

Edgar Filing: ALIGN TECHNOLOGY INC - Form 10-Q

ALIGN TECHNOLOGY INC

Form 10-Q

May 02, 2019

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algn:patent iso4217:MXN iso4217:BRL xbrli:shares algn:segment  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended March 31, 2019

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

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**ALIGN TECHNOLOGY, INC.**

(Exact name of registrant as specified in its charter)

Delaware

94-3267295

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(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

2820 Orchard Parkway  
San Jose, California 95134

(Address of principal executive offices)

(408) 470-1000

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.0001 par value	ALGN	The NASDAQ Stock Market LLC (NASDAQ Global Market)

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

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

The number of shares outstanding of the registrant's Common Stock, \$0.0001 par value, as of April 26, 2019 was 80,004,892.

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*Invisalign, Align, the Invisalign logo, ClinCheck, Made to Move, Invisalign Assist, Invisalign Teen, Invisalign Go, Viverra, SmartForce, SmartTrack, SmartStage, iTero, iTero Element, Orthocad, iCast and iRecord, among others, are trademarks and/or service marks of Align Technology, Inc. or one of its subsidiaries or affiliated companies and may be registered in the United States and/or other countries.*



Table of Contents**PART I—FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS****ALIGN TECHNOLOGY, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share data)****(unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
Net revenues	\$548,971	\$436,924
Cost of net revenues	146,875	109,516
Gross profit	402,096	327,408
Operating expenses:		
Selling, general and administrative	247,110	199,625
Research and development	37,503	29,591
Impairments and other charges	29,782	—
Total operating expenses	314,395	229,216
Income from operations	87,701	98,192
Interest income	2,633	2,176
Other income (expense), net	(5,746	) 177
Net income before provision for income taxes and equity in losses of investee	84,588	100,545
Provision for income taxes	8,796	2,902
Equity in losses of investee, net of tax	3,944	1,777
Net income	\$71,848	\$95,866
Net income per share:		
Basic	\$0.90	\$1.20
Diluted	\$0.89	\$1.17
Shares used in computing net income per share:		
Basic	79,860	80,036
Diluted	80,687	81,628

*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)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
Net income	\$71,848	\$95,866
Net change in foreign currency translation adjustment	409	1,042
Change in unrealized gains (losses) on investments, net of tax	84	(129 )
Other comprehensive income	493	913
Comprehensive income	\$72,341	\$96,779

*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)**  
**(unaudited)**

	March 31, 2019	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$588,001	\$636,899
Marketable securities, short-term	144,540	98,460
Equity method investments	41,969	—
Accounts receivable, net of allowance for doubtful accounts of \$3,567 and \$2,378, respectively	479,281	439,009
Inventories	68,489	55,641
Prepaid expenses and other current assets	116,833	72,470
Total current assets	1,439,113	1,302,479
Marketable securities, long-term	—	9,112
Property, plant and equipment, net	575,267	521,329
Operating lease right-of-use assets	56,384	—
Equity method investments	—	45,913
Goodwill and intangible assets, net	80,329	81,949
Deferred tax assets	57,151	64,689
Other assets	26,186	26,987
Total assets	\$2,234,430	\$2,052,458
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$62,512	\$64,256
Accrued liabilities	252,754	234,679
Finance lease liabilities	56,100	—
Deferred revenues	433,518	393,138
Total current liabilities	804,884	692,073
Income tax payable	93,463	78,008
Operating lease liabilities	59,307	—
Other long-term liabilities	21,072	29,486
Total liabilities	978,726	799,567
Commitments and contingencies (Notes 9 and 10)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value (5,000 shares authorized; none issued)	—	—
Common stock, \$0.0001 par value (200,000 shares authorized; 80,000 and 79,778 issued and outstanding, respectively)	8	8
Additional paid-in capital	855,956	877,514
Accumulated other comprehensive income (loss), net	(2,281	) (2,774 )
Retained earnings	402,021	378,143
Total stockholders' equity	1,255,704	1,252,891
Total liabilities and stockholders' equity	\$2,234,430	\$2,052,458

*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 STOCKHOLDERS' EQUITY**  
(in thousands)  
(unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss), Net	Retained Earnings	Total
	Shares	Amount				
Balance as of December 31, 2018	79,778	\$ 8	\$877,514	\$ (2,774 )	\$378,143	\$1,252,891
Net income	—	—	—	—	71,848	71,848
Net change in unrealized gains (losses) from investments	—	—	—	84	—	84
Net change in foreign currency translation adjustment	—	—	—	409	—	409
Issuance of common stock relating to employee equity compensation plans	427	—	9,609	—	—	9,609
Tax withholdings related to net share settlements of restricted stock units	—	—	(50,181 )	—	—	(50,181 )
Common stock repurchased and retired	(205 )	—	(2,030 )	—	(47,970 )	(50,000 )
Stock-based compensation	—	—	21,044	—	—	21,044
Balance as of March 31, 2019	80,000	\$ 8	\$855,956	\$ (2,281 )	\$402,021	\$1,255,704

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss), Net	Retained Earnings	Total
	Shares	Amount				
Balances at December 31, 2017	80,040	\$ 8	\$886,435	\$ 571	\$267,274	\$1,154,288
Net income	—	—	—	—	95,866	95,866
Net change in unrealized gains (losses) from investments	—	—	—	(129 )	—	(129 )
Net change in foreign currency translation adjustment	—	—	—	1,042	—	1,042
Issuance of common stock relating to employee equity compensation plans	500	—	8,020	—	—	8,020
Tax withholdings related to net share settlements of restricted stock units	—	—	(47,842 )	—	—	(47,842 )
Common stock repurchased and retired	(396 )	—	(3,811 )	—	(96,189 )	(100,000 )
Stock-based compensation	—	—	15,830	—	—	15,830
Other	—	—	—	—	385	385
Balance as of March 31, 2018	80,144	\$ 8	\$858,632	\$ 1,484	\$267,336	\$1,127,460

*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)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$71,848	\$95,866
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	7,586	4,069
Depreciation and amortization	22,678	11,434
Impairments on long-lived assets	28,498	—
Impairment on equity investment	3,975	—
Stock-based compensation	21,044	15,830
Equity in losses of investee	3,944	1,777
Other non-cash operating activities	5,101	474
Changes in assets and liabilities:		
Accounts receivable	(42,743 )	(36,026 )
Inventories	(13,280 )	(4,002 )
Prepaid expenses and other assets	(35,033 )	(15,873 )
Accounts payable	1,470	5,599
Accrued and other long-term liabilities	(5,183 )	(35,466 )
Long-term income tax payable		