

ALIGN TECHNOLOGY INC
Form 10-Q
August 02, 2012
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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 June 30, 2012
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)
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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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 July 27, 2012 was 81,352,708.

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Invisalign, Align, ClinCheck, Invisalign Assist, Invisalign Teen Vivera, SmartForce, Power Ridges, iTero, iOC, Orthocad iCast, Orthocad iRecord and Orthocad iQ amongst others, are trademarks belonging to Align Technology, Inc., and/or its subsidiaries and are pending or registered in the United States and other countries.

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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		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Net revenues	\$145,626	\$120,086	\$280,705	\$224,942
Cost of net revenues	36,826	28,949	71,145	51,579
Gross profit	108,800	91,137	209,560	173,363
Operating expenses:				
Sales and marketing	39,087	38,586	77,804	71,407
General and administrative	22,152	26,094	44,778	45,086
Research and development	10,680	9,270	21,206	18,660
Amortization of acquired intangible assets	869	592	1,754	592
Total operating expenses	72,788	74,542	145,542	135,745
Profit from operations	36,012	16,595	64,018	37,618
Interest and other income (expense), net	541	(306)	(271)	(217)
Net profit before provision for income taxes	36,553	16,289	63,747	37,401
Provision for income taxes	8,061	5,127	14,271	10,398
Net profit	\$28,492	\$11,162	\$49,476	\$27,003
Net profit per share:				
Basic	\$0.35	\$0.14	\$0.62	\$0.35
Diluted	\$0.34	\$0.14	\$0.60	\$0.34
Shares used in computing net profit per share:				
Basic	80,384	77,888	79,810	77,369
Diluted	82,954	80,321	82,446	79,903

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		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net profit	\$28,492	\$11,162	\$49,476	\$27,003
Foreign currency translation adjustments	(521	) 103	(361	) 586
Change in unrealized gains (losses) on available-for-sale securities, net of tax	(12	) 16	(25	) 23
Net change in accumulated other comprehensive income (losses)	(533	) 119	(386	) 609
Other comprehensive income	\$27,959	\$11,281	\$49,090	\$27,612

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)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$262,799	\$240,675
Restricted cash	1,178	4,026
Marketable securities, short-term	20,752	7,395
Accounts receivable, net of allowance for doubtful accounts and returns of \$1,207 and \$780, respectively	102,149	91,537
Inventories	14,623	9,402
Prepaid expenses and other current assets	33,634	31,781
Total current assets	435,135	384,816
Marketable securities, long-term	20,475	—
Property, plant and equipment, net	72,207	53,965
Goodwill	135,827	135,383
Intangible assets, net	47,901	50,022
Deferred tax assets	29,853	22,337
Other assets	2,765	2,741
Total assets	\$744,163	\$649,264
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$15,226	\$19,265
Accrued liabilities	69,207	76,600
Deferred revenues	59,403	52,252
Total current liabilities	143,836	148,117
Other long-term liabilities	14,032	10,366
Total liabilities	157,868	158,483
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value (5,000 shares authorized; none issued)	—	—
Common stock, \$0.0001 par value (200,000 shares authorized; 80,760 and 78,776 issued and outstanding, respectively)	8	8
Additional paid-in capital	655,307	607,240
Accumulated other comprehensive income, net	(340	) 46
Accumulated deficit	(68,680	) (116,513
Total stockholders' equity	586,295	490,781
Total liabilities and stockholders' equity	\$744,163	\$649,264

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)

	Six Months Ended	
	June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit	\$49,476	\$27,003
Adjustments to reconcile net profit to net cash provided by operating activities:		
Deferred taxes	9,228	7,905
Depreciation and amortization	5,905	6,109
Amortization of intangibles	2,246	2,175
Stock-based compensation	10,142	9,252
Provision for (recovery of) doubtful accounts and returns	310	(85)
Loss (gain) on retirement and disposal of fixed assets	74	(10)
Excess tax benefit from share-based payment arrangements	(16,745)) —
Changes in assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	(11,813)	) (10,789)
Inventories	(5,221)	) (960)
Prepaid expenses and other assets	(1,970)	) (1,036)
Accounts payable	(1,954)	) (165)
Accrued and other long-term liabilities	(3,927)	) 1,770
Deferred revenues	7,004	5,775
Net cash provided by operating activities	42,755	46,944
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted cash	2,848	—
Purchase of property, plant and equipment	(25,778)	) (8,522)
Acquisition, net of cash acquired	—	) (186,949)
Purchase of marketable securities	(43,857)) —
Maturities of marketable securities	10,002	6,859
Other assets	(125)	) 406
Net cash used in investing activities	(56,910)	) (188,206)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	23,689	16,548
Common stock repurchase	(2,524)) —
Excess tax benefit from share-based payment arrangements	16,745	—
Employees' taxes paid upon the vesting of restricted stock units	(1,627)	) (1,420)
Net cash provided by financing activities	36,283	15,128
Effect of foreign exchange rate changes on cash and cash equivalents	(4)	) 77
Net increase (decrease) in cash and cash equivalents	22,124	(126,057)
Cash and cash equivalents, beginning of the period	240,675	294,664
Cash and cash equivalents, end of the period	\$262,799	\$168,607

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 six months ended June 30, 2012 and 2011, our comprehensive income for the three and six months ended June 30, 2012 and 2011, our financial position as of June 30, 2012 and our cash flows for the six months ended June 30, 2012 and 2011. The Condensed Consolidated Balance Sheet as of December 31, 2011 was derived from the December 31, 2011 audited financial statements.

The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 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, 2011.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in our Condensed Consolidated Financial Statements and accompanying notes. Actual results could differ materially from those estimates.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted 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, intangible 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 2011, the FASB issued ASU 2011-04, “Fair Value Measurement (Accounting Standards Codification “ASC” 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” This accounting standard update provides certain amendments to the fair value measurement guidance and includes some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The standard is effective for the year beginning after December 15, 2011. We adopted this standard in the first quarter of 2012.

In June 2011, the FASB issued ASU 2011-05, “Comprehensive Income (ASC 220): Presentation of Comprehensive Income.” This accounting standard update eliminated the option to report other comprehensive income and its components in the statement of stockholders’ equity. Instead, an entity will be required to present items of net income and other comprehensive income in one continuous statement or in two separate statements. The standard is effective for the year beginning after December 15, 2011. We adopted this standard in the first quarter of 2012.

In September 2011, FASB issued ASU 2011-08, “Intangibles—Goodwill and Other (ASC 350): Testing Goodwill for Impairment.” This accounting standard update is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a “qualitative” assessment to determine whether further impairment testing is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We adopted this standard in the first quarter of 2012, and the adoption of this standard did

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not have an impact on our condensed consolidated financial statements.

Note 2. Marketable Securities and Fair Value Measurements

Our short-term and long-term marketable securities as of June 30, 2012 and December 31, 2011 are as follows (in thousands):

Short-term

June 30, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	\$5,494	\$2	\$—	\$5,496
Corporate bonds	11,449	3	(10	) 11,442
Foreign bonds	2,809	1	(1	) 2,809
Agency bonds	1,004	1	—	1,005
Total	\$20,756	\$7	\$(11	) \$20,752

Long-term

June 30, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds	\$16,677	\$2	\$(22	) \$16,657
Foreign bonds				