, our comprehensive income for the three and nine months ended September 30, 2014 and 2013, our financial position as of September 30, 2014 and our cash flows for the nine months ended September 30, 2014 and 2013. The Condensed Consolidated Balance Sheet as of December 31, 2013 was derived from the December 31, 2013 audited financial statements. Net revenues by geographic area for prior period amounts in Note 13 have been reclassified to conform with the current period presentation. These reclassifications had no impact on our financial position for the three or nine months ended September 30, 2014 and 2013.

The results of operations for the three months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 or any other future period, and we make no representations related thereto. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Quantitative and Qualitative Disclosures About Market Risk” and the Consolidated Financial Statements and notes thereto included in Items 7, 7A and 8, respectively, in our Annual Report on Form 10-K for the year ended December 31, 2013.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) in the United States of America (“U.S.”) requires our management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. On an ongoing basis, we evaluate our estimates, including those related to the fair values of financial instruments, long-lived assets and goodwill, useful lives of intangible assets and property and equipment, stock-based compensation, income taxes, and contingent liabilities, among others. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers,” requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. The updated standard becomes effective for us in the first quarter of fiscal 2017. We have not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.



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## Note 2. Marketable Securities and Fair Value Measurements

As of September 30, 2014 and December 31, 2013, the estimated fair value of our short-term and long-term marketable securities, classified as available for sale, are as follows (in thousands):

## Short-term

September 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	\$44,840	\$—	\$—	\$44,840
Corporate bonds	117,981	45	(50	) 117,976
U.S. government agency bonds	47,560	31	(2	) 47,589
U.S. dollar dominated foreign corporate bonds	911	2	—	913
Municipal securities	13,567	18	—	13,585
U.S. government treasury bonds	18,496	24	—	18,520
Certificates of deposit	1,397	—		