

# ALIGN TECHNOLOGY INC

## FORM 10-K (Annual Report)

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2016  
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)

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

2560 Orchard Parkway  
San Jose, California 95131  
(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**  
**Common Stock, \$0.0001 par value**  
(Including associated Preferred Stock Purchase Rights)

**Name of each exchange on which registered**  
**The NASDAQ Stock Market LLC**  
(NASDAQ Global Market)

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

None

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$ 4,608,283,946 as of June 30, 2016 based on the closing sale price of the registrant's common stock on the NASDAQ Global Market on such date. Shares held by persons who may be deemed affiliates have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

On February 21, 2017, 80,276,127 shares of the registrant's common stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement relating to its 2017 Annual Stockholders' Meeting to be filed pursuant to Regulation 14A within 120 days after the registrant's fiscal year end of December 31, 2016 are incorporated by reference into Part III of this Annual Report on Form 10-K.

**ALIGN TECHNOLOGY, INC.**  
**FORM 10-K**  
**For the Year Ended December 31, 2016**  
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*Invisalign, Align, the Invisalign logo, ClinCheck, Invisalign Assist, Invisalign Teen, Invisalign Go, Vivera, SmartForce, SmartTrack, SmartStage, Power Ridge, 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.*

*In addition to historical information, this annual report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include, among other things, our expectations regarding the anticipated impact of our new products and product enhancements will have on doctor utilization and our market share, our expectations regarding product mix and product adoption, our expectations regarding the existence and impact of seasonality, our expectations regarding the financial and strategic benefits of establishing regional order acquisition and treatment planning facilities, our expectations regarding the continued expansion of our international markets, the level of our operating expenses and gross margins, our expectation that the SmileDirectClub, LLC transaction will be incremental to revenue growth in 2017, and other factors beyond our control, as well as other statements regarding our future operations, financial condition and prospects and business strategies. These statements may contain words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates,” or other words indicating future results. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and in particular, the risks discussed below in Part I, Item 1A “Risk Factors”. We undertake no obligation to revise or update these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.*

## **PART I**

### **ITEM 1. BUSINESS**

#### ***Our Company***

Align Technology, Inc (“We”, “Our”, “Align”) designs, manufactures and markets a system of clear aligner therapy, intraoral scanners and CAD/CAM (computer-aided design and computer-aided manufacturing) digital services used in dentistry, orthodontics, and dental records storage. Align Technology was founded in March 1997 and incorporated in Delaware in April 1997. Our headquarters is located at 2560 Orchard Parkway, San Jose, California 95131, and our telephone number is 408-470-1000. Our internet address is [www.aligntech.com](http://www.aligntech.com). Our international headquarters is located in Amsterdam, the Netherlands.

We have two operating segments: (1) Clear Aligner and (2) Scanners and Services (“Scanner”). For the year ended December 31, 2016, Clear Aligner revenues represent approximately 89% of worldwide revenue, while Scanner represent the remaining 11% of worldwide revenues. We distribute the vast majority of our products directly to our customers: orthodontists and general practitioner dentists (“GPs”), as well as to restorative dentists, including prosthodontists, periodontists, and oral surgeons. We also supply clear aligners to SmileDirectClub, LLC (“SDC”) who sells them directly to consumers, with a doctor’s approved prescription.

We received 510(k) clearance from the United States Food and Drug Administration (“FDA”) to market the Invisalign System in 1998. The Invisalign System is regulated by the FDA as a Class II medical device. In order to provide Invisalign treatment to their patients, orthodontists and GPs must initially complete an Invisalign training course. The Invisalign System is primarily sold through a direct sales force in the United States (“U.S.”), Canada, Europe, certain Asia Pacific countries, Latin America and Middle East and Africa including Australia, New Zealand, China and Japan. We use a distributor model for the sale of our products in non-core country markets in the Asia Pacific (“APAC”), Europe, Middle East and Africa (“EMEA”), and Latin America regions.

Our iTero scanner is used by dental professionals and/or labs and services for restorative and orthodontic digital procedures as well as Invisalign digital impression submission. We received 501(k) clearance from the FDA to market iTero software for expanded indications in 2013. Scanners and CAD/CAM Services are primarily sold through our direct sales force in North America, Europe and certain Asia Pacific countries including Taiwan, Singapore, Korea, Australia, New Zealand, and through distribution partners in Thailand, Scandinavia and Russia.

**Our Products and Services**

Our net revenues are generated from the sale of the following product offerings:

Percentage of Net Revenues by Product	Fiscal Year		
	2016	2015	2014
Clear Aligner Segment			
Comprehensive Products	72%	78%	77%
Non-Comprehensive Products			
Non-Case Products	11	11	11
Non-Case Products	6	6	6
Total Clear Aligner Segment	89	95	94
Scanners and Services Segment	11	5	6
Total Net Revenues	100%	100%	100%

**Clear Aligner Segment**

*Malocclusion and Traditional Orthodontic Treatment*

Malocclusion, or the misalignment of teeth, is one of the most prevalent clinical dental conditions, affecting billions of people, or approximately 60% to 75% of the population. Annually, approximately 10 million people in major developed countries elect treatment by orthodontists worldwide, of which approximately 50% or 5 million have mild to moderate malocclusion and are applicable to Invisalign treatment - our served market. In addition, approximately 100 million people with malocclusion want to straighten their teeth; however, they will not seek orthodontic treatment in a doctor's office and would instead elect to receive clear aligner treatment in the convenience of their own home - referred to as the doctor-directed at home market.

In the U.S., orthodontists and GPs treat malocclusion primarily with metal arch wires and brackets, referred to as braces, and they may augment braces with elastics, metal expanders, headgear or functional appliances, and other ancillary devices as needed. Available options for improving treatment aesthetics include the use of ceramic, tooth-colored brackets or bonding brackets on the inside, or lingual surface, of the patient's teeth. The average treatment takes approximately 12 to 24 months to complete and requires several hours of direct dental professional involvement, known in the industry as "chair time," including the initial diagnosis, creation of an appropriate treatment plan and bonding of the brackets to the patient's teeth, and attachment of arch wires to the brackets. Subsequent visits involve tightening or otherwise adjusting the braces approximately every six weeks until the final visit when the dental professional removes each bracket and residual bonding agent from the patient's teeth. Upon completion of the treatment, the dental professional may, at his or her discretion, have the patient use a retainer. GPs may also combine orthodontic treatment with restorative treatment. Many times the dental professional may need to move certain teeth or roots out of the way to create more space for implant placement, or move teeth to create space for restorations of missing teeth. In addition, GPs may need to move or adjust teeth or spaces to be able to place better restorations. The orthodontic portion of treatment generally comes before the restorative portion.

*The Invisalign System*

The Invisalign System is a proprietary method for treating malocclusion based on a series of doctor-prescribed, custom manufactured, clear plastic, removable orthodontic aligners. The Invisalign System offers a range of treatment options, specialized services, and proprietary software for treatment visualization and is comprised of the following phases:

*Orthodontic diagnosis and transmission of treatment data to us* . The Invisalign-trained dental professional prepares and sends us a patient's treatment data package which consists of a prescription form, a polyvinyl-siloxane, (or "PVS") impression of the relevant dental arches, photographs of the patient and, at the dental professional's election, x-rays of the patient's dentition. The Invisalign-trained dental professional can also submit an intraoral digital scan instead of a physical PVS impression through either Align's iTero scanner or several third-party scanners. See "Third Party Scanners."

*Preparation of computer-simulated treatment plan* . Upon receipt, we use the treatment data package to construct digital models of the patient's dentition. In cases where a PVS impression has been submitted, we use computed tomography, known as CT scanning to develop a digital, three-dimensional computer model of the patient's current dentition. In cases where the dental professional submits a digital scan, this step in the process is eliminated. We transform this initial digital model into a proposed custom, three-dimensional treatment plan, called a ClinCheck treatment plan. The ClinCheck treatment plan simulates

appropriate tooth movement broken down into a series of increments and details timing and placement of any attachments that will be used during treatment. Attachments are tooth-colored “buttons” that are sometimes used to increase the biomechanical force on a specific tooth or teeth in order to effect the desired movement.

*Review and approval of the treatment plan by an Invisalign provider.* The patient’s ClinCheck treatment plan is then made available to the prescribing dental professional via the Invisalign Doctor Site which enables the dental professional to project tooth movement with a level of accuracy not previously possible with metal arch wires and brackets. By reviewing, modifying as needed and approving the treatment plan, the dental professional retains control over the treatment plan.

*Manufacture of custom aligners.* Upon the dental professional’s approval of the ClinCheck treatment plan, we use the data underlying the simulation, in conjunction with stereolithography technology (a form of 3D printing technology), to construct a series of molds depicting the future position of the patient’s teeth. Each mold is a replica of the patient’s teeth at each stage of the simulated course of treatment. From these molds, aligners are fabricated by pressure-forming polymeric sheets over each mold. Aligners are thin, clear plastic, removable dental appliances that are custom manufactured in a series to correspond to each stage of the ClinCheck treatment plan.

*Shipment to the dental professional and patient aligner wear.* All the aligners for a patient are shipped directly to the dental professional, who then dispenses them to the patient at regular check-up intervals throughout the treatment. Aligners are generally worn for consecutive two-week periods or less which correspond to the approved ClinCheck treatment plan. The patient replaces the aligners with the next pair in the series when prescribed, advancing tooth movement with each aligner stage. Throughout treatment, the doctor may place attachments or use other auxiliaries to achieve desired tooth movements, per the doctor’s original prescription and resulting ClinCheck treatment plan. In October 2016, we introduced one-week aligner wear. At the treating doctor’s discretion, we recommend changing from two-week aligner wear to one-week aligner wear for Invisalign treatments with Invisalign Full, Invisalign Teen and Invisalign Assist products, thereby reducing treatment time by up to 50%. Align’s recommendation is based on clinical analysis of more than 200 in-progress Invisalign cases (data on file) and the experiences of numerous Invisalign providers.

*Treatment progress and request for additional aligners .* Should the dental professional determine that the treatment is not tracking for various reasons, such as patient compliance, certain teeth not tracking to plan, or they need to extend the treatment a few stages further to achieve their treatment goals, the dental professional can request additional aligners at no charge at any point during the treatment, subject to certain requirements.

#### *Clear Aligner Products*

##### *Comprehensive Products:*

*Invisalign Full .* Used for a wide range of malocclusion, the Invisalign Full treatment consists of the number of aligners necessary to achieve the doctor’s treatment goals. Invisalign Full treatment aligners are manufactured and then delivered to the dental professionals in a single shipment. Invisalign Full is sold in the U.S., Canada and our international regions.

*Invisalign Teen.* The Invisalign Teen treatment includes all the features of Invisalign Full treatment, plus additional features that address the orthodontic needs of teenage patients such as compliance indicators, compensation for tooth eruption and six free single arch replacement aligners. This product is predominantly marketed to orthodontists who treat the vast majority of malocclusion in teenage patients. Invisalign Teen treatment aligners (other than the replacement aligners) are manufactured and then delivered to the dental professionals in a single shipment. Invisalign Teen is sold in the U.S., Canada and our international regions.

*Invisalign Assist.* Used for anterior alignment and aesthetically-oriented cases, the Invisalign Assist treatment offers added support to our dental practitioners throughout the treatment process, including progress tracking that allows the dental professional to submit new impressions every nine stages. When the progress tracking feature is selected, aligners are shipped to the dental professional after every nine stages thereby helping to achieve successful treatment outcomes. Predominantly marketed to GPs, Invisalign Assist is intended to make it easier to select appropriate cases for their experience level or treatment approach, submit cases more efficiently and manage appointments with suggested tasks. Invisalign Assist is sold in the U.S. and Canada.

### Non-Comprehensive Products:

*Invisalign Express (10 and 5) and Invisalign Lite/i7.* Invisalign Express treatments, Invisalign Lite treatment and Invisalign i7 treatment are lower-cost solutions for less complex orthodontic cases, non-comprehensive treatment relapse cases, or straightening prior to restorative or cosmetic treatments such as veneers. Invisalign Express 10 and Invisalign Express 5, which are sold in the U.S. and Canada, use up to 10 and 5 sets of aligners, respectively, and are also available as a single arch option. Invisalign Lite and Invisalign i7, sold in our international regions, use up to 14 and 7 sets of aligners, respectively. For Invisalign Express/Lite/i7, aligners are manufactured and then delivered to the dental professionals in a single shipment.

*Invisalign Go.* A simplified and streamlined solution designed for GP dentists to more easily identify and treat patients with mild malocclusion. Invisalign Go combines case assessment support, a simplified ClinCheck treatment plan and a progress assessment feature for case monitoring. Invisalign Go was launched in core European markets in the fourth quarter of 2016 and is expected to launch in North America in the first quarter of 2017.

*SmileDirectClub Aligners.* On July 25, 2016, we entered into a supply agreement with SmileDirectClub, LLC ("SDC") to manufacture non-Invisalign clear aligners for SDC's doctor-led, at-home program for simple teeth straightening. In October 2016, we became SDC's exclusive third-party supplier and began supplying aligners directly to SDC. SDC aligners include up to 20 stages without attachments or interproximal reduction ("IPR"). Align manufactures the aligners per SDC's specifications for minor tooth movement using EX-30 aligner material.

### Non-Case Products:

Clear Aligner non-case products include retention products, Invisalign training fees and sales of ancillary products, such as cleaning material and adjusting tools used by dental professionals during the course of treatment.

*Retention.* We offer two products for post treatment retention. The first is a single set of custom clear aligner retainers. The second is offered as a set of four custom clear aligners called Vivera Retainers made with proprietary material strong enough to maintain tooth position and correct minor relapse if necessary. A shipment of four sets are available to both Invisalign and non-Invisalign patients.

### *Feature Enhancements*

We have consistently introduced enhanced features across the Invisalign System over the past several years, such as Invisalign G3 (launched in October 2010), Invisalign G4 (launched in November 2011), Invisalign G5 (launched in February 2014) and Invisalign G6 (launched in March 2015). In October 2016, we launched Invisalign G7, a set of features designed to deliver greater control of tooth movements and improved treatment outcomes.

Invisalign G5 innovations for deep bite is engineered to improve clinical outcomes in deep bite treatment with Invisalign treatment. Comprehensive features dedicated to deep bite treatment include new SmartForce® features that are designed to level the curve of spee by improving control of anterior intrusion and premolar extrusion for more predictable deep bite treatments, and precision bite ramps that are designed to disocclude the posterior teeth for improved efficiency in deep bite treatments.

Invisalign G6 clinical innovations for first premolar extraction is engineered to improve clinical outcomes for orthodontic treatment of severe crowding and bimaxillary protrusion. Feature enhancements include new SmartStage programmed tooth movements that optimize the progression of tooth movements and provide aligner activation, engineered to eliminate unwanted tipping and unwanted anterior extrusion during retraction and new SmartForce features that are designed to deliver the force systems necessary to achieve predictable tooth movements.

Invisalign G7 builds on earlier Invisalign G-series releases with new features to fine-tune certain tooth movements and deliver treatment outcome quality that Invisalign providers expect, particularly with teenage patients. Powered by Invisalign SmartStage technology that optimizes the staging and sequence of tooth movements and aligner activation for greater predictability, Invisalign G7 delivers better upper lateral control, improved root control, and features to address prevention of posterior open bites.

### *SmartTrack™ Aligner Material*

SmartTrack is a proprietary, custom-engineered Invisalign clear aligner material that delivers gentle, more constant force considered ideal for orthodontic tooth movements. Conventional aligner materials relax and lose a substantial percent of energy in the initial days of aligner wear, but SmartTrack maintains more constant force over the period of time the patient wears the

aligners. The flexible SmartTrack material also more precisely conforms to tooth morphology, attachments and interproximal spaces to improve control of tooth movement throughout treatment.

### ***Scanner Segment***

Intraoral scanning is an emerging technology that we believe will have substantial impact on the future of dentistry. By enabling the dental practitioner to create a 3D image of the patient's teeth (digital scan) using a handheld intraoral scanner inside the mouth, digital scanning is more efficient and precise and more comfortable for patients, compared to the mess, discomfort and subjective nature of taking physical impressions. The digitally scanned model is more accurate than a physical impression and substantially reduces the rate of restoration "remakes" so patients are recalled less often and the appointment time for the restoration is shorter because of fewer adjustments which results in greater overall patient satisfaction. The digital model file can be used for various procedures and services including fabrication of physical dental models for use by labs to create restorative units such as veneers, inlays, onlays, crowns, bridges and implant abutments; digital records storage; orthodontic diagnosis; orthodontic retainers and appliances; and Invisalign digital impression submission.

*iTero Scanner* . The iTero scanner is available as a single hardware platform with software options for restorative or orthodontic procedures. In March 2015, we announced our next generation iTero Element Intraoral Scanner which features a more compact footprint, enhanced wand and multi-touch display and is engineered to enable faster scan speeds for more efficient, real-time clinical evaluation. We began shipping the iTero Element Intraoral Scanner in September 2015. We market and sell the iTero Element in North America and in select international markets. The iTero scanner is interoperable with our Invisalign treatment such that a full arch digital scan can be submitted as part of the Invisalign case submission process. In addition, the Invisalign Outcome Simulator and features are exclusive to the iTero scanner.

*Restorative software for iTero*. Software designed for GPs, prosthodontists, periodontists, and oral surgeons which includes features for restorative procedures commonly performed in their practices such as veneers, inlays, onlays, crowns, bridges and implants. The iTero restorative software provides the ability to scan quadrants and full arches, and allows simple powder-free capture of digital impressions for single-unit cases as well as more complex restorative and implant treatment plans. The iTero software also contains Invisalign interoperability to support clear aligner orthodontic treatment.

*Orthodontic software for iTero*. Software designed for orthodontists for digital records storage, orthodontic diagnosis, Invisalign digital impression submission, and for the fabrication of printed models and retainers. The iTero orthodontic software digitally captures the contours of the dentition and the gingival structures, providing an accurate, powder-free digital orthodontic scan in just minutes. This digital impression procedure ensures a more comfortable patient experience and produces a precise scan that can be seamlessly integrated with Invisalign treatment, OrthoCAD iCast, and OrthoCAD iRecord which allows a doctor to utilize sophisticated measurement and treatment planning tools.

### ***CAD/CAM Services***

*iTero Models and Dies*. An accurate physical model and dies are manufactured based on the digital scan and sent to the laboratory of the dentist's choice for completion of the needed restoration. The laboratory also has the option to export the digital file for immediate production of coping and full-contour restorations on their laboratory CAD/CAM systems. The laboratory conducts then completes the ceramic buildup or staining and glazing and delivers the end result - a precisely fitting restoration. iTero prosthetics have a near-zero remake rate.

*OrthoCAD iCast*. iCast provides a digital alternative to traditional stone cast models which allows for simplified storage and digital record retrieval. The iCast digital model contains a full American Board of Orthodontics ("ABO") base and is available from an iTero scan or from a traditional alginate impression.

*OrthoCAD iRecord*. iRecord scans provide a digital alternative to traditional stone cast models which allows for simplified storage and digital record retrieval. iRecord scan data may also be exported to orthodontic laboratories for the fabrication of retainers, orthodontic appliances, and hard model fabrication.

*Third Party Scanners and Digital scans for Invisalign treatment submission* . We support an open systems approach to digital scans and other intraoral scanning companies interested in qualifying their scanners to submit a digital impression in place of a traditional PVS impression as part of the Invisalign case submission process. We have qualified several scanners for digital scan submission including 3M™ True Definition scanner (January 2014), the Sirona CEREC Omnicam scanner (March 2015) and certain TRIOS scanners (October 2016).



### *Chair Side Applications*

*Invisalign Outcome Simulator*. The Invisalign Outcome Simulator is an exclusive chair-side and cloud-based application for the iTero scanner that allows doctors to help patients visualize how their teeth may look at the end of Invisalign treatment through a dual view layout that shows a prospective patient an image of his/her own current dentition next to his/her simulated final position after Invisalign treatment. Using a full arch digital scan, the Invisalign Outcome Simulator takes a few minutes to run and may be viewed chair-side, on the scanner, or from a computer using MyAlignTech.com. Intuitive tools allow doctors to make real-time adjustments to individual teeth during consultations that increase patient education and the likelihood of patient acceptance. In October 2016, we introduced the following new features in the 4.0 upgrade:

- 3D Progress Tracking - Ability to compare a patient's new scan with a specific stage of their ClinCheck treatment plan to visually assess and communicate Invisalign treatment progress with an easy to read, color-coded tooth movement report that allows the doctor to know how each tooth is tracking.
- Patient Simulation Sharing - Ability to easily share the patient's 3D simulated Invisalign treatment outcome through a protected patient portal which can be viewed on smartphones, tablets and computers.

Our iTero scanner includes orthodontic software and/or restorative software and the Invisalign Outcome Simulator. The orthodontic or restorative software may also be purchased subsequently for an upgrade fee. The Invisalign Outcome Simulator is not available for sale separately.

Other proprietary software mentioned in this Annual Report on Form 10-K such as ClinCheck and ClinCheck Pro software, the Invisalign Doctor Site, and enhanced feature solutions such as Invisalign G7 are included as part of the Invisalign System and are not sold separately nor do they contribute as individual items of revenue.

### ***Business Strategy***

Our goal is to establish Invisalign clear aligners as the standard method for treating malocclusion and to establish the iTero intraoral scanner as the preferred scanning protocol for 3D digital scans, ultimately driving increased product adoption by dental professionals. We intend to achieve this by continued focus and execution of our strategic growth drivers: International, Orthodontists Utilization, GP Dentists Treat & Refer and Patient Demand & Conversion

1. *International Expansion*. We expect to continue to grow and expand our business by investing in resources, infrastructure, and initiatives that will drive Invisalign treatment growth in our current and new international markets. As our core countries within the EMEA and APAC regions continue to grow in both number of new Invisalign providers and utilization, we strive to make sure we can support that growth through investments such as headcount, clinical support, education and advertising. Additionally, we are expanding our presence and entering new markets, such as India and Korea, by establishing a solid base of key opinion leaders and early adopters who can help build clinical confidence in the orthodontic community and create strong brand preference for Invisalign treatment among consumers. We have also transitioned most of our indirect smaller country markets to a direct sales model, and, while we do not expect a material impact from these countries for some time, in the near term, we will leverage our existing infrastructure in adjacent country markets as we build local sales organizations to drive long-term market penetration.
2. *Orthodontist Utilization*. We want all of our orthodontist providers to have the confidence and motivation to lead with Invisalign for every patient that walks into their practice. We strive to achieve this by increasing the product applicability and predictability for a wide range of complex cases within adults, teenagers and younger aged patients. As an example, in 2015, we launched Invisalign G6 clinical innovations for first premolar extractions. The nature of malocclusion that requires first premolar tooth extraction is an orthodontic problem that affects more than 50% of people in Asia, 20% in Europe and 12% in North America. In October 2016, we launched Invisalign G7, which builds on earlier Invisalign G-series releases with new features to fine-tune certain tooth movements and deliver treatment outcome quality that Invisalign providers expect, particularly with teenage patients. We also continue to make improvements to our Invisalign treatment software, ClinCheck Pro, designed to deliver an exceptional user experience and increase treatment control to help our doctors achieve their treatment goals.
3. *GP Dentist Treat & Refer*. We want to make it easier for GPs to identify the cases that they can treat and refer the cases that are too complex over to orthodontists. Although GPs have a larger pool of potential patients, which can expand the market for Invisalign treatment, overall, we need to provide them with tools to help them quickly identify cases they can treat, monitor patient progress or if needed, help refer them more easily to an orthodontist. The iTero scanner is an important component to that customer experience. In October 2016, we introduced a 3D progress tracking feature in the

Invisalign Outcome Simulator application that provides our customers with the ability to compare a patient's new scan with a specific stage of their ClinCheck treatment plan to visually assess and communicate Invisalign treatment progress.

4. **Patient Demand & Conversion.** Our goal is to make Invisalign a highly recognized name brand worldwide by creating awareness for Invisalign treatment among consumers and motivating potential patients to seek treatment from an Invisalign provider. In support of this objective, we invest in initiatives designed to strengthen our global brand name recognition, drive patient demand and convert that interest into Invisalign treatment case starts. We accomplish this objective through an integrated consumer marketing strategy that includes television, media, social networking and event marketing as well as educating patients on treatment options and directing them to high volume Invisalign providers.

#### ***Supply Agreement with SmileDirectClub, LLC***

On July 28, 2016, we announced a supply agreement with SmileDirectClub, LLC ("SDC") to manufacture non-Invisalign clear aligners for SDC's doctor-led, at-home program for affordable, cosmetic teeth straightening. The agreement brings our manufacturing and production expertise to a new and growing segment of the adult treatment market, one that provides new treatment choices to consumers and new business opportunities to Invisalign providers.

Beginning October 2016, we became SDC's exclusive third-party supplier for its minor tooth movement aligner program. Specifically, we provide a case setup through SDC's SmileCheck viewer portal and upon review and approval by a participating licensed orthodontist or general dentist in SDC's network, we manufacture clear aligners and ship them directly to SDC.

SDC aligners include up to 20 stages without attachments or interproximal reduction (IPR). We manufacture the aligners per SDC's specifications for minor tooth movement using EX-30 aligner material. The Invisalign brand and system of clear aligners continue to be available exclusively for in office treatment with Invisalign-trained orthodontists and general dentists.

In addition, under the agreement, Align and SDC created a new Invisalign doctor referral program similar to the Invisalign Doc Locator, that systematically refers the approximately 30% of SDC's SmileCheck case assessments that are too complex for their minor tooth movement product, to Invisalign providers in the patient's local area. The goal of the agreement is to help expand the market and opportunity for our Invisalign doctors, while supporting SDC's efforts to provide consumers with access to more choices in treating simple cases from the convenience of their own home.

#### ***Manufacturing and Suppliers***

Our manufacturing facilities are located in Juarez, Mexico, where we conduct our aligner fabrication, distribute and repair our scanners and perform our CAD/CAM services, and in Or Yehuda, Israel where we produce our handheld intraoral scanner wand. The final assembly of our iTero scanner is performed by a third party manufacturer located in Israel. Our Invisalign digital treatment planning and interpretation for iTero restorative cases are conducted primarily at our facility located in San Jose, Costa Rica. Information regarding risks associated with our manufacturing process and foreign operations may be found in *Item 1A* of this Annual Report on Form 10-K under the heading "*Risk Factors.*"

Our quality system is required to be in compliance with the Quality System regulations enforced by the FDA, and similar regulations enforced by other worldwide regulatory authorities. We are certified to EN ISO 13485:2003, an internationally recognized standard for medical device manufacturing. We have a formal, documented quality system by which quality objectives are defined, understood and achieved. Systems, processes and procedures are implemented to ensure high levels of product and service quality. We monitor the effectiveness of the quality system based on internal data and direct customer feedback and strive to continually improve our systems and processes, taking corrective action, as needed.

Since the manufacturing process of our products requires substantial and varied technical expertise, we believe that our manufacturing capabilities are important to our success. In order to produce our highly customized, highly precise, medical quality products in volume, we have developed a number of proprietary processes and technologies. These technologies include complex software algorithms and solutions, CT scanning, stereolithography and automated aligner fabrication. To increase the efficiency of our manufacturing processes, we continue to focus our efforts on software development and the improvement of rate-limiting processes or bottlenecks. We continuously upgrade our proprietary, three-dimensional treatment planning software to enhance computer analysis of treatment data and to reduce time spent on manual and judgmental tasks for each case, thereby increasing the efficiency of our technicians in Costa Rica. In addition, to improve efficiency and increase the scale of our operations, we continue to invest in the development of automated systems for the fabrication and packaging of aligners.

We are highly dependent on manufacturers of specialized scanning equipment, rapid prototyping machines, resin and other advanced materials for our aligners, as well as the optics, electronic and other mechanical components of our intraoral scanners. We

maintain single supply relationships for many of these machines and materials technologies. In particular, our CT scanning and stereolithography equipment used in our aligner manufacturing and many of the critical components for the optics of our intraoral scanners are provided by single suppliers. We are also committed to purchasing all of our resin and polymer, the primary raw materials used in our manufacturing process for clear aligners, from a single source. The need to replace one of our single source suppliers could cause a disruption in our ability to timely deliver certain of our products or increase costs. See *Item 1A Risk Factors* — “*We maintain single supply relationships for certain of our key machines and materials technologies, and our business and operating results could be harmed if supply is restricted or ends or the price of raw materials used in our manufacturing process increases.*”

### ***Sales and Marketing***

Our sales efforts are focused primarily on the Invisalign System and continuing to increase adoption and utilization by orthodontists and GPs worldwide. In North America, Europe and certain Asia Pacific country markets, and more recently in Brazil and certain regions in the Middle East and Africa, we have direct sales and support organizations, which includes quota carrying sales representatives, sales management and sales administration. We also have distribution partners that sell the Invisalign System in smaller non-core country markets outside of North America. We continued to expand in our existing markets through targeted investments in sales coverage, professional marketing and education programs, along with consumer marketing in selected country markets.

For the iTero scanner, we have a small team of direct sales representatives in North America. Our intraoral scanner sales team leverages leads generated by our Invisalign sales and marketing resources, including customer events and industry trade-shows. We sell the iTero scanner in select country markets internationally and will expand to additional markets over time to grow the scanner business.

We provide training, marketing and clinical support to orthodontists and GPs. In 2016, we had approximately 54,480 active Invisalign providers.

### ***Research and Development***

We are committed to investing in world-class technology development, which we believe is critical to achieving our goal of establishing the Invisalign System as the standard method for treating malocclusion and our intraoral scanning platform as the preferred scanning protocol for digital scans. Our research and development expenses were \$75.7 million, \$61.2 million and \$52.8 million for the year ended December 31, 2016, 2015 and 2014, respectively.

Our research and development activities are directed toward developing the technology innovations that we believe will deliver our next generation of products and platforms. These activities range from accelerating product and clinical innovation to developing manufacturing process improvements to researching future technologies and products.

In an effort to demonstrate Invisalign’s broad treatment capabilities, various clinical case studies and articles have been published that highlight the clinical applicability of Invisalign to malocclusion cases, including those of severe complexity. We undertake pre-commercialization trials and testing of our technological improvements to the product and manufacturing process.

### ***Intellectual Property***

We believe our intellectual property position represents a substantial business advantage. As of December 31, 2016, we had issued 425 U.S. patents, 370 foreign issued patents, and 386 pending global patent applications.

We continue to pursue further intellectual property protection through U.S. and foreign patent applications and non-disclosure agreements. Our issued U.S. patents expire between 2017 and 2035. In addition, corresponding foreign patents will start to expire in 2018. When patents expire, we lose the protection and competitive advantages they provided to us, which could negatively impact our operating results; however, we continue to pursue further intellectual property protection through U.S. and foreign patent applications and non-disclosure agreements. We also seek to protect our software, documentation and other written materials under trade secret and copyright laws. We cannot be certain that patents will be issued as a result of any patent application or that patents that have been issued to us or that may be issued in the future will be found to be valid and enforceable and sufficient to protect our technology or products. Our intellectual property rights may not be successfully asserted in the future or may be invalidated, circumvented or challenged. In addition, the laws of various foreign countries do not protect our intellectual property rights to the same extent as U.S. laws. Our inability to protect our proprietary information could harm our business. Information regarding risks associated with failing to protect our proprietary technology and our intellectual property rights may be found in *Item 1A* of this Annual Report on Form 10-K under the heading “*Risk Factors.*”

### ***Seasonal Fluctuations***

General economic conditions impact our business and financial results, and we experience seasonal trends related to our two operating segments, customer channels and the geographic locations that we serve. For example, European sales of Invisalign treatment are often weaker in the summer months due to our customers and their patients being on holiday. In North America, summer is typically the busiest season for orthodontists with practices that have a high percentage of adolescent and teenage patients as many parents want to get their teenagers started in treatment before the start of the school year; however, many GPs are on vacation during this time and therefore tend to start fewer cases. For our Scanner segment, capital equipment sales are often stronger in the fourth calendar quarter. Consequently, these seasonal trends have caused and may continue to cause, fluctuations in our quarterly results, including fluctuations in sequential revenue growth rates.

### ***Backlog***

Due to the individualized nature of an Invisalign treatment which is prescribed by a doctor, no two cases are alike, thus we maintain relatively low levels of backlog. The period from which a treatment data package (or “a case”) is received until the acceptance of the digital ClinCheck treatment plan is dependent on the dental professional’s discretion to modify, accept or cancel the treatment plan. Therefore, we consider the case a firm order to manufacture aligners once the dental professional has approved the ClinCheck treatment plan. Our Invisalign backlog consists of ClinCheck treatment plans that have been accepted but not yet shipped. Because aligners are shipped shortly after the ClinCheck treatment plan has been accepted, we believe that backlog is not a good indicator of future Invisalign sales. Our quarterly Invisalign revenues can be impacted by the timing of the ClinCheck treatment plan acceptances and our ability to ship those cases in the same quarter. We define our intraoral scanner backlog as orders where payment is reasonably assured and credit and financing is approved but the scanner has not yet shipped. Our intraoral scanner backlog as of December 31, 2016 was not material.

### ***Competition***

We operate in a highly competitive market and we encounter a wide variety of competitors, including larger companies or divisions of larger companies with substantial sales, marketing, research and financial capabilities. We also face competition from early stage companies. Although the number of competitors varies by segment, currently our products compete directly against products manufactured and distributed by various companies, both within and outside the U.S., including Danaher Corporation, Sirona Dental Systems, Inc., Dentsply International, Inc., 3M Company and other private competitors. In addition, the expiration of certain of our key patents commencing in 2017, may result in additional competition. Information regarding risks associated with increased competition may be found in *Item 1A* of this Annual Report on Form 10-K under the heading “*Risk Factors* .”

Key competitive factors include:

- effectiveness of treatment;
- price;
- software features;
- aesthetic appeal of the treatment method;
- customer support;
- customer online interface;
- brand awareness;
- innovation;
- distribution network;
- comfort associated with the treatment method;
- oral hygiene;
- ease of use; and
- dental professionals’ chair time.

We believe that our products compare favorably with our competitors’ products with respect to each of these factors.

## ***Government Regulation***

In order for us to market our products, we must obtain regulatory authorization and comply with extensive product and quality system regulations both within and outside the U.S. These regulations, including the requirements for approvals or clearance and the time required for regulatory review, vary from country to country. Failure to obtain regulatory approval and to meet all local requirements including language and specific safety standards in any country in which we currently market or plan to market our products could prevent us from marketing products in such countries or subject us to sanctions and fines. The approval by government authorities is unpredictable and uncertain and may not be granted on a timely basis, if at all. Delays in receipt of, or a failure to receive, such approvals or clearances, or the loss of any previously received approvals or clearances, could have a material adverse effect on our business, financial condition, and results of operations.

Certain of our products are classified as medical devices under the United States Food, Drug, and Cosmetic Act (the "FD&CA"). The FD&CA requires these products, when sold in the U.S., to be safe and effective for their intended use and to comply with the regulations administered by the United States FDA. Our products may also be regulated by comparable agencies in non-U.S. countries in which they are produced or sold. In the European Union ("EU"), our products are subject to the medical devices laws of the various member states, which are based on a Directive of the European Commission. Such laws generally regulate the safety of the products in a similar way to the FDA regulations.

We believe we are in compliance with all FDA, federal and state laws and International regulatory requirements that are applicable to our products and manufacturing operations.

We are also subject to various laws inside and outside the U.S. concerning our relationships with healthcare professionals and government officials, price reporting and regulation, the promotion, sales and marketing of our products and services, the importation and exportation of our products, the operation of our facilities and distribution of our products. As a global company, we are subject to varying degrees of government regulation in the various countries in which we do business, and the general trend is toward increasingly stringent oversight and enforcement. Initiatives sponsored by government agencies, legislative bodies, and the private sector to limit the growth of healthcare expenses generally are ongoing in markets where we do business. It is not possible to predict at this time the long-term impact of such cost containment measures on our future business.

Our customers are healthcare providers that may be reimbursed by federally funded programs such as Medicaid or a foreign national healthcare program, each of which may offer some degree of oversight. Many government agencies, both domestic and foreign, have increased their enforcement activities with respect to healthcare providers and companies in recent years. Enforcement actions and associated defense can be expensive, and any resulting findings carry the risk of significant civil and criminal penalties. For example, the U.S. Federal Physician Payment Sunshine Act went into effect in 2014 which requires public transparency of transfers of value to physicians.

In addition, we must comply with numerous data protection requirements that span from individual state and national laws in the U.S. to multinational requirements in the EU. In the U.S., final regulations implementing amendments to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") became effective in the latter part of 2013 with the HIPAA Omnibus Rule. The EU is currently considering a proposal to enact legislation governing data protection which would transform the current mix of European countries' laws to one overarching multinational law. Meanwhile, the Asia Pacific region has also seen rapid development of privacy laws, including in Singapore, Hong Kong, and Australia. We believe we have designed our product and service offerings to be compliant with the requirements of applicable data protection laws and regulations. Maintaining systems that are compliant with these laws and regulations is costly and could require complex changes in the way we do business or provide services to our customers and their patients. Additionally, our success may be dependent on the success of healthcare providers in managing data protection requirements.

## ***Employees***

As of December 31, 2016, we had approximately 6,060 employees, including 3,970 in manufacturing and operations, 1,270 in sales and marketing which includes customer care, 430 in research and development and 390 in general and administrative functions.

### Available Information

Our website is [www.aligntech.com](http://www.aligntech.com), and our investor relations website is <http://investor.aligntech.com>. The information on or accessible through our websites is not part of this Annual Report on Form 10-K. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, our proxy statement on Schedule 14A for our annual stockholders' meeting and amendments to such reports are available, free of charge, on our investor relations website as soon as reasonably practicable after we electronically file or furnish such material with the SEC. Further, a copy of this Annual Report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at [www.sec.gov](http://www.sec.gov).

### Executive Officers of the Registrant

The following table sets forth certain information regarding our executive officers as of February 28, 2017:

Name	Age	Position
Joseph M. Hogan	59	President and Chief Executive Officer
John F. Morici	50	Chief Financial Officer
Simon Beard	50	Vice President and Managing Director, EMEA
Roger E. George	51	Vice President, Corporate and Legal Affairs and General Counsel
Stuart Hockridge	45	Vice President, Global Human Resources
Sreelakshmi Kolli	42	Vice President, Information Technology
Jennifer Olson	39	Vice President and Managing Director, Doctor Directed Consumer Channel
Raphael Pascaud	45	Chief Marketing Portfolio and Business Development Officer, and Vice President iTero Scanner and Services
Lynn Pendergrass	56	Vice President and Managing Director, Americas
Christopher C. Puco	56	Vice President and Managing Director, North America
Zelko Relic	52	Vice President, Research & Development
Julie Tay	50	Vice President and Managing Director, Asia Pacific
Emory M. Wright	47	Vice President, Operations

*Joseph M. Hogan* has served as our President and Chief Executive Officer and as a member of our Board of Directors since June 2015. Prior to joining us, Mr. Hogan was Chief Executive Officer of ABB Ltd., a global power and automation technologies company based in Zurich, Switzerland from 2008 to 2013. Prior to working in ABB, Mr. Hogan worked at General Electric Company (GE) in a variety of executive and management roles from 1985 to 2008, including eight years as Chief Executive Officer of GE Healthcare from 2000 to 2008.

*John F. Morici* has served as our Chief Financial Officer since November 2016. Prior to joining us, Mr. Morici was at NBC Universal from 2007 to 2016 where he held several senior management positions in their Universal Pictures Home Entertainment U.S. and Canadian business, including Chief Financial Officer, Chief Operating Officer, and most recently, Executive Vice President and Managing Director from 2014 to 2016. Prior to NBC Universal, Mr. Morici was in various senior financial management positions at GE Healthcare from 1999 to 2007, including Chief Financial Officer for its Diagnostic Imaging and Global Products units from 2002 to 2003.

*Simon Beard* has served as our Vice President and Managing Director, EMEA since October 2015. Prior to joining us, from 2012 to 2014, Mr. Beard was Regional Director for the South East Asia business of Smith & Nephew, a multinational medical equipment manufacturing company. From 2006 to 2012, Mr. Beard was Director & General Manager for UK and Ireland for Smith & Nephew's Advanced Woundcare business. Prior to Smith & Nephew, Mr. Beard held multiple commercial, strategic, and general management positions in companies such as DePuy International (Johnson & Johnson), Sankyo Pharmaceutical and Sanofi Aventis.

*Roger E. George* has served as our Vice President, Corporate and Legal Affairs and General Counsel since July 2002. Prior to joining us, Mr. George was the Chief Financial Officer, Vice President of Finance and Legal Affairs and General Counsel of SkyStream Networks, a privately held broadband and broadcast network equipment company. Prior to SkyStream, Mr. George was a partner at Wilson Sonsini Goodrich & Rosati, P.C. in Palo Alto, California.

*Stuart Hockridge* has served as our Vice President, Global Human Resources since May 2016. Prior to joining us, Mr. Hockridge was Senior Vice President of Talent at Visa Inc. from 2013 to 2016 where he led all aspects of talent delivery for the company including executive development, succession planning, employee engagement, learning and development, and talent acquisition. Prior to Visa, Mr. Hockridge held a number of human resource management positions at GE Healthcare from 2002 to 2012 leading HR processes both globally and for various divisions.

*Sreelakshmi Kolli* has served as our Vice President, Information Technology since December 2012. Ms. Kolli joined us in June 2003 and has held positions leading business operations and engineering for customer-facing applications. Before joining us, she held technical lead positions with Sword CT Space and Accenture.

*Jennifer Olson* has served as our Vice President and Managing Director, Doctor-Directed Consumer Channel since August 2016. Ms. Olson joined us in 2002 and has held multiple roles in sales, marketing, and business development. Most recently, she was Area Sales Director for the North America region where she led all sales activities in Western Canada and the Western region of the U.S. Prior to joining Align, Ms. Olson was with technology companies including Extreme Networks and PWI Technologies.

*Raphael Pascaud* has served as our Chief Marketing, Portfolio and Business Development Officer, and Vice President, iTero Scanner and Services since July 2015. He joined Align in 2010 as Vice President and Managing Director for the EMEA and was promoted in January 2014 to Vice President, International. Prior to Align, Mr. Pascaud spent 14 years in various management positions within DePuy, a Johnson & Johnson family of companies, including Vice President Orthopedics of EMEA and Vice President Marketing of International.

*Lynn Pendergrass* has served as our Vice President and Managing Director, Americas since February 2017. Prior to joining us, Ms. Pendergrass was president of Sears Holdings Corporation's hardlines division from 2015 to 2016. Prior to Sears, Ms. Pendergrass served as Worldwide Chairman for Johnson & Johnson Consumer from 2013 to 2014, and as Americas Senior Vice President for Hewlett-Packard's Printing & Personal Systems and its Imaging & Printing Group from 2008 to 2012. Ms. Pendergrass also spent 22 years at General Electric in various operating and commercial roles and held several executive management positions in sales and marketing for its Consumer & Industrial division.

*Christopher C. Puco* has served as our Vice President and Managing Director, North America since February 2017. He joined us in 2006 as a sales director and in 2008 became senior director for the U.S. Eastern sales area. He served as Vice President of North America from December 2012 to February 2017. Mr. Puco has more than 20 years of experience in the medical device industry holding sales management positions in both starts-ups and established corporate environments. Prior to joining us, he was with United States Surgical Corporation, General Surgical Innovations, Baxter BioSurgery and Fusion Medical Technologies.

*Zelko Relic* was appointed Vice President, Research & Development in December 2013. Prior to joining us, Mr. Relic was Vice President, Engineering for Datalogic Automation, a global leader in automatic data capture and industrial automation markets from 2012. Mr. Relic was previously Vice President, Engineering at Danaher Corporation, Accu-Sort Systems business from 2010 to 2012 before it was acquired by Datalogic Automation. From 2005 to 2010, he was at Siemens Medical Solutions USA, most recent as Vice President, and from 2002 to 2004, he held senior management positions in engineering at Kulicke & Soffa Industries, designers and manufactures of semiconductor products. He also held management positions at KLA-Tencor from 1994 to 2000.

*Julie Tay* was appointed Vice President and Managing Director, Asia Pacific in March 2013. Prior to joining us, Ms. Tay was regional head of Bayer Healthcare (Diabetes Care) overseeing operations across Asia from 2010 to 2013. From 2006 to 2010, Ms. Tay served as director of marketing and corporate accounts at Sealed Air Corporation (formerly Johnson Diversey), a global provider of food safety and security, facility hygiene and product protection. Prior to that, Ms. Tay spent 15 years with Johnson & Johnson Medical.

*Emory M. Wright* has served as our Vice President, Operations since December 2007. He has been with us since March 2000 predominantly in manufacturing and operations roles including Vice President, Manufacturing and was General Manager of New Product Development. Prior to joining Align, Mr. Wright was Senior Manufacturing Manager at Metrika, Inc. a medical device manufacturer from 1999 to 2000. From 1994 to 1999, Mr. Wright served as Manager of Manufacturing and Process Development for Metra Biosystems Inc.

## ITEM 1A. RISK FACTORS

*We depend on the sale of the Invisalign system for the vast majority of our net revenues, and any decline in sales of Invisalign treatment for any reason, or a decline in average selling prices would adversely affect net revenues, gross margin and net income.*

We expect that net revenues from the sale of the Invisalign System, primarily Invisalign Full and Invisalign Teen, will continue to account for the vast majority of our total net revenues for the foreseeable future. Continued and widespread market acceptance of Invisalign by orthodontists, GPs and consumers is critical to our future success. If orthodontists and GPs experience a reduction in consumer demand for orthodontic services, if consumers prove unwilling to adopt Invisalign as rapidly as we anticipate or in the volume that we anticipate, if orthodontists or GPs choose to use a competitive product rather than Invisalign or if the average selling price of our product declines, our operating results would be harmed.

*Competition in the markets for our products is intense and we expect aggressive competition from existing competitors and other companies that may introduce new technologies in the future.*

Currently, our products compete directly against products manufactured and distributed by various companies, both within and outside the U.S. Many of these manufacturers, including Danaher Corporation, Sirona Dental Systems, Inc., Dentsply International, Inc. and 3M, have substantially greater financial resources and manufacturing and marketing experience than we do. In addition, as a result of the expiration of certain key patents owned by us, commencing in 2017, we expect that these existing competitors as well as new entrants into the clear aligner market will begin offering an orthodontic system more similar to ours in the near future. Several of these competitors will likely have greater resources as well as the ability to leverage their existing channels in the dental market to compete directly with us, and therefore our share of the clear aligner market could decline which would likely have a material adverse effect on our business, results of operation and financial condition. In addition, corresponding foreign patents will start to expire in 2018 which will likely result in increased competition in some of the markets outside the U.S. large consumer product companies may also enter the orthodontic supply market. Furthermore, we also face competition for companies that now offer clear aligner therapy directly to the consumer eliminating the need for the consumer to visit a dental office. In addition, we may also face competition in the future from new companies that may introduce new technologies. We may be unable to compete with these competitors and one or more of these competitors may render our technology obsolete or economically unattractive. If we are unable to compete effectively with existing products or respond effectively to any products developed by new or existing competitors, our business could be harmed. Increased competition has resulted in the past and may in the future result in volume discounting and price reductions, reduced gross margins, reduced profitability and loss of market share, and reduce dental professionals' efforts and commitment to expand their use of our products, any of which could have a material adverse effect on our net revenues, volume growth, net income and stock price. We cannot assure that we will be able to compete successfully against our current or future competitors or that competitive pressures will not have a material adverse effect on our business, results of operations and financial condition.

*We are dependent on our international operations, which exposes us to foreign operational, political and other risks that may harm our business.*

Our key production steps are performed in operations located outside of the U.S. At our facility in San Jose, Costa Rica, technicians use a sophisticated, internally developed computer-modeling program to prepare digital treatment plans, which are then transmitted electronically to Juarez, Mexico. These digital files form the basis of the ClinCheck treatment plan and are used to manufacture aligner molds. Our order acquisition, aligner fabrication and shipping operations are conducted in Juarez, Mexico and starting in July 2016, we transitioned order acquisition for EMEA region to our facility in Amsterdam, the Netherlands. In addition to the research and development efforts conducted in our North America facilities, we also carry out research and development in Moscow, Russia. We also have customer-care, accounts receivable, credit and collections, customer event registration and accounts payable organizations located at our facility in San Jose, Costa Rica. In addition, we have operations in Israel where the design and wand assembly and our intraoral scanner are manufactured. Our reliance on international operations exposes us to risks and uncertainties that may affect our business or results of operation, including:

- difficulties in hiring and retaining employees generally, as well as difficulties in hiring and retaining employees with the necessary skills to perform the more technical aspects of our operations;
- difficulties in managing international operations, including any travel restrictions to or from our facilities located in Russia, Israel and other countries;
- fluctuations in currency exchange rates;
- increased income taxes, and other restrictions and limitations, if we were to decide to repatriate any of our foreign cash balances back to the U.S.;



- import and export license requirements and restrictions;
- controlling production volume and quality of the manufacturing process;
- political, social and economic instability, including as a result of increased levels of violence in Juarez, Mexico or the Middle East. We cannot predict the effect on us of any future armed conflict, political instability or violence in these regions. In addition, some of our employees in Israel are obligated to perform annual reserve duty in the Israeli military and are subject to being called for additional active duty under emergency circumstances. We cannot predict the full impact of these conditions on us in the future, particularly if emergency circumstances or an escalation in the political situation occurs. If many of our employees are called for active duty, our operations in Israel and our business may not be able to function at full capacity;
- acts of terrorism and acts of war;
- general geopolitical instability and the responses to it, such as the possibility of additional sanctions against Russia which continue to bring uncertainty to this region;
- interruptions and limitations in telecommunication services;
- product or material transportation delays or disruption, including as a result of increased levels of violence, acts of terrorism, acts of war or health epidemics restricting travel to and from our international locations or as a result of natural disasters, such as earthquakes or volcanic eruptions;
- burdens of complying with a wide variety of local country and regional laws, including the risks associated with the Foreign Corrupt Practices Act and local anti-bribery compliance;
- trade restrictions and changes in tariffs; and
- potential adverse tax consequences.

If any of these risks materialize in the future, we could experience production delays and lost or delayed revenue.

In addition, President Donald Trump and his administration have made recent statements regarding the possibility of changing the way in which the international operations of U.S. companies are taxed, including through the implementation of a border tax, tariff or increase in custom duties on products manufactured in countries outside of the U.S., such as Mexico, and imported into the U.S. In the event such taxes, tariffs, increased custom duties or other measures are implemented, they could have a materially adverse effect on our business and or operating results, and we may have to consider relocating some of our international operations.

***We earn an increasingly larger portion of our total revenues from international sales and face risks attendant to those operations.***

We earn an increasingly larger portion of our total revenues from international sales generated through our foreign direct and indirect operations. Since our growth strategy depends in part on our ability to further penetrate markets outside the U.S. and increase the localization of our products and services, we expect to continue to increase our sales and presence outside the U.S., particularly in the high-growth markets. Our international operations are subject to risks that are customarily encountered in non-U.S. operations, including:

- local political and economic instability;
- the engagement of activities by our employees, contractors, partners and agents, especially in countries with developing economies, that are prohibited by international and local trade and labor laws and other laws prohibiting corrupt payments to government officials, including the Foreign Corrupt Practices Act, the UK Bribery Act of 2010 and export control laws, in spite of our policies and procedures designed to ensure compliance with these laws;
- although it is our intention to indefinitely reinvest earnings outside the U.S., restrictions on the transfer of funds held by our foreign subsidiaries, including with respect to restrictions on our ability to repatriate foreign cash to the U.S. at favorable tax rates;
- fluctuations in currency exchange rates; and
- increased expense of developing, testing and making localized versions of our products.

Any of these factors, either individually or in combination, could materially impact our international operations and adversely affect our business as a whole.

***We face risks related to our international sales, including the need to obtain necessary foreign regulatory clearance or approvals.***

Outside of North America, we currently sell our products in Europe, Asia Pacific, Latin America and the Middle East and may expand into other countries from time to time. For sales of our products outside the U.S., we are subject to foreign regulatory requirements that vary widely from country to country. The time required to obtain clearances or approvals required by other countries may be longer than that required for FDA clearance or approval, and requirements for such approvals may differ from FDA requirements. We may be unable to obtain regulatory approvals in one or more of the other countries in which we do business or in which we may do business in the future. We may also incur significant costs in attempting to obtain and maintain foreign regulatory approvals. If we experience delays in receipt of approvals to market our products outside of the U.S., or if we fail to receive these approvals, we may be unable to market our products or enhancements in international markets in a timely manner, if at all, which could materially impact our international operations and adversely affect our business as a whole.

***Demand for our products may not increase as rapidly as we anticipate due to a variety of factors including a weakness in general economic conditions.***

Consumer spending habits are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, gas prices, consumer confidence and consumer perception of economic conditions. A general slowdown in the U.S. economy and certain international economies or an uncertain economic outlook would adversely affect consumer spending habits which may, among other things, result in a decrease in the number of overall orthodontic case starts, reduced patient traffic in dentists' offices, reduction in consumer spending on higher value procedures or a reduction in the demand for dental services generally, each of which would have a material adverse effect on our sales and operating results. Weakness in the global economy results in a challenging environment for selling dental technologies and dentists may postpone investments in capital equipment, such as intraoral scanners. In addition, Invisalign treatment, which currently accounts for the vast majority of our net revenues, represents a significant change from traditional orthodontic treatment, and customers and consumers may be reluctant to accept it or may not find it preferable to traditional treatment. We have generally received positive feedback from orthodontists, GPs and consumers regarding Invisalign treatment as both an alternative to braces and as a clinical method for the treatment of malocclusion, but a number of dental professionals believe that the Invisalign treatment is appropriate for only a limited percentage of their patients. Increased market acceptance of all of our products will depend in part upon the recommendations of dental professionals, as well as other factors including effectiveness, safety, ease of use, reliability, aesthetics, and price compared to competing products.

***The frequency of use of the Invisalign system by orthodontists or GPs may not increase at the rate that we anticipate or at all.***

One of our key objectives is to continue to increase utilization, or the adoption and frequency of use, of the Invisalign System by new and existing customers. If utilization of the Invisalign System by our existing and newly trained orthodontists or GPs does not occur or does not occur as quickly as we anticipate, our operating results could be harmed.

***We may experience declines in average selling prices of our products which may decrease our net revenues.***

We provide volume based discount programs to our doctors. In addition, we sell a number of products at different list prices. If we introduce any price reductions or consumer rebate programs; if we expand our discount programs in the future or participation in these programs increases; or if our product mix shifts to lower priced products or products that have a higher percentage of deferred revenue, our average selling prices would be adversely affected and our net revenues, gross profit, gross margin and net income may be reduced. In July 2015, we launched a new product policy called "Additional Aligners at No Charge" that addresses one of our customer's top complaints. With this product policy change, we no longer distinguish between mid-course correction and case refinements and allow doctors to order additional aligners to address either treatment need at no charge, subject to certain requirements. Based on this product policy, beginning in the third quarter of 2015, we deferred more revenue as a result of providing free additional aligners for eligible treatments. Additionally, as we grandfathered over 1 million open cases, we will recognize lower revenues as additional aligners are shipped for at least the following two years until these cases complete.

***We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and results of operations.***

Although the U.S. dollar is our reporting currency, a portion of our net revenues and net income are generated in foreign currencies. Net revenues and net income generated by subsidiaries operating outside of the U.S. are translated into U.S. dollars

using exchange rates effective during the respective period and are affected by changes in exchange rates. As a result, negative movements in currency exchange rates against the U.S. dollar will adversely affect our net revenues and net income in our consolidated financial statements. The exchange rate between the U.S. dollar and foreign currencies has fluctuated substantially in recent years and may continue to fluctuate substantially in the future. We have in the past and may in the future enter into currency hedging transactions in an effort to cover some of our exposure to foreign currency exchange fluctuations. These transactions may not operate to fully or effectively hedge our exposure to currency fluctuations, and, under certain circumstances, these transactions could have an adverse effect on our financial condition.

***As we continue to grow, we are subject to growth related risks, including risks related to excess or constrained capacity at our existing facilities.***

We are subject to growth related risks, including excess or constrained capacity and pressure on our internal systems and personnel. In order to manage current operations and future growth effectively, we will need to continue to implement and improve our operational, financial and management information systems and to hire, train, motivate, manage and retain employees. We may be unable to manage such growth effectively. Any such failure could have a material adverse impact on our business, operations and prospects. In the near term, we intend to establish additional order acquisition and treatment planning facilities closer to our international customers in order to improve our operational efficiency and provide doctors with a better experience to further improve their confidence in using Invisalign to treat more patients, more often. Our ability to plan, construct and equip additional order acquisition, treatment planning and manufacturing facilities is subject to significant risk and uncertainty, including risks inherent in the establishment of a facility, such as hiring and retaining employees and delays and cost overruns as a result of a number of factors, any of which may be out of our control. If the transition into this additional facility is significantly delayed or demand for our product exceeds our current expectations, we may not be able to fulfill orders timely, which may negatively impact our financial results and overall business. In addition, because we cannot immediately adapt our production capacity and related cost structures to changing market conditions, our facility capacity may at times exceed or fall short of our production requirements. In addition, if product demand decreases or we fail to forecast demand accurately, we could be required to write off inventory or record excess capacity charges, which would lower our gross margin. Production of our intraoral scanners may also be limited by capacity constraints due to a variety of factors, including our dependency on third party vendors for key components in addition to limited production yields. Any or all of these problems could result in the loss of customers, provide an opportunity for competing products to gain market acceptance and otherwise harm our business and financial results.

***If we fail to sustain or increase profitability or revenue growth in future periods, the market price for our common stock may decline.***

If we are to sustain or increase profitability in future periods, we will need to continue to increase our net revenues, while controlling our expenses. Because our business is evolving, it is difficult to predict our future operating results or levels of growth, and we have not in the past and may not in the future be able to sustain our historical growth rates. If we do not increase profitability or revenue growth or otherwise meet the expectations of securities analysts or investors, the market price of our common stock will likely decline.

***Our financial results have fluctuated in the past and may fluctuate in the future which may cause volatility in our stock price.***

Our operating results have fluctuated in the past and we expect our future quarterly and annual operating results to fluctuate as we focus on increasing doctor and consumer demand for our products. These fluctuations could cause our stock price to decline or significantly fluctuate. Some of the factors that could cause our operating results to fluctuate include:

- limited visibility into and difficulty predicting the level of activity in our customers' practices from quarter to quarter;
- weakness in consumer spending as a result of the slowdown in the U.S. economy and global economies;
- changes in relationships with our distributors;
- changes in the timing of receipt of Invisalign case product orders during a given quarter which, given our cycle time and the delay between case receipts and case shipments, could have an impact on which quarter revenue can be recognized;
- fluctuations in currency exchange rates against the U.S. dollar;
- changes in product mix;
- our inability to scale production of our iTero Element scanner to meet customer demand;
- if participation in our customer rebate or discount programs increases our average selling price will be adversely affected;

- seasonal fluctuations in the number of doctors in their offices and their availability to take appointments;
- success of or changes to our marketing programs from quarter to quarter;
- our reliance on our contract manufacturers for the production of sub-assemblies for our intraoral scanners;
- timing of industry tradeshow;
- changes in the timing of when revenue is recognized, including as a result of the introduction of new products or promotions, modifications to our terms and conditions or as a result of changes to critical accounting estimates or new accounting pronouncements;
- changes to our effective tax rate;
- unanticipated delays in production caused by insufficient capacity or availability of raw materials;
- any disruptions in the manufacturing process, including unexpected turnover in the labor force or the introduction of new production processes, power outages or natural or other disasters beyond our control;
- the development and marketing of directly competitive products by existing and new competitors;
- disruptions to our business as a result of our agreement to manufacture clear aligners for SmileDirectClub, LLC ("SDC"), including, market acceptance of the SDC business model and product, possible adverse customer reaction and negative publicity about us and our products;
- impairments in the value of our strategic investments in SDC and other privately held companies could be material;
- major changes in available technology or the preferences of customers may cause our current product offerings to become less competitive or obsolete;
- aggressive price competition from competitors;
- costs and expenditures in connection with litigation;
- the timing of new product introductions by us and our competitors, as well as customer order deferrals in anticipation of enhancements or new products;
- unanticipated delays in our receipt of patient records made through an intraoral scanner for any reason;
- disruptions to our business due to political, economic or other social instability, including the impact of an epidemic any of which results in changes in consumer spending habits, consumers unable or unwilling to visit the orthodontist or general practitioners office, as well as any impact on workforce absenteeism;
- inaccurate forecasting of net revenues, production and other operating costs,
- investments in research and development to develop new products and enhancements;
- changes in accounting rules; and
- our ability to successfully hedge against a portion of our foreign currency-denominated assets and liabilities.

To respond to these and other factors, we may need to make business decisions that could adversely affect our operating results such as modifications to our pricing policy, business structure or operations. Most of our expenses, such as employee compensation and lease payment obligations, are relatively fixed in the short term. Moreover, our expense levels are based, in part, on our expectations regarding future revenue levels. As a result, if our net revenues for a particular period fall below our expectations, whether caused by changes in consumer spending, consumer preferences, weakness in the U.S. or global economies, changes in customer behavior related to advertising and prescribing our product or other factors, we may be unable to adjust spending quickly enough to offset any shortfall in net revenues. Due to these and other factors, we believe that quarter-to-quarter comparisons of our operating results may not be meaningful. You should not rely on our results for any one quarter as an indication of our future performance.

***Our future success may depend on our ability to develop, successfully introduce and achieve market acceptance of new products.***

Our future success may depend on our ability to develop, manufacture, market and obtain regulatory approval or clearance of new products. There can be no assurance that we will be able to successfully develop, sell and achieve market acceptance of these and other new products and applications and enhanced versions of our existing product or software. The extent of, and rate at which, market acceptance and penetration are achieved by future products is a function of many variables, which include, among other things, our ability to:

- correctly identify customer needs and preferences and predict future needs and preferences;
- include functionality and features that address customer requirements;
- ensure compatibility of our computer operating systems and hardware configurations with those of our customers;
- allocate our research and development funding to products with higher growth prospects;
- anticipate and respond to our competitors' development of new products and technological innovations;
- differentiate our offerings from our competitors' offerings;
- innovate and develop new technologies and applications;
- the availability of third-party reimbursement of procedures using our products;
- obtain adequate intellectual property rights; and
- encourage customers to adopt new technologies.

If we fail to accurately predict customer needs and preferences or fail to produce viable technologies, we may invest heavily in research and development of products that do not lead to significant revenue. Even if we successfully innovate and develop new products and produce enhancements, we may incur substantial costs in doing so and our profitability may suffer. In addition, even if our new products are successfully introduced, it is unlikely that they will rapidly gain market share and acceptance primarily due to the relatively long period of time it takes to successfully treat a patient with Invisalign. Since it takes approximately 12 to 24 months to treat a patient, our customers may be unwilling to rapidly adopt our new products until they successfully complete at least one case or until more historical clinical results are available.

Our ability to market and sell new products may also be subject to government regulation, including approval or clearance by the FDA and foreign government agencies. Any failure in our ability to successfully develop and introduce or achieve market acceptance of our new products or enhanced versions of existing products could have a material adverse effect on our operating results and could cause our net revenues to decline.

***A disruption in the operations of our primary freight carrier or higher shipping costs could cause a decline in our net revenues or a reduction in our earnings.***

We are dependent on commercial freight carriers, primarily UPS, to deliver our products to our customers. If the operations of these carriers are disrupted for any reason, we may be unable to deliver our products to our customers on a timely basis. If we cannot deliver our products in an efficient and timely manner, our customers may reduce their orders from us and our net revenues and operating profits could materially decline. In a rising fuel cost environment, our freight costs will increase. If freight costs materially increase and we are unable to pass that increase along to our customers for any reason or otherwise offset such increases in our cost of net revenues, our gross margin and financial results could be adversely affected.

***If we are unable to accurately predict our volume growth, and fail to hire a sufficient number of technicians in advance of such demand, the delivery time of our products could be delayed which could adversely affect our results of operations.***

Treatment planning is a key step leading to our manufacturing process which relies on sophisticated computer technology requiring new technicians to undergo a relatively long training process. Training production technicians takes approximately 90 to 120 days. As a result, if we are unable to accurately predict our volume growth, we may not have a sufficient number of trained technicians to deliver our products within the timeframe our customers expect. Such a delay could cause us to lose existing customers or fail to attract new customers. This could cause a decline in our net revenues and net income and could adversely affect our results of operations.

***Our headquarters, digital dental modeling processes, and other manufacturing processes are principally located in regions that are subject to earthquakes and other natural disasters.***

Our digital dental modeling is processed in our facility located in San Jose, Costa Rica. The operations team in Costa Rica creates ClinCheck treatment plans using sophisticated computer software. In addition, our customer facing operations are located in Costa Rica. Our aligner molds and finished aligners are fabricated in Juarez, Mexico. Both locations in Costa Rica and Mexico are in earthquake zones and may be subject to other natural disasters. If there is a major earthquake or any other natural disaster in a region where one of these facilities is located, our ability to create ClinCheck treatment plans, respond to customer inquiries or manufacture and ship our aligners could be compromised which could result in our customers experiencing a significant delay in receiving their completed aligners and a decrease in service levels for a period of time. In addition, our corporate headquarters facility in California is located in the San Francisco Bay Area. An earthquake or other natural disaster in this region could result in a disruption in our operations. Any such business interruption could materially and adversely affect our business, financial condition and results of operations.

***Our information technology systems are critical to our business. System integration and implementation issues and system security risks could disrupt our operations, which could have a material adverse impact on our business and operating results.***

We rely on the efficient and uninterrupted operation of complex information technology systems. All information technology systems are vulnerable to damage or interruption from a variety of sources. As our business has grown in size and complexity, the growth has placed, and will continue to place, significant demands on our information technology systems. To effectively manage this growth, our information systems and applications require an ongoing commitment of significant resources to maintain, protect and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards and changing customer preferences. We are in a multi-year, company-wide program to transform certain business processes or extend established processes which includes the transition to a new enterprise resource planning ("ERP") software system. We implemented the first phase of our ERP on July 1, 2016 and, while we believe we are past any potential significant business disruption, we are still monitoring and troubleshooting potential issues. The implementation of additional functionality in the ERP system entails certain risks, including difficulties with changes in business processes that could disrupt our operations, such as our ability to track orders and timely ship products, manage our supply chain and aggregate financial and operational data. Additionally, this implementation may not achieve the anticipated benefits and may divert management's attention from other operational activities, negatively affect employee morale, or have other unintended consequences. Additionally, if we are not able to accurately forecast expenses related to the project, this may have an adverse impact on our financial condition and operating results.

If the information we rely upon to run our businesses were to be found to be inaccurate or unreliable, if we fail to properly maintain our information systems and data integrity, or if we fail to develop new capabilities to meet our business needs in a timely manner, we could have operational disruptions, have customer disputes, lose our ability to produce timely and accurate reports, have regulatory or other legal problems, have increases in operating and administrative expenses, lose existing customers, have difficulty in attracting new customers or in implementing our growth strategies, or suffer other adverse consequences. In addition, experienced computer programmers and hackers may be able to penetrate our network security or our cloud-based software servers hosted by third party and misappropriate our confidential information or that of third parties, create system disruptions or cause shutdowns. Furthermore, sophisticated hardware and operating system software and applications that we either internally develop or procure from third parties which we depend upon may contain defects in design and manufacture, including "bugs" and other problems that can unexpectedly interfere with the operation of the system. The costs to eliminate or alleviate security problems, viruses and bugs could be significant, and the efforts to address these problems could result in interruptions that may have a material adverse impact on our operations, net revenues and operating results.

System upgrades and enhancements require significant expenditures and allocation of valuable employee resources. Delays in integration or disruptions to our business from implementation of these new or upgraded systems could have a material adverse impact on our financial condition and operating results.

Additionally, we continuously upgrade our customer facing software applications, specifically the ClinCheck and MyAligntech software. Software applications frequently contain errors or defects, especially when they are first introduced or when new versions are released. The discovery of a defect or error or the incompatibility with the computer operating system and hardware configurations of customers in a new upgraded version or the failure of our primary information systems may result in the following consequences, among others: loss of revenue or delay in market acceptance, damage to our reputation or increased service costs, any of which could have a material adverse effect on our business, financial condition or results of operations.

Furthermore, our business requires the secure transmission of confidential information over public networks. Because of the confidential health information we store and transmit, security breaches could expose us to a risk of regulatory action, litigation,

possible liability and loss. Our security measures may be inadequate to prevent security breaches, and our business operations and profitability would be adversely affected by, among other things, loss of customers and potential criminal and civil sanctions if they are not prevented.

There can be no assurance that our process of improving existing systems, developing new systems to support our expanding operations, integrating new systems, protecting confidential patient information, and improving service levels will not be delayed or that additional systems issues will not arise in the future. Failure to adequately protect and maintain the integrity of our information systems and data may result in a material adverse effect on our financial position, results of operations and cash flows.

***If the security of our customer and patient information is compromised, patient care could suffer, and we could be liable for related damages, and our reputation could be impaired.***

We retain confidential customer and patient information in our processing centers. Therefore, it is critical that our facilities and infrastructure remain secure and that our facilities and infrastructure are perceived by the marketplace and our customers to be secure. Despite the implementation of security measures, our infrastructure may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. If we fail to meet our clients' expectations regarding the security of healthcare information, we could be liable for damages and our reputation could be impaired. In addition, patient care could suffer, and we could be liable if our systems fail to deliver correct information in a timely manner. Our insurance may not protect us from this risk.

***Our success depends in part on our proprietary technology, and if we are unable to successfully enforce our intellectual property rights, our competitive position may be harmed. Litigating claims of this type is costly and could distract our management and cause a decline in our results of operations and stock price.***

Our success will depend in part on our ability to maintain existing intellectual property and to obtain and maintain further intellectual property protection for our products, both in the U.S. and in other countries. Our inability to do so could harm our competitive position. As of December 31, 2016, we had issued 425 U.S. patents, 370 foreign issued patents, and 386 pending global patent applications.

We intend to rely on our portfolio of issued and pending patent applications in the U.S. and in other countries to protect a large part of our intellectual property and our competitive position; however, our currently pending or future patent filings may not result in the issuance of patents. Additionally, any patents issued to us may be challenged, invalidated, held unenforceable, circumvented, or may not be sufficiently broad to prevent third parties from producing competing products similar in design to our products. In addition, any protection afforded by foreign patents may be more limited than that provided under U.S. patents and intellectual property laws. We also rely on protection of our copyrights, trade secrets, know-how and proprietary information. We generally enter into confidentiality agreements with our employees, consultants and our collaborative partners upon commencement of a relationship with us; however, these agreements may not provide meaningful protection against the unauthorized use or disclosure of our trade secrets or other confidential information, and adequate remedies may not exist if unauthorized use or disclosure were to occur. Our inability to maintain the proprietary nature of our technology through patents, copyrights or trade secrets would impair our competitive advantages and could have a material adverse effect on our operating results, financial condition and future growth prospects. In particular, a failure to protect our proprietary rights might allow competitors to copy our technology, which could adversely affect our pricing and market share. In addition, in an effort to protect our intellectual property we have in the past been and may in the future be involved in litigation. The potential effects on our business operations resulting from litigation that we may participate in the future, whether or not ultimately determined in our favor or settled by us, are costly and divert the efforts and attention of our management and technical personnel from normal business operations.

Litigation, interferences, oppositions, inter partes reviews or other proceedings are, have been and may in the future be necessary in some instances to determine the validity and scope of certain of our proprietary rights, and in other instances to determine the validity, scope or non-infringement of certain patent rights claimed by third parties to be pertinent to the manufacture, use or sale of our products. Litigation, interference, oppositions, inter partes reviews, administrative challenges or other similar types of proceedings are unpredictable and may be protracted, expensive and distracting to management. The outcome of such proceedings could adversely affect the validity and scope of our patent or other proprietary rights, hinder our ability to manufacture and market our products, require us to seek a license for the infringed product or technology or result in the assessment of significant monetary damages. An unfavorable ruling could include monetary damages or, in cases where injunctive relief is sought, an injunction prohibiting us from selling our products. Any of these results from our litigation could adversely affect our results of operations and stock price.

***While we believe we currently have adequate internal control over financial reporting, we are required to assess our internal control over financial reporting on an annual basis and any future adverse results from such assessment could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.***

Pursuant to the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated by the SEC, we are required to furnish in our Form 10-K a report by our management regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. While we believe our internal control over financial reporting is currently effective, the effectiveness of our internal controls in future periods is subject to the risk that our controls may become inadequate because of changes in conditions including our transition to a new ERP software system, and, as a result, the degree of compliance of our internal control over financial reporting with the existing policies or procedures may become ineffective. Establishing, testing and maintaining an effective system of internal control over financial reporting requires significant resources and time commitments on the part of our management and our finance staff, may require additional staffing and infrastructure investments and would increase our costs of doing business. If we are unable to assert that our internal control over financial reporting is effective in any future period (or if our auditors are unable to express an opinion on the effectiveness of our internal controls or conclude that our internal controls are ineffective), we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.

***If we lose our key personnel or are unable to attract and retain key personnel, we may be unable to pursue business opportunities or develop our products.***

We are highly dependent on the key employees in our clinical engineering, technology development, sales, training and marketing personnel and management teams. The loss of the services provided by those individuals may significantly delay or prevent the achievement of our product development and other business objectives and could harm our business. Our future success will also depend on our ability to identify, recruit, train and retain additional qualified personnel, including orthodontists. Few orthodontists are accustomed to working in a manufacturing environment since they are generally trained to work in private practices, universities and other research institutions. Thus, we may be unable to attract and retain personnel with the advanced qualifications necessary for the further development of our business. Furthermore, we may not be successful in retaining our key personnel or their services. If we are unable to attract and retain key personnel, our business could be materially harmed.

***If we infringe the patents or proprietary rights of other parties or are subject to a patent infringement claim, our ability to grow our business may be severely limited.***

Extensive litigation over patents and other intellectual property rights is common in the medical device industry. We have been sued for infringement of third party's patents in the past and we may be the subject of patent or other litigation in the future. From time to time, we have received and may in the future receive letters from third parties drawing our attention to their patent rights. While we do not believe that we infringe upon any valid and enforceable rights that have been brought to our attention, there may be other more pertinent rights of which we are presently unaware. The defense and prosecution of intellectual property suits, interference proceedings and related legal and administrative proceedings could result in substantial expense to us and significant diversion of effort by our technical and management personnel. An adverse determination of any litigation or interference proceeding to which we may become a party could subject us to significant liabilities. An adverse determination of this nature could also put our patents at risk of being invalidated or interpreted narrowly or require us to seek licenses from third parties. Licenses may not be available on commercially reasonable terms or at all, in which event, our business would be materially adversely affected.



***We maintain single supply relationships for certain of our key machines and materials technologies, and our business and operating results could be harmed if supply is restricted or ends or the price of raw materials used in our manufacturing process increases.***

We are highly dependent on manufacturers of specialized scanning equipment, rapid prototyping machines, resin and other advanced materials, as well as the optics, electronic and other mechanical components of our intraoral scanners. We maintain single supply relationships for many of these machines and materials technologies. In particular, our CT scanning and stereolithography equipment used in our aligner manufacturing and many of the critical components for the optics of our scanners are provided by single suppliers. We are also committed to purchasing the vast majority of our resin and polymer, the primary raw materials used in our manufacturing process for clear aligners, from a single source. If these or other suppliers encounter financial, operating or other difficulties or if our relationship with them changes, we might not be able to quickly establish or qualify replacement sources of supply and could face production interruptions, delays and inefficiencies. In addition, technology changes by our vendors could disrupt access to required manufacturing capacity or require expensive, time consuming development efforts to adapt and integrate new equipment or processes. Our growth may exceed the capacity of one or more of these manufacturers to produce the needed equipment and materials in sufficient quantities to support our growth. Conversely, in order to secure supplies for production of products, we sometimes enter into non-cancelable purchase commitments with vendors, which could impact our ability to adjust our inventory to reflect declining market demands. If demand for our products is less than we expect, we may experience additional excess and obsolete inventories and be forced to incur additional charges and our profitability may suffer. In the event of technology changes, delivery delays, or shortages of or increases in price for these items, our business and growth prospects may be harmed.

***We depend on a single contract manufacturer and supplier of parts used in our iTero scanner and any disruption in this relationship may cause us to fail to meet the demands of our customers and damage our customer relationships.***

We rely on a third party manufacturer to supply key sub-assemblies for our iTero Element scanner. As a result, if this third party manufacturer fails to deliver its components, if we lose its services or if we fail to negotiate acceptable terms, we may be unable to deliver our products in a timely manner and our business may be harmed. Any difficulties encountered by the third party manufacturer with respect to hiring personnel and maintaining acceptable manufacturing standards, controls, procedures and policies could disrupt our ability to deliver our products in a timely manner. Finding a substitute manufacturer may be expensive, time-consuming or impossible and could result in a significant interruption in the supply of our intraoral scanning products. Any failure by our contract manufacturer that results in delays in our fulfillment of customer orders may cause us to lose revenues and suffer damage to our customer relationships.

***We primarily rely on our direct sales force to sell our products, and any failure to maintain our direct sales force could harm our business.***

Our ability to sell our products and generate revenues primarily depends upon our direct sales force within our North American and international markets. We do not have any long-term employment contracts with the members of our direct sales force. The loss of the services provided by these key personnel may harm our business. If we are unable to retain our direct sales force personnel or replace them with individuals of equivalent technical expertise and qualifications, or if we are unable to successfully instill such technical expertise or if we fail to establish and maintain strong relationships with our customers within a relatively short period of time, our net revenues and our ability to maintain market share could be materially harmed. In addition, due to our large and fragmented customer base, we may not be able to provide all of our customers with product support immediately upon the launch of a new product. As a result, adoption of new products by our customers may be slower than anticipated and our ability to grow market share and increase our net revenues may be harmed.

***If our distributor relationships are not successful, our ability to market and sell our products would be harmed and our financial performance will be adversely affected.***

We depend on relationships with distributors for the marketing and sales of our products in various geographic regions, and we have a limited ability to influence their efforts. Relying on distributors for our sales and marketing could harm our business for various reasons, including:

- agreements with distributors may terminate prematurely due to disagreements or may result in litigation between the partners;
- we may not be able to renew existing distributor agreements on acceptable terms;
- our distributors may not devote sufficient resources to the sale of products;
- our distributors may be unsuccessful in marketing our products;
- our existing relationships with distributors may preclude us from entering into additional future arrangements with other distributors; and
- we may not be able to negotiate future distributor agreements on acceptable terms.

***Complying with regulations enforced by the FDA and other regulatory authorities is an expensive and time-consuming process, and any failure to comply could result in substantial penalties.***

Our products are considered medical devices and are subject to extensive regulation in the U.S. and internationally. FDA regulations are wide ranging and govern, among other things:

- product design, development, manufacturing and testing;
- product labeling;
- product storage;
- pre-market clearance or approval;
- complaint handling and corrective actions;
- advertising and promotion; and
- product sales and distribution.

Our failure to comply with applicable regulatory requirements could result in enforcement action by the FDA or state agencies, which may include any of the following sanctions:

- warning letters, fines, injunctions, consent decrees and civil penalties;
- repair, replacement, refunds, recall or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing our requests for 510(k) clearance or pre-market approval of new products, new intended uses, or modifications to existing products;
- withdrawing clearance or pre-market approvals that have already been granted; and
- criminal prosecution.

If any of these events were to occur, they could harm our business. We must comply with facility registration and product listing requirements of the FDA and adhere to applicable Quality System regulations. The FDA enforces its Quality System regulations through periodic unannounced inspections. Our failure to take satisfactory corrective action in response to an adverse inspection or the failure to comply with applicable manufacturing regulations could result in enforcement action, and we may be required to find alternative manufacturers, which could be a long and costly process. Any FDA enforcement action could have a material adverse effect on us.

Before we can sell a new medical device in the U.S., or market a new use of or claim for an existing product, we must obtain FDA clearance or approval unless an exemption applies. Obtaining regulatory clearances or approvals can be a lengthy and time-consuming process. Even though the devices we market have obtained the necessary clearances from the FDA, we may be unable to maintain such clearances in the future. Furthermore, we may be unable to obtain the necessary clearances for new devices that

we intend to market in the future. Our inability to maintain or obtain regulatory clearances or approvals could materially harm our business.

In addition, as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC adopted disclosure requirements regarding the use of certain minerals, known as conflict minerals, which are mined from the Democratic Republic of Congo and adjoining countries, as well as procedures regarding a manufacturer's efforts to identify and discourage the sourcing of such minerals and metals produced from those minerals. Additional reporting obligations are being proposed by the European Union. The U.S. requirements and any additional requirements in Europe could affect the sourcing and availability of metals used in the manufacture of a limited number of parts (if any) contained in our products. For example, the implementation of these disclosure requirements may decrease the number of suppliers capable of supplying our needs for certain metals, thereby negatively affecting our ability to obtain products in sufficient quantities or at competitive prices. Our material sourcing is broad based and multi-tiered, and we may be unable to conclusively verify the origins for all metals used in our products. We may suffer financial and reputational harm if customers require, and we are unable to deliver, certification that our products are conflict free. Regardless, we will incur additional costs associated with compliance with these disclosure requirements, including time-consuming and costly efforts to determine the source of any conflict minerals used in our products.

***If compliance with healthcare regulations becomes costly and difficult for our customers or for us, we may not be able to grow our business.***

Participants in the healthcare industry are subject to extensive and frequently changing regulations under numerous laws administered by governmental entities at the federal, state and local levels, some of which are, and others of which may be, applicable to our business. In response to perceived increases in health care costs in recent years, Congress passed health care reform legislation that was signed into law in March 2010. This legislation contains many provisions designed to generate the revenues necessary to fund the coverage expansions. The most relevant of these provisions are those that impose fees or taxes on certain health-related industries, including medical device manufacturers.

Furthermore, our healthcare provider customers are also subject to a wide variety of laws and regulations that could affect the nature and scope of their relationships with us. The healthcare market itself is highly regulated and subject to changing political, economic and regulatory influences. Regulations implemented pursuant to the Health Insurance Portability and Accountability Act ("HIPAA"), including regulations affecting the security and privacy of patient healthcare information held by healthcare providers and their business associates may require us to make significant and unplanned enhancements of software applications or services, result in delays or cancellations of orders, or result in the revocation of endorsement of our products and services by healthcare participants. The effect of HIPAA and newly enforced regulations on our business is difficult to predict, and there can be no assurance that we will adequately address the business risks created by HIPAA and its implementation or that we will be able to take advantage of any resulting business opportunities.

***Extensive and changing government regulation of the healthcare industry may be expensive to comply with and exposes us to the risk of substantial government penalties.***

In addition to medical device laws and regulations, numerous state and federal healthcare-related laws regulate our business, covering areas such as:

- storage, transmission and disclosure of medical information and healthcare records;
- prohibitions against the offer, payment or receipt of remuneration to induce referrals to entities providing healthcare services or goods or to induce the order, purchase or recommendation of our products; and
- the marketing and advertising of our products.

Complying with these laws and regulations could be expensive and time-consuming, and could increase our operating costs or reduce or eliminate certain of our sales and marketing activities or our revenues.

***Our business exposes us to potential product liability claims, and we may incur substantial expenses if we are subject to product liability claims or litigation.***

Medical devices involve an inherent risk of product liability claims and associated adverse publicity. We may be held liable if any product we develop or any product that uses or incorporates any of our technologies causes injury or is otherwise found unsuitable. Although we intend to continue to maintain product liability insurance, adequate insurance may not be available on acceptable terms, if at all, and may not provide adequate coverage against potential liabilities. A product liability claim, regardless

of its merit or eventual outcome, could result in significant legal defense costs. These costs would have the effect of increasing our expenses and diverting management's attention away from the operation of our business, and could harm our business.

***Historically, the market price for our common stock has been volatile.***

The market price of our common stock could be subject to wide price fluctuations in response to various factors, many of which are beyond our control. The factors include:

- quarterly variations in our results of operations and liquidity;
- changes in recommendations by the investment community or in their estimates of our net revenues or operating results;
- speculation in the press or investment community concerning our business and results of operations;
- strategic actions by our competitors, such as product announcements or acquisitions;
- announcements of technological innovations or new products by us, our customers or competitors; and
- general economic market conditions.

In addition, the stock market, in general and the market for technology and medical device companies, in particular, have experienced extreme price and volume fluctuations that have often been unrelated to or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. Historically, class action litigation is often brought against an issuing company following periods of volatility in the market price of a company's securities.

***Future sales of significant amounts of our common stock may depress our stock price.***

A large percentage of our outstanding common stock is currently owned by a small number of significant stockholders. These stockholders have sold in the past, and may sell in the future, large amounts of common stock over relatively short periods of time. Sales of substantial amounts of our common stock in the public market by our existing stockholders may adversely affect the market price of our common stock. Such sales could create public perception of difficulties or problems with our business and may depress our stock price.

***We are subject to risks associated with our strategic investments. Impairments in the value of our investments could negatively impact our financial results.***

We have invested in SmileDirectClub, LLC ("SDC") and other privately held companies for strategic reasons and to support key business initiatives, and we may not realize a return on our strategic investments. Many of such companies generate net losses and the market for their products, services or technologies may be slow to develop. Further, valuations of privately held companies are inherently complex due to the lack of readily available market data. If we determine that our investments in SDC or other privately held companies have experienced a decline in value, we may be required to record impairments, which could be material and could have an adverse impact on our financial results.

***If our goodwill or long-lived assets become impaired, we may be required to record a significant charge to earnings.***

Under Generally Accepted Accounting Principles in the United States ("U.S. GAAP"), we review our goodwill and long-lived asset group for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Additionally, goodwill is required to be tested for impairment at least annually. The qualitative and quantitative analysis used to test goodwill are dependent upon various assumptions and reflect management's best estimates. Changes in certain assumptions including revenue growth rates, discount rates, earnings multiples and future cash flows may cause a change in circumstances indicating that the carrying value of goodwill or the asset group may be impaired. We may be required to record a significant charge to earnings in the financial statements during the period in which any impairment of goodwill or asset group are determined.

***Changes in, or interpretations of, accounting rules and regulations, could result in unfavorable accounting charges.***

We prepare our consolidated financial statements in conformity with U.S. GAAP. These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting policies. A change in these policies can have a significant effect on our reported results and may even retroactively affect previously reported transactions. Our accounting

policies that recently have been, or may be affected by changes in the accounting rules relate to stock-based compensation, revenue recognition and leases.

***If we fail to manage our exposure to global financial and securities market risk successfully, our operating results and financial statements could be materially impacted.***

The primary objective of our investment activities is to preserve principal. To achieve this objective, a majority of our marketable investments are investment grade, liquid, fixed-income securities and money market instruments denominated in U.S. dollars. If the carrying value of our investments exceeds the fair value, and the decline in fair value is deemed to be other-than-temporary, we will be required to write down the value of our investments, which could materially harm our results of operations and financial condition. Moreover, the performance of certain securities in our investment portfolio correlates with the credit condition of the U.S. financial sector. In a current unstable credit environment, we might incur significant realized, unrealized or impairment losses associated with these investments.

***On July 1, 2016, we changed our corporate structure; however, if we are unable to maintain this structure or if it is challenged by U.S. or foreign tax authorities, we may be unable to realize tax savings which could materially and adversely affect our operating results.***

We implemented a new international corporate structure on July 1, 2016. This corporate structure may reduce our overall effective tax rate over time through changes in the structure of our international procurement and sales operations, as well as realignment of the ownership and use of intellectual property among our wholly-owned subsidiaries.

The structure includes legal entities located in jurisdictions with income tax rates lower than the U.S. federal statutory tax rate. Such intercompany arrangements would be designed to result in income earned by such entities in accordance with arm's-length principles and commensurate with functions performed, risks assumed and ownership of valuable corporate assets. We believe that income taxed in certain foreign jurisdictions at a lower rate relative to the U.S. federal statutory rate will have a beneficial impact on our worldwide effective tax rate over the medium to long term.

If the structure is challenged by U.S. or foreign tax authorities, if changes in domestic and international tax laws negatively impact the structure, including proposed legislation to reform U.S. taxation of international business activities, or if we do not operate our business in a manner consistent with the structure and applicable regulatory provisions, we may fail to achieve the financial and operational efficiencies that we anticipate as a result of the structure, and our business, financial condition and operating results may be materially and adversely affected.

***Our effective tax rate may vary significantly from period to period.***

Various internal and external factors may have favorable or unfavorable effects on our future effective tax rate. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, new or changes to accounting pronouncements, non-deductible goodwill impairments, changing interpretations of existing tax laws or regulations, changes in the relative proportions of revenues and income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates, the future levels of tax benefits of stock-based compensation, settlement of income tax audits, and changes in overall levels of pretax earnings.

In addition, our tax rate may be impacted by tax holidays or incentives. In June 2009, the Costa Rica Ministry of Foreign Trade, an agency of the Government of Costa Rica, granted a twelve year extension of certain income tax incentives, which were previously granted in 2002. The incentive tax rates will expire in various years beginning in 2017. We intend to seek a renewal of these income tax incentives before they expire. Under these incentives, all of the income in Costa Rica during these twelve year incentive periods is subject to a reduced tax rate. In order to receive the benefit of these incentives, we must hire specified numbers of employees and maintain certain minimum levels of fixed asset investment in Costa Rica. If we do not fulfill these conditions for any reason, our incentive could lapse, and our income in Costa Rica would be subject to taxation at higher rates, which could have a negative impact on our operating results. The Costa Rica corporate income tax rate that would apply, absent the incentives, is 30% for 2016, 2015 and 2014. As a result of these incentives, income taxes were reduced by \$19.1 million, \$32.7 million and \$32.5 million in the year ended December 31, 2016, 2015 and 2014, respectively. The benefit of the tax holiday on diluted net income per share was \$0.23 in the year ended December 31, 2016 and \$0.40 in each of the year ended December 31, 2015 and 2014. Our subsidiary in Israel is under audit by the local tax authorities for calendar years 2006 through 2013.

**Changes in tax laws or tax rulings could negatively impact our income tax provision and net income.**

As a U.S. multinational corporation, we are subject to changing tax laws both within and outside of the U.S. Changes in tax laws or tax rulings, or changes in interpretations of existing tax laws, could affect our income tax provision and net income or require us to change the manner in which we operate our business. Many countries in Europe, as well as a number of other countries and organizations, have recently proposed or recommended changes to existing tax laws or have enacted new laws. For example, the Organization for Economic Cooperation and Development ("OECD") has been working on a "Base Erosion and Profit Shifting Project," which is focused on a number of issues, including the shifting of profits between affiliated entities in different tax jurisdictions. The OECD issued in 2015, and is expected to continue to issue, guidelines and proposals that may change various aspects of the existing framework under which our tax obligations are determined in many of the countries in which we do business. In addition, the current U.S. administration and key members of Congress have made public statements indicating that tax reform is a priority. Certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the United States until those earnings are repatriated to the United States, could affect the tax treatment of our foreign earnings.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We occupy several leased and owned facilities with total office and manufacturing area of over 987,000 square feet. At December 31, 2016, the significant facilities were occupied as follows:

Location	Lease/Own	Primary Use	Expiration of Lease
San Jose, California <sup>(1)</sup>	Lease	Office for corporate headquarters, research & development and administrative personnel	August 2017
Juarez, Mexico	Own	Manufacturing and office facilities for manufacturing and administrative personnel	N/A
San Jose, Costa Rica	Lease	Office for administrative personnel, treatment personnel, and customer care	October 2018
Or Yehuda, Israel	Lease	Manufacturing and office for manufacturing, administrative personnel, and research & development	February 2022
Amsterdam, The Netherlands	Lease	Office for international headquarters, sales and marketing and administrative personnel	March 2020
Moscow, Russia	Lease	Office for research & development	July 2023
Raleigh, North Carolina	Lease	Office for research & development and administrative personnel	October 2024

<sup>(1)</sup> Refer to Note 8 "Commitments and Contingencies" of the Notes of Consolidated Financial Statements for information on our corporate headquarters office Purchase Agreement in December 2016.

### **ITEM 3. LEGAL PROCEEDINGS**

#### *Securities Class Action Lawsuit*

On November 28, 2012, plaintiff City of Dearborn Heights Act 345 Police & Fire Retirement System filed a lawsuit against Align, Thomas M. Prescott (“Mr. Prescott”), Align’s former President and Chief Executive Officer, and Kenneth B. Arola (“Mr. Arola”), Align’s former Vice President, Finance and Chief Financial Officer, in the United States District Court for the Northern District of California on behalf of a purported class of purchasers of our common stock (the “Securities Action”). On July 11, 2013, an amended complaint was filed, which named the same defendants, on behalf of a purported class of purchasers of our common stock between January 31, 2012 and October 17, 2012. The amended complaint alleged that Align, Mr. Prescott and Mr. Arola violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, and that Mr. Prescott and Mr. Arola violated Section 20(a) of the Securities Exchange Act of 1934. Specifically, the amended complaint alleged that during the purported class period defendants failed to take an appropriate goodwill impairment charge related to the April 29, 2011 acquisition of Cadent Holdings, Inc. in the fourth quarter of 2011, the first quarter of 2012 or the second quarter of 2012, which rendered our financial statements and projections of future earnings materially false and misleading and in violation of U.S. GAAP. The amended complaint sought monetary damages in an unspecified amount, costs and attorneys’ fees. On December 9, 2013, the court granted defendants’ motion to dismiss with leave for plaintiff to file a second amended complaint. Plaintiff filed a second amended complaint on January 8, 2014 on behalf of the same purported class. The second amended complaint states the same claims as the amended complaint. On August 22, 2014, the court granted our motion to dismiss without leave to amend. On September 22, 2014, Plaintiff filed a notice of appeal to the Ninth Circuit Court of Appeals. Briefing for the appeal was completed in May 2015 and the Ninth Circuit held oral arguments in October 2016. Align intends to vigorously defend itself against these allegations. Align is currently unable to predict the outcome of this amended complaint and therefore cannot determine the likelihood of loss nor estimate a range of possible loss, if any.

#### *Shareholder Derivative Lawsuit*

On February 1, 2013, plaintiff Gary Udis filed a shareholder derivative lawsuit against several of Align’s current and former officers and directors in the Superior Court of California, County of Santa Clara. The complaint alleges that our reported income and earnings were materially overstated because of a failure to timely write down goodwill related to the April 29, 2011 acquisition of Cadent Holdings, Inc., and that defendants made allegedly false statements concerning our forecasts. The complaint asserts various state law causes of action, including claims of breach of fiduciary duty, unjust enrichment, and insider trading, among others. The complaint seeks unspecified damages on behalf of Align, which is named solely as nominal defendant against whom no recovery is sought. The complaint also seeks an order directing Align to reform and improve its corporate governance and internal procedures, and seeks restitution in an unspecified amount, costs, and attorneys’ fees. On July 8, 2013, an Order was entered staying this derivative lawsuit until an initial ruling on our first motion to dismiss the Securities Action. On January 15, 2014, an Order was entered staying this derivative lawsuit until an initial ruling on our second motion to dismiss the Securities Action. On October 14, 2014, an Order was entered staying this derivative lawsuit until a ruling by the Ninth Circuit in the Securities Action discussed above. Align is currently unable to predict the outcome of this complaint and therefore cannot determine the likelihood of loss nor estimate a range of possible losses, if any.

In addition, in the course of Align's operations, Align is involved in a variety of claims, suits, investigations, and proceedings, including actions with respect to intellectual property claims, patent infringement claims, government investigations, labor and employment claims, breach of contract claims, tax, and other matters. Regardless of the outcome, these proceedings can have an adverse impact on us because of defense costs, diversion of management resources, and other factors. Although the results of complex legal proceedings are difficult to predict and Align's view of these matters may change in the future as litigation and events related thereto unfold; Align currently does not believe that these matters, individually or in the aggregate, will materially affect Align's financial position, results of operations or cash flows.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

***Price Range of Common Stock***

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "ALGN." The following table sets forth the range of high and low per share sales prices as reported for each period indicated:

	<b>High</b>	<b>Low</b>
<i>Year Ended December 31, 2016:</i>		
Fourth quarter	\$ 102.10	\$ 83.27
Third quarter	\$ 96.90	\$ 80.30
Second quarter	\$ 81.98	\$ 70.03
First quarter	\$ 73.55	\$ 57.31
<i>Year Ended December 31, 2015:</i>		
Fourth quarter	\$ 68.48	\$ 54.69
Third quarter	\$ 66.53	\$ 52.01
Second quarter	\$ 64.99	\$ 51.65
First quarter	\$ 64.75	\$ 51.77

On February 21, 2017, the closing price of our common stock on the NASDAQ Global Market was \$101.86 per share. As of February 21, 2017, there were approximately 96 holders of record of our common stock. Because the majority of our shares of outstanding common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings to fund the development and growth of our business and do not anticipate paying any cash dividends in the foreseeable future.

***Performance Graph***

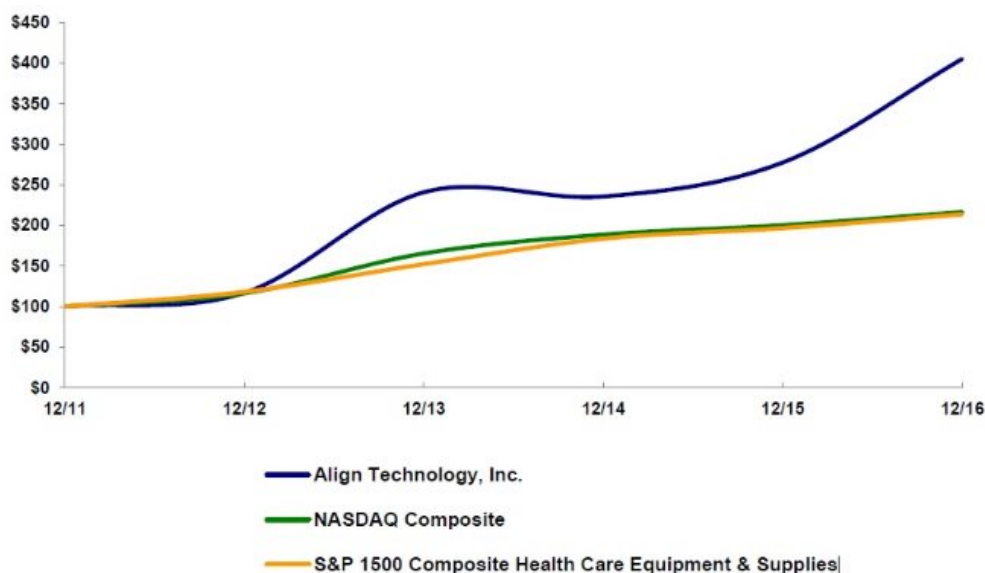
*Notwithstanding any statement to the contrary in any of our previous or future filings with the SEC, the following information relating to the price performance of our common stock shall not be deemed "filed" with the SEC or "Soliciting Material" under the Securities Exchange Act of 1934, as amended, or subject to Regulation 14A or 14C, or to liabilities of Section 18 of the Exchange Act except to the extent we specifically request that such information be treated as soliciting material or to the extent we specifically incorporate this information by reference.*

The graph below matches our cumulative 5-year total shareholder return on common stock with the cumulative total returns of the NASDAQ Composite index, and the S&P 1500 Composite Health Care Equipment & Supplies index. The graph tracks the performance of a \$100 investment in our common stock, in the peer group, and the index (with the reinvestment of all dividends) from December 31, 2011 to December 31, 2016 .



## COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Align Technology, Inc., the NASDAQ Composite Index,  
and S&P 1500 Composite Health Care Equipment & Supplies



\*\$100 invested on 12/31/11 in stock or index, including reinvestment of dividends.  
Fiscal year ending December 31.

### UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Following is a summary of stock repurchases for the three months ended December 31, 2016 :

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Repurchased Under the Program <sup>(1)</sup>
October 1, 2016 through October 31, 2016	179,500	\$ 89.28	179,500	\$ 325,777,042
November 1, 2016 through November 30, 2016	126,000	\$ 92.36	126,000	\$ 314,139,921
December 1, 2016 through December 31, 2016	106,000	\$ 97.92	106,000	\$ 303,760,487

#### <sup>(1)</sup> Stock Repurchase Programs

- *April 2014 Repurchase Program.* In 2016, we repurchased \$50.0 million of our common stock through an accelerated stock repurchase agreement and \$46.2 million of stock repurchase in the open market.
- *April 2016 Repurchase Program.* On April 28, 2016, we announced that our Board of Directors had authorized a plan to repurchase up to \$300.0 million of our stock.
- *Remaining Available Repurchases.* As of December 31, 2016, we have approximately \$3.8 million remaining available under the April 2014 Repurchase Program and \$300.0 million under the April 2016 Repurchase Plan ( Refer to Note 10 "Common Stock Repurchase Program" of the Notes to Consolidated Financial Statements for details on common stock repurchase).

**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

The following tables set forth the selected consolidated financial data for each of the years in the five-year period ended December 31, 2016. The selected consolidated financial data should be read in conjunction with the consolidated financial statements and accompanying notes and *Management's Discussion and Analysis of Financial Condition and Results of Operations*. We have derived the statements of operations data for the year ended December 31, 2016, 2015 and 2014 and the balance sheet data as of December 31, 2016 and 2015 from the consolidated audited financial statements included elsewhere in this Annual Report on Form 10-K. The statements of operations data for the year ended December 31, 2013 and 2012 and the balance sheet data as of December 31, 2014, 2013 and 2012 were derived from the consolidated audited financial statements that are not included in this Annual Report on Form 10-K.

**SELECTED CONSOLIDATED FINANCIAL DATA**  
(in thousands, except per share data)

	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>Consolidated Statements of Operations Data:</b>					
Net revenues	\$ 1,079,874	\$ 845,486	\$ 761,653	\$ 660,206	\$ 560,041
Gross profit <sup>(1)</sup>	\$ 815,294	\$ 640,110	\$ 578,443	\$ 498,106	\$ 416,388
Income from operations <sup>(2)</sup>	248,921	188,634	193,576	94,212	85,592
Interest and other income (expense), net	(6,355)	(2,533)	(3,207)	(1,073)	(1,296)
Net income before provision for income taxes and equity in losses of investee <sup>(2)</sup>	242,566	186,101	190,369	93,139	84,296
Provision for income taxes <sup>(3)</sup>	51,200	42,081	44,537	28,844	25,605
Equity in losses of investee, net of tax	1,684	—	—	—	—
Net income	\$ 189,682	\$ 144,020	\$ 145,832	\$ 64,295	\$ 58,691
Net income per share:					
Basic	\$ 2.38	\$ 1.80	\$ 1.81	\$ 0.80	\$ 0.73
Diluted	\$ 2.33	\$ 1.77	\$ 1.77	\$ 0.78	\$ 0.71
Shares used in computing net income per share:					
Basic	79,856	79,998	80,754	80,551	80,529
Diluted	81,484	81,521	82,283	82,589	83,040
<b>December 31,</b>					
	2016	2015	2014	2013	2012
<b>Consolidated Balance Sheet Data:</b>					
Working capital <sup>(4)</sup>	\$ 598,643	\$ 460,338	\$ 455,349	\$ 369,338	\$ 330,022
Total assets	1,396,151	1,158,633	987,997	832,147	756,312
Total long-term liabilities	46,427	39,035	33,415	22,839	19,224
Stockholders' equity	\$ 995,389	\$ 847,926	\$ 752,771	\$ 633,970	\$ 581,317

<sup>(1)</sup> Gross profit includes:

- \$1.7 million out of period adjustment in 2013
- \$0.2 million acquisition and integration related costs, \$0.9 million amortization of intangible assets, and \$0.5 million of exit costs in 2012

<sup>(2)</sup> Income from operations and net income before provision for income taxes and equity in losses of investee include:

- \$40.7 million and \$26.3 million of goodwill and long-lived asset impairment, respectively, in 2013
- \$1.9 million, net of tax, out of period adjustment in 2013
- \$36.6 million of goodwill impairment, \$1.3 million acquisition and integration related costs, \$4.5 million of amortization of intangible assets, and \$0.8 million of exit costs in 2012

<sup>(3)</sup> Provision for income taxes includes:

- \$1.8 million out of period income tax adjustment in 2014 ( *Refer to Note 1 "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statement s* )

<sup>(4)</sup> Working capital is calculated as the difference between total current assets and total current liabilities.

**ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

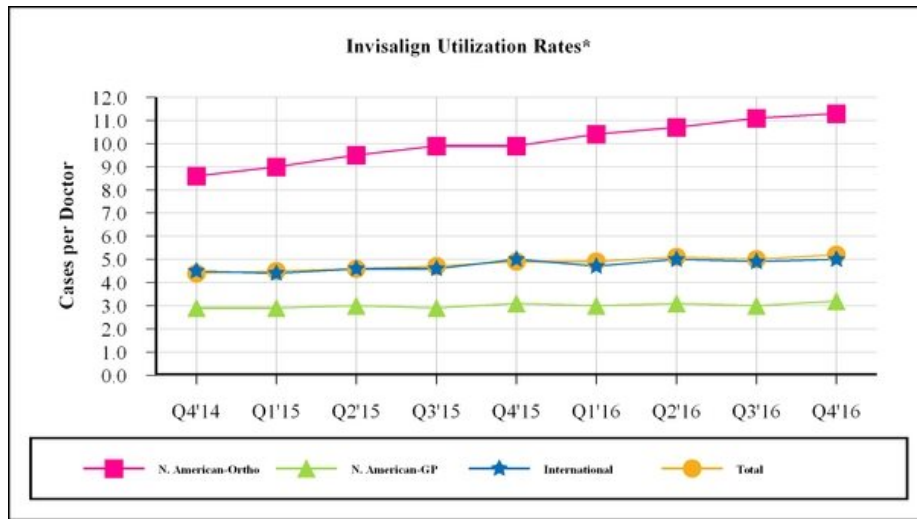
The following discussion and analysis of our financial condition and results of operations should be read together with “Selected Consolidated Financial Data” and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

**Overview**

Our goal is to establish Invisalign clear aligners as the standard method for treating malocclusion and to establish the iTero intraoral scanner as the preferred scanning device for 3D digital scans, ultimately driving increased product adoption by dental professionals. We intend to achieve this by continued focus and execution of our strategic growth drivers set forth in the *Business Strategy* section in our Annual Report on Form 10-K.

The successful execution of our business strategy in 2017 and beyond may be affected by a number of other factors including:

- *New Products, Feature Enhancements and Technology Innovation* . Product innovation drives greater treatment predictability and clinical applicability and ease of use for our customers which supports adoption of Invisalign in their practices. Increasing applicability and treating more complex cases requires that we move away from individual features to more comprehensive solutions so that Invisalign providers can more predictably treat the whole case, such as with our Invisalign "G-Series" of product innovations, including our most recent October 2016 release of Invisalign G7. Invisalign G7 delivers better upper lateral control, improved root control and features to address prevention of posterior open bites. Concurrently, we also announced ClinCheck Pro 5.0, which has new features designed to deliver an improved and user friendly experience and increased control to Invisalign providers. Since the iTero Element began shipping in September 2015, the use of iTero scanners for Invisalign case submissions in place of Polyvinyl-siloxane ("PVS") impressions has gradually increased to a record 51.3% of cases from North America and 24.9% of cases from international doctors as of the fourth quarter of 2016. We believe that over the long-term, clinical solutions and treatment tools will increase adoption of Invisalign and increase sales of our intraoral scanners; however, it is difficult to predict the rate of adoption which may vary by region and channel.
- *Invisalign Adoption*. Our goal is to establish Invisalign as the treatment of choice for treating malocclusion ultimately driving increased product adoption and frequency of use by dental professionals, also known as "utilization rates." Our quarterly utilization rates for the last 9 quarters are as follows:



\* Invisalign Utilization Rates = # of cases shipped divided by # of doctors cases were shipped to

- Total utilization in the fourth quarter of 2016 increased to 5.2 cases per doctor compared to 4.9 in the fourth quarter of 2015.
  - *North America:* Utilization among our North American orthodontist customers reached an all time high of 11.3 cases per doctor in the fourth quarter of 2016 compared to 9.9 in the fourth quarter of 2015. The increase in North America orthodontist utilization reflects improvements in product and technology which continues to strengthen our doctors' clinical confidence in the use of Invisalign such that they now utilize Invisalign more often and on more complex cases, including their teenage patients.
  - *International:* International doctor utilization of 5.0 cases per doctor in the fourth quarter of 2016 was flat compared with the fourth quarter of 2015. The International utilization reflects growth in both the Europe, Middle East and Africa ("EMEA") and Asia Pacific ("APAC") regions due to increasing adoption of the product and its ability to treat more complex cases; however, utilization remained flat primarily due to the expansion of our customer base, particularly in APAC.

We expect that over the long-term our utilization rates will gradually improve as a result of advancements in product and technology, which continue to strengthen our doctors' clinical confidence in the use of Invisalign; however, we expect that our utilization rates may fluctuate from period to period due to a variety of factors, including seasonal trends in our business along with adoption rates of new products and features.

- *Number of New Invisalign Doctors Trained.* We continue to expand our Invisalign customer base through the training of new doctors. In 2016, Invisalign growth was driven primarily by increased utilization across all regions as well as by the continued expansion of our customer base as we trained a total of 11,680 new Invisalign doctors, of which 60% were trained internationally.
- *International Invisalign Growth.* We will continue to focus our efforts towards increasing Invisalign adoption by dental professionals in our direct international markets. On a year over year basis, international Invisalign volume increased 32.4% driven primarily by strong performance in our APAC and in Europe regions. In 2017, we are continuing to expand in our existing markets through targeted investments in sales coverage and professional marketing and education programs, along with consumer marketing in selected country markets. We expect international Invisalign revenues to continue to grow at a faster rate than North America for the foreseeable future due to our continued investment in international market expansion, the size of the market opportunity, and our relatively low market penetration in this region ( *Refer to Item 1A Risk Factors - "We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and results of operations."* for information on related risk factors).
- *Establish Regional Order Acquisition and Treatment Planning Facilities:* We intend to establish additional order acquisition and treatment planning facilities closer to our international customers in order to improve our operational efficiency and provide doctors with a great experience to further improve their confidence in using Invisalign to treat more patients and more often ( *Refer to Item 1A Risk Factors - "As we continue to grow, we are subject to growth related risks, including risks related to excess or constrained capacity at our existing facilities."* for information on related risk factors).
- *Operating Expenses.* We expect operating expenses to increase in 2017 due in part to:
  - investments in international expansion in new country markets particularly in the APAC region;
  - investments in manufacturing to enhance our regional capabilities;
  - increases in legal expenses primarily related to the continued protection of our intellectual property rights, including our patents;
  - increases in sales and customer support resources;
  - increases in expenses related to the purchase of our new corporate headquarters in San Jose, California; and
  - product and technology innovation to address such things as treatment times, indications unique to teens and predictability.

We believe that these investments will position us to increase our revenue and continue to grow our market share.

- *Stock Repurchases:*
  - *April 2014 Repurchase Program.* In 2016, we repurchased \$50.0 million of our common stock through an accelerated stock repurchase agreement and \$46.2 million of stock repurchase in the open market.
  - *April 2016 Repurchase Program.* On April 28, 2016, we announced that our Board of Directors had authorized a plan to repurchase up to \$300.0 million of our stock.
  - *Remaining Available Repurchases .* As of December 31, 2016, we have \$3.8 million remaining under the April 2014 Repurchase Program and \$300.0 million under the April 2016 Repurchase Plan (Refer to Note 10 "Common Stock Repurchase Program" of the Notes to Consolidated Financial Statements for details on stock repurchase program).
- *SmileDirectClub.* On July 25, 2016, we entered into a supply agreement with SmileDirectClub, LLC ("SDC") to manufacture clear aligners for SDC's doctor-led, at-home program for simple teeth straightening. In October 2016, we became SDC's exclusive third-party supplier and commercial supplying aligners for its minor tooth movement aligner program. As part of the transaction, we acquired a 17% equity interest in SDC for \$46.7 million. We also provided a revolving line of credit to SDC of up to \$15.0 million to fund their working capital and general corporate needs ( Refer to Note 4 "Equity Method Investments" of the Notes to Consolidated Financial Statement s for details on accounting treatment).  
  
We expect the supply agreement to be incremental to revenue growth in 2017.
- *New Corporate Headquarters Office Purchase Agreement.* On December 19, 2016, we entered into a Purchase and Sale Agreement (the "Purchase Agreement") with LBA RIV-COMPANY XXX, LLC ("Seller") to purchase the real property located in San Jose, California (the "Property") for the purchase price of \$44.1 million. We closed the Purchase Agreement on January 26, 2017 (Refer to Note 8 "Commitments and Contingencies" of the Notes of Consolidated Financial Statements for more information on the Purchase Agreement).

## Results of Operations

### *Net Revenues by Reportable Segment Comparison for Year Ended December 31, 2016 , 2015 and 2014 :*

We group our operations into two reportable segments: Clear Aligner segment and Scanner segment

- Our Clear Aligner segment consists of our Invisalign system which includes Invisalign Full, Teen and Assist ("Comprehensive Products"), Express/Lite ("Non-Comprehensive Products"), Vivera retainers, along with our training and ancillary products for treating malocclusion ("Non-Case"). Clear Aligner segment also include the sale of aligners to SDC under our supply agreement which commenced in the fourth quarter of 2016. SDC revenue is recorded after eliminating outstanding intercompany transactions.
- Our Scanner segment consists of intraoral scanning systems and additional services available with the intraoral scanners that provide digital alternatives to the traditional cast models. This segment includes our iTero scanner and OrthoCAD services.

Net revenues for our Clear Aligner segment and Scanner segment by region for the year ended December 31, 2016 , 2015 and 2014 are as follows (in millions):

Net Revenues	Year Ended			Year Ended				
	December 31, 2016	December 31, 2015	Change	December 31, 2015	December 31, 2014	Change		
Clear Aligner Revenues:								
North America	\$ 568.7	\$ 498.7	\$ 70.0	14.0%	\$ 498.7	\$ 446.6	\$ 52.1	11.7%
International	326.6	250.1	76.5	30.6%	250.1	219.7	30.4	13.8%
Non-Case	63.0	51.4	11.6	22.6%	51.4	46.2	5.2	11.3%
Total Clear Aligner net revenues	\$ 958.3	\$ 800.2	\$ 158.1	19.8%	\$ 800.2	\$ 712.5	\$ 87.7	12.3%
Scanner net revenues	\$ 121.5	\$ 45.3	\$ 76.2	168.2%	\$ 45.3	\$ 49.1	\$ (3.8)	(7.7)%
Total net revenues	\$ 1,079.8	\$ 845.5	\$ 234.3	27.7%	\$ 845.5	\$ 761.6	\$ 83.9	11.0%

Changes and percentages are based on actual values. Certain tables may not sum or recalculate due to rounding.

#### Clear Aligner Case Volume by Region

Case volume data which represents Clear Aligner case shipments by region, for the year ended December 31, 2016, 2015 and 2014 is as follows (in millions):

Region	Year Ended			Year Ended				
	December 31, 2016	December 31, 2015	Change	December 31, 2015	December 31, 2014	Change		
North America	464.5	398.4	66.1	16.6%	398.4	338.5	59.9	17.7%
International	244.7	184.8	59.9	32.4%	184.8	139.5	45.3	32.5%
Total case volume	709.2	583.2	126.0	21.6%	583.2	478.0	105.2	22.0%

Changes and percentages are based on actual values. Certain tables may not sum or recalculate due to rounding.

#### Fiscal Year 2016 compared to Fiscal Year 2015

Total net revenues increased by \$234.3 million in 2016 as compared to 2015 primarily as a result of case volume growth across all regions and products as well as increased non-case revenue.

##### Clear Aligner - North America

North America net revenues increased by \$70.0 million in 2016 compared to 2015 primarily due to case volume growth across all channels and products which increased net revenues by \$82.7 million. This increase was offset in part by lower average selling price ("ASP") which decreased net revenues by \$12.7 million. ASP declined in 2016 compared to 2015 as a result of higher promotional discounts of \$21.9 million as well as an increase in net deferrals of \$7.7 million primarily related to the full year effect of our new additional aligners product policy launched in July 2015. These declines were partially offset by price increases on our Comprehensive Products effective April 1, 2016 which contributed \$17.7 million to net revenues.

##### Clear Aligner - International

International net revenues increased by \$76.5 million in 2016 compared to 2015 primarily driven by case volume growth across all channels and products which increased net revenues by \$80.9 million. This increase was offset in part by lower ASP which decreased net revenues by \$4.4 million. ASP declined in 2016 compared to 2015 as a result of higher promotional discounts of \$6.9 million as well as the unfavorable impact of changes in foreign exchange rates of \$6.8 million. These declines were partially offset by the price increases on our Comprehensive products effective April 1, 2016 which contributed \$5.7 million to net revenues, as well as an increase in additional aligner revenue of \$3.5 million.

##### Clear Aligner - Non-Case

Non-case net revenues, consisting of training fees and ancillary product revenues, increased by \$11.6 million in 2016 compared to 2015 primarily due to increased Viverra volume both in North America and International.

### *Scanner*

Scanner net revenues increased by \$76.2 million in 2016 compared to 2015 primarily as a result of an increase in the number of scanners recognized as we began shipping our next generation iTero Element scanner in September 2015, and, to a lesser extent, an increase in ASP.

### *Fiscal Year 2015 compared to Fiscal Year 2014*

Total net revenues increased by \$83.9 million in 2015 compared to 2014 primarily as a result of case volume growth across all regions and products as well as increased non-case revenue.

### *Clear Aligner - North America*

North America net revenues increased by \$52.1 million in 2015 compared to 2014 primarily due to case volume growth across all channels and products which increased net revenues by approximately \$79.0 million. These increases were offset in part by lower ASP, which decreased net revenues by \$26.9 million. The decrease in ASP was primarily as a result of higher net revenue deferrals of \$16.0 million, which includes the impact of our new additional aligner product policy launched in July 2015 of \$8.9 million and the impact of higher promotional discounts in 2015 as compared to 2014 of \$11.7 million. These decreases in ASP were offset in part by the price increase, effective April 1, 2015 on our Comprehensive Products.

### *Clear Aligner - International*

International net revenues increased by \$30.4 million in 2015 compared to 2014 primarily driven by case volume growth across all products of \$71.5 million. This was partially offset by lower ASP which decreased net revenues by approximately \$41.1 million. The decrease in ASP was primarily as a result of the unfavorable impact from changes in foreign exchange rates primarily due to the weakening of the Euro compared to the U.S. dollar in 2015 compared to 2014 of \$34.5 million, and, to a lesser extent, higher net revenue deferrals of \$7.8 million which includes the impact of our new additional aligner product policy launched in July 2015 of \$4.7 million, as well as higher promotional discounts of \$6.3 million in 2015 compared to 2014. These decreases were partially offset by an increase in ASP as we transitioned to direct sales in certain APAC countries and EMEA regions, as well as the price increase on our Comprehensive Products effective July 1, 2015.

### *Clear Aligner - Non-Case*

Non-case net revenues, consisting of training fees and ancillary product revenues, increased by \$5.2 million in 2015 as compared to 2014 primarily due to increased Viverra volume both in North America and International.

### *Scanner*

Scanner net revenues decreased by \$3.8 million in 2015 compared to 2014 primarily due to a decrease in scanner revenue, offset in part by a slight increase in services revenue. In March 2015, we announced our next generation scanner and began shipping the iTero Element scanner in September 2015. Scanner revenues declined in 2015 primarily due to fewer scanners recognized and permanent price reductions on our previous generation scanner. The increase in services revenue was primarily due to an increase in the volume of CAD/CAM services resulting from a larger installed base of scanners.



*Cost of net revenues and gross profit (in millions):*

	Year Ended			Year Ended		
	December 31, 2016	December 31, 2015	Change	December 31, 2015	December 31, 2014	Change
<b>Clear Aligner</b>						
Cost of net revenues	\$ 210.8	\$ 172.0	\$ 38.8	\$ 172.0	\$ 149.7	\$ 22.3
<i>% of net segment revenues</i>	22.0%	21.5%		21.5%	21.0%	
Gross profit	\$ 747.5	\$ 628.2	\$ 119.3	\$ 628.2	\$ 562.9	\$ 65.3
<i>Gross margin %</i>	78.0%	78.5%		78.5%	79.0%	
<b>Scanner</b>						
Cost of net revenues	\$ 53.7	\$ 33.4	\$ 20.3	\$ 33.4	\$ 33.6	\$ (0.2)
<i>% of net segment revenues</i>	44.2%	73.7%		73.7%	68.3%	
Gross profit	\$ 67.8	\$ 11.9	\$ 55.9	\$ 11.9	\$ 15.6	\$ (3.7)
<i>Gross margin %</i>	55.8%	26.3%		26.3%	31.7%	
<b>Total cost of net revenues</b>	\$ 264.6	\$ 205.4	\$ 59.2	\$ 205.4	\$ 183.2	\$ 22.2
<i>% of net revenues</i>	24.5%	24.3%		24.3%	24.1%	
Gross profit	\$ 815.3	\$ 640.1	\$ 175.2	\$ 640.1	\$ 578.4	\$ 61.7
<i>Gross margin %</i>	75.5%	75.7%		75.7%	75.9%	

*Changes and percentages are based on actual values. Certain tables may not sum or recalculate due to rounding.*

Cost of net revenues for our Clear Aligner and Scanner segments includes salaries for staff involved in the production process, the cost of materials, packaging, shipping costs, depreciation on capital equipment and facilities used in the production process, amortization of acquired intangible assets from training costs and stock-based compensation.

*Fiscal Year 2016 compared to Fiscal Year 2015*

*Clear Aligner*

The gross margin percentage declined in 2016 compared to 2015 primarily driven by a higher number of aligners per case and lower ASP which was partially offset by higher absorption as a result of increased production volumes.

*Scanner*

The gross margin percentage increased in 2016 compared to 2015 due to a product mix shift to our iTero Element scanner which has a higher ASP along with lower costs per unit.

*Fiscal Year 2015 compared to Fiscal Year 2014*

*Clear Aligner*

The gross margin percentage declined in 2015 compared to 2014 due to lower ASP which was partially offset by higher absorption as a result of increased production volumes.

*Scanner*

The gross margin percentage decreased in 2015 compared to 2014 due to lower ASP from permanent price reductions on our previous generation scanner, higher manufacturing costs from lower production volumes and higher inventory reserves. This was partially offset by a product mix shift to the lower cost Element scanner which commenced shipping in September 2015.

**Selling, general and administrative (in millions):**

	Year Ended			Year Ended		
	December 31, 2016	December 31, 2015	Change	December 31, 2015	December 31, 2014	Change
Selling, general and administrative	\$ 490.7	\$ 390.2	\$ 100.5	\$ 390.2	\$ 332.1	\$ 58.1
% of net revenues	45.4%	46.2%		46.2%	43.6%	

Changes and percentages are based on actual values. Certain tables may not sum or recalculate due to rounding.

Selling, general and administrative expense includes personnel-related costs including payroll, commissions and stock-based compensation for our sales force, marketing and administration in addition to media and advertising expenses, clinical education, trade shows and industry events, product marketing, outside consulting services, legal expenses, depreciation and amortization expense, the medical device excise tax ("MDET") and allocations of corporate overhead expenses including facilities and IT.

Selling, general and administrative expense increased in 2016 compared to 2015 primarily due to higher compensation related costs of \$47.1 million as a result of increased headcount, resulting in higher salaries expense, incentive bonuses and fringe benefits. We also incurred higher expenses from advertising and marketing of \$16.5 million, outside services costs of \$12.2 million, equipment and material costs of \$6.8 million, travel and related costs of \$6.0 million and credit card processing fees of \$4.2 million. In addition, during the first quarter of 2015, there was a refund of MDET taxes paid in 2014 of \$6.8 million as our aligners are no longer subject to the excise tax.

Selling, general and administrative expense increased in 2015 compared to 2014 primarily due to higher compensation related costs of \$50.1 million as a result of increased headcount, which led to higher salaries, stock based compensation and commissions. In addition, consulting costs increased by \$9.7 million primarily due to our enterprise resource planning ("ERP") project. Partially offsetting these increases was the MDET refund of \$6.8 million received in the first quarter of 2015.

**Research and development (in millions):**

	Year Ended			Year Ended		
	December 31, 2016	December 31, 2015	Change	December 31, 2015	December 31, 2014	Change
Research and development	\$ 75.7	\$ 61.2	\$ 14.5	\$ 61.2	\$ 52.8	\$ 8.4
% of net revenues	7.0%	7.2%		7.2%	6.9%	

Changes and percentages are based on actual values. Certain tables may not sum or recalculate due to rounding.

Research and development expense includes the personnel-related costs including stock-based compensation and outside consulting expenses associated with the research and development of new products and enhancements to existing products and allocations of corporate overhead expenses including facilities and IT.

Research and development expense increased in 2016 compared to 2015 due to higher compensation costs as a result of increased headcount along with annual salary increases.

Research and development expense increased in 2015 compared to 2014 primarily as a result of our investment in obstructive sleep apnea which was terminated in the third quarter of 2015.

**Income from operations (in millions):**

	Year Ended			Year Ended		
	December 31, 2016	December 31, 2015	Change	December 31, 2015	December 31, 2014	Change
<b>Clear Aligner</b>						
Income from operations	\$ 411.8	\$ 371.1	\$ 40.7	\$ 371.1	\$ 341.1	\$ 30.0
Operating margin %	43.0%	46.4%		46.4%	47.9%	
<b>Scanner</b>						
Income (loss) from operations	\$ 37.5	\$ (12.3)	\$ 49.8	\$ (12.3)	\$ (8.5)	\$ (3.8)
Operating margin %	30.9%	(27.2)%		(27.2)%	(17.3)%	
<b>Total income from operations</b> <sup>(1)</sup>	\$ 248.9	\$ 188.6	\$ 60.3	\$ 188.6	\$ 193.6	\$ (5.0)
Operating margin %	23.1%	22.3%		22.3%	25.4%	

Changes and percentages are based on actual values. Certain tables may not sum or recalculate due to rounding.

<sup>(1)</sup> Refer to Note 15 "Segments and Geographical Information" of the Notes to Consolidated Financial Statements for details on unallocated corporate expenses and the reconciliation to total income from operations.

**Fiscal Year 2016 compared to Fiscal Year 2015**

*Clear Aligner*

Operating margin percentage declined in 2016 compared to 2015 primarily due to higher compensation costs as a result of increased headcount, higher number of aligners manufactured per case and lower ASP.

*Scanner*

Operating margin percentage increased in 2016 compared to 2015 due to a product mix shift to our iTero Element scanner resulting in a higher ASP and lower costs per unit. We also incurred lower operating expenses as a percentage of revenues as we leveraged our operating expenses on higher revenues.

**Fiscal Year 2015 compared to Fiscal Year 2014**

*Clear Aligner*

Operating margin percentage declined in 2015 compared to 2014 due to higher compensation costs as a result of increased headcount, higher research and development expenses due to our investment in obstructive sleep apnea and lower ASP.

*Scanner*

Operating margin percentage decreased in 2015 compared to 2014 due to lower ASP, higher manufacturing costs, higher inventory reserves and increased compensation related costs.

**Interest and other income (expense), net (in millions):**

	Year Ended			Year Ended		
	December 31, 2016	December 31, 2015	Change	December 31, 2015	December 31, 2014	Change
Interest and other income (expense), net	\$ (6.4)	\$ (2.5)	\$ (3.9)	\$ (2.5)	\$ (3.2)	\$ 0.7

Interest and other income (expense), net, includes foreign currency revaluation gains and losses, interest income earned on cash, cash equivalents and investment balances, gains and losses on foreign currency forward contracts and other miscellaneous charges.

Interest and other income (expense), net, decreased in 2016 compared to 2015 mainly due to higher foreign exchange losses as a result of weakening of the Euro to the U.S. dollar.

Interest and other income (expense), net, increased in 2015 compared to 2014 mainly due to higher interest income on higher balances of cash, cash equivalents and investments offset in part by higher foreign exchange losses primarily due to the strengthening of the U.S. dollar to the Euro and Australian dollar.

**Equity in losses of investee, net of tax (in millions):**

	Year Ended			Year Ended		
	December 31, 2016	December 31, 2015	Change	December 31, 2015	December 31, 2014	Change
Equity in losses, net of tax	\$ 1.7	—	\$ 1.7	—	—	—

We invested \$46.7 million in SDC on July 25, 2016 and we account for this investment based on the equity method of accounting. In 2016, we recorded a \$1.7 million charge representing our share of losses attributable to equity method investments ( Refer to Note 4 "Equity Method Investments" of the Notes to Consolidated Financial Statements for details on equity method investments).

**Provision for income taxes (in millions):**

	Year Ended			Year Ended		
	December 31, 2016	December 31, 2015	Change	December 31, 2015	December 31, 2014	Change
Provision for income taxes	\$ 51.2	\$ 42.1	\$ 9.1	\$ 42.1	\$ 44.5	\$ (2.4)
Effective tax rates	21.1%	22.6%		22.6%	23.4%	

Changes and percentages are based on actual values. Certain tables may not sum or recalculate due to rounding.

Our provision for income taxes was \$51.2 million, \$42.1 million and \$44.5 million for the year ended December 31, 2016, 2015 and 2014, respectively, representing effective tax rates of 21.1%, 22.6% and 23.4%, respectively. Our effective tax rate differs from the statutory federal income tax rate of 35% due to certain foreign earnings, primarily in Costa Rica and the Netherlands, which are subject to lower tax rates and the impacts from our new international corporate structure in 2016, partially offset by the tax impact of certain stock-based compensation charges and unrecognized tax benefits. The decrease in the effective tax rate in 2016 compared to 2015 was primarily related to our international corporate restructuring as explained below. The decrease in the effective rate for the year ended December 31, 2015 compared to 2014 is mainly due to a \$1.8 million tax adjustment recorded in 2014 which related to prior periods.

Our total gross unrecognized tax benefits, excluding interest and penalties, was \$46.4 million and \$39.4 million as of December 31, 2016 and 2015, respectively, all of which would impact our effective tax rate if recognized. We have elected to recognize interest and penalties related to unrecognized tax benefits as a component of income taxes. For the year ended December 31, 2016 and 2015, interest and penalties included in tax expense was \$1.4 million and \$0.7 million, respectively. Our total interest and penalties accrued as of December 31, 2016 was \$2.1 million. We do not expect any significant changes to the amount of unrecognized tax benefit within the next twelve months.

We file U.S. federal, U.S. state, and non-U.S. income tax returns. Our major tax jurisdictions are U.S. federal and the State of California. For U.S. federal and state tax returns, we are no longer subject to tax examinations for years before 2000. With few exceptions, we are no longer subject to examination by foreign tax authorities for years before 2007. Our subsidiary in Israel is under audit by the local tax authorities for calendar years 2006 through 2013.

On July 1, 2016, we implemented a new international corporate structure. This changes the structure of our international procurement and sales operations, as well as realigns the ownership and use of intellectual property among our wholly-owned subsidiaries. We continue to anticipate that an increasing percentage of our consolidated pre-tax income will be derived from, and reinvested in our foreign operations. We believe that income taxed in certain foreign jurisdictions at a lower rate relative to the U.S. federal statutory rate will have a beneficial impact on our worldwide effective tax rate over time. Although the license of intellectual property rights between consolidated entities did not result in any gain in the consolidated financial statements, the Company generated taxable income in certain jurisdictions in 2016 resulting in a tax expense of \$34.3 million. Additionally, as a result of the restructuring, we reassessed the need for a valuation allowance against our deferred tax assets considering all available evidence. Given the current earnings and anticipated future earnings of our subsidiary in Israel, we concluded that we have sufficient

positive evidence to release the valuation allowance against our Israel operating loss carryforwards of \$31.4 million, which resulted in an income tax benefit in this period of the same amount.

As of December 31, 2016, our remaining valuation allowance was not material.

In June 2009, the Costa Rica Ministry of Foreign Trade, an agency of the Government of Costa Rica, granted a twelve year extension of certain income tax incentives, which were previously granted in 2002. The incentive tax rates will expire in various years beginning in 2017. We intend to seek a renewal of these income tax incentives before they expire. Under these incentives, all of the income in Costa Rica during these twelve year incentive periods is subject to a reduced tax rate. In order to receive the benefit of these incentives, we must hire specified numbers of employees and maintain certain minimum levels of fixed asset investment in Costa Rica. If we do not fulfill these conditions for any reason, our incentive could lapse, and our income in Costa Rica would be subject to taxation at higher rates, which could have a negative impact on our operating results. The Costa Rica corporate income tax rate that would apply, absent the incentives, is 30% for 2016, 2015 and 2014. As a result of these incentives, our income taxes were reduced by \$19.1 million, \$32.7 million and \$32.5 million in the year ended December 31, 2016, 2015 and 2014, respectively, representing a benefit to diluted net income per share of \$0.23 in the year ended December 31, 2016 and \$0.40 for both the year ended December 31, 2015 and 2014.

As of December 31, 2016, approximately \$438.0 million of undistributed earnings from non-U.S. operations held by our foreign subsidiaries are designated as indefinitely reinvested outside the U.S. We maintain sufficient cash reserves in the U.S. and do not intend to repatriate our foreign earnings. As a result, U.S. income taxes and foreign withholding taxes have not been provided on these foreign earnings. If these earnings were distributed in the form of dividends or otherwise, or if the shares of the relevant foreign subsidiaries were sold or otherwise transferred, we would be subject to additional U.S. income taxes subject to an adjustment for foreign tax credits and foreign withholding taxes. We intend to use the undistributed earnings for local operating expansions and to meet local operating working capital needs. In addition, a significant amount of the cash earned by foreign subsidiaries has been and will continue to be utilized to affect the new international corporate structure described above.

#### Liquidity and Capital Resources

We fund our operations from product sales. As of December 31, 2016 and 2015, we had the following cash and cash equivalents, and short-term and long-term marketable securities (in thousands):

	Year Ended December 31,	
	2016	2015
Cash and cash equivalents	\$ 389,275	\$ 167,714
Short-term marketable securities	250,981	359,581
Long-term marketable securities	59,783	151,370
Total	\$ 700,039	\$ 678,665

Cash flows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Net cash flow provided by (used in):			
Operating activities	\$ 247,654	\$ 237,997	\$ 226,899
Investing activities	72,848	(166,361)	(201,627)
Financing activities	(95,524)	(100,786)	(66,420)
Effects of exchange rate changes on cash and cash equivalents	(3,417)	(3,007)	(1,934)
Net increase (decrease) in cash and cash equivalents	\$ 221,561	\$ (32,157)	\$ (43,082)

As of December 31, 2016, we had \$700.0 million in cash, cash equivalents, and short-term and long-term marketable securities. Cash equivalents and marketable securities are comprised of money market funds and highly liquid debt instruments which primarily include commercial paper, corporate bonds, U.S. dollar denominated foreign corporate bonds, U.S. government agency bonds, U.S. government treasury bonds, municipal securities, asset-backed securities and certificates of deposit.

As of December 31, 2016, approximately \$459.0 million of cash, cash equivalents and short-term and long-term marketable securities was held by our foreign subsidiaries. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S. The costs to repatriate our foreign earnings to the U.S. would likely be material; however, our intent is

to permanently reinvest our earnings from foreign operations, and our current plans do not require us to repatriate them to fund our U.S. operations as we generate sufficient domestic operating cash flow and have access to external funding under our current revolving line of credit.

### **Operating Activities**

For the year ended December 31, 2016, cash flows from operations of \$247.7 million resulted primarily from our net income of approximately \$189.7 million as well as the following:

#### *Significant non-cash activities*

- Stock-based compensation was \$54.1 million related to equity incentive compensation granted to employees and directors,
- Depreciation and amortization of \$24.0 million related to our fixed assets and acquired and purchased intangible assets,
- Excess tax benefits from our share-based compensation arrangements of \$16.8 million,
- Net change in deferred tax assets of \$16.4 million, and
- Net tax benefits from stock based compensation of \$15.9 million.

#### *Significant changes in working capital*

- Increase of \$94.4 million in accounts receivable which is a result of the increase in net revenues,
- Increase of \$60.7 million in deferred revenues corresponding to the increases in case shipments and full year effect of our additional aligner product policy effective in July 2015, and
- Increase of \$37.6 million in accrued and other long-term liabilities due to timing of payments and activities.

For the year ended December 31, 2015, cash flows from operations of \$238.0 million resulted primarily from our net income of approximately \$144.0 million as well as the following:

#### *Significant non-cash activities*

- Stock-based compensation was \$52.9 million related to our equity incentive compensation granted to employees and directors,
- Depreciation and amortization of \$18.0 million related to our fixed assets and acquired intangible assets, and
- Excess tax benefits from our share-based compensation arrangements of \$10.4 million.

#### *Significant changes in working capital*

- Increase of \$41.9 million in deferred revenues corresponding to higher product sales along with the increased deferrals as a result of the change to our new additional aligner product policy in July 2015,
- Increase of \$40.8 million in accounts receivable which is a result of the increase in net revenues, and
- Increase of \$19.5 million in accrued and other long-term liabilities primarily due to an increase in income tax payable along with other accruals due to timing of payment.

For the year ended December 31, 2014, cash flows from operations of \$226.9 million resulted primarily from our net income of approximately \$145.8 million as well as the following:

#### *Significant non-cash activities*

- Stock-based compensation was \$39.8 million related to our equity incentive compensation granted to employees and directors,
- Excess tax benefits from our share-based compensation arrangements of \$21.4 million, and
- Depreciation and amortization of \$17.9 million related to our fixed assets and acquired intangible assets.

#### *Significant changes in working capital*

- Increase of \$27.2 million in accounts receivable which is a result of the increase in net revenues,
- Increase of \$22.7 million in accrued and other long-term liabilities primarily due to an increase in income tax payable along with other accruals due to timing of payment, and
- Increase of \$15.8 million in deferred revenues corresponding to the increases in revenues.

#### **Investing Activities**

Net cash provided by investing activities was \$72.8 million for the year ended December 31, 2016, which primarily consisted of maturities and sales of our marketable securities of \$604.0 million. These inflows were partially offset by purchases of marketable securities of \$405.6 million, property, plant and equipment purchases of \$70.6 million including the implementation of our new ERP system and \$46.7 million related to our equity interest investment in SmileDirectClub, LLC ("SDC").

For 2017, we expect to invest \$220.0 million to \$250.0 million on capital expenditures primarily for our purchase of a new corporate headquarters office, new order acquisition facility in Singapore and other additional manufacturing and capacity to support our international expansion. Although we believe our current investment portfolio has little risk of impairment, we cannot predict future market conditions or market liquidity and can provide no assurance that our investment portfolio will remain unimpaired.

Net cash used in investing activities was \$166.4 million for the year ended December 31, 2015, which primarily consisted of purchases of marketable securities of \$447.1 million and property, plant and equipment purchases of \$53.5 million for additional manufacturing capacity and infrastructure including the project to implement a new ERP system which we started in late 2014. These uses were partially offset by \$334.1 million of maturities and sales of our marketable securities.

Net cash used in investing activities was \$201.6 million for the year ended December 31, 2014, which primarily consisted of purchases of marketable securities of \$437.2 million and property, plant and equipment purchases of \$24.1 million. These uses were partially offset by \$259.8 million of maturities and sales of our marketable securities.

#### **Financing Activities**

Net cash used by financing activities was \$95.5 million for the year ended December 31, 2016 primarily resulting from a common stock repurchase of \$96.2 million (*Refer to Note 10 "Common Stock Repurchase Program" of the Notes to Consolidated Financial Statements* for details on the stock repurchase program) and \$29.9 million of payroll taxes paid for vesting of restricted stock units ("RSUs") through share withholdings, partially offset by excess tax benefit from our share-based compensation arrangements of \$16.8 million and proceeds from issuance of common stock of \$13.8 million.

Net cash used by financing activities was \$100.8 million for the year ended December 31, 2015 resulting from repurchases of our common stock of \$101.8 million and \$20.7 million of payroll taxes paid for our employees' vesting of RSUs through share withholdings, partially off-set by proceeds from issuance of common stock of \$11.3 million and \$10.4 million from excess tax benefit from our share-based compensation arrangements.

Net cash used by financing activities was \$66.4 million for the year ended December 31, 2014 resulting from repurchases of our common stock of \$98.2 million and \$7.6 million of payroll taxes paid for our employees' vesting of RSUs through share withholdings, partially off-set by proceeds from issuance of common stock of \$18.0 million and \$21.4 million from excess tax benefit from our share-based compensation arrangements.

As restricted stock units are taxable to the individuals when they vest, the number of shares we issue to each of our employees will be net of applicable withholding taxes which will be paid by us on their behalf. During 2016, 2015 and 2014, we paid \$29.9 million, \$20.7 million and \$7.6 million, respectively, for taxes related to RSUs that vested during the periods. The cash paid for

taxes related to RSUs in 2016 and 2015 increased in comparison to 2014 due to the Company changing its policy in mid 2014 to pay for employees' payroll taxes related to their vesting RSUs instead of requiring employees to sell to cover for their payroll taxes.

### Stock Repurchases

Refer to Note 10 "Common Stock Repurchase Program" of the Notes to Consolidated Financial Statements for details on stock repurchase program.

- *April 2014 Repurchase Program.* In 2016, we repurchased \$50.0 million of our common stock through an accelerated stock repurchase agreement and \$46.2 million of stock repurchase in the open market.
- *April 2016 Repurchase Program.* On April 28, 2016, we announced that our Board of Directors had authorized a plan to repurchase up to \$300.0 million of our stock.
- *Remaining Available Repurchases.* As of December 31, 2016, we have \$3.8 million remaining under the April 2014 Repurchase Program and \$300.0 million under the April 2016 Repurchase Plan.

We believe that our current cash and cash equivalents and marketable securities combined with our positive cash flows from operations will be sufficient to fund our operations and stock repurchases for at least the next 12 months. If we are unable to generate adequate operating cash flows, we may need to suspend our stock repurchase program or seek additional sources of capital through equity or debt financing, collaborative or other arrangements with other companies, bank financing and other sources in order to realize our objectives and to continue our operations. There can be no assurance that we will be able to obtain additional debt or equity financing on terms acceptable to us, or at all. If adequate funds are not available, we may need to make business decisions that could adversely affect our operating results such as modifications to our pricing policy, business structure or operations. Accordingly, the failure to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on our business, results of operations and financial condition.

### Credit Facility

On March 22, 2013, we entered into a credit facility for a \$50.0 million revolving line of credit, with a \$10.0 million letter of credit sublimit, and has a maturity date on March 22, 2018 (Refer to Note 7 "Credit Facility" of the Notes to Consolidated Financial Statements for details of the credit facility).

### Contractual Obligations/Off Balance Sheet Arrangements

The impact that our contractual obligations as of December 31, 2016 are expected to have on our liquidity and cash flows in future periods is as follows (in thousands):

	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease obligations	\$ 53,921	\$ 12,880	\$ 18,804	\$ 13,096	\$ 9,141
Unconditional purchase obligations	163,688	—	—	—	—
Total contractual cash obligations	\$ 217,609	\$ 12,880	\$ 18,804	\$ 13,096	\$ 9,141

Our contractual obligations table above excludes approximately \$45.1 million of non-current uncertain tax benefits which are included in other long-term obligations and deferred tax assets on our balance sheet as of December 31, 2016. We have not included this amount because we cannot make a reasonably reliable estimate regarding the timing of settlements with taxing authorities, if any.

We had no off-balance sheet arrangements as defined in Regulation S-K Item 303(a) (4) as of December 31, 2016.



### **Indemnification Provisions**

In the normal course of business to facilitate transactions in our services and products, we indemnify customers, vendors, lessors, and other parties with respect to certain matters, including, but not limited to, services to be provided by us and intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with our directors and certain of our officers that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. Several of these agreements limit the time within which an indemnification claim can be made and the amount of the claim.

It is not possible to make a reasonable estimate of the maximum potential amount under these indemnification agreements due to the unique facts and circumstances involved in each particular agreement. Additionally, we have a limited history of prior indemnification claims and the payments we have made under such agreements have not had a material adverse effect on our results of operations, cash flows, or financial position. However, to the extent that valid indemnification claims arise in the future, future payments by us could be significant and could have a material adverse effect on our results of operations or cash flows in a particular period. As of December 31, 2016, we did not have any material indemnification claims that were probable or reasonably possible.

### **Critical Accounting Policies and Estimates**

Management's discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and disclosures at the date of the financial statements. We evaluate our estimates on an on-going basis, including those related to revenue recognition, stock-based compensation, goodwill and finite-lived assets and related impairment, and income taxes. We use authoritative pronouncements, historical experience and other assumptions as the basis for making estimates. Actual results could differ from those estimates.

We believe the following critical accounting policies and estimates affect our more significant judgments used in the preparation of our consolidated financial statements. For further information on all of our significant accounting policies, see *Note 1 "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements* under Item 8.

#### **Revenue Recognition**

We enter into sales arrangements that may consist of multiple deliverables of our products and services where certain elements of the sales arrangement are not delivered in one reporting period. We measure and allocate revenue according to the accounting guidance for multiple-deliverable revenue arrangements in Accounting Standards Update ("ASU") 2009-13, *Multiple-Deliverable Revenue Arrangements—a consensus of the Financial Accounting Standard Board ("FASB") Emerging Issues Task Force*.

Each element within a multiple-element arrangement is accounted for as a separate unit of accounting provided the following criteria are met: the delivered products or services have value to the customer on a standalone basis; and for an arrangement that includes a general right of return relative to the delivered products or services, delivery or performance of the undelivered product or service is considered probable and is substantially controlled by us. We consider a deliverable to have standalone value if the product or service is sold separately by us or another vendor or could be resold by the customer. Further, our revenue arrangements generally do not include a general right of return relative to the delivered products. The arrangement consideration is allocated to each element, delivered or undelivered, based on the relative selling price of each unit of accounting based first on vendor-specific objective evidence ("VSOE") if it exists, second on third-party evidence ("TPE") if it exists, or on best estimated selling price ("BESP") if neither VSOE nor TPE exist (a description as to how we determine VSOE, TPE and BESP is provided below).

- VSOE - In most instances, this applies to products and services that are sold separately in stand-alone arrangements. We determine VSOE based on pricing and discounting practices for the specific product or service when sold separately, considering geographical, customer, and other economic or marketing variables, as well as renewal rates or stand-alone prices for the service element(s).
- TPE - If we cannot establish VSOE of selling price for a specific product or service included in a multiple-element arrangement, we use third-party evidence of selling price. We determine TPE based on sales of comparable amount of similar products or service offered by multiple third parties considering the degree of customization and similarity of product or service sold.
- BESP - The best estimated selling price represents the price at which we would sell a product or service if it were sold on a stand-alone basis. When VSOE or TPE does not exist for all elements, we determine BESP for the arrangement element based on sales, cost and margin analysis, as well as other inputs based on our pricing practices. Adjustments for

other market and company specific factors are made as deemed necessary in determining BESP. We regularly review our estimates of selling price and maintain internal controls over the establishment and update of these estimates.

Judgment is required to properly identify the accounting units of the multiple deliverable transactions, to determine the best estimated selling price for each accounting unit, and to determine the manner in which revenue should be allocated among the accounting units. Further, while changes in the allocation of the best estimated selling price between the accounting units will not affect the amount of total revenue recognized for a particular arrangement, any material changes in these allocations could impact the timing of revenue recognition, which could have a material effect on our financial position and results of operations.

#### *Clear Aligner*

We enter into arrangements (“treatment plans”) that involve multiple future product deliverables. Invisalign Full, Invisalign Teen, and Invisalign Assist products (“Comprehensive Products”) include optional additional aligners at no charge for a period of up to five years after initial shipment. Invisalign Teen also includes up to six optional replacement aligners in the price of the product and may be ordered by the dental professional any time throughout treatment. Invisalign Lite (“Non-Comprehensive Products”) includes one optional case refinement in the price of the product. Case refinement is a finishing tool used to adjust a patient’s teeth to the desired final position and may be elected by the dental professional at any time during treatment; however, it is generally ordered in the last stages of orthodontic treatment.

We determined that our treatment plans, except Invisalign Assist with progress tracking, comprise the following deliverables which also represent separate units of accounting: initial aligners, additional aligners, case refinement, and replacement aligners. We allocate revenue for each treatment plan based on each unit’s relative selling price based on BESP and recognize the revenue upon shipment of each unit in the treatment plan.

For Invisalign Assist with the progress tracking feature, aligners and services are provided to the dental professional every nine stages (“a batch”). We are able to reliably estimate the number of batches which are expected to be shipped for each case based upon our historical experience. The amounts allocated to this deliverable are recognized on a prorated basis as each batch is shipped.

#### *Scanners and Services*

We sell intraoral scanners and CAD/CAM services through both our direct sales force and distribution partners. The intraoral scanner sales price includes one year of warranty, and unlimited scanning services. The customer may, for additional fees, also select extended warranty and unlimited scanning services for periods beyond the initial year. When intraoral scanners are sold with an unlimited scanning service agreement and/or extended warranty, we allocate revenue based on each element’s relative selling price. We estimate the selling price of each element, as if it is sold on a stand-alone basis, taking into consideration historical prices as well as our discounting strategies.

#### ***Stock-Based Compensation Expense***

We recognize stock-based compensation cost for only those shares ultimately expected to vest on a straight-line basis over the requisite service period of the award. We use the Black-Scholes option pricing model to determine the fair value of stock options and employee stock purchase plan shares. We estimate the fair value of market-performance based restricted stock units using a Monte Carlo simulation model which requires the input of assumptions, including expected term, stock price volatility and the risk-free rate of return. In addition, judgment is required in estimating the number of stock-based awards that are expected to be forfeited. Forfeitures are estimated based on historical experience at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The assumptions used in calculating the fair value of share-based payment awards represent management’s best estimates, but these estimates involve inherent uncertainties and the application of management’s judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

#### ***Goodwill and Finite-Lived Acquired Intangible Assets***

Goodwill represents the excess of the purchase price paid over the fair value of tangible and identifiable intangible net assets acquired in business combinations and is allocated to the respective reporting units based on relative synergies generated. For the year ended December 31, 2016 and 2015, all goodwill is attributed to our Clear Aligner reporting unit.

Our intangible assets primarily consist of intangible assets acquired as part of acquisitions and are amortized using the straight-line method over their estimated useful lives, reflecting the period in which the economic benefits of the assets are expected to be realized.

#### ***Impairment of Goodwill, Finite-Lived Acquired Intangible Assets and Long-Lived assets***

##### ***Goodwill***

We evaluate goodwill for impairment at least annually on November 30th or more frequently if indicators are present, an event occurs or circumstances changes that suggest an impairment may exist and that it would more likely than not reduce the fair value of a reporting unit below its carrying amount. The allocation of goodwill to the respective reporting unit is based on relative synergies generated as a result of an acquisition.

We perform an initial assessment of qualitative factors to determine whether the existence of events and circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In performing the qualitative assessment, we identify and consider the significance of relevant key factors, events, and circumstances that affect the fair value of our reporting units. These factors include external factors such as macroeconomic, industry, and market conditions, as well as entity-specific factors, such as our actual and planned financial performance. We also give consideration to the difference between the reporting unit fair value and carrying value as of the most recent date a fair value measurement was performed. If, after assessing the totality of relevant events and circumstances, we determine that it is more likely than not that the fair value of the reporting unit exceeds its carrying value and there is no indication of impairment, no further testing is performed; however, if we conclude otherwise, the first step of the two-step impairment test is performed by estimating the fair value of the reporting unit and comparing it with its carrying value, including goodwill. Refer to *Note 5 "Goodwill and Intangible Assets" of Notes to Consolidated Financial Statements* for details on intangible long-lived assets.

##### ***Finite-Lived Intangible Assets and Long-Lived Assets***

We evaluate long-lived assets (including finite-lived intangible assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. An asset or asset group is considered impaired if its carrying amount exceeds the future undiscounted net cash flows the asset or asset group is expected to generate. If an asset or asset group is considered to be impaired, the impairment to be recognized is calculated as the amount by which the carrying amount of the asset or asset group exceeds its fair market value. Our estimates of future cash flows attributable to our long-lived assets require significant judgment based on our historical and anticipated results and are subject to many factors. Factors we consider important which could trigger an impairment review include significant negative industry or economic trends, significant loss of customers and changes in the competitive environment. The estimation of fair value utilizing a discounted cash flow approach includes numerous uncertainties which require our significant judgment when making assumptions of expected growth rates and the selection of discount rates, as well as assumptions regarding general economic and business conditions, and the structure that would yield the highest economic value, among other factors. Refer to *Note 5 "Goodwill and Intangible Assets" of Notes to Consolidated Financial Statements* for details of the impairment analysis.

#### ***Accounting for Income Taxes***

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our current tax exposure under the applicable tax laws and assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our Consolidated Balance Sheets.

We account for uncertainty in income taxes pursuant to authoritative guidance based on a two-step approach to recognize and measure uncertain tax positions taken or expected to be taken in a tax return. The first step is to determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit based on its technical merits, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. We adjust reserves for our uncertain tax positions due to changing facts and circumstances, such as the closing of a tax audit, or refinement of estimates due to new

information. To the extent that the final outcome of these matters is different than the amounts recorded, such differences will impact our tax provision in our Consolidated Statements of Operations in the period in which such determination is made.

We assess the likelihood that we will be able to realize our deferred tax assets. Should there be a change in our ability to realize our deferred tax assets, our tax provision would increase in the period in which we determine that it is more likely than not that we cannot realize our deferred tax assets. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. If it is more likely than not that we will not realize our deferred tax assets, we will increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be realized.

#### **Recent Accounting Pronouncements**

See Note 1 “*Summary of Significant Accounting Policies*” in the Notes to Consolidated Financial Statements in Item 8 for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition, which is incorporated herein.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

In the normal course of business, we are exposed to foreign currency exchange rate and interest rate risks that could impact our financial position and results of operations.

***Interest Rate Risk***

Changes in interest rates could impact our anticipated interest income on our cash equivalents and investments in marketable securities. Our cash equivalents and investments are fixed-rate short-term and long-term securities. Fixed-rate securities may have their fair market value adversely impacted due to a rise in interest rates, and as a result, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. As of December 31, 2016, we had approximately \$310.8 million invested in available-for-sale marketable securities. An immediate 10% change in interest rates would not have a material adverse impact on our future operating results and cash flows.

We do not have interest bearing liabilities as of December 31, 2016, and, therefore, we are not subject to risks from immediate interest rate increases.

***Currency Rate Risk***

As a result of our international business activities, including the impact of our new international corporate structure in 2016, our financial results could be affected by factors such as changes in foreign currency exchange rates or economic conditions in foreign markets, and there is no assurance that exchange rate fluctuations will not harm our business in the future. We generally sell our products in the local currency of the respective countries. This provides some natural hedging because most of the subsidiaries' operating expenses are generally denominated in their local currencies as discussed further below. Regardless of this natural hedging, our results of operations may be adversely impacted by exchange rate fluctuations. For the year ended December 31, 2016 and 2015, we had foreign currency net losses of \$8.0 million and \$4.0 million, respectively.

In September 2015, we started to enter into foreign currency forward contracts to minimize the short-term impact of foreign currency exchange rate fluctuations on cash and certain trade and intercompany receivables and payables. These forward contracts are not designated as hedging instruments and do not subject us to material balance sheet risk due to fluctuations in foreign currency exchange rates. The gains and losses on these forward contracts are intended to offset the gains and losses in the underlying foreign currency denominated monetary assets and liabilities being economically hedged. These instruments are marked to market through earnings every period and generally are one month in original maturity. We do not enter into foreign currency forward contracts for trading or speculative purposes. As our international operations grow, we will continue to reassess our approach to managing the risks relating to fluctuations in currency rates. It is difficult to predict the impact hedging activities could have on our results of operations. As of December 31, 2016, we did not have any outstanding foreign exchange forward contracts.

Although we will continue to monitor our exposure to currency fluctuations, and, where appropriate, may use financial hedging techniques in the future to minimize the effect of these fluctuations, the impact of an aggregate change of 10% in foreign currency exchange rates relative to the U.S. dollar on our results of operations and financial position could be material.

**ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

*Quarterly Results of Operations*

	Three Months Ended							
	2016				2015			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
	(in thousands, except per share data) (unaudited)							
Net revenues	\$ 293,203	\$ 278,589	\$ 269,362	\$ 238,720	\$ 230,276	\$ 207,636	\$ 209,488	\$ 198,086
Gross profit	220,249	209,202	205,216	180,627	172,810	157,576	158,634	151,090
Income from operations	68,372	62,079	65,136	53,334	59,339	38,046	42,325	48,924
Net income	47,621	51,367	50,148	40,546	48,877	27,616	31,350	36,177
Net income per share:								
Basic	\$ 0.60	\$ 0.64	\$ 0.63	\$ 0.51	\$ 0.61	\$ 0.35	\$ 0.39	\$ 0.45
Diluted	\$ 0.59	\$ 0.63	\$ 0.62	\$ 0.50	\$ 0.60	\$ 0.34	\$ 0.39	\$ 0.44
Shares used in computing net income per share:								
Basic	79,667	79,977	79,951	79,831	79,481	79,808	80,257	80,459
Diluted	81,248	81,466	81,281	81,320	81,051	81,092	81,394	81,824

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Align is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed by, or under supervision of, our CEO and CFO, and effected by the board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Align;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of Align are being made only in accordance with authorizations of management and directors of Align; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Align's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on its assessment, management has concluded that, as of December 31, 2016, our internal control over financial reporting was effective based on criteria in *Internal Control - Integrated Framework (2013)* issued by the COSO.

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ JOSEPH M. HOGAN

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**Joseph M. Hogan**  
*President and Chief Executive Officer*  
February 28, 2017

/s/ JOHN F. MORICI

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**John F. Morici**  
*Chief Financial Officer*  
February 28, 2017



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Align Technology, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a) (1) present fairly, in all material respects, the financial position of Align Technology, Inc. and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP  
San Jose, California  
February 28, 2017

**ALIGN TECHNOLOGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data)

	Year Ended December 31,		
	2016	2015	2014
Net revenues	\$ 1,079,874	\$ 845,486	\$ 761,653
Cost of net revenues	264,580	205,376	183,210
Gross profit	815,294	640,110	578,443
Operating expenses:			
Selling, general and administrative	490,653	390,239	332,068
Research and development	75,720	61,237	52,799
Total operating expenses	566,373	451,476	384,867
Income from operations	248,921	188,634	193,576
Interest and other income (expense), net	(6,355)	(2,533)	(3,207)
Net income before provision for income taxes and equity in losses of investee	242,566	186,101	190,369
Provision for income taxes	51,200	42,081	44,537
Equity in losses of investee, net of tax	1,684	—	—
Net income	\$ 189,682	\$ 144,020	\$ 145,832
Net income per share:			
Basic	\$ 2.38	\$ 1.80	\$ 1.81
Diluted	\$ 2.33	\$ 1.77	\$ 1.77
Shares used in computing net income per share:			
Basic	79,856	79,998	80,754
Diluted	81,484	81,521	82,283

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

**ALIGN TECHNOLOGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in thousands)

	Year Ended December 31,		
	2016	2015	2014
Net income	\$ 189,682	\$ 144,020	\$ 145,832
Net change in foreign currency translation adjustment	(670)	(154)	(196)
Change in unrealized gains (losses) on investments, net of tax	712	(686)	(238)
Other comprehensive income (loss)	42	(840)	(434)
Comprehensive income	<u>\$ 189,724</u>	<u>\$ 143,180</u>	<u>\$ 145,398</u>

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

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

	December 31,	
	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 389,275	\$ 167,714
Marketable securities, short-term	250,981	359,581
Accounts receivable, net of allowance for doubtful accounts and returns of \$4,310 and \$2,472, respectively	247,415	158,550
Inventories	27,131	19,465
Prepaid expenses and other current assets	38,176	26,700
Total current assets	952,978	732,010
Marketable securities, long-term	59,783	151,370
Property, plant and equipment, net	175,167	136,473
Equity method investments	45,061	—
Goodwill and intangible assets, net	81,998	79,162
Deferred tax assets	67,844	51,416
Other assets	13,320	8,202
Total assets	\$ 1,396,151	\$ 1,158,633
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 28,596	\$ 34,354
Accrued liabilities	134,332	107,765
Deferred revenues	191,407	129,553
Total current liabilities	354,335	271,672
Income tax payable	45,133	37,512
Other long-term liabilities	1,294	1,523
Total liabilities	400,762	310,707
Commitments and contingencies ( Notes 6 and 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; 79,553 and 79,500 issued and outstanding, respectively)	8	8
Additional paid-in capital	864,871	821,507
Accumulated other comprehensive income (loss), net	(938)	(980)
Retained earnings	131,448	27,391
Total stockholders' equity	995,389	847,926
Total liabilities and stockholders' equity	\$ 1,396,151	\$ 1,158,633

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

**ALIGN TECHNOLOGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss), Net	Retained Earnings (Deficit)	Total
	Shares	Amount				
Balances at December 31, 2013	80,583	\$ 8	\$ 729,578	\$ 294	\$ (95,910)	\$ 633,970
Net income	—	—	—	—	145,832	145,832
Net change in unrealized gains (losses) from investments	—	—	—	(238)	—	(238)
Net change in foreign currency translation adjustment	—	—	—	(196)	—	(196)
Issuance of common stock relating to employee equity compensation plans	1,536	—	18,028	—	—	18,028
Tax withholdings related to net share settlement of restricted stock units	—	—	(7,608)	—	—	(7,608)
Common stock repurchased and retired	(1,914)	—	(17,804)	—	(80,429)	(98,233)
Net tax benefits from stock-based awards	—	—	21,393	—	—	21,393
Stock-based compensation	—	—	39,823	—	—	39,823
Balances at December 31, 2014	80,205	8	783,410	(140)	(30,507)	752,771
Net income	—	—	—	—	144,020	144,020
Net change in unrealized gains (losses) from investments	—	—	—	(686)	—	(686)
Net change in foreign currency translation adjustment	—	—	(10)	(154)	—	(164)
Issuance of common stock relating to employee equity compensation plans	991	—	11,325	—	—	11,325
Tax withholdings related to net share settlements of restricted stock units	—	—	(20,716)	—	—	(20,716)
Common stock repurchased and retired	(1,696)	—	(15,669)	—	(86,122)	(101,791)
Net tax benefits from stock-based awards	—	—	10,224	—	—	10,224
Stock-based compensation	—	—	52,943	—	—	52,943
Balances at December 31, 2015	79,500	8	821,507	(980)	27,391	847,926
Net income	—	—	—	—	189,682	189,682
Net change in unrealized gains (losses) from investments	—	—	—	712	—	712
Net change in foreign currency translation adjustment	—	—	—	(670)	—	(670)
Issuance of common stock relating to employee equity compensation plans	1,163	—	13,778	—	—	13,778
Tax withholdings related to net share settlements of restricted stock units	—	—	(29,857)	—	—	(29,857)
Common stock repurchased and retired	(1,110)	—	(10,593)	—	(85,625)	(96,218)
Net tax benefits from stock-based awards	—	—	15,888	—	—	15,888
Stock-based compensation	—	—	54,148	—	—	54,148
Balances at December 31, 2016	79,553	\$ 8	\$ 864,871	\$ (938)	\$ 131,448	\$ 995,389

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

**ALIGN TECHNOLOGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	Year Ended December 31,		
	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 189,682	\$ 144,020	\$ 145,832
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred taxes	(16,401)	(11,424)	4,088
Depreciation and amortization	24,002	18,004	17,856
Stock-based compensation	54,148	52,943	39,823
Net tax benefits from stock-based awards	15,888	10,224	21,393
Excess tax benefit from share-based payment arrangements	(16,773)	(10,396)	(21,393)
Equity in losses of investee	1,684	—	—
Other non-cash operating activities	12,031	13,799	10,106
Changes in assets and liabilities:			
Accounts receivable	(94,444)	(40,775)	(27,229)
Inventories	(7,663)	(3,563)	(1,999)
Prepaid expenses and other assets	(9,390)	(3,726)	(2,924)
Accounts payable	(3,395)	7,575	2,887
Accrued and other long-term liabilities	37,629	19,462	22,692
Deferred revenues	60,656	41,854	15,767
Net cash provided by operating activities	<u>247,654</u>	<u>237,997</u>	<u>226,899</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment	(70,576)	(53,451)	(24,092)
Purchase of marketable securities	(405,612)	(447,092)	(437,152)
Proceeds from maturities of marketable securities	387,873	304,125	176,810
Purchase of equity method investments	(46,745)	—	—
Proceeds from sales of marketable securities	216,119	30,011	82,990
Other investing activities	(8,211)	46	(183)
Net cash provided by (used in) investing activities	<u>72,848</u>	<u>(166,361)</u>	<u>(201,627)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of common stock	13,778	11,325	18,028
Common stock repurchases	(96,218)	(101,791)	(98,233)
Excess tax benefit from share-based payment arrangements	16,773	10,396	21,393
Employees' taxes paid upon the vesting of restricted stock units	(29,857)	(20,716)	(7,608)
Net cash used in financing activities	<u>(95,524)</u>	<u>(100,786)</u>	<u>(66,420)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(3,417)	(3,007)	(1,934)
Net increase (decrease) in cash and cash equivalents	221,561	(32,157)	(43,082)
Cash and cash equivalents, beginning of year	167,714	199,871	242,953
Cash and cash equivalents, end of year	<u>\$ 389,275</u>	<u>\$ 167,714</u>	<u>\$ 199,871</u>

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

**ALIGN TECHNOLOGY, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies**

***Business Description***

Align Technology, Inc. ("We", "Our", or "Align") was incorporated in April 1997 in Delaware and focuses on designing, manufacturing and marketing innovative, technology-rich products to help dental professionals achieve the clinical results they expect and deliver effective, convenient cutting-edge dental treatment options to their patients. We are headquartered in San Jose, California with offices worldwide. Our international headquarters is located in Amsterdam, the Netherlands. We have two operating segments: (1) Clear Aligner, known as the Invisalign System, and (2) Scanners and Services ("Scanner"), known as the iTero intraoral scanner and OrthoCAD services.

***Basis of Presentation and Preparation***

The consolidated financial statements include the accounts of Align and our wholly-owned subsidiaries after elimination of intercompany transactions and balances.

In connection with the preparation of the consolidated financial statements, we evaluated events subsequent to the balance sheet date through the financial statement issuance date and determined that all material transactions have been recorded and disclosed properly.

***Out of Period Adjustment***

In 2014, we recorded an out of period correction that resulted in an increase in the provision for income taxes of \$1.8 million. We do not believe the decrease to net income related to the out of period adjustment is material to the consolidated financial statements for the fiscal year ended December 31, 2014 or to any prior years' consolidated financial statements.

***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, equity method investments, useful lives of intangible assets and property and equipment, revenue recognition, stock-based compensation, equity losses of investee, 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.

***Fair Value of Financial Instruments***

We measure our cash equivalents, marketable securities, Israeli fund and long-term notes receivable at fair value. Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

*Level 1* – Quoted (unadjusted) prices in active markets for identical assets or liabilities.

*Level 2* – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

*Level 3* – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

### ***Cash and Cash Equivalents***

We consider currency on hand, demand deposits, time deposits, and all highly liquid investments with an original or remaining maturity of three months or less at the date of purchase to be cash and cash equivalents. Cash and cash equivalents are held in various financial institutions in the U.S. and internationally.

### ***Restricted Cash***

Our restricted cash balance as of December 31, 2016 was \$3.7 million, of which \$3.3 million was classified as a long-term asset and \$0.4 million as a current asset. Our restricted cash balance as of December 31, 2015 was \$3.5 million, of which \$3.3 million was classified as a long-term asset and \$0.2 million as a current asset. The restricted cash primarily consisted of funds reserved for legal requirements.

### ***Marketable Securities***

We invest primarily in money market funds, commercial paper, corporate bonds, U.S. government agency bonds, asset-backed securities, municipal securities, U.S. government treasury bonds and certificates of deposits.

Marketable securities are classified as available-for-sale and are carried at fair value. Marketable securities classified as current assets have maturities of less than one year. Unrealized gains or losses on such securities are included in accumulated other comprehensive income (loss), net in stockholders' equity. Realized gains and losses from maturities of all such securities are reported in earnings and computed using the specific identification cost method. Realized gains or losses and charges for other-than-temporary declines in value, if any, on available-for-sale securities are reported in interest and other income (expense), net as incurred. We periodically evaluate these investments for other-than-temporary impairment.

### ***Variable Interest Entities***

We have interests in entities determined to be variable interest entity ("VIE"). If we determine we are the primary beneficiary of a VIE, we would consolidate the VIE into our financial statements. In determining if we are the primary beneficiary, we evaluate whether we have the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. Our evaluation includes identification of significant activities and an assessment of our ability to direct those activities based on governance provisions and arrangements to provide or receive product and process technology, product supply, operations services, equity funding, financing, and other applicable agreements and circumstances. Our assessments of whether we are the primary beneficiary of a VIE require significant assumptions and judgments. We have concluded that we are not the primary beneficiary of our VIE investments; therefore, we do not consolidate their results into our consolidated financials.

### ***Investments in Privately Held Companies***

Investments in privately held companies in which we can exercise significant influence but do not own a majority equity interest or otherwise control, are accounted for under the equity method of accounting. Equity method investments are reported on our balance sheet as a single amount, and we record our share of their operating results within equity in losses of investee, net of tax in our Consolidated Statement of Operations.

### ***Derivative Financial Instruments***

We may enter into foreign currency forward contracts to minimize the short-term impact of foreign currency exchange rate fluctuations associated with certain assets and liabilities. These forward contracts are not designated as hedging instruments and do not subject us to material balance sheet risk due to fluctuations in foreign currency exchange rates. The gains and losses on these forward contracts are intended to offset the gains and losses in the underlying foreign currency denominated monetary assets and liabilities being economically hedged. We do not enter into foreign currency forward contracts for trading or speculative purposes. The net gain or loss from the settlement of these foreign currency forward contracts is recorded in interest and other income (expense), net in the Consolidated Statement of Operations.



### **Foreign Currency**

For our international subsidiaries where the U.S. dollar is the functional currency, we analyze on an annual basis or more often if necessary, if a significant change in facts and circumstances indicate that the primary economic currency has changed. For certain European and Asia Pacific subsidiaries where the local currency is the functional currency, adjustments from translating financial statements from the local currency to the U.S. dollar reporting currency are recorded as a separate component of accumulated other comprehensive income (loss), net in the stockholders' equity section of the Consolidated Balance Sheet. This foreign currency translation adjustment reflects the translation of the balance sheet at period end exchange rates, and the income statement at an average exchange rate in effect during the period. As of December 31, 2016 and 2015, there were no material amounts in accumulated other comprehensive income (loss), net related to the translation of our foreign subsidiaries' financial statements. The foreign currency revaluation that are derived from monetary assets and liabilities stated in a currency other than functional currency are included in interest and other income (expense), net. For the year ended December 31, 2016 and 2015, we had foreign currency net losses of \$8.0 million and \$4.0 million, respectively.

### **Certain Risks and Uncertainties**

Our operating results depend to a significant extent on our ability to market and develop our products. The life cycles of our products are difficult to estimate due, in part, to the effect of future product enhancements and competition. Our inability to successfully develop and market our products as a result of competition or other factors would have a material adverse effect on our business, financial condition and results of operations.

Our cash and investments are held primarily by two financial institutions. Financial instruments which potentially expose us to concentrations of credit risk consist primarily of cash equivalents, marketable securities and accounts receivable. We invest excess cash primarily in money market funds, commercial paper, corporate bonds, U.S. government agency bonds, asset-backed securities, municipal securities, U.S. government treasury bonds and certificates of deposits. If the carrying value of our investments exceeds the fair value, and the decline in fair value is deemed to be other-than-temporary, we will be required to write down the value of our investments, which could adversely affect our results of operations and financial condition. Moreover, the performance of certain securities in our investment portfolio correlates with the credit condition of the U.S. economy. We provide credit to customers in the normal course of business. Collateral is not required for accounts receivable, but ongoing evaluations of customers' credit worthiness are performed. We maintain reserves for potential credit losses and such losses have been within management's expectations. No individual customer accounted for 10% or more of our accounts receivable at December 31, 2016 or 2015, or net revenues for the year ended December 31, 2016, 2015 or 2014.

We have certain credit risk under our Loan and Security Agreement ("Loan Agreement") with SmileDirectClub, LLC ("SDC"). We perform ongoing evaluation of credit worthiness of SDC. If the fair value of equity investment is deemed to be other-than temporary impaired, we will be required to write down the value of our investments, which could adversely affect our results of operations and financial condition ( Refer to Note 8 "Commitments and Contingencies" of the Notes of Consolidated Financial Statements for more information on our Loan Agreement with SDC).

In the U.S., the Food and Drug Administration ("FDA") regulates the design, manufacture, distribution, pre-clinical and clinical study, clearance and approval of medical devices. Products developed by us may require approvals or clearances from the FDA or other international regulatory agencies prior to commercialized sales. There can be no assurance that our products will receive any of the required approvals or clearances. If we were denied approval or clearance or such approval was delayed, it may have a material adverse impact on us.

We have manufacturing operations located outside the U.S. We currently rely on our treatment facility in Costa Rica to prepare digital treatment plans using a sophisticated, internally developed computer-modeling program. In addition, we manufacture our clear aligners and distribute our intraoral scanners at our facilities in Juarez, Mexico, and we produce our handheld scanner wand in Or Yehuda, Israel. Our reliance on international operations exposes us to related risks and uncertainties, including difficulties in staffing and managing international operations such as hiring and retaining qualified personnel; controlling production volume and quality of manufacture; political, social and economic instability, particularly as a result of increased levels of violence in Juarez, Mexico and Or Yehuda, Israel; interruptions and limitations in telecommunication services; product and material transportation delays or disruption; trade restrictions and changes in tariffs; import and export license requirements and restrictions; fluctuations in foreign currency exchange rates; and potential adverse tax consequences. If any of these risks materialize, our international manufacturing operations, as well as our operating results, may be harmed.

We purchase certain inventory from sole suppliers. Additionally, we rely on a limited number of hardware manufacturers. The inability of any supplier or manufacturer to fulfill our supply requirements could materially and adversely impact our future operating results.

### ***Inventories***

Inventories are valued at the lower of cost or market, with cost computed using either standard cost, which approximates actual cost, or average cost on a first-in-first-out basis. Excess and obsolete inventories are determined primarily based on future demand forecasts, and write-downs of excess and obsolete inventories are recorded as a component of cost of revenues.

### ***Property, Plant and Equipment***

Property, plant and equipment are stated at historical cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Construction in progress ("CIP") is related to the construction or development of property (including land) and equipment that have not yet been placed in service for their intended use. Upon sale or retirement, the asset's cost and related accumulated depreciation are removed from the general ledger and any related gains or losses are reflected in expenses. Maintenance and repairs are expensed as incurred. Refer to Note 3 "Balance Sheet Components" of the Notes of Consolidated Financial Statements for details on estimated useful lives.

### ***Goodwill and Finite-Lived Acquired Intangible Assets***

Goodwill represents the excess of the purchase price paid over the fair value of tangible and identifiable intangible net assets acquired in business combinations and is allocated to the respective reporting units based on relative synergies generated. For the year ended December 31, 2016 and 2015, all goodwill is attributed to our Clear Aligner reporting unit.

Our intangible assets primarily consist of intangible assets acquired as part of the Cadent acquisition. These assets are amortized using the straight-line method over their estimated useful lives ranging from one to fifteen years, reflecting the period in which the economic benefits of the assets are expected to be realized.

### ***Impairment of Goodwill and Long-Lived Assets***

#### ***Goodwill***

We evaluate goodwill for impairment at least annually on November 30th or more frequently if indicators are present, an event occurs or circumstances changes that suggest an impairment may exist and that it would more likely than not reduce the fair value of a reporting unit below its carrying amount. The allocation of goodwill to the respective reporting units is based on relative synergies generated as a result of an acquisition.

We perform an initial assessment of qualitative factors to determine whether the existence of events and circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In performing the qualitative assessment, we identify and consider the significance of relevant key factors, events, and circumstances that affect the fair value of our reporting units. These factors include external factors such as macroeconomic, industry, and market conditions, as well as entity-specific factors, such as our actual and planned financial performance. We also give consideration to the difference between the reporting unit fair value and carrying value as of the most recent date a fair value measurement was performed. If, after assessing the totality of relevant events and circumstances, we determine that it is more likely than not that the fair value of the reporting unit exceeds its carrying value and there is no indication of impairment, no further testing is performed; however, if we conclude otherwise, the first step of the two-step impairment test is performed by estimating the fair value of the reporting unit and comparing it with its carrying value, including goodwill.

Step one of the goodwill impairment test consists of a comparison of the fair value of a reporting unit against its carrying amount, including the goodwill allocated to each reporting unit. We determine the fair value of our reporting units based on the present value of estimated future cash flows under the income approach of the reporting units as well as various price or market multiples applied to the reporting unit's operating results along with the appropriate control premium under the marketing approach, both of which are classified as level 3 within the fair value hierarchy as described in Note 2. If the carrying amount of the reporting

unit is in excess of its fair value, step two requires the comparison of the implied fair value of the reporting unit's goodwill against the carrying amount of the reporting unit's goodwill. Any excess of the carrying value of the reporting unit's goodwill over the implied fair value of the reporting unit's goodwill is recorded as an impairment loss.

#### *Finite-Lived Intangible Assets and Long-Lived Assets*

We evaluate long-lived assets (including finite-lived intangible assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. An asset or asset group is considered impaired if its carrying amount exceeds the future undiscounted net cash flows the asset or asset group is expected to generate. Factors we consider important which could trigger an impairment review include significant negative industry or economic trends, significant loss of customers and changes in the competitive environment. If an asset or asset group is considered to be impaired, the impairment to be recognized is calculated as the amount by which the carrying amount of the asset or asset group exceeds its fair market value. Our estimates of future cash flows attributable to our long-lived assets require significant judgment based on our historical and anticipated results and are subject to many assumptions. The estimation of fair value utilizing a discounted cashflow approach includes numerous uncertainties which require our significant judgment when making assumptions of expected growth rates and the selection of discount rates, as well as assumptions regarding general economic and business conditions, and the structure that would yield the highest economic value, among other factors. Refer to Note 5 "Goodwill and Intangible Assets" of the Notes of Consolidated Financial Statements for details on intangible long-lived assets.

There were no triggering events in 2016 that would cause impairments of our goodwill or long-lived assets.

#### *Development Costs for Internal Use Software*

Internally developed software includes enterprise-level business software that we customized to meet our specific operational needs. Such capitalized costs include external direct costs utilized in developing or obtaining the applications and payroll and payroll-related costs for employees, who are directly associated with the development of the applications. Internally developed software costs capitalized during the year ended December 31, 2016 and 2015 were \$13.2 million and \$25.4 million, respectively, related to our enterprise resource planning ("ERP") project which we placed into production during 2016 and amortize over 10 years.

The costs to develop software that is marketed externally have not been capitalized as we believe our current software development process is essentially completed concurrent with the establishment of technological feasibility. As such, all related software development costs are expensed as incurred and included in research and development expense in our Consolidated Statements of Operations.

#### *Product Warranty*

##### *Clear Aligner*

We warrant our Invisalign products against material defects until the aligner case is complete. We warrant SmileDirectClub, LLC ("SDC") products against material defects for one year. We accrue for warranty costs in cost of net revenues upon shipment of products. The amount of accrued estimated warranty costs is primarily based on historical experience as to product failures as well as current information on replacement costs. Actual warranty costs could differ materially from the estimated amounts. We regularly review the accrued balances and update these balances based on historical warranty cost trends.

##### *Scanners and Services*

We warrant our intraoral scanners for a period of one year, which include materials and labor. We accrue for these warranty costs based on average historical repair costs. An extended warranty may be purchased for additional fees.

#### *Allowance for Doubtful Accounts and Returns*

We maintain allowances for doubtful accounts for customers that are not able to make payments and allowances for sales returns. We periodically review these allowances, including an analysis of the customers' payment history and information regarding the customers' creditworthiness, as well as historical sales returns as a percentage of revenue. Actual write-offs have not materially differed from the estimated allowances.

## Revenue Recognition

We measure and allocate revenue according to the accounting guidance for multiple-deliverable revenue arrangements in Accounting Standards Update (“ASU”) 2009-13, *Multiple-Deliverable Revenue Arrangements—a consensus of the Financial Accounting Standard Board (“FASB”) Emerging Issues Task Force*.

*Multiple-Element Arrangements (“MEAs”)*: Arrangements with customers may include multiple deliverables, including any combination of products/equipment and services. The deliverables included in the MEAs are separated into more than one unit of accounting when (i) the delivered product/equipment has value to the customer on a stand-alone basis, and (ii) delivery of the undelivered service element(s) is probable and substantially in our control. Arrangement consideration is then allocated to each unit, delivered or undelivered, based on the relative selling price of each unit of accounting based first on vendor-specific objective evidence (“VSOE”) if it exists, second on third-party evidence (“TPE”) if it exists, or on best estimated selling price (“BESP”) if neither VSOE or TPE exist.

- VSOE - In most instances, this applies to products and services that are sold separately in stand-alone arrangements. We determine VSOE based on pricing and discounting practices for the specific product or service when sold separately, considering geographical, customer, and other economic or marketing variables, as well as renewal rates or stand-alone prices for the service element(s).
- TPE - If we cannot establish VSOE of selling price for a specific product or service included in a multiple-element arrangement, we use third-party evidence of selling price. We determine TPE based on sales of comparable amount of similar products or service offered by multiple third parties considering the degree of customization and similarity of product or service sold.
- BESP - The best estimated selling price represents the price at which we would sell a product or service if it were sold on a stand-alone basis. When VSOE or TPE does not exist for all elements, we determine BESP for the arrangement element based on sales, cost and margin analysis, as well as other inputs based on our pricing practices. Adjustments for other market and company specific factors are made as deemed necessary in determining BESP. We regularly review our estimates of selling price and maintain internal controls over the establishment and update of these estimates.

Revenue is recognized when persuasive evidence of the arrangement exists, the price is fixed or determinable, collectability is reasonably assured, title and risk of loss have passed to customers based on the shipping terms, and allowances for discounts, returns, and customer incentives can be reliably estimated. Provisions for discounts and rebates to customers are provided for in the same period that the related product sales are recorded.

### *Clear Aligner*

We enter into arrangements (“treatment plans”) that involve multiple future product deliverables. Invisalign Full, Invisalign Teen, and Invisalign Assist products (“Comprehensive Products”) include optional additional aligners at no charge for a period of up to five years after initial shipment. Invisalign Teen also includes up to six optional replacement aligners in the price of the product and may be ordered by the dental professional any time throughout treatment. Invisalign Lite (“Non-Comprehensive Products”) includes one optional case refinement in the price of the product. Case refinement is a finishing tool used to adjust a patient's teeth to the desired final position and may be elected by the dental professional at any time during treatment; however, it is generally ordered in the last stages of orthodontic treatment.

We determined that our treatment plans, except Invisalign Assist with progress tracking, comprise the following deliverables which also represent separate units of accounting: initial aligners, additional aligners, case refinement, and replacement aligners. We allocate revenue for each treatment plan based on each unit's relative selling price based on BESP and recognize the revenue upon shipment of each unit in the treatment plan.

For Invisalign Assist with the progress tracking feature, aligners and services are provided to the dental professional every nine stages (“a batch”). We are able to reliably estimate the number of batches which are expected to be shipped for each case based upon our historical experience. The amounts allocated to this deliverable are recognized on a prorated basis as each batch is shipped.

### *Scanners and Services*

We recognize revenues from the sales of iTero intraoral scanners and CAD/CAM services. CAD/CAM services include scanning services, extended warranty for the intraoral scanners, a range of iTero restorative services, and OrthoCAD services such as OrthoCAD iRecord. We sell intraoral scanners and services through both our direct sales force and distribution partners. The intraoral scanner sales price includes one year of warranty, and for additional fees, the customer may select an unlimited scanning service agreement over a fixed period of time or extended warranty periods. When intraoral scanners are sold with either an unlimited scanning service agreement and/or extended warranty, we allocate revenue based on each element's relative selling price. We estimate the selling price of each element, as if it is sold on a stand-alone basis, taking into consideration historical prices as well as our discounting strategies.

Scanner revenue, net of related discounts and allowances, is recognized when products or equipment have been shipped and no significant obligations for installation or training remain. For certain distributors who provide installation and training to the customer, we recognize scanner revenue when the intraoral scanner is shipped to the distributor assuming all of the other revenue recognition criteria have been met. Discounts are deducted from revenue at the time of sale. Returns of products, excluding warranty related returns, are infrequent and insignificant.

Service revenue, including iTero restorative and all OrthoCAD services are recognized upon delivery or ratably over the contract term as the specified services are performed. If a customer selects a pay per use basis for scanning service fees, the revenue is recognized as the service is provided.

We offer customers an option to purchase extended warranties on certain products. We recognize revenue on these extended warranty contracts ratably over the life of the contract. The costs associated with these extended warranty contracts are recognized when incurred.

### ***Shipping and Handling Costs***

Shipping and handling charges to customers are included in net revenues, and the associated costs incurred are recorded in cost of revenues.

### ***Legal Proceedings and Litigations***

We are involved in legal proceedings on an ongoing basis. If we believe that a loss arising from such matters is probable and can be reasonably estimated, we accrue the estimated liability in our financial statements. If only a range of estimated losses can be determined, we accrue an amount within the range that, in our judgment, reflect the most likely outcome; if none of the estimates within that range is a better estimate than any other amount, we accrue the low end of the range.

### ***Research and Development***

Research and development expense is expensed as incurred and includes the costs associated with the research and development of new products and enhancements to existing products. These costs primarily include personnel-related costs including stock-based compensation and outside consulting expenses associated with the research and development of new products and enhancements to existing products and allocations of corporate overhead expenses including facilities and IT.

### ***Advertising Costs***

The cost of advertising and media is expensed as incurred. For the year ended December 31, 2016, 2015 and 2014, advertising costs totaled \$36.0 million, \$23.4 million and \$26.9 million, respectively.

### ***Common Stock Repurchase***

We repurchase our own common stock from time to time in the open market when our Board of Directors approve a stock repurchase program. We account for these repurchases under the accounting guidance for equity where we allocate the total

repurchase value that are in excess over par between additional paid in capital and retained earnings. All shares repurchased are retired.

### ***Operating Leases***

We currently lease office spaces, automobiles and equipment under operating leases with original lease periods of up to 9 years. Certain of these leases have free or escalating rent payment provisions and lease incentives provided by the landlord. We recognize rent expense under such leases on a straight-line basis over the term of the lease as certain leases have adjustments for market provisions.

### ***Income Taxes***

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our current tax exposure under the applicable tax laws and assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our Consolidated Balance Sheet.

We account for uncertainty in income taxes pursuant to authoritative guidance based on a two-step approach to recognize and measure uncertain tax positions taken or expected to be taken in a tax return. The first step is to determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit based on its technical merits, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. We adjust reserves for our uncertain tax positions due to changing facts and circumstances, such as the closing of a tax audit, or refinement of estimates due to new information. To the extent that the final outcome of these matters is different than the amounts recorded, such differences will impact our tax provision in our Consolidated Statement of Operation in the period in which such determination is made.

We assess the likelihood that we will be able to realize our deferred tax assets. Should there be a change in our ability to realize our deferred tax assets, our tax provision would increase in the period in which we determine that it is more likely than not that we cannot realize our deferred tax assets. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. If it is more likely than not that we will not realize our deferred tax assets, we will increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be realizable. The available positive evidence at December 31, 2016 included historical operating profits and a projection of future income sufficient to realize most of our remaining deferred tax assets. As of December 31, 2016, it was considered more likely than not that our deferred tax assets would be realized with the exception of certain foreign loss carryovers as we are unable to forecast sufficient future profits to realize the deferred tax assets.

As of December 31, 2016, U.S. income taxes and foreign withholding taxes associated with the repatriation of undistributed earnings of foreign subsidiaries on a cumulative total of \$438.0 million was not provided as we intend to reinvest these earnings indefinitely in our foreign subsidiaries. If these earnings were distributed in the form of dividends or otherwise, or if the shares of the relevant foreign subsidiaries were sold or otherwise transferred, we would be subject to additional U.S. income taxes subject to an adjustment for foreign tax credit, and foreign withholding taxes. Determination of the amount of unrecognized deferred income tax liability related to these earnings is not practicable.

Accounting guidance for stock-based compensation prohibits recognition of a deferred income tax asset for excess tax benefits due to stock option exercises that have not yet been realized through a reduction in income taxes payable. We follow the tax law ordering method to determine when excess tax benefits have been realized and consider only the direct impacts of awards when calculating the amount of windfalls or shortfalls.

### ***Stock-Based Compensation***

We recognize stock-based compensation cost for only those shares ultimately expected to vest on a straight-line basis over the requisite service period of the award. We use the Black-Scholes option pricing model to determine the fair value of employee stock purchase plan shares. We estimate the fair value of market-performance based restricted stock units using a Monte Carlo simulation model which requires the input of assumptions, including expected term, stock price volatility and the risk-free rate of return. In addition, judgment is also required in estimating the number of stock-based awards that are expected to be forfeited. Forfeitures are estimated based on historical experience at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

### ***Comprehensive Income***

Comprehensive income includes all changes in equity during a period from non-owner sources. Comprehensive income, including unrealized gains and losses on investments and foreign currency translation adjustments, are reported net of their related tax effect.

### ***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") released Accounting Standards Update ("ASU") 2014-9, "*Revenue from Contracts with Customers*," (Topic 606) to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of the standard is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for the goods or services. The new standard defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. We are required to adopt this standard starting in the first quarter of fiscal year 2018 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within the standard; or (ii) retrospective with the cumulative effect of initially applying the standard recognized at the date of initial application and providing certain additional disclosures as defined per the standard. We plan to adopt the standard in the first quarter of fiscal year 2018 by applying the full retrospective method. Our ability to adopt using the full retrospective method is dependent on the completion of our analysis of information necessary to restate prior period financial statements. We are continuing to assess the impact of the adoption of this update on our consolidated financial statements and related disclosures.

In April 2016, the FASB released ASU No. 2016-10, "*Revenue from Contracts with Customers*," to clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the principles for those areas of the ASU 2014-9 issued in May 2014. The effective date and the transition requirement of the amendments in this update are the same as the effective date and transition requirements of Topic 606.

In May 2016, the FASB released ASU No. 2016-12, "*Revenue from Contracts with Customers*," to address certain issues in the Topic 606 guidance on assessing the collectability, presentation of sales taxes, non-cash consideration, and completed contracts and contract modifications at transition. The ASU provides narrow-scope improvements and practical expedients to the ASU 2014-9 issued in May 2014. The effective date and the transition requirement of the amendments in this update are the same as the effective date and transition requirements of Topic 606.

In December 2016, the FASB released ASU No. 2016-20, "*Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*," to clarify certain aspects of guidance in the Topic 606 including its scope, disclosure requirements and contract cost accounting, while retaining the principles for those areas of the ASU 2014-9 issued in May 2014. The effective date and the transition requirement of the amendments in this update are the same as the effective date and transition requirements of Topic 606.

In February 2016, the FASB issued ASU No. 2016-02, “ *Leases* ” (Topic 842). The FASB issued this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the standard is permitted. We plan to adopt the standard in the first quarter of fiscal year 2019 by electing practical expedients available in the standard. While we are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements, we expect the adoption will have a material increase in the assets and liabilities of our consolidated balance sheet.

In March 2016, the FASB issued ASU No. 2016-09, “ *Improvements to Employee Share-Based Payment Accounting* ” (Topic 718) . This ASU affects entities that issue share-based payment awards to their employees. The ASU is designed to simplify several aspects of accounting for share-based payment award transactions, which include the income tax consequences, classification of awards as either equity or liabilities, classification on the statements of cash flows and forfeiture rate calculations. This ASU is effective for fiscal years beginning after December 15, 2016 and interim periods within those years. We plan to adopt the standard in the first quarter of fiscal year 2017, and the adoption will have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “ *Financial Instruments - Credit Losses* ” (Topic 326) . The FASB issued this update to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments in this update replace the existing guidance of incurred loss impairment methodology with an approach that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The updated guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption of the update is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are evaluating the impact of the adoption of this update on our consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, “ *Classification of Certain Cash Receipts and Cash Payments* ” (Topic 230). This FASB clarifies the presentation and classification of certain cash receipts and cash payments in the statements of cash flows. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In October, 2016, the FASB issued ASU 2016-16, “ *Intra-Entity Transfers of Assets Other Than Inventory*,” (Topic 740) which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Prior to the issuance of this ASU, existing guidance prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset had been sold to an outside party. This ASU is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. Early adoption is permitted. We plan to early adopt the standard in the first quarter of 2017 by applying the modified retrospective approach with a cumulative catch-up adjustment to opening retained earnings at the beginning of the first quarter of 2017. The adoption will impact our consolidated balance sheet but we do not expect the impact to be material.

In November 2016, the FASB issued ASU 2016-18, “ *Statement of Cash Flows - Restricted Cash*,” which provides guidance to address the classification and presentation of changes in restricted cash in the statements of cash flows . This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period, but any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The new standard must be adopted retrospectively. We are currently in the process of evaluating the impact of this new pronouncement on our consolidated statement of cash flows.



**Note 2. Marketable Securities and Fair Value Measurements**

As of December 31, 2016 and 2015, 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*

<b>December 31, 2016</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Commercial paper	\$ 42,397	\$ —	\$ (6)	\$ 42,391
Corporate bonds	122,788	22	(121)	122,689
Municipal securities	5,852	—	(5)	5,847
U.S. government agency bonds	28,903	9	(4)	28,908
U.S. government treasury bonds	45,146	7	(7)	45,146
Certificates of deposit	6,000	—	—	6,000
<b>Total Marketable Securities, Short-Term</b>	<b>\$ 251,086</b>	<b>\$ 38</b>	<b>\$ (143)</b>	<b>\$ 250,981</b>

*Long-term*

<b>December 31, 2016</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. government agency bonds	\$ 6,805	\$ —	\$ (16)	\$ 6,789
Corporate bonds	40,889	8	(85)	40,812
U.S. government treasury bonds	12,016	5	(16)	12,005
Asset-backed securities	177	—	—	177
<b>Total Marketable Securities, Long-Term</b>	<b>\$ 59,887</b>	<b>\$ 13</b>	<b>\$ (117)</b>	<b>\$ 59,783</b>

*Short-term*

<b>December 31, 2015</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Commercial paper	\$ 38,537	\$ —	\$ —	\$ 38,537
Corporate bonds	179,765	6	(251)	179,520
U.S. dollar dominated foreign corporate bonds	510	—	(2)	508
Municipal securities	14,209	7	(2)	14,214
U.S. government agency bonds	75,172	—	(53)	75,119
U.S. government treasury bonds	51,763	1	(81)	51,683
<b>Total Marketable Securities, Short-Term</b>	<b>\$ 359,956</b>	<b>\$ 14</b>	<b>\$ (389)</b>	<b>\$ 359,581</b>

*Long-term*

<b>December 31, 2015</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. government agency bonds	\$ 43,853	\$ —	\$ (178)	\$ 43,675
Corporate bonds	64,012	9	(218)	63,803
U.S. government treasury bonds	37,673	—	(107)	37,566
Municipal securities	3,993	—	(2)	3,991
Asset-backed securities	2,338	—	(3)	2,335
<b>Total Marketable Securities, Long-Term</b>	<b>\$ 151,869</b>	<b>\$ 9</b>	<b>\$ (508)</b>	<b>\$ 151,370</b>

Cash and cash equivalents are not included in the table above as the gross unrealized gains and losses are not material. We have no short-term or long-term investments that have been in a continuous material unrealized loss position for greater than twelve months as of December 31, 2016 and 2015. Amounts reclassified to earnings from accumulated other comprehensive income (loss), net related to unrealized gains or losses were not material in 2016 and 2015. For the year ended December 31, 2016 and 2015, realized gains or losses were not material.

Our fixed-income securities investment portfolio consists of corporate bonds, U.S. dollar denominated foreign corporate bonds, commercial paper, municipal securities, U.S. government agency bonds, U.S. government treasury bonds, certificates of deposit and asset-backed securities that have a maximum effective maturity of 27 months. The securities that we invest in are generally deemed to be low risk based on their credit ratings from the major rating agencies. The longer the duration of these securities, the more susceptible they are to changes in market interest rates and bond yields. As interest rates increase, those securities purchased at a lower yield show a mark-to-market unrealized loss. The unrealized losses are due primarily to changes in credit spreads and interest rates. We expect to realize the full value of all these investments upon maturity or sale. The weighted average remaining duration of these securities was approximately 7 months and 9 months as of December 31, 2016 and 2015, respectively.

As the carrying value approximates the fair value for our short-term and long-term marketable securities shown in the tables above, the following table summarizes the fair value of our short-term and long-term marketable securities classified by maturity as of December 31, 2016 and 2015 (in thousands):

	December 31,	
	2016	2015
One year or less	\$ 250,981	\$ 359,581
Due in greater than one year	59,783	151,370
Total available for short-term and long-term marketable securities	<u>\$ 310,764</u>	<u>\$ 510,951</u>

#### **Fair Value Measurements**

We measure the fair value of our cash equivalents and marketable securities as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We use the GAAP fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value:

*Level 1* — Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Our Level 1 assets consist of money market funds and U.S. government treasury bonds. We did not hold any Level 1 liabilities as of December 31, 2016 and 2015.

*Level 2* — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Our Level 2 assets consist of commercial paper, corporate bonds, municipal securities, certificates of deposit, U.S. government agency bonds, asset-backed securities and our Israeli funds that are mainly invested in insurance policies. We obtain fair values for our Level 2 investments. Our custody bank and asset managers independently use professional pricing services to gather pricing data which may include quoted market prices for identical or comparable financial instruments, or inputs other than quoted prices that are observable either directly or indirectly, and we are ultimately responsible for these underlying estimates. We did not hold any Level 2 liabilities as of December 31, 2016 and 2015.

*Level 3* — Unobservable inputs to the valuation methodology that are supported by little or no market activity and that are significant to the measurement of the fair value of the assets or liabilities. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation. Our Level 3 assets consist of long-term notes receivable and are included in other assets on our consolidated balance sheet. In 2016, we entered into a long-term notes receivable for \$2.0 million and we

recognized \$0.05 million in earnings during 2016 as a result of a change in its fair value. As of December 31, 2016, the fair value of long-term notes receivable was approximately \$2.05 million. We did not hold any Level 3 liabilities as of December 31, 2016 and 2015.

The following tables summarize our financial assets measured at fair value on a recurring basis as of December 31, 2016 and 2015 (in thousands):

<u>Description</u>	<u>Balance as of December 31, 2016</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Other Observable Inputs (Level 3)</u>
<b>Cash equivalents:</b>				
Money market funds	\$ 87,179	\$ 87,179	\$ —	\$ —
Commercial paper	2,499	—	2,499	—
Corporate bonds	750	—	750	—
<b>Short-term investments:</b>				
Commercial paper	42,391	—	42,391	—
Corporate bonds	122,689	—	122,689	—
Municipal securities	5,847	—	5,847	—
U.S. government agency bonds	28,908	—	28,908	—
U.S. government treasury bonds	45,146	45,146	—	—
Certificates of deposit	6,000	—	6,000	—
<b>Long-term investments:</b>				
U.S. government agency bonds	6,789	—	6,789	—
Corporate bonds	40,812	—	40,812	—
U.S. government treasury bonds	12,005	12,005	—	—
Asset-backed securities	177	—	177	—
<b>Prepaid expenses and other current assets:</b>				
Israeli funds	2,956	—	2,956	—
<b>Other assets:</b>				
Long-term notes receivable	2,047	—	—	2,047
	<u>\$ 406,195</u>	<u>\$ 144,330</u>	<u>\$ 259,818</u>	<u>\$ 2,047</u>

Description	Balance as of December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<b>Cash equivalents:</b>			
Money market funds	\$ 70,148	\$ 70,148	\$ —
Commercial paper	36,887	—	36,887
U.S. government agency bonds	3,599	—	3,599
Corporate bonds	625	—	625
<b>Short-term investments:</b>			
Commercial paper	38,537	—	38,537
Corporate bonds	179,520	—	179,520
U.S. dollar denominated foreign corporate bonds	508	—	508
Municipal securities	14,214	—	14,214
U.S. government agency bonds	75,119	—	75,119
U.S. government treasury bonds	51,683	51,683	—
<b>Long-term investments:</b>			
U.S. government agency bonds	43,675	—	43,675
Corporate bonds	63,803	—	63,803
U.S. government treasury bonds	37,566	37,566	—
Municipal securities	3,991	—	3,991
Asset-backed securities	2,335	—	2,335
<b>Prepaid expenses and other assets:</b>			
Israeli funds	2,436	—	2,436
	<u>\$ 624,646</u>	<u>\$ 159,397</u>	<u>\$ 465,249</u>

#### *Derivative Financial Instruments*

We have in the past and may in the future enter into foreign currency forward contracts to minimize the short-term impact of foreign currency exchange rate fluctuations associated with certain assets and liabilities. The net loss on these forward contracts was not material for the year ended December 31, 2016 and 2015. The net gain or loss from the settlement of these foreign currency forward contracts is recorded in interest and other income (expenses), net in the Consolidated Statements of Operations. We had no material foreign exchange forward contracts outstanding as of December 31, 2016 and 2015. Certain investments in private companies contain embedded derivatives, which do not require bifurcation as we have elected to measure these investments at fair value.

#### **Note 3. Balance Sheet Components**

##### *Inventories*

Inventories consist of the following (in thousands):

	December 31,	
	2016	2015
Raw materials	\$ 9,793	\$ 9,950
Work in process	10,773	7,067
Finished goods	6,565	2,448
Total Inventories	<u>\$ 27,131</u>	<u>\$ 19,465</u>

### Property, Plant and Equipment

Property, plant and equipment consist of the following (in thousands):

	Generally Used Estimated Useful Life	December 31,	
		2016	2015
Clinical and manufacturing equipment	Up to 10 years	\$ 153,938	\$ 128,044
Computer hardware	3 years	27,978	25,843
Computer software	3 years	59,997	21,451
Furniture and fixtures	5 years	10,306	8,855
Leasehold improvements	Lease term <sup>(1)</sup>	22,370	20,172
Building	20 years	7,272	4,227
Land	—	3,072	3,072
CIP	—	25,948	42,846
Total		310,881	254,510
Less: Accumulated depreciation and amortization and impairment charges		(135,714)	(118,037)
Total Property, plant and equipment, net		\$ 175,167	\$ 136,473

<sup>(1)</sup> Shorter of remaining lease term or estimated useful lives of assets.

Depreciation and amortization was \$24.0 million, \$18.0 million and \$17.9 million, for the year ended December 31, 2016, 2015 and 2014, respectively.

### Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31,	
	2016	2015
Accrued payroll and benefits	\$ 79,214	\$ 55,430
Accrued sales and marketing expenses	11,970	7,071
Accrued sales rebate	10,342	8,486
Accrued sales tax and value added tax	5,032	4,801
Accrued income taxes	4,210	2,646
Accrued warranty	3,841	2,638
Accrued professional fees	3,604	2,775
Other accrued liabilities	16,119	23,918
Total Accrued Liabilities	\$ 134,332	\$ 107,765

### Warranty

We regularly review the accrued balances and update these balances based on historical warranty trends. Actual warranty costs incurred have not materially differed from those accrued; however, future actual warranty costs could differ from the estimated amounts.

### Clear Aligner

We warrant our Invisalign products against material defects until the aligner case is complete. We warrant SDC products against material defects for one year. We accrue for warranty costs in cost of net revenues upon shipment of products. The amount of accrued estimated warranty costs is primarily based on historical experience as to product failures as well as current information on replacement costs.

### Scanners

We warrant our scanners for a period of one year from the date of training and installation. We accrue for these warranty costs which includes materials and labor based on estimated historical repair costs. Extended service packages may be purchased for additional fees.

Warranty accrual as of December 31, 2016 and 2015 consists of the following activity (in thousands):

Warranty accrual, December 31, 2014	\$	3,148
Charged to cost of revenues		1,796
Actual warranty expenditures		(2,306)
Warranty accrual, December 31, 2015		2,638
Charged to cost of revenues		4,894
Actual warranty expenditures		(3,691)
Warranty accrual, December 31, 2016	\$	3,841

### Note 4. Equity Method Investments

On July 25, 2016, we acquired a 17% equity interest, on a fully diluted basis, in SmileDirectClub, LLC ("SDC") for \$46.7 million, and account for this as an equity method investment. The investment is reported on our consolidated balance sheet as a single amount under equity method investments, and we record our proportional share of SDC's earnings or losses within equity in losses of investee in our consolidated statement of operations. As of December 31, 2016, the balance of our equity method investments was \$45.1 million.

Concurrently with the investment on July 25, 2016, we also entered into a supply agreement with SDC to manufacture clear aligners for SDC's doctor-led, at-home program for simple teeth straightening. The term of the supply agreement expires on December 31, 2019. We commenced supplying aligners to SDC in October 2016. The sale of aligners to SDC and the income from under the supply agreement are reported in our Clear Aligner business segment after eliminating outstanding intercompany transactions.

### Note 5. Goodwill and Intangible Assets

#### Goodwill

The change in the carrying value of goodwill for the year ended December 31, 2016, all attributable to our Clear Aligner reporting unit, is as follows (in thousands):

		Total
Balance as of December 31, 2014	\$	61,369
Adjustments <sup>(1)</sup>		(295)
Balance as of December 31, 2015		61,074
Adjustments <sup>(1)</sup>		(30)
Balance as of December 31, 2016	\$	61,044

<sup>(1)</sup>The adjustments to goodwill were a result of foreign currency translation.

#### Impairment of Goodwill

We evaluate goodwill for impairment at least annually on November 30th or more frequently if indicators are present, an event occurs or circumstances changes that suggest an impairment may exist and that it would more likely than not reduce the fair value of a reporting unit below its carrying amount. The allocation of goodwill to the respective reporting units is based on relative synergies generated as a result of an acquisition.

### Annual Impairment Test

The remaining goodwill is entirely attributable to our Clear Aligner reporting unit. During the fourth quarter of fiscal 2016, we performed the annual goodwill impairment testing and found no impairment as the fair value of our Clear Aligner reporting unit was significantly in excess of the carrying value.

### Intangible Long-Lived Assets

We amortize our intangible assets over their estimated useful lives. We evaluate long-lived assets, which includes property, plant and equipment and intangible assets, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The carrying value is not recoverable if it exceeds the undiscounted cash flows resulting from the use of the asset and its eventual disposition. Our estimates of future cash flows attributable to our long-lived assets require significant judgment based on our historical and anticipated results and are subject to many factors. Factors we consider important which could trigger an impairment review include significant negative industry or economic trends, significant loss of customers and changes in the competitive environment of our intraoral scanning business.

There were no triggering events in 2016 that would cause impairments of our long-lived assets.

Acquired intangible long-lived assets are being amortized as follows (in thousands):

	Weighted Average Amortization Period (in years)	Gross Carrying Amount as of December 31, 2016	Accumulated Amortization	Accumulated Impairment Loss	Net Carrying Value as of December 31, 2016
Trademarks	15	\$ 7,100	\$ (1,631)	\$ (4,179)	\$ 1,290
Existing technology	13	12,600	(4,141)	(4,328)	4,131
Customer relationships	11	33,500	(12,819)	(10,751)	9,930
Patents	8	6,316	(713)	—	5,603
<b>Total Intangible Assets</b>		<b>\$ 59,516</b>	<b>\$ (19,304)</b>	<b>\$ (19,258)</b>	<b>\$ 20,954</b>

	Weighted Average Amortization Period (in years)	Gross Carrying Amount as of December 31, 2015	Accumulated Amortization	Accumulated Impairment Loss	Net Carrying Value as of December 31, 2015
Trademarks	15	\$ 7,100	\$ (1,492)	\$ (4,179)	\$ 1,429
Existing technology	13	12,600	(3,577)	(4,328)	4,695
Customer relationships	11	33,500	(10,957)	(10,751)	11,792
Patents	8	285	(113)	—	172
<b>Total Intangible Assets</b>		<b>\$ 53,485</b>	<b>\$ (16,139)</b>	<b>\$ (19,258)</b>	<b>\$ 18,088</b>

The total estimated annual future amortization expense for these acquired intangible assets as of December 31, 2016 is as follows (in thousands):

Fiscal Year	
2017	\$ 3,355
2018	3,353
2019	3,346
2020	3,336
2021	3,334
Thereafter	4,230
<b>Total</b>	<b>\$ 20,954</b>

## Note 6. Legal Proceedings

### *Securities Class Action Lawsuit*

On November 28, 2012, plaintiff City of Dearborn Heights Act 345 Police & Fire Retirement System filed a lawsuit against Align, Thomas M. Prescott (“Mr. Prescott”), Align’s former President and Chief Executive Officer, and Kenneth B. Arola (“Mr. Arola”), Align’s former Vice President, Finance and Chief Financial Officer, in the United States District Court for the Northern District of California on behalf of a purported class of purchasers of our common stock (the “Securities Action”). On July 11, 2013, an amended complaint was filed, which named the same defendants, on behalf of a purported class of purchasers of our common stock between January 31, 2012 and October 17, 2012. The amended complaint alleged that Align, Mr. Prescott and Mr. Arola violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, and that Mr. Prescott and Mr. Arola violated Section 20(a) of the Securities Exchange Act of 1934. Specifically, the amended complaint alleged that during the purported class period defendants failed to take an appropriate goodwill impairment charge related to the April 29, 2011 acquisition of Cadent Holdings, Inc. in the fourth quarter of 2011, the first quarter of 2012 or the second quarter of 2012, which rendered our financial statements and projections of future earnings materially false and misleading and in violation of U.S. GAAP. The amended complaint sought monetary damages in an unspecified amount, costs and attorneys’ fees. On December 9, 2013, the court granted defendants’ motion to dismiss with leave for plaintiff to file a second amended complaint. Plaintiff filed a second amended complaint on January 8, 2014 on behalf of the same purported class. The second amended complaint states the same claims as the amended complaint. On August 22, 2014, the court granted our motion to dismiss without leave to amend. On September 22, 2014, Plaintiff filed a notice of appeal to the Ninth Circuit Court of Appeals. Briefing for the appeal was completed in May 2015 and the Ninth Circuit held oral arguments in October 2016. Align intends to vigorously defend itself against these allegations. Align is currently unable to predict the outcome of this amended complaint and therefore cannot determine the likelihood of loss nor estimate a range of possible loss, if any.

### *Shareholder Derivative Lawsuit*

On February 1, 2013, plaintiff Gary Udis filed a shareholder derivative lawsuit against several of Align’s current and former officers and directors in the Superior Court of California, County of Santa Clara. The complaint alleges that our reported income and earnings were materially overstated because of a failure to timely write down goodwill related to the April 29, 2011 acquisition of Cadent Holdings, Inc., and that defendants made allegedly false statements concerning our forecasts. The complaint asserts various state law causes of action, including claims of breach of fiduciary duty, unjust enrichment, and insider trading, among others. The complaint seeks unspecified damages on behalf of Align, which is named solely as nominal defendant against whom no recovery is sought. The complaint also seeks an order directing Align to reform and improve its corporate governance and internal procedures, and seeks restitution in an unspecified amount, costs, and attorneys’ fees. On July 8, 2013, an Order was entered staying this derivative lawsuit until an initial ruling on our first motion to dismiss the Securities Action. On January 15, 2014, an Order was entered staying this derivative lawsuit until an initial ruling on our second motion to dismiss the Securities Action. On October 14, 2014, an Order was entered staying this derivative lawsuit until a ruling by the Ninth Circuit in the Securities Action discussed above. Align is currently unable to predict the outcome of this complaint and therefore cannot determine the likelihood of loss nor estimate a range of possible losses, if any.

In addition, in the course of Align's operations, Align is involved in a variety of claims, suits, investigations, and proceedings, including actions with respect to intellectual property claims, patent infringement claims, government investigations, labor and employment claims, breach of contract claims, tax, and other matters. Regardless of the outcome, these proceedings can have an adverse impact on us because of defense costs, diversion of management resources, and other factors. Although the results of complex legal proceedings are difficult to predict and Align's view of these matters may change in the future as litigation and events related thereto unfold, Align currently does not believe that these matters, individually or in the aggregate, will materially affect Align's financial position, results of operations or cash flows.

## Note 7. Credit Facility

The credit facility provides for a \$50.0 million revolving line of credit, with a \$10.0 million letter of credit sublimit. The credit facility requires us to comply with specific financial conditions and performance requirements. On December 13, 2016, we amended the credit facility to remove the requirement to maintain a minimum unrestricted cash balance of \$50.0 million. On February 10, 2017, we amended the credit facility and extended the maturity date to March 22, 2018. The loans bear interest, at our option, at a fluctuating rate per annum equal to the daily one-month adjusted LIBOR rate plus a spread of 1.75% or an adjusted LIBOR rate (based on one, three, six or twelve-month interest periods) plus a spread of 1.75%. As of December 31, 2016, we had



no outstanding borrowings under this credit facility and were in compliance with the conditions and performance requirements.

## Note 8. Commitments and Contingencies

### Operating Leases

We lease our facilities and certain equipment and automobiles under non-cancelable operating lease arrangements that expire at various dates through 2024 and provide for pre-negotiated fixed rental rates during the terms of the lease. The terms of some of our leases provide for rental payments on a graduated scale. We recognize rent expense on a straight-line basis over the lease period and accrue for any rent expense incurred but not paid. Total rent expense was \$9.9 million, \$8.2 million and \$7.6 million, for the year ended December 31, 2016, 2015 and 2014, respectively.

Minimum future lease payments for non-cancelable leases as of December 31, 2016, are as follows (in thousands):

<u>Fiscal Year</u>	<u>Operating Leases</u>
2017	\$ 12,880
2018	10,338
2019	8,466
2020	6,849
2021	6,247
Thereafter	9,141
Total minimum lease payments	<u>\$ 53,921</u>

### Other Commitments

On July 25, 2016, we entered into a Loan and Security Agreement (the "Loan Agreement") with SmileDirectClub, LLC ("SDC") where we agreed to provide a loan of up to \$15.0 million in one or more advances to SDC (the "Loan Facility"). Available advances under the Loan Facility are subject to a borrowing base of 80% of SDC's eligible accounts receivable, determined in accordance with the terms of the Loan Agreement, and the satisfaction of other customary conditions. The advances bear interest, paid quarterly, at the rate of 7% per annum. Advances that are repaid or prepaid may be reborrowed. All outstanding principal and accrued and unpaid interest on the advances are due and payable on July 25, 2021. SDC's obligations in respect of the Loan Agreement are collateralized by a security interest in substantially all of SDC's assets. As of December 31, 2016, no advances on the Loan Facility were issued or outstanding ( Refer to Note 4 "Equity Method Investments" of the Notes of Consolidated Financial Statements for more information on our investments in SDC).

We have entered into certain investments with a privately held company where we have committed to purchase up to \$5.0 million in convertible promissory notes. The first convertible promissory note for \$2.0 million was issued in July 2016 and is outstanding as of December 31, 2016. The remaining \$3.0 million is conditioned upon achievement of various business milestones. The notes all mature on December 30, 2018 and accrue interest annually at 2.5%.

On December 19, 2016, we entered into a Purchase and Sale Agreement (the "Purchase Agreement") with LBA RIV-COMPANY XXX, LLC ("Seller") to purchase the real property located in San Jose, California (the "Property") for purchase price of \$44.1 million. The Property is comprised of land, building and other fixtures as set forth in the Purchase Agreement. As of December 31, 2016, \$1.0 million was deposited into escrow and recorded in other current assets in our Consolidated Balance Sheet. We had a right to inspect the Property until January 6, 2017 and if we decided to terminate the Purchase Agreement during the period, the deposit would have been refunded to us. On January 26, 2017, we paid the purchase price of \$44.1 million and closed the Purchase Agreement.

### Off-Balance Sheet Arrangements

As of December 31, 2016, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

### ***Indemnification Provisions***

In the normal course of business to facilitate transactions in our services and products, we indemnify certain parties: customers, vendors, lessors, and other parties with respect to certain matters, including, but not limited to, services to be provided by us and intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with our directors and our executive officers that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. Several of these agreements limit the time within which an indemnification claim can be made and the amount of the claim.

It is not possible to make a reasonable estimate of the maximum potential amount under these indemnification agreements due to the unique facts and circumstances involved in each particular agreement. Additionally, we have a limited history of prior indemnification claims and the payments we have made under such agreements have not had a material adverse effect on our results of operations, cash flows or financial position. However, to the extent that valid indemnification claims arise in the future, future payments by us could be significant and could have a material adverse effect on our results of operations or cash flows in a particular period. As of December 31, 2016, we did not have any material indemnification claims that were probable or reasonably possible.

### **Note 9. Stockholders' Equity**

#### ***Common Stock***

The holders of common stock are entitled to receive dividends whenever funds are legally available and when and if declared by the Board of Directors. We have never declared or paid dividends on our common stock.

#### ***Stock-Based Compensation Plans***

Our 2005 Incentive Plan, as amended, provides for the granting of incentive stock options, non-statutory stock options, restricted stock units, market stock units, stock appreciation rights, performance units and performance shares to employees, non-employee directors, and consultants. Shares granted on or after May 16, 2013 as an award of restricted stock, restricted stock unit, market stock units, performance share or performance unit ("full value awards") are counted against the authorized share reserve as one and nine-tenths (1 9/10) shares for every one (1) share subject to the award, and any shares canceled that were counted as one and nine-tenths against the plan reserve will be returned at the same ratio. Full value awards granted prior to May 16, 2013 were counted against the authorized share reserve as one and one half (1 1/2) share for every one (1) share subject to the award, and any shares canceled that were counted as one and one half against the plan reserve will be returned at this same ratio.

As of December 31, 2016, the 2005 Incentive Plan (as amended) has a total reserve of 27,783,379 shares for issuance of which 8,023,709 shares are available for issuance. In 2016, we added 4,500,000 shares to our pool and no shares were added to the plan in 2015. We issue new shares from our pool of authorized but unissued shares to satisfy the exercise and vesting obligations of our stock-based compensation plans.

#### ***Stock-Based Compensation***

Stock-based compensation is based on the estimated fair value of awards, net of estimated forfeitures, and recognized over the requisite service period. Estimated forfeitures are based on historical experience at the time of grant and may be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The stock-based compensation related to all of our stock-based awards and employee stock purchases for the year ended December 31, 2016, 2015 and 2014 is as follows (in thousands):

	For the Year Ended December 31,		
	2016	2015	2014
Cost of net revenues	\$ 3,966	\$ 3,938	\$ 3,616
Selling, general and administrative	42,612	40,813	29,625
Research and development	7,570	8,192	6,582
Total stock-based compensation	<u>\$ 54,148</u>	<u>\$ 52,943</u>	<u>\$ 39,823</u>

### Stock Options

We have not granted options since 2011 and all outstanding options were fully vested in 2015. Activity for the year ended December 31, 2016, under the stock option plans are set forth below (in thousands, except years and per share amounts):

	Stock Options			
	Number of Shares Underlying Stock Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
<b>Outstanding as of December 31, 2015</b>	496	15.14		
Granted	—	—		
Exercised	(274)	15.33		
Cancelled or expired	—	—		
<b>Outstanding as of December 31, 2016</b>	222	\$ 14.90	1.12	\$ 18,058
Vested and expected to vest at December 31, 2016	222	\$ 14.90	1.12	\$ 18,058
Exercisable at December 31, 2016	222	\$ 14.90	1.12	\$ 18,058

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between our closing stock price on the last trading day in 2016 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on the last trading day of 2016. This amount will fluctuate based on the fair market value of our stock. The total intrinsic value of stock options exercised for the year ended December 31, 2016, 2015 and 2014 was \$ 18.2 million, \$7.4 million and \$24.5 million, respectively. The total fair value of the options vested during the year ended December 31, 2016, 2015 and 2014 was not material.

### Restricted Stock Units

The fair value of nonvested restricted stock units (“RSUs”) is based on our closing stock price on the date of grant. A summary for the year ended December 31, 2016, is as follows (in thousands, except years and per share amounts):

	Shares Underlying RSUs	Weighted Average Grant Date Fair Value	Weighted Remaining Vesting Period (in years)	Aggregate Intrinsic Value
Nonvested as of December 31, 2015	2,079	\$ 49.45		
Granted	714	67.82		
Vested and released	(859)	45.45		
Forfeited	(145)	53.36		
Nonvested as of December 31, 2016	1,789	\$ 58.39	1.12	\$ 171,934

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (calculated by multiplying our closing stock price on the last trading day of 2016 by the number of nonvested RSUs) that would have been received by the unit holders had all RSUs been vested and released as of the last trading day of 2016. This amount will fluctuate based on the fair market value of our stock. During 2016, of the 859,410 shares vested and released, 300,031 vested shares were withheld for employee minimum statutory tax obligations, resulting in a net issuance of 559,379 shares.

The total intrinsic value of RSUs vested and released during 2016, 2015 and 2014 was \$59.8 million, \$45.9 million and \$38.9 million, respectively. The total fair value RSUs vested during the year ended December 31, 2016, 2015 and 2014 was \$39.1 million, \$30.0 million and \$22.0 million, respectively. The weighted average grant date fair value of RSUs granted during 2016, 2015 and 2014 was \$67.82, \$57.78 and \$53.72, respectively. As of December 31, 2016, there was \$63.3 million of total unamortized compensation costs, net of estimated forfeitures, related to RSUs and these costs are expected to be recognized over a weighted average period of 2.0 years.

On an annual basis, we grant market-performance based restricted stock units (“MSUs”) to our executive officers. Each MSU represents the right to one share of Align’s common stock and will be issued through our amended 2005 Incentive Plan. The actual

number of MSUs which will be eligible to vest will be based on the performance of Align’s stock price relative to the performance of the NASDAQ Composite Index over the vesting period, generally two to three years , up to 150% of the MSUs initially granted.

The following table summarizes the MSU performance as of December 31, 2016 :

	Number of Shares Underlying MSUs (in thousands)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Vesting Period (in years )	Aggregate Intrinsic Value (in thousands)
Nonvested as of December 31, 2015	611	51.41		
Granted	218	55.77		
Vested and released	(270)	36.73		
Forfeited	(39)	56.41		
Nonvested as of December 31, 2016	520	60.49	1.1	\$ 50,021

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (calculated by multiplying our closing stock price on the last trading day of 2016 by the number of non-vested MSUs) that would have been received by the unit holders had all MSUs been vested and released as of the last trading day of 2016. This amount will fluctuate based on the fair market value of our stock. During 2016 , of the 270,347 shares vested and released 136,758 shares were withheld for tax payments, resulting in a net issuance of 133,589 shares.

The total intrinsic value of MSUs vested and released during 2016 , 2015 and 2014 was \$17.4 million , \$9.2 million and \$2.9 million . The total fair value MSUs vested during the year ended December 31, 2016 , 2015 and 2014 was \$9.9 million , \$4.9 million and \$1.2 million , respectively. As of December 31, 2016 , we expect to recognize \$11.1 million of total unamortized compensation cost, net of estimated forfeitures, related to MSUs over a weighted average period of 1.1 years.

The fair value of the MSUs is estimated at the grant date using a Monte Carlo simulation that includes factors for market conditions. The following weighted-average assumptions used in the Monte Carlo simulation were as follows:

	Year Ended December 31,		
	2016	2015	2014
Expected term (in years)	3	3	3
Expected volatility	34.0%	36.9%	46.0%
Risk-free interest rate	0.9%	1.0%	0.7%
Expected dividends	—	—	—
Weighted average fair value per share at grant date	\$ 68.88	\$ 61.73	\$ 50.46

Total payments to tax authorities for payroll taxes related to RSUs, including MSUs, that vested during the period were \$29.9 million , \$20.7 million and \$7.6 million during the year ended December 31, 2016 , 2015 and 2014 , respectively, reflected as a financing activity in the Consolidated Statement of Cash Flows.

#### **Employee Stock Purchase Plan**

In May 2010, our shareholders approved the 2010 Employee Stock Purchase Plan (the “2010 Purchase Plan”), replacing our 2001 Employee Stock Purchase Plan, which consists of consecutive overlapping twenty-four month offering periods with four six-month purchase periods in each offering period. Employees purchase shares at 85% of the fair market value of the common stock at either the beginning of the offering period or the end of the purchase period, whichever is lower. The 2010 Purchase Plan will continue until terminated by either the Board of Directors or its administrator. The maximum number of shares available for issuance under the 2010 Purchase Plan is 2,400,000 shares. During the year ended December 31, 2016 , 2015 and 2014 , we issued 196,882 , 230,078 and 247,343 shares, respectively, at average prices of \$48.65 , \$36.66 and \$29.24 , respectively. As of December 31, 2016 , 936,867 shares remain available for future issuance.

The fair value of the option component of the 2010 Purchase Plan shares was estimated at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year Ended December 31,		
	2016	2015	2014
Expected term (in years)	1.2	1.2	1.2
Expected volatility	30.5%	31.1%	38.8%
Risk-free interest rate	0.7%	0.3%	0.2%
Expected dividends	—	—	—
Weighted average fair value at grant date	\$ 22.23	\$ 16.19	\$ 17.15

We recognized stock-based compensation expense of \$2.7 million, \$4.1 million and \$2.6 million related to our employee stock purchase plans for the year ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016, there was \$0.7 million of total unamortized compensation costs related to employee stock purchases which we expect to be recognized over a weighted average period of 0.3 years.

#### **Note 10. Common Stock Repurchase Program**

##### *April 2014 Repurchase Program*

On April 23, 2014, we announced that our Board of Directors had authorized a stock repurchase program ("April 2014 Repurchase Program") pursuant to which we may purchase up to \$300.0 million of our common stock over a three year period.

In 2014, we entered into an accelerated share repurchase agreement ("2014 ASR") to repurchase \$70.0 million of our common stock. The 2014 ASR was completed in July 2014. We received a total of approximately 1.4 million shares for an average purchase price per share of \$51.46. During 2014, we repurchased on the open market approximately 0.6 million shares of our common stock at an average price of \$50.93 per share, including commissions, for an aggregate purchase price of approximately \$28.2 million.

In 2015, we entered into an accelerated share purchase agreement ("2015 ASR") to repurchase \$70.0 million of our common stock. The 2015 ASR was completed in July 2015. We received a total of approximately 1.2 million shares for an average share price of \$60.52. During 2015, we repurchased on the open market approximately 0.5 million shares of our common stock at an average price of \$58.89 per share, including commissions, for an aggregate purchase price of approximately \$31.8 million.

In 2016, we entered into an accelerated share repurchase agreement ("2016 ASR") to repurchase \$50.0 million of our common stock. The 2016 ASR was completed in September 2016. We received a total of approximately 0.6 million shares for an average share price of \$81.89. During 2016, we repurchased on the open market approximately 0.5 million shares of our common stock at an average price of \$92.58 per share, including commissions, for an aggregate purchase price of approximately \$46.2 million.

All shares repurchased in 2016, 2015 and 2014 were retired.

As of December 31, 2016, we have \$3.8 million remaining under the April 2014 Repurchase Program.

##### *April 2016 Repurchase Program*

On April 28, 2016, we announced that our Board of Directors had authorized an additional plan to repurchase up to \$300.0 million of the Company's stock ("April 2016 Repurchase Plan"). Any purchases under this stock repurchase program may be made, from time-to-time, pursuant to open market purchases (including pursuant to Rule 10b5-1 plans), privately-negotiated transactions, accelerated stock repurchases, block trades or derivative contracts or otherwise in accordance with applicable federal securities laws, including Rule 10b-18 of the Securities Exchange Act of 1934. As of December 31, 2016, there have not been any repurchases under this plan.

**Note 11. Employee Benefit Plans***401(k) Plan*

In January 1999, we adopted a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code for our U.S. employees. This plan covers substantially all U.S. employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis. In 2009, our Board of Directors authorized us to match 50% of our employee's salary deferral contributions up to a 6% of the employee's eligible compensation effective 2010. We contributed approximately \$3.4 million, \$2.7 million and \$2.2 million to the 401(k) plan during the year ended December 31, 2016, 2015 and 2014, respectively.

*Israeli Funds*

Under the Israeli severance fund law, we are required to make payments to dismissed employees and employees leaving employment in certain circumstances. The funding is calculated based on the salary of the employee multiplied by the number of years of employment as of the applicable balance sheet date. Our Israeli employees are entitled to one month's salary for each year of employment, or a pro-rata portion thereof. We fund the liability through monthly deposits into funds, and the values of these contributions are recorded in other current assets.

As of December 31, 2016 and 2015, the accrued funds liability was approximately \$3.1 million and \$2.7 million, respectively.

**Note 12. Income Taxes**

Net income before provision for income taxes and equity in losses of investee consist of the following (in thousands):

	Year ended December 31,		
	2016	2015	2014
Domestic	\$ 118,871	\$ 87,803	\$ 94,784
Foreign	123,695	98,298	95,585
Net income before provision for income taxes and equity in losses of investee	\$ 242,566	\$ 186,101	\$ 190,369

The provision for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Federal			
Current	\$ 40,235	\$ 28,596	\$ 1,569
Deferred	24,794	6,679	37,570
	65,029	35,275	39,139
State			
Current	2,603	3,271	2,162
Deferred	2,636	(703)	971
	5,239	2,568	3,133
Foreign			
Current	8,964	4,305	1,596
Deferred	(28,032)	(67)	669
	(19,068)	4,238	2,265
Provision for income taxes	\$ 51,200	\$ 42,081	\$ 44,537

The differences between income taxes using the federal statutory income tax rate of 35% and our effective tax rate are as follows:

	Year Ended December 31,		
	2016	2015	2014
U.S. federal statutory income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal tax benefit	2.1	1.5	1.6
Impact of differences in foreign tax rates	(6.3)	(16.2)	(16.4)
Valuation allowance release for Israel	(12.9)	—	—
Stock-based compensation	1.2	1.6	1.0
Other items not individually material	2.0	0.7	2.2
	21.1 %	22.6 %	23.4 %

As of December 31, 2016, approximately \$438.0 million of undistributed earnings from non-U.S. operations held by our foreign subsidiaries are designated as indefinitely reinvested outside the U.S. We maintain sufficient cash reserves in the U.S. and do not intend to repatriate our foreign earnings. As a result, U.S. income taxes and foreign withholding taxes have not been provided on these foreign earnings. If these earnings were distributed in the form of dividends or otherwise, or if the shares of the relevant foreign subsidiaries were sold or otherwise transferred, we would be subject to additional U.S. income taxes subject to an adjustment for foreign tax credits and foreign withholding taxes. We intend to use the undistributed earnings for local operating expansions and to meet local operating working capital needs. In addition, a significant amount of the cash earned by foreign subsidiaries has been and will continue to be utilized to affect the new international corporate structure described above.

On July 1, 2016, we implemented a new international corporate structure. This changes the structure of our international procurement and sales operations, as well as realigns the ownership and use of intellectual property among our wholly-owned subsidiaries. We continue to anticipate that an increasing percentage of our consolidated pre-tax income will be derived from, and reinvested in our foreign operations. We believe that income taxed in certain foreign jurisdictions at a lower rate relative to the U.S. federal statutory rate will have a beneficial impact on our worldwide effective tax rate over time. Although the license of intellectual property rights between consolidated entities did not result in any gain in the consolidated financial statements, the Company generated taxable income in certain jurisdictions in 2016 resulting in a tax expense of \$34.3 million. Additionally, as a result of the restructuring, we reassessed the need for a valuation allowance against our deferred tax assets considering all available evidence. Given the current earnings and anticipated future earnings of our subsidiary in Israel, we concluded that we have sufficient positive evidence to release the valuation allowance against our Israel operating loss carryforwards of \$31.4 million, which resulted in an income tax benefit in this period of the same amount.

In June 2009, the Costa Rica Ministry of Foreign Trade, an agency of the Government of Costa Rica, granted a twelve year extension of certain tax incentives, which were previously granted in 2002. The incentive tax rates will expire in various years beginning in July 2017. We intend to seek a renewal of these income tax incentives before they expire. Under these incentives, all of the income in Costa Rica during these twelve year incentive periods is subject to a reduced tax rate. In order to receive the benefit of these incentives, we must hire specified numbers of employees and maintain certain minimum levels of fixed asset investment in Costa Rica. If we do not fulfill these conditions for any reason, our incentive could lapse, and our income in Costa Rica would be subject to taxation at higher rates, which could have a negative impact on our operating results. The Costa Rica corporate income tax rate that would apply, absent the incentives, is 30% for 2016, 2015 and 2014. As a result of these incentives, income taxes were reduced by \$19.1 million, \$32.7 million and \$32.5 million in the year ended December 31, 2016, 2015 and 2014, respectively. The benefit of the tax holiday on diluted net income per share was \$0.23 in the year ended December 31, 2016 and \$0.40 for both the year ended December 31, 2015 and 2014.

As of December 31, 2016 and 2015, the significant components of our deferred tax assets and liabilities are (in thousands):

	Year Ended December 31,	
	2016	2015
Deferred tax assets:		
Net operating loss and capital loss carryforwards	\$ 25,445	\$ 31,247
Reserves and accruals	22,954	17,455
Stock-based compensation	16,399	16,523
Deferred revenue	13,975	24,432
Net translation losses	1,634	649
Credit carryforwards	679	1,932
	<u>81,086</u>	<u>92,238</u>
Deferred tax liabilities:		
Depreciation and amortization	12,034	8,555
Prepaid expenses	969	601
	<u>13,003</u>	<u>9,156</u>
Net deferred tax assets before valuation allowance	68,083	83,082
Valuation allowance	(256)	(31,685)
Net deferred tax assets	<u>\$ 67,827</u>	<u>\$ 51,397</u>

As of December 31, 2016, the valuation allowance decreased by \$31.4 million in comparison to the balance at December 31, 2015. This decrease was due to the release of the valuation allowance against our Israel net deferred tax assets during the year. We determined that these deferred tax assets are more likely than not to be realized based upon our assessment of the available positive and negative evidence. Positive evidence, including expected profitability based upon the implementation of our international corporate restructuring outweighed available negative evidence, which included losses in recent years. The total valuation allowance as of December 31, 2016 was not material.

As of December 31, 2016, we have fully utilized California net operating loss carryforwards. As of December 31, 2016, we have California research credit carryforwards of approximately \$3.7 million which can be carried forward indefinitely. In addition, we have foreign net operating loss carryforwards of approximately \$104.3 million, which, if not utilized will expire beginning in 2025.

In the event of a change in ownership, as defined under federal and state tax laws, our tax credit carryforwards may be subject to annual limitations. The annual limitations may result in the expiration of the tax credit carryforwards before utilization.

The changes in the balance of gross unrecognized tax benefits, which exclude interest and penalties, for the year ended December 31, 2016, 2015 and 2014, are as follows (in thousands):

Unrecognized tax benefit as of December 31, 2013	\$	26,668
Tax positions related to current year:		
Additions for uncertain tax positions		6,659
Tax positions related to prior year:		
Reductions for uncertain tax positions		(260)
Unrecognized tax benefit as of December 31, 2014		<u>33,067</u>
Tax positions related to current year:		
Additions for uncertain tax positions		6,346
Unrecognized tax benefit as of December 31, 2015		<u>39,413</u>
Tax positions related to current year:		
Additions for uncertain tax positions		6,971
Unrecognized tax benefit as of December 31, 2016	<u>\$</u>	<u>46,384</u>



We account for uncertain tax positions pursuant to authoritative guidance based on a two-step approach to recognize and measure uncertain tax positions taken or expected to be taken in a tax return. We first determine whether it is more likely than not that a tax position will be sustained upon audit based on its technical merits. If a tax position meets the more-likely-than-not recognition threshold it is then measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is more than 50 percent likely to be realized upon ultimate settlement. We adjust our uncertain tax positions due to changing facts and circumstances, such as the closing of a tax audit, or refinement of estimates due to new information. To the extent the final outcome of these matters is different than the amounts recorded, such differences will impact our tax provision in our Consolidated Statements of Operations in the period in which such determination is made.

During fiscal year 2016, the amount of gross unrecognized tax benefits increased by \$7.0 million in comparison to fiscal year 2015. The total amount of unrecognized tax benefits, excluding interest and penalties, was \$46.4 million and \$39.4 million as of December 31, 2016 and 2015, respectively, all of which would impact our effective tax rate if recognized. We have elected to recognize interest and penalties related to unrecognized tax benefits as a component of income taxes. For the year ended December 31, 2016 and 2015, interest and penalties included in tax expense was \$1.4 million and \$0.7 million, respectively. Our total interest and penalties accrued as of December 31, 2016 and 2015 was \$2.1 million and \$0.7 million, respectively. We do not expect any significant changes to the amount of unrecognized tax benefit within the next twelve months.

We file U.S. federal, U.S. state, and non-U.S. income tax returns. Our major tax jurisdictions are U.S. federal and the State of California. For U.S. federal and state tax returns, we are no longer subject to tax examinations for years before 2000. With few exceptions, we are no longer subject to examination by foreign tax authorities for years before 2007. Our subsidiary in Israel is under audit by the local tax authorities for calendar years 2006 through 2013.

### Note 13. Net Income per Share

Basic net income per share is computed using the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is computed using the weighted average number of shares of common stock, adjusted for any dilutive effect of potential common stock. Potential common stock, computed using the treasury stock method, includes RSU, MSU, stock options and our ESPP.

The following table sets forth the computation of basic and diluted net income per share attributable to common stock (in thousands, except per share amounts):

	Year Ended December 31,		
	2016	2015	2014
Numerator:			
Net income	\$ 189,682	\$ 144,020	\$ 145,832
Denominator:			
Weighted-average common shares outstanding, basic	79,856	79,998	80,754
Dilutive effect of potential common stock	1,628	1,523	1,529
Total shares, diluted	81,484	81,521	82,283
Net income per share, basic	\$ 2.38	\$ 1.80	\$ 1.81
Net income per share, diluted	\$ 2.33	\$ 1.77	\$ 1.77

For the year ended December 31, 2016, 2015 and 2014, the anti-dilutive effect on net income per share from RSUs, MSUs and ESPP was not material.

**Note 14. Supplemental Cash Flow Information**

The supplemental cash flow information consists of the following (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Taxes paid	\$ 47,289	\$ 40,621	\$ 5,666
Non-cash investing activities:			
Fixed assets acquired with accounts payable or accrued liabilities	\$ 4,434	\$ 14,636	\$ 4,899

**Note 15. Segments and Geographical Information***Segment Information*

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker ("CODM"), or decision-making group, in deciding how to allocate resources and in assessing performance. Our CODM is our Chief Executive Officer. We report segment information based on the management approach. The management approach designates the internal reporting used by CODM for decision making and performance assessment as the basis for determining our reportable segments. The performance measures of our reportable segments include net revenues and gross profit. In the fourth quarter of 2016, management decided to change the way it internally assesses the performance of our reportable segments by including income from operations measure in the performance metrics. Income from operations for each segment includes all geographic revenues, related cost of net revenues and operating expenses directly attributable to the segment. Certain operating expenses are attributable to operating segments and each allocation is measured differently based on the specific facts and circumstances of the costs being allocated. Costs not specifically allocated to segment income from operations include various corporate expenses such as stock-based compensation and costs related to IT, facilities, human resources and accounting and finance, legal and regulatory, and other separately managed general and administrative costs outside the operating segments. We have included the new performance measure in the prior periods presentation to conform to the current year's presentation.

We have grouped our operations into two reportable segments which are also our reporting units: Clear Aligner segment and Scanner segment.

- Our Clear Aligner segment consists of our Invisalign System which includes Invisalign Full, Express/Lite, Teen, Assist, Vivera Retainers, along with our training and ancillary products for treating malocclusion. Clear Aligner segment also include the sale of aligners to SDC under our supply agreement which commenced in the fourth quarter of 2016. SDC revenue is recorded after eliminating outstanding intercompany transactions.
- Our Scanner and Services ("Scanner") segment consists of intraoral scanning systems and additional services available with the intraoral scanners that provide digital alternatives to the traditional cast models. This segment includes our iTero scanner and OrthoCAD services.

These reportable operating segments are based on how our CODM views and evaluates our operations as well as allocation of resources. The following information relates to these segments (in thousands):

	For the Year Ended December 31,		
	2016	2015	2014
<b>Net Revenues</b>			
Clear Aligner	\$ 958,327	\$ 800,186	\$ 712,549
Scanner	121,547	45,300	49,104
Total net revenues	\$ 1,079,874	\$ 845,486	\$ 761,653
<b>Gross Profit</b>			
Clear Aligner	\$ 747,494	\$ 628,187	\$ 562,889
Scanner	67,800	11,923	15,554
Total gross profit	\$ 815,294	\$ 640,110	\$ 578,443
<b>Income from Operations</b>			
Clear Aligner	\$ 411,817	\$ 371,113	\$ 341,055
Scanner	37,498	(12,337)	(8,483)
Unallocated corporate expenses	(200,394)	(170,142)	(138,996)
Total income from operations	\$ 248,921	\$ 188,634	\$ 193,576
<b>Depreciation and Amortization</b>			
Clear Aligner	\$ 13,742	\$ 9,842	\$ 8,706
Scanner	3,871	3,839	4,498
Unallocated corporate expenses	6,389	4,323	4,652
Total depreciation and amortization	\$ 24,002	\$ 18,004	\$ 17,856

The following table reconciles total segment income from operations in the table above to net income before provision for income taxes and equity losses of investee:

	For the Year Ended December 31,		
	2016	2015	2014
Total segment income from operations	\$ 449,315	\$ 358,776	\$ 332,572
Unallocated corporate expenses	(200,394)	(170,142)	(138,996)
Total income from operations	248,921	188,634	193,576
Interest and other income (expense), net	(6,355)	(2,533)	(3,207)
Net income before provision for income taxes and equity losses of investee	\$ 242,566	\$ 186,101	\$ 190,369

#### Geographical Information

Net revenues are presented below by geographic area (in thousands):

	For the Year Ended December 31,		
	2016	2015	2014
<b>Net revenues <sup>(1)</sup>:</b>			
United States <sup>(2)</sup>	\$ 692,254	\$ 585,874	\$ 532,569
The Netherlands <sup>(2)</sup>	291,053	167,128	156,817
Other International	96,567	92,484	72,267
Total net revenues	\$ 1,079,874	\$ 845,486	\$ 761,653

<sup>(1)</sup> Net revenues are attributed to countries based on location of where revenue is recognized.

<sup>(2)</sup> During 2016, we implemented a new international corporate structure. This changed the structure of our international procurement and sales operations.

Tangible long-lived assets are presented below by geographic area (in thousands):

	As of December 31,	
	2016	2015
Long-lived assets <sup>(1)</sup> :		
The Netherlands <sup>(2)</sup>	\$ 111,515	\$ 486
United States <sup>(2)</sup>	43,278	112,632
Mexico	17,918	15,422
Other International	2,456	7,933
Total long-lived assets	\$ 175,167	\$ 136,473

<sup>(1)</sup> Long-lived assets are attributed to countries based on entity that owns the assets.

<sup>(2)</sup> As a result of the new international corporate structure changes, approximately \$92.0 million in long-lived assets were transferred from the U.S. to our Netherlands entity in 2016.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

**ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of disclosure controls and procedures.*

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of December 31, 2016 to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

*Management's annual report on internal control over financial reporting.*

See "Report of Management on Internal Control over Financial Reporting" of this Annual Report on Form 10-K.

*Changes in internal control over financial reporting.*

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

### PART III

Certain information required by Part III is omitted from this Form 10-K because we intend to file a definitive Proxy Statement for our 2017 Annual Meeting of Stockholders (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and certain information to be included therein is incorporated herein by reference.

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 401 of Regulation S-K concerning our directors is incorporated by reference to the Proxy Statement under the section captioned "Election of Directors." The information required by Item 401 of Regulation S-K concerning our executive officers is set forth in *Item 1— "Business" of this Annual Report on Form 10-K*. The information required by Item 405 of Regulation S-K is incorporated by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" contained in the Proxy Statement. The information required by Item 407(e)(3), 407(d)(4) and 407(d)(5) of Regulation S-K is incorporated by reference to the Proxy Statement under the section entitled "Corporate Governance".

##### *Code of Ethics*

We have a code of ethics that applies to all of our employees, including our principal executive officer, principal financial officer and principal accounting officer. This code of ethics is posted on our Internet website. The Internet address for our website is [www.aligentech.com](http://www.aligentech.com), and the code of ethics may be found on the "Corporate Governance" section of our "Investor Relations" webpage.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this code of ethics by posting such information on our website, at the address and location specified above, or as otherwise required by the NASDAQ Global Market.

#### ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 of Regulation S-K is incorporated by reference to the Proxy Statement under the section captioned "Executive Compensation." The information required by Items 407(e)(4) and (e)(5) is incorporated by reference to the Proxy Statement under the section captioned "Corporate Governance—Compensation Committee Interlocks" and "Compensation Committee Report," respectively.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 403 of Regulation S-K is incorporated by reference to the Proxy Statement under the section captioned "Security Ownership of Certain Beneficial Owners and Management."

##### *Equity Compensation Plan Information*

The following table provides information as of December 31, 2016 about our common stock that may be issued upon the exercise of options and rights granted to employees, consultants or members of our Board of Directors under all existing equity compensation plans, including the 1997 Equity Incentive Plan, the Employee Stock Purchase Plan ("ESPP"), the 2001 Stock Incentive Plan and the 2005 Incentive Plan, each as amended, and certain individual arrangements. Please see *Note 9 "Stockholders' Equity" in the Notes to consolidated financial statements* for a description of equity compensation plans.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options and restricted stock units(a)</u>	<u>Weighted average exercise price of outstanding options(b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))</u>
Equity compensation plans approved by security holders	2,531,027 <sup>1</sup>	\$ 14.90	9,454,960 <sup>2, 3</sup>
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>2,531,027</b>	<b>\$ 14.90</b>	<b>9,454,960</b>

- <sup>1</sup> Includes 1,788,372 restricted stock units and 520,350 market-performance based restricted stock units at target, which have an exercise price of zero.
- <sup>2</sup> Includes 936,867 shares available for issuance under our ESPP. We are unable to ascertain with specificity the number of securities to be issued upon exercise of outstanding rights or the weighted average exercise price of outstanding rights under the ESPP.
- <sup>3</sup> Excludes 494,333 of potentially issuable MSUs if performance targets are achieved at maximum payout.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by Item 404 and Item 407 of Regulation S-K is incorporated by reference to the Proxy Statement under the sections captioned “Certain Relationships and Related Party Transactions” and “Corporate Governance—Director Independence,” respectively.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by Item 9(e) of Schedule 14A of the Securities Act of 1934, as amended, is incorporated by reference to the Proxy Statement under the section captioned “Ratification of Appointment of Independent Registered Public Accountants.”

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) Financial Statements

1. Consolidated financial statements

The following documents are filed as part of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm	<a href="#">56</a>
Consolidated Statements of Operations for the year ended December 31, 2016, 2015 and 2014	<a href="#">57</a>
Consolidated Statements of Comprehensive Income for the year ended December 31, 2016, 2015 and 2014	<a href="#">58</a>
Consolidated Balance Sheets as of December 31, 2016 and 2015	<a href="#">59</a>
Consolidated Statements of Stockholders' Equity for the year ended December 31, 2016, 2015 and 2014	<a href="#">60</a>
Consolidated Statements of Cash Flows for the year ended December 31, 2016, 2015 and 2014	<a href="#">61</a>
Notes to Consolidated Financial Statements	<a href="#">62</a>

2. The following financial statement schedule is filed as part of this Annual Report on Form 10-K:

Schedule II—Valuation and Qualifying Accounts and Reserves

All other schedules have been omitted as they are not required, not applicable, or the required information is otherwise included.

**SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**

		Balance at Beginning of Period		Additions (Reductions) to Costs and Expenses		Write Offs		Balance at End of Period
(in thousands)								
<b>Allowance for doubtful accounts and returns:</b>								
Year ended December 31, 2014	\$	1,733	\$	6,563	\$	(6,733)	\$	1,563
Year ended December 31, 2015	\$	1,563	\$	8,944	\$	(8,035)	\$	2,472
Year ended December 31, 2016	\$	2,472	\$	8,585	\$	(6,747)	\$	4,310
<b>Valuation allowance for deferred tax assets:</b>								
Year ended December 31, 2014	\$	35,108	\$	(1,793)	\$	(817)	\$	32,498
Year ended December 31, 2015	\$	32,498	\$	(813)	\$	—	\$	31,685
Year ended December 31, 2016	\$	31,685	\$	(31,429)	\$	—	\$	256

(b) The following Exhibits are included in this Annual Report on Form 10-K:

<u>Exhibit Number</u>	<u>Description</u>	<u>Form</u>	<u>Date</u>	<u>Exhibit Number Incorporated by Reference herein</u>	<u>Filed herewith</u>
3.1	Amended and Restated Certificate of Incorporation of registrant	Form S-1, as amended (File No. 333-49932)	12/28/2000	3.1	
3.2	Amended and Restated Bylaws of registrant	Form 8-K	2/29/2012	3.2	
3.3	Certificate of Designations of Rights, Preferences and Privileges of Series A Participating Preferred Stock registrant	Form 8-K	10/27/2005	3.1	
4.1	Form of Specimen Common Stock Certificate	Form S-1, as amended (File No. 333-49932)	1/17/2001	4.1	
10.1†	Registrant's 2005 Incentive Plan (as amended May 2016)				*
10.2†	Form of RSU agreement under Registrant's 2005 Incentive Plan (Officer Form for officers appointed after September 2016)				*
10.2A†	Form of RSU agreement under Registrant's 2005 Incentive Plan (Officer Form for officers appointed prior to September 2016)				*
10.3	Align's 2010 Employee Stock Purchase Plan	Form 8-K	5/25/2010	10.2	
10.4†	Form of Indemnification Agreement by and between registrant and its Board of Directors and its executive officers	Form S-1 as amended (File No. 333-49932)	1/17/2001	10.15	
10.5†	Form of restricted stock unit award agreement under registrant's 2005 Incentive Plan (General Form; Director Form)	Form 10-Q	11/5/2007	10.1A, 10.1C	
10.6†	Form of option award agreement under registrant's 2005 Incentive Plan	Form 10-Q	8/4/2005	10.4	
10.7†	Form of Employment Agreement entered into by and between registrant and each executive officer (other than CEO for executives appointed prior to September 2016)	Form 10-Q	5/8/2008	10.2	
10.8†	Form of Employment entered into by and between registrant and each executive officer (other than CEO for executives appointed after September 2016)				*
10.9	Credit Agreement dated March 22, 2013 between registrant and Wells Fargo National Association	Form 8-K	3/27/2013	10.1	
10.10†	Summary of 2016 Incentive Awards and Base Salaries	Form 8-K	2/6/2017		
10.11†	Form of Market Stock Unit Agreement (officer)	Form 8-K	2/23/2011	10.1	
10.12†	Form of Market Stock Unit Agreement (CEO)	Form 8-K	2/23/2011	10.2	
10.13†	Description of Executive Officer Incentive Plan	Form 8-K	2/23/2011	Item 5.02	
10.14	Fixed Dollar Accelerated Repurchase Transaction Agreement dated May 3, 2016 between Morgan Stanley & Co and registrant	Form 10-Q	8/4/2016	10.1	
10.15†	Amended and Restated Chief Executive Officer Employment Agreement between Align Technology, Inc. and Joseph Hogan	Form 10-Q	5/1/2015	10.30	



<u>Exhibit Number</u>	<u>Description</u>	<u>Form</u>	<u>Date</u>	<u>Exhibit Number Incorporated by Reference herein</u>	<u>Filed herewith</u>
10.16†	2005 Incentive Plan Notice of Grant of Restricted Stock units (Chief Executive Officer)	Form 10-Q	7/30/2015	10.31	
10.17†	Amended and Restated 2005 Incentive Plan Notice of Grant of Market Stock Units (Chief Executive Officer)	Form 10-Q	7/30/2015	10.34	
10.18†	Employment Agreement between registrant and John Morici	Form 10-Q	11/8/2016	10.2	
10.19	Purchase and Sale Agreement between registrant and LBA RIV-Company XXX, LLC dated December 19, 2016	Form 8-K	12/23/2016	10.1	
10.20	Class C Non-Incentive Unit Purchase Agreement dated July 25, 2016	Form 8-K	7/28/2016	10.1	
10.30	Fifth Amendment to Credit Agreement	Form 8-K	2/13/2017	10.1	
21.1	Subsidiaries of Align Technology, Inc.				*
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm				*
31.1	Certifications of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2003				*
31.2	Certifications of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2003				*
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2003				*
101.INS	XBRL Instance Document				*
101.SCH	XBRL Taxonomy Extension Schema Document				*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				*

† Management contract or compensatory plan or arrangement filed as an Exhibit to this form pursuant to Items 14(a) and 14(c) of Form 10-K.

†† Portions of the exhibit have been omitted pursuant to a request for confidential treatment. The confidential portions have been filed with the SEC.



**Exhibit Index**

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ALIGN TECHNOLOGY, INC.

2005 INCENTIVE PLAN

(as amended and restated May 16, 2016)

1. Purposes of the Plan. The purposes of this Plan are:

- to attract and retain the best available personnel for positions of substantial responsibility,
- to provide incentives to individuals who perform services to the Company, and
- to promote the success of the Company's business.

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, SARs, Restricted Stock Units, Performance Units, Performance Shares and other stock or cash awards as the Administrator may determine.

2. Definitions. As used herein, the following definitions will apply:

(a) "Administrator" means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Affiliate" means any corporation or any other entity (including, but not limited to, partnerships and joint ventures) controlling, controlled by, or under common control with the Company.

(c) "Applicable Laws" means the legal and regulatory requirements relating to the administration of equity-based awards, including but not limited to U.S. federal and state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any non-U.S. country or jurisdiction where Awards are, or will be, granted under the Plan.

(d) "Award" means, individually or collectively, a grant under the Plan of Options, Restricted Stock, SARs, Restricted Stock Units, Performance Units, Performance Shares and other stock or cash awards as the Administrator may determine.

(e) "Award Agreement" means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(f) "Board" means the Board of Directors of the Company.

(g) "Change in Control" means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than fifty percent (50%) of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection (i), the acquisition of additional stock by any one Person, who is considered to own more than fifty percent (50%) of the total voting power of the stock of the Company will not be considered a Change in Control. Further, if the shareholders of the Company immediately before such change in ownership continue to retain immediately after the change in ownership, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately prior to the change in ownership, direct or indirect beneficial ownership of fifty percent (50%) or more of the total voting power of the stock of the Company or of the ultimate parent entity of the

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Company, such event shall not be considered a Change in Control under this subsection (i). For this purpose, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company, as the case may be, either directly or through one or more subsidiary corporations or other business entities; or

(ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12)-month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this subsection (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12)-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's shareholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this definition, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time.

Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(h) "Code" means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code or Treasury Regulation promulgated thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation .

(i) "Committee" means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 hereof.

(j) "Common Stock" means the common stock of the Company.

(k) "Company" means Align Technology, Inc., a Delaware corporation, or any successor thereto.

(l) "Consultant" means any natural person, including an advisor, engaged by the Company or a Parent, Subsidiary or Affiliate to render bona fide services to such entity, provided the services (i) are not in connection with the

offer or sale of securities in a capital-raising transaction, and (ii) do not directly promote or maintain a market for the Company's securities, in each case, within the meaning of Form S-8 promulgated under the Securities Act, and provided, further, that a Consultant will include only those persons to whom the issuance of Shares may be registered under Form S-8 promulgated under the Securities Act.

(m) "Determination Date" means the latest possible date that will not jeopardize the qualification of an Award granted under the Plan as "performance-based compensation" under Section 162(m) of the Code.

(n) "Director" means a member of the Board.

(o) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(p) "Employee" means any person, including Officers and Directors, employed by the Company or its Affiliates. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute "employment" by the Company.

(q) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(r) "Exchange Program" means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for awards of the same type (which may have higher or lower exercise prices and different terms), Awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding Award is increased or reduced.

(s) "Fair Market Value" means, as of any date, the value of Common Stock as the Administrator may determine in good faith by reference to the price of such stock on any established stock exchange or a national market system on the day of determination if the Common Stock is so listed on any established stock exchange or a national market system. If the Common Stock is not listed on any established stock exchange or a national market system, the value of the Common Stock as the Administrator may determine in good faith.

(t) "Fiscal Year" means the fiscal year of the Company.

(u) "Incentive Stock Option" means an Option that by its terms qualifies and is otherwise intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(v) "Inside Director" means a Director who is an Employee.

(w) "Misconduct" means the commission of any act of fraud, embezzlement or dishonesty by the Participant, any unauthorized use or disclosure by such person of confidential information or trade secrets of the Company or its Affiliates, or any other intentional misconduct by such person adversely affecting the business or affairs of the Company or its Affiliates in a material manner. The foregoing definition will not in any way preclude or restrict the right of the Company or its Affiliates to discharge or dismiss any Participant for any other acts or omissions, but such other acts or omissions will not be deemed, for purposes of the Plan, to constitute grounds for termination for Misconduct.

(x) "Nonstatutory Stock Option" means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(y) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(z) "Option" means a stock option granted pursuant to the Plan.

- (aa) “Outside Director” means a Director who is not an Employee.
- (bb) “Parent” means a “parent corporation,” whether now or hereafter existing, as defined in Section 424(e) of the Code.
- (cc) “Participant” means the holder of an outstanding Award.
- (dd) “Performance Goals” will have the meaning set forth in Section 12 of the Plan.
- (ee) “Performance Period” means any Fiscal Year of the Company or such other period as determined by the Administrator in its sole discretion.
- (ff) “Performance Share” means an Award denominated in Shares which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine pursuant to Section 10.
- (gg) “Performance Unit” means an Award which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 10.
- (hh) “Period of Restriction” means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, continued service, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.
- (ii) “Plan” means this 2005 Incentive Plan, as may be amended from time to time.
- (jj) “Restricted Stock” means Shares issued pursuant to a Restricted Stock award under Section 7 of the Plan, or issued pursuant to the early exercise of an Option.
- (kk) “Restricted Stock Unit” means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 9. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.
- (ll) “Rule 16b-3” means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.
- (mm) “Securities Act” means the Securities Act of 1933, as amended.
- (nn) “Section 16(b)” means Section 16(b) of the Exchange Act.
- (oo) “Section 409A” means Section 409A of the Code and the final regulations and any guidance promulgated thereunder, as may be amended from time to time.
- (pp) “Service Provider” means an Employee, Director or Consultant.
- (qq) “Share” means a share of the Common Stock, as adjusted in accordance with Section 18 of the Plan.
- (rr) “Stock Appreciation Right” or “SAR” means an Award, granted alone or in connection with an Option, that pursuant to Section 8 is designated as a SAR.
- (ss) “Subsidiary” means a “subsidiary corporation,” whether now or hereafter existing, as defined in Section 424(f) of the Code.



3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 18 of the Plan, the maximum aggregate number of Shares that may be awarded and sold under the Plan is 30,398,863 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) Full Value Awards. Any Shares subject to Options or SARs will be counted against the numerical limits of this Section 3 as one Share for every Share subject thereto. Any Shares subject to Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units with a per Share or unit purchase price lower than 100% of Fair Market Value on the date of grant that were granted prior to May 16, 2013, will be counted against the numerical limits of this Section 3 as one and one-half (1 ½) Shares for every one (1) Share subject thereto. To the extent that a Share that was subject to an Award that counted as one and one-half (1 ½) Shares against the Plan Share reserve pursuant to the preceding sentence is recycled back into the Plan under Section 3(c) below, the Plan will be credited with one and one-half (1 ½) Shares.

Any Shares subject to Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units with a per Share or unit purchase price lower than 100% of Fair Market Value on the date of grant that were granted on or after May 16, 2013, will be counted against the numerical limits of this Section 3 as one and nine-tenths (1.9) Shares for every one (1) Share subject thereto. To the extent that a Share that was subject to an Award that counted as one and nine-tenths (1.9) Shares against the Plan Share reserve pursuant to the preceding sentence is recycled back into the Plan under Section 3(c) below, the Plan will be credited with one and nine-tenths (1.9) Shares.

(c) Lapsed Awards. If an Award expires or becomes unexercisable without having been exercised in full or, with respect to an Award of Restricted Stock Units, Performance Units or Performance Shares, is terminated due to failure to vest, the unpurchased Shares (or for Awards other than Options or SARs, the unissued Shares) which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). Upon the exercise of a SAR settled in Shares, the gross number of Shares covered by the portion of the Award so exercised (i.e., Shares actually issued pursuant to a SAR, as well as the Shares that represent payment of the exercise price and any applicable tax withholdings) will cease to be available under the Plan. Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if Shares issued pursuant to Awards of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company due to failure to vest, such Shares will become available for future grant under the Plan. Shares used to pay the exercise or purchase price of an Award and/or to satisfy the tax withholding obligations related to an Award will not become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Notwithstanding the foregoing and, subject to adjustment as provided in Section 18, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code and the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan under this Section 3(c).

(d) Share Reserve. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

(e) Outside Director Award Limitations. No Outside Director may be granted in any Fiscal Year Awards that exceed the lesser of (i) Awards covering 100,000 Shares or (ii) Awards with a grant date fair value (determined in accordance with GAAP) of greater than \$1,000,000. Any Awards granted to an individual while he or she was an Employee, or while he or she was a Consultant but not an Outside Director, shall not count for purposes of this limitation. The foregoing limitation will be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 18.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as “performance-based compensation” within the meaning of Section 162(m) of the Code, the Plan will be administered by a Committee of two or more “outside directors” within the meaning of Section 162(m) of the Code.

(iii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

(iii) to determine the number of Shares to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator will determine;

(vi) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(vii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws or for qualifying for favorable tax treatment under applicable foreign laws;

(viii) to modify or amend each Award (subject to Section 23(c) of the Plan) including, without limitation, the discretionary authority to extend the post-termination exercisability period of Awards longer than is otherwise provided for in the Plan. Notwithstanding the previous sentence, the Administrator shall not institute an Exchange Program;

(ix) to allow Participants to satisfy withholding tax obligations in such manner as prescribed in Section 19;

(x) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(xi) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award pursuant to such procedures as the Administrator may determine;

(xii) to grant in addition to the incentives described in Sections 6, 7, 8, 9, and 10 below, other incentives payable in cash or Shares under the Plan as determined by the Administrator to be in the best interests of the Company and subject to any terms and conditions the Administrator deems advisable; and

(xiii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards and will be given the maximum deference permitted by Applicable Laws.

(d) No Liability. Under no circumstances will the Company, its Affiliates, the Administrator, or the Board incur liability for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan or the Company's, its Affiliates', the Administrator's or the Board's roles in connection with the Plan.

5. Eligibility. Nonstatutory Stock Options, Restricted Stock, Stock Appreciation Rights, Restricted Stock Units, Performance Units, Performance Shares and such other cash or stock awards as the Administrator determines may

be granted to Service Providers. Incentive Stock Options may be granted only to Employees of the Company or any Parent or Subsidiary of the Company.

6. Stock Options. Subject to the terms and conditions of the Plan, an Option may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion.

(a) Limitations.

(i) Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate fair market value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds \$100,000, the portion of the Options falling within such limit will be Incentive Stock Options and the excess Options will be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options will be taken into account in the order in which they were granted. The fair market value of the Shares will be determined as of the time the Option with respect to such Shares is granted.

(ii) Subject to Section 3(e), the following limitations will apply to grants of Options:

(1) No Service Provider will be granted, in any Fiscal Year, Options or SARs to purchase more than 1,000,000 Shares.

(2) In connection with his or her initial service, a Service Provider may be granted Options or SARs to purchase an aggregate of up to an additional 1,000,000 Shares, which will not count against the limit set forth in Section 6(a)(ii)(1) above.

(3) The foregoing limitations will be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 18.

(4) If an Option or SAR is cancelled in the same Fiscal Year in which it was granted (other than in connection with a transaction described in Section 18), the cancelled Option or SAR, as applicable, will be counted against the limits set forth in subsections (1) and (2) above. For this purpose, if the exercise price of an Option or SAR is reduced, the transaction will be treated as a cancellation of the Option or SAR, as applicable, and the grant of a new Option or SAR, as applicable.

(b) Term of Option. The term of each Option will be seven (7) years from the date of grant or such shorter term as may be provided in the Award Agreement as determined by the Administrator in its sole discretion. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five (5) years from the date of grant or such shorter term as may be provided in the Award Agreement.

(c) Option Exercise Price and Consideration.

(i) Exercise Price. The per Share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, subject to the following:

(1) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee other than an Employee described in paragraph (1) immediately above, the per Share exercise price will be no less than 100% of the Fair Market Value per Share on the date of grant.

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be determined by the Administrator, but will be no less than 100% of the Fair Market Value per Share on the date of grant.

(3) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(ii) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised.

(iii) Option Agreement. Each Option grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the Option, the acceptable forms of consideration for exercise (which may include any form of consideration permitted by Section 6(c)(iv), the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(iv) Form of Consideration. The Administrator will determine the acceptable form(s) of consideration for exercising an Option, including the method of payment, to the extent permitted by Applicable Laws. In the case of an Incentive Stock Option, the Administrator will determine the acceptable form of consideration at the time of grant.

(d) Exercise of Option.

(i) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) notice of exercise (in such form as the Administrator specifies from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable tax withholdings). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 18 of the Plan.

(ii) Termination of Relationship as a Service Provider other than Death, Disability or Misconduct. If a Participant ceases to be a Service Provider, other than upon the Participant's termination as a result of the Participant's death, Disability or Misconduct, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the Participant's termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following the Participant's termination (but in no event later than the expiration

of the term of such Option as set forth in the Award Agreement). Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the Option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant's death (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

7. Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, will determine.

(b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Notwithstanding the foregoing sentence, for Restricted Stock intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, during any Fiscal Year no Participant will receive more than an aggregate of 500,000 Shares of Restricted Stock; provided, however, that in connection with a Participant's initial service as an Employee, for Restricted Stock intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, an Employee may be granted an aggregate of up to an additional 500,000 Shares of Restricted Stock. The foregoing limitations will be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 18. Unless the Administrator determines otherwise, Shares of Restricted Stock will be held by the Company as escrow agent until the restrictions on such Shares have lapsed.

(c) Transferability. Except as provided in this Section 7, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

(d) Other Restrictions. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

(e) Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the Period of Restriction or at such other time as the Administrator may determine. The Administrator, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed.

(f) Voting Rights. During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(g) Dividends and Other Distributions. During the Period of Restriction, Service Providers holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares unless the Administrator provides otherwise. If any such dividends or distributions are paid in Shares, the Shares will be subject

to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

(h) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

(i) Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock as “performance-based compensation” under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals will be set by the Administrator on or before the Determination Date. In granting Restricted Stock that is intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals).

8. Stock Appreciation Rights.

(a) Grant of SARs. Subject to the terms and conditions of the Plan, a SAR may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion.

(b) Number of Shares. Subject to Section 3(e), the Administrator will have complete discretion to determine the number of SARs granted to any Participant, provided that during any Fiscal Year, no Participant will be granted SARs or Options covering more than 1,000,000 Shares. Notwithstanding the foregoing limitation, and subject to Section 3(e), in connection with a Participant’s initial service as an Employee, an Employee may be granted SARs or Options covering an aggregate of up to an additional 1,000,000 Shares. The foregoing limitations will be adjusted proportionately in connection with any change in the Company’s capitalization as described in Section 18.

(c) Exercise Price and Other Terms. The Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of SARs granted under the Plan, provided, however, that the exercise price will be not less than one hundred percent (100%) of the Fair Market Value of a Share on the date of grant. Notwithstanding the foregoing provisions of this Section 8(c), Stock Appreciation Rights may be granted with a per Share exercise price of less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code and the Treasury Regulations thereunder.

(d) SAR Agreement. Each SAR grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the SAR, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(e) Expiration of SARs. A SAR granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement; provided, however, that the term will be no more than seven (7) years from the date of grant thereof. Notwithstanding the foregoing, the rules of Section 6(d) also will apply to SARs.

(f) Payment of SAR Amount. Upon exercise of a SAR, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

- (i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times
- (ii) The number of Shares with respect to which the SAR is exercised.

At the discretion of the Administrator, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

9. Restricted Stock Units.

(a) Grant. Subject to the terms of the Plan, Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. After the Administrator determines that it will grant Restricted Stock Units under the Plan, it will advise the Participant in an Award Agreement of the terms, conditions, and restrictions related to the grant, including the number of Restricted Stock Units. Notwithstanding anything to the contrary in this subsection (a), for Restricted Stock Units intended to qualify as “performance-based compensation” within the meaning of Section 162(m) of the Code, during any Fiscal Year of the Company, no Participant will receive more than an aggregate of 500,000 Restricted Stock Units. Notwithstanding the limitation in the previous sentence, for Restricted Stock Units intended to qualify as “performance-based compensation” within the meaning of Section 162(m) of the Code, in connection with his or her initial service as an Employee, an Employee may be granted an aggregate of up to an additional 500,000 Restricted Stock Units. The foregoing limitations will be adjusted proportionately in connection with any change in the Company’s capitalization as described in Section 18.

(b) Vesting Criteria and Other Terms. Subject to the terms of the Plan, the Administrator will set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, divisional, business unit, or individual goals (including, but not limited to, continued employment or service), applicable federal or state securities laws, or any other basis determined by the Administrator in its discretion.

(c) Earning Restricted Stock Units. Upon meeting the applicable vesting criteria, the Participant will be entitled to receive a payout as determined by the Administrator. Notwithstanding the foregoing, at any time after the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout and may accelerate the time at which any restrictions will lapse or be removed.

(d) Form and Timing of Payment. Payment of earned Restricted Stock Units will be made as soon as practicable after the date(s) determined by the Administrator and set forth in the Award Agreement or as otherwise provided in the applicable Award Agreement or as required by Applicable Laws. The Administrator, in its sole discretion, may pay earned Restricted Stock Units in cash, Shares, or a combination thereof. Shares represented by Restricted Stock Units that are fully paid in cash again will not reduce the number of Shares available for grant under the Plan.

(e) Cancellation. On the date set forth in the Award Agreement, all unearned Restricted Stock Units will be forfeited to the Company and become available for grant under the Plan.

(f) Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock Units as “performance-based compensation” under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals will be set by the Administrator on or before the Determination Date. In granting Restricted Stock Units which are intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals).

10. Performance Units and Performance Shares.

(a) Grant of Performance Units/Shares. Subject to the terms of the Plan, Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units/Shares granted to each Participant provided that during any Fiscal Year, for Performance Units/Shares intended to qualify as “performance-based compensation” within the meaning of Section 162(m) of the Code, (i) no Participant will receive Performance Units having an initial value greater than \$5,000,000, and (ii) no Participant will receive more than 500,000 Performance Shares. Notwithstanding the foregoing limitation, for Performance Units/Shares intended to qualify as “performance-based compensation” within the meaning of Section 162(m) of the Code, in connection with a Participant’s initial service as an Employee, an Employee may be granted an aggregate of up to an additional 500,000 Performance



Shares. The foregoing limitations will be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 18.

(b) Value of Performance Units/Shares. Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) Performance Objectives and Other Terms. Subject to the terms of the Plan, the Administrator will set performance objectives or other vesting provisions (including, without limitation, continued status as a Service Provider) in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Service Providers. Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine. The Administrator may set performance objectives based on the achievement of Company-wide, divisional, business unit, or individual goals (including, but not limited to, continued employment or service), applicable federal or state securities laws, or any other basis determined by the Administrator in its discretion.

(d) Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.

(e) Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period, or as otherwise provided in the applicable Award Agreement or as required by Applicable Laws. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

(f) Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

(g) Section 162(m) Performance Restrictions. For purposes of qualifying grants of Performance Units/Shares as "performance-based compensation" under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals will be set by the Administrator on or before the Determination Date. In granting Performance Units/Shares which are intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals).

11. Other Cash or Stock Awards. In addition to the incentives described in Sections 6 through 10 above, and subject to the terms of the Plan, the Administrator may grant other incentives payable in cash or Shares under the Plan as it determines to be in the best interests of the Company and subject to such other terms and conditions as it deems appropriate, provided that in any Fiscal Year, a Participant will not receive a cash Award under this Section in excess of \$5,000,000.

12. Performance-Based Compensation Under Code Section 162(m).

(a) General. If the Administrator, in its discretion, decides to grant an Award intended to qualify as “performance-based compensation” under Section 162(m) of the Code, the provisions of this Section 12 will control over any contrary provision in the Plan; provided, however, that the Administrator may in its discretion grant Awards that are not intended to qualify as “performance-based compensation” under Section 162(m) of the Code to such Participants that are based on Performance Goals or other specific criteria or goals but that do not satisfy the requirements of this Section 12.

(b) Performance Goals. The granting and/or vesting of Awards of Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units and other incentives under the Plan may be made subject to the attainment of performance goals relating to one or more business criteria within the meaning of Section 162(m) of the Code and may provide for a targeted level or levels of achievement (“Performance Goals”) including cash flow; cash position; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; earnings per Share; economic profit; economic value added; equity or stockholder’s equity; market share; net income; net profit; net sales; operating earnings; operating income; profit before tax; ratio of debt to debt plus equity; ratio of operating earnings to capital spending; return on net assets; revenue; sales growth; Share price; or total return to stockholders. Any Performance Goals may be used to measure the performance of the Company as a whole or, except with respect to shareholder return metrics, to a business unit or other segment of the Company, or one or more product lines or specific markets, and may be measured either on a growth basis or relative basis to a peer group or index. The Performance Goals may differ from Participant to Participant and from Award to Award. Prior to the Determination Date, the Administrator will determine whether to make any adjustments to the calculation of any Performance Goal with respect to any Participant for any significant or extraordinary events affecting the Company. In all other respects, Performance Goals will be calculated in accordance with the Company’s financial statements, generally accepted accounting principles, or under a methodology established by the Administrator prior to or at the time of the issuance of an Award, which is consistently applied with respect to a Performance Goal in the relevant Performance Period. In addition, the Administrator will adjust any performance criteria, Performance Goal or other feature of an Award that relates to or is wholly or partially based on the number of, or the value of, any stock of the Company, to reflect any change in the Company’s capitalization as described in Section 18.

(c) Procedures. To the extent necessary to comply with the performance-based compensation provisions of Section 162(m) of the Code, with respect to any Award granted subject to Performance Goals and intended to qualify as “performance-based compensation” under Section 162(m) of the Code, on or before the Determination Date (i.e., within the first twenty-five percent (25%) of the Performance Period, but in no event more than ninety (90) days following the commencement of any Performance Period or such other time as may be required or permitted by Section 162(m) of the Code), the Administrator will, in writing, (i) designate one or more Participants to whom an Award will be made, (ii) select the Performance Goals applicable to the Performance Period, (iii) establish the Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period, and (iv) specify the relationship between Performance Goals and the amounts of such Awards, as applicable, to be earned by each Participant for such Performance Period.

(d) Additional Limitations. Notwithstanding any other provision of the Plan, any Award which is granted to a Participant and is intended to constitute qualified performance-based compensation under Section 162(m) of the Code will be subject to any additional limitations set forth in the Code (including any amendment to Section 162(m)) or any regulations and ruling issued thereunder that are requirements for qualification as qualified performance-based compensation as described in Section 162(m) of the Code, and the Plan will be deemed amended to the extent necessary to conform to such requirements.

(e) Determination of Amounts Earned. Following the completion of each Performance Period, the Administrator will certify in writing whether the applicable Performance Goals have been achieved for such Performance Period. A Participant will be eligible to receive payment pursuant to an Award intended to qualify as “performance-based compensation” under Section 162(m) of the Code for a Performance Period only if the Performance Goals for such period are achieved. In determining the amounts earned by a Participant pursuant to an Award intended to qualified as “performance-based compensation” under Section 162(m) of the Code, the Administrator will have the right to (i) reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the

Administrator may deem relevant to the assessment of individual or corporate performance for the Performance Period, (ii) determine what actual Award, if any, will be paid in the event of a termination of employment as the result of a Participant's death or disability or upon a Change in Control or in the event of a termination of employment following a Change in Control prior to the end of the Performance Period, and (iii) determine what actual Award, if any, will be paid in the event of a termination of employment other than as the result of a Participant's death or disability prior to a Change in Control and prior to the end of the Performance Period to the extent an actual Award would have otherwise been achieved had the Participant remained employed through the end of the Performance Period.

13. Compliance With Code Section 409A. Awards will be designed and operated in such a manner that they are either exempt from the application of, or comply with, the requirements of Code Section 409A such that the grant, payment, settlement or deferral of Awards will not be subject to the additional tax or interest applicable under Code Section 409A, except as otherwise determined in the sole discretion of the Administrator. The Plan and each Award Agreement under the Plan is intended to meet the requirements of Code Section 409A and will be construed and interpreted in accordance with such intent, except as otherwise determined in the sole discretion of the Administrator. To the extent that an Award or payment, or the settlement or deferral thereof, is subject to Code Section 409A, the Award will be granted, paid, settled or deferred in a manner that will meet the requirements of Code Section 409A, such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A.

14. Leaves of Absence/Transfer Between Locations. Unless the Administrator provides otherwise and except as required by Applicable Laws, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence. A Service Provider will not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no such leave may exceed three (3) months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then six (6) months following the first (1<sup>st</sup>) day of such leave, any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

15. Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

16. Termination of Relationship as a Service Provider due to Misconduct. If a Participant ceases to be a Service Provider due to his or her Misconduct or should a Participant engage in Misconduct while holding an outstanding Award, then all Awards that the Participant then holds will immediately terminate and the Participant will have no further rights with respect to such Awards. Upon such a termination, the Shares covered by the Awards that so terminate will revert to the Plan.

17. Minimum Vesting Requirements.

(a) General. Except as specified otherwise in Section 17(b), no Award will vest in full earlier than the 1-year anniversary of the Award's date of grant, unless the vesting of the Award is accelerated pursuant to a Change in Control, certain terminations of a Participant's status as a Service Provider on or after a Change in Control, a Participant's death, or a Participant's Disability (each, an "Acceleration Event").

(b) Exception to Minimum Vesting Requirements. Awards that result in issuing up to 5% of the maximum aggregate number of Shares authorized for issuance under the Plan (the "5% Limit") may be granted to any one or more Employees or Outside Directors without respect to the minimum vesting requirements set forth in Section 17(a). All Awards that have their vesting discretionarily accelerated (except if accelerated pursuant to an Acceleration Event) are subject to the 5% Limit. For purposes of clarification, the Administrator may accelerate the vesting of any Award pursuant to an Acceleration Event without such vesting acceleration counting toward the 5% Limit. The 5% Limit applies in the aggregate to Awards that do not satisfy the minimum vesting requirements set forth in Section 17(a) and to the discretionary vesting acceleration of Awards as specified in this Section 17(b).

18. Adjustments; Dissolution or Liquidation; Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award, and the numerical Share and unit limits set forth in Sections 3, 6, 7, 8, 9, and 10.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. In the event of a merger of the Company with or into another corporation or other entity, or Change in Control, each outstanding Award will be treated as the Administrator determines, including, without limitation, that each Award be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. The Administrator will not be required to treat all Awards similarly in the transaction.

In the event that the successor corporation does not assume or substitute for the Award (or portion thereof), (and for the avoidance of doubt, notwithstanding the vesting limitations under Section 17) the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights that are not assumed or substituted for, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock, Restricted Stock Units, and Performance Shares/Units not assumed or substituted for will lapse, and, with respect to Awards with performance-based vesting not assumed or substituted for, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels (unless specifically provided otherwise under the applicable Award Agreement or other written agreement between the Participant and the Company) and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right is not assumed or substituted for in the event of a Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be fully vested and exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

With respect to Awards granted to Outside Directors that are assumed or substituted for, if on the date of or following such assumption or substitution the Participant's status as a Director or a director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the Participant, then the Participant will fully vest in and have the right to exercise Options and/or Stock Appreciation Rights as to all of the Shares subject thereto, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met.

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) or, in the case of a Stock Appreciation Right upon the exercise of which the Administrator determines to pay cash or a Restricted Stock Unit, Performance Share or Performance Unit which the Administrator can determine to pay in cash, the fair market value of the consideration received in the merger or Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, Performance Share or Performance Unit, for each Share subject to such Award

(or in the case of an Award settled in cash, the number of implied shares determined by dividing the value of the Award by the per share consideration received by holders of Common Stock in the Change in Control), to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this Section 18(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance objectives (including any Performance Goals) will not be considered assumed if the Company or its successor modifies any of such performance objectives without the Participant's consent; provided, however, a modification to such performance objectives only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

Notwithstanding anything in this Section 18(c) to the contrary, if a payment under an Award Agreement is subject to Section 409A of the Code and if the change in control definition contained in the Award Agreement or other agreement related to the Award does not comply with the definition of "change in control" for purposes of a distribution under Section 409A of the Code, then any payment of an amount that is otherwise accelerated under this Section will be delayed until the earliest time that such payment would be permissible under Section 409A of the Code without triggering any penalties applicable under Section 409A of the Code.

19. Tax Withholding

(a) Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof) or such earlier time as any tax withholdings are due, the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local, foreign or other taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

(b) Withholding Arrangements. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (without limitation) (i) paying cash, (ii) electing to have the Company withhold otherwise deliverable cash or Shares having a fair market value equal to the minimum statutory amount required to be withheld, (iii) delivering to the Company already-owned Shares having a fair market value equal to the minimum statutory amount required to be withheld, provided the delivery of such Shares will not result in any adverse accounting consequences as the Administrator determines in its sole discretion, (iv) selling a sufficient number of Shares otherwise deliverable to the Participant through such means as the Administrator may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld or (v) retaining from salary or other amounts payable to the Participant cash having a sufficient value to satisfy the amount required to be withheld. The amount of the withholding requirement will be deemed to include any amount which the Administrator agrees may be withheld at the time the election is made, not to exceed the amount determined by using the maximum federal, state or local marginal income tax rates applicable to the Participant with respect to the Award on the date that the amount of tax to be withheld is to be determined. The fair market value of the Shares to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.

20. No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider, nor will they interfere in any way with the Participant's right or the right of the Company, or Parent or Subsidiary, as applicable, to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

21. Date of Grant. The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

22. Term of Plan. Subject to Section 26 of the Plan, this Plan as adopted by the Board in its amended and restated form will become effective as of the date of the Company's 2016 Annual Meeting of Stockholders and will continue in effect for a term ending on the ten (10) year anniversary of such meeting, unless terminated earlier under Section 23 of the Plan.

23. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Administrator may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws. Without limiting the foregoing sentence, the number of Shares available under the Plan pursuant to Section 3 herein may not be increased without approval of the Company's stockholders, except as provided in Section 3.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

24. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

25. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction or to complete or comply with the requirements of any registration or other qualification of the Shares under any state, federal or foreign law or under the rules and regulations of the Securities and Exchange Commission, the stock exchange on which Shares of the same class are then listed, or any other governmental or regulatory body, which authority, registration, qualification or rule compliance is deemed by the Company's counsel to be necessary to or advisable for the lawful issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority, registration, qualification or rule compliance will not have been obtained.

26. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

27. Forfeiture Events. The Administrator may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award will be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Notwithstanding any provisions to the contrary under this Plan, an Award shall be subject to the Company's clawback policy as may be established and/or amended from time to time (the "Clawback Policy"). The Administrator may require a Participant to forfeit, return or reimburse the Company all or a portion of the Award and any amounts paid thereunder pursuant to the terms of the Clawback Policy or as necessary or appropriate to comply with Applicable Laws.

Align Technology, Inc.  
 ID: 94-3267295  
 2560 Orchard Parkway  
 San Jose, CA. 95131

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**AMNEDED AND RESTATED 2005 INCENTIVE PLAN**  
**NOTICE OF GRANT OF RESTRICTED STOCK UNITS (officers appointed post September 2016)**

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1. Unless otherwise defined herein, the terms defined in the Amended and Restated 2005 Incentive Plan (the "Plan") will have the same defined meanings in this Notice of Grant of Restricted Stock Units (the "Notice of Grant").

**Award Number:**  
**Plan:**  
**ID:**

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2. You have been granted the right to receive Restricted Stock Units, subject to the terms and conditions of the Plan, this Notice of Grant and the Restricted Stock Unit Agreement attached hereto as Exhibit A (the "Agreement") as follows:

- Award Number:
- Date of Grant:
- Vesting Commencement Date:
- Total Number of Restricted Stock Units:
- the Award shall terminate and expire on

**Vesting Schedule:**

<u>Shares</u>	<u>Full Vest Date</u>	<u>Vest Type</u>
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(a) Subject to the paragraph (c) and (d) below, in the event Participant ceases to be a Service Provider for any or no reason before Participant vests in the right to acquire the Shares to be issued pursuant to the Restricted Stock Unit, the Restricted Stock Unit and Participant's right to acquire any Shares hereunder will immediately terminate.

(b) General Release. Any other provision of this Notice of Grant, the Plan or the Agreement notwithstanding, Subsections (c) below shall not apply unless the Participant (i) has executed a general release in a form prescribed by the Company of all known and unknown claims that he may then have against the Company or persons affiliated with the Company, and (ii) has agreed not to prosecute any legal action or other proceeding based upon any of such claims.

(c) Upon a Change of Control. Notwithstanding paragraph (a) above, if within eighteen (18) months following the occurrence of the Change of Control, one of the following events occurs:

Participant's employment is terminated by the Company without Cause; or

Participant resigns for Good Reason

then Participant shall immediately vest as to all shares under all outstanding Restricted Stock Units and the Company.

*By accepting this agreement, you and the Company agree that this award is granted under and governed by the terms and conditions of the Plan and the Agreement, each of which are made a part of this document. You further agree to accept, acknowledge and execute this Agreement as a condition to receiving any Restricted Stock Units under this Award.*

Nothing in this Notice or in the attached Agreement or in the Plan shall confer upon Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any Parent or Subsidiary employing or retaining Participant) or of Participant, which rights are hereby expressly reserved by each, to terminate Participant's Service at any time for any reason, with or without cause.

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**ALIGN TECHNOLOGY, INC.**  
**AMENDED AND RESTATED 2005 INCENTIVE PLAN**  
**EXHIBIT A**

**RESTRICTED STOCK UNIT AGREEMENT**

1. Grant. The Company hereby grants to Participant under the Plan an Award of Restricted Stock Units, subject to all of the terms and conditions in the Notice of Grant, this Agreement and the Plan.
  2. Company's Obligation to Pay. Each Restricted Stock Unit represents a value equal to the Fair Market Value of a Share on the date it becomes vested. Unless and until the Restricted Stock Units will have vested in the manner set forth in Sections 3 and 4, Participant will have no right to payment of any such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Unit will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.
  3. Vesting Schedule. Subject to Section 4, the Restricted Stock Units awarded by this Agreement will vest in Participant according to the vesting schedule set forth on the attached Notice of Grant, subject to Participant continuing to be a Service Provider through each such date; *provided, however*, that the paragraph (c) of the Notice of Grant shall apply in the event Participant ceases to be a Service Provider within 18 months of a Change of Control (as defined in the employment agreement between the Company and Participant (the "Employment Agreement")) as a result of termination by the Company without Cause (as defined in the Employment Agreement) or if Participant resigns for Good Reason (as defined in the Employment Agreement).
  4. Forfeiture upon Termination of Status as a Service Provider. Subject to paragraphs (c) of the Notice of Grant, if Participant ceases to be a Service Provider for any or no reason, the then-unvested Restricted Stock Units awarded by this Agreement will thereupon be forfeited at no cost to the Company and Participant will have no further rights thereunder.
  5. Payment after Vesting. Any Restricted Stock Units that vest in accordance with Section 3 will be paid to Participant (or in the event of Participant's death, to his or her estate) in whole Shares, subject to Participant satisfying any applicable tax withholding obligations as set forth in Section 7.
  6. Payments after Death. Any distribution or delivery to be made to Participant under this Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.
  7. Taxes.
    - (a) Generally. The Participant is ultimately liable and responsible for all taxes owed in connection with the Restricted Stock Units, regardless of any action the Company or any of its Subsidiaries takes with respect to any tax withholding obligations that arise in connection with the Restricted Stock Units. Neither the Company nor any of its Subsidiaries makes any representation or undertaking regarding the treatment of any tax withholding in connection with the grant or vesting of the Restricted Stock Units or the subsequent sale of Shares issuable pursuant to the Restricted Stock Units. The Company and its Subsidiaries do not commit and are under no obligation to structure the Restricted Stock Units to reduce or eliminate the Participant's tax liability.
    - (b) Payment of Withholding Taxes. Notwithstanding any contrary provision of this Agreement, no Shares will be issued to the Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by the Participant with respect to the payment of any taxes which the Company determines must be withheld with respect to the Restricted Stock Units. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may satisfy such tax withholding obligations, in whole or in part, by withholding otherwise deliverable Shares having an aggregate Fair Market Value sufficient to (but not exceeding) the minimum amount required to be withheld. In addition and to the maximum extent permitted by law, the Company has
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the right to retain without notice from salary or other amounts payable to the Participant, cash having a value sufficient to satisfy any tax withholding obligations that cannot be satisfied by the withholding of otherwise deliverable Shares.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder, unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant.

9. No Effect on Service. Participant acknowledges and agrees that the vesting of the Restricted Stock Units pursuant to Section 3 hereof is earned only by Participant continuing to be a Service Provider through the applicable vesting dates (and not through the act of being hired or acquiring Shares hereunder) (subject, however, to paragraphs (c) and (d) of the Notice of Grant). Participant further acknowledges and agrees that this Agreement, the transactions contemplated hereunder and the vesting schedule set forth herein do not constitute an express or implied promise of Participant continuing to be a Service Provider for the vesting period, for any period, or at all, and will not interfere with the Participant's right or the right of the Company (or the Affiliate employing or retaining Participant) to terminate Participant as a Service Provider at any time, with or without cause.

10. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company, in care of Stock Administrator at Align Technology, Inc., 2560 Orchard Parkway, San Jose, CA 95131, or at such other address as the Company may hereafter designate in writing.

11. Grant is Not Transferable. Except to the limited extent provided in Section 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

12. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

13. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of shares to Participant (or his estate), such issuance will not occur unless and until such listing, registration, qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to the Company. Where the Company determines that the delivery of the payment of any Shares will violate federal securities laws or other applicable laws, the Company will defer delivery until the earliest date at which the Company reasonably anticipates that the delivery of Shares will no longer cause such violation. The Company will make all reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority.

14. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern.

15. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

16. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan

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by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

17. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

18. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

19. Governing Law. This Award Agreement shall be governed by the laws of the State of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock Units or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation shall be conducted in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock Units is made and/or to be performed.

*[Remainder of Page Intentionally Left Blank]*

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By Participant's acceptance of this Agreement, Participant represents that he or she is familiar with the terms and provisions of the Plan, and hereby accepts this Agreement subject to all of the terms and provisions thereof. Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of this Agreement. Participant agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Agreement. Participant further agrees to notify the Company upon any change in the residence indicated in the Notice of Grant of Restricted Stock Units.

PARTICIPANT:

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Signature

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Print Name

ALIGN TECHNOLOGY INC.

/s/ Joseph Hogan

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By: Joseph Hogan

President and Chief Executive Officer

ALIGN TECHNOLOGY, INC.  
(Officers appointed prior to September 2016)

2005 INCENTIVE PLAN

NOTICE OF GRANT OF RESTRICTED STOCK UNITS  
(Executive Officers)

Unless otherwise defined herein, the terms defined in the 2005 Incentive Plan (the "Plan") will have the same defined meanings in this Notice of Grant of Restricted Stock Units (the "Notice of Grant").

**Participant:**

**Address:**

You have been granted the right to receive Restricted Stock Units (referred to in Section 9 of the Plan as "Performance Units"), subject to the terms and conditions of the Plan, this Notice of Grant and the Restricted Stock Unit Agreement attached hereto as Exhibit A (the "Agreement") as follows:

Grant Number \_\_\_\_\_  
Date of Grant \_\_\_\_\_  
Vesting Commencement Date \_\_\_\_\_  
Total Number of Restricted Stock Units \_\_\_\_\_

Vesting Schedule :

(a) The Restricted Stock Units shall be subject to annual vesting whereby twenty-five percent (25%) of the Restricted Stock Units will vest and be issued to Participant on each anniversary of the Vesting Commencement Date (and if there is no corresponding day, on the last day of the month) for full vesting after 4 years, subject to Participant continuing to be a Service Provider through such dates (the "Performance Period"). Subject to the paragraph (c) and (d) below, in the event Participant ceases to be a Service Provider for any or no reason before Participant vests in the right to acquire the Shares to be issued pursuant to the Restricted Stock Unit, the Restricted Stock Unit and Participant's right to acquire any Shares hereunder will immediately terminate.

(b) General Release. Any other provision of this Notice of Grant, the Plan or the Agreement notwithstanding, Subsections (c) or (d) below shall not apply unless the Participant (i) has executed a general release in a form prescribed by the Company of all known and unknown claims that he may then have against the Company or persons affiliated with the Company, and (ii) has agreed not to prosecute any legal action or other proceeding based upon any of such claims.

(c) Termination Without Cause or Good Reason. Notwithstanding the paragraph (a) above, if, during Participant's employment by the Company, and not in connection with a Change of Control (as defined in the employment agreement between the Company and Participant (the "Employment Agreement") and as addressed in paragraph (c) below), the Company terminates Participant's employment without "Cause" or Participant resigns for "Good Reason" (as each such term is defined in the Employment Agreement), then Participant shall immediately vest in an additional number of shares underlying the Restricted Stock Units awarded pursuant to this Notice of Grant as if he had performed twelve (12) additional months of service.

(d) Upon a Change of Control. Notwithstanding paragraph (a) above, in the event of the occurrence of a Change in Control (as defined in the Employment Agreement) while Participant is employed by the Company, then:

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(i) Participant shall immediately vest in an additional number of shares under the Restricted Stock Units awarded pursuant to this Notice of Grant as if he had performed twelve (12) additional months of service; and

(ii) if within twelve (12) months following the occurrence of the Change of Control, one of the following events occurs:

- (1) Participant's employment is terminated by the Company without Cause; or
- (2) Participant resigns for Good Reason

then Participant shall immediately vest as to all shares under all outstanding Restricted Stock Units and the Company

**By accepting this agreement online, you and the Company agree that this award is granted under and governed by the terms and conditions of the Plan and the Agreement, each of which are made a part of this document. You further agree to accept, acknowledge and execute this Agreement online as a condition to receiving any Restricted Stock Units under this Award.**

**Nothing in this Notice or in the attached Agreement or in the Plan shall confer upon Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any Parent or Subsidiary employing or retaining Participant) or of Participant, which rights are hereby expressly reserved by each, to terminate Participant's Service at any time for any reason, with or without cause.**

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## EXHIBIT A

### RESTRICTED STOCK UNIT AGREEMENT

1. Grant. The Company hereby grants to Participant under the Plan an Award of Restricted Stock Units (referred to in the Plan as Performance Units), subject to all of the terms and conditions in the Notice of Grant, this Agreement and the Plan.

2. Company's Obligation to Pay. Each Restricted Stock Unit represents a value equal to the Fair Market Value of a Share on the date it becomes vested. Unless and until the Restricted Stock Units will have vested in the manner set forth in Sections 3 and 4, Participant will have no right to payment of any such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Unit will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.

3. Vesting Schedule. Subject to Section 4, the Restricted Stock Units awarded by this Agreement will vest in Participant according to the vesting schedule set forth on the attached Notice of Grant, subject to Participant continuing to be a Service Provider through each such date; *provided, however*, that the paragraph (c) of the Notice of Grant shall apply in the event Participant ceases to be a Service Provider as a result of termination without Cause (as defined in the employment agreement between the Company and Participant (the "Employment Agreement") or if Participant resigns for Good Reason (as defined in the Employment Agreement) and paragraph (c) of the Notice of Grant shall apply in the event Participant ceases to be a Service Provider within 12 months of a Change of Control (as defined in the Employment Agreement) as a result of termination by the Company without cause or if Participant resigns for Good Reason.

4. Forfeiture upon Termination of Status as a Service Provider. Subject to paragraphs (c) and (d) of the Notice of Grant, if Participant ceases to be a Service Provider for any or no reason, the then-unvested Restricted Stock Units awarded by this Agreement will thereupon be forfeited at no cost to the Company and Participant will have no further rights thereunder.

5. Payment after Vesting. Any Restricted Stock Units that vest in accordance with Section 3 will be paid to Participant (or in the event of Participant's death, to his or her estate) in whole Shares, subject to Participant satisfying any applicable tax withholding obligations as set forth in Section 7.

6. Payments after Death. Any distribution or delivery to be made to Participant under this Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Taxes.

(a) Generally. The Participant is ultimately liable and responsible for all taxes owed in connection with the Restricted Stock Units, regardless of any action the Company or any of its Subsidiaries takes with respect to any tax withholding obligations that arise in connection with the Restricted Stock Units. Neither the Company nor any of its Subsidiaries makes any representation or undertaking regarding the treatment of any tax withholding in connection with the grant or vesting of the Restricted Stock Units or the subsequent sale of Shares issuable pursuant to the Restricted Stock Units. The Company and its Subsidiaries do not commit and are under no obligation to structure the Restricted Stock Units to reduce or eliminate the Participant's tax liability.

(b) Payment of Withholding Taxes. Notwithstanding any contrary provision of this Agreement, no Shares will be issued to the Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by the Participant with respect to the payment of any taxes which the Company determines must be withheld with respect to the Restricted Stock Units. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may satisfy such tax withholding obligations, in whole or in part, by withholding otherwise deliverable Shares having an aggregate Fair Market Value sufficient to (but not exceeding) the minimum amount required to be withheld. In addition and to the maximum extent permitted by law, the Company has

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the right to retain without notice from salary or other amounts payable to the Participant, cash having a value sufficient to satisfy any tax withholding obligations that cannot be satisfied by the withholding of otherwise deliverable Shares.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder, unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant.

9. No Effect on Service. Participant acknowledges and agrees that the vesting of the Restricted Stock Units pursuant to Section 3 hereof is earned only by Participant continuing to be a Service Provider through the applicable vesting dates (and not through the act of being hired or acquiring Shares hereunder) (subject, however, to paragraphs (b) and (c) of the Notice of Grant). Participant further acknowledges and agrees that this Agreement, the transactions contemplated hereunder and the vesting schedule set forth herein do not constitute an express or implied promise of Participant continuing to be a Service Provider for the vesting period, for any period, or at all, and will not interfere with the Participant's right or the right of the Company (or the Affiliate employing or retaining Participant) to terminate Participant as a Service Provider at any time, with or without cause.

10. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company, in care of Stock Administrator at Align Technology, Inc., 881 Martin Avenue, Santa Clara, CA 95050, or at such other address as the Company may hereafter designate in writing.

11. Grant is Not Transferable. Except to the limited extent provided in Section 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

12. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

13. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of shares to Participant (or his estate), such issuance will not occur unless and until such listing, registration, qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to the Company. Where the Company determines that the delivery of the payment of any Shares will violate federal securities laws or other applicable laws, the Company will defer delivery until the earliest date at which the Company reasonably anticipates that the delivery of Shares will no longer cause such violation. The Company will make all reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority.

14. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern.

15. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

16. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan

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by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

17. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

18. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

19. Governing Law. This Award Agreement shall be governed by the laws of the State of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock Units or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation shall be conducted in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock Units is made and/or to be performed.

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By Participant's acceptance of this Agreement online, Participant represents that he or she is familiar with the terms and provisions of the Plan, and hereby accepts this Agreement subject to all of the terms and provisions thereof. Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of this Agreement. Participant agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Agreement. Participant further agrees to notify the Company upon any change in the residence indicated in the Notice of Grant of Restricted Stock Units.

## EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the “ **Agreement** ”) is entered into as of [DATE] by and between [NAME] (the “ **Executive** ”) and Align Technology, Inc., a Delaware corporation (the “ **Company** ”).

### 1. Duties and Scope of Employment.

(a) Position. For the term of the Executive’s employment under this Agreement (“ **Employment** ”), the Company agrees to employ the Executive in the position of [TITLE] with the Executive’s principal place of Employment in San Jose, California. The Executive shall report to the Chief Executive Officer (the “ **CEO** ”). The Executive accepts such Employment and agrees to discharge all of the duties normally associated with said position, and to faithfully and to the best of the Executive’s abilities perform such other services consistent with the Executive’s position as [TITLE] as may from time to time be assigned to the Executive by the CEO.

(b) Obligations to the Company. During the term of the Executive’s Employment, the Executive shall devote the Executive’s full business efforts and time to the Company. The Executive agrees not to actively engage in any other employment, occupation or consulting activity for any direct or indirect remuneration without the prior approval of the CEO, provided, however, that the Executive may, without the approval of the CEO, serve in any capacity with any civic, educational or charitable organization. The Executive may own, as a passive investor, no more than one percent (1%) of any class of the outstanding securities of any publicly traded corporation.

(c) No Conflicting Obligations. The Executive represents and warrants to the Company that the Executive is under no obligations or commitments, whether contractual or otherwise, that are inconsistent with the Executive’s obligations under this Agreement. The Executive represents and warrants that the Executive will not use or disclose, in connection with the Executive’s employment by the Company, any trade secrets or other proprietary information or intellectual property in which the Executive or any other person has any right, title or interest and that the Executive’s employment by the Company as contemplated by this Agreement will not infringe or violate the rights of any other person or entity. The Executive represents and warrants to the Company that the Executive has returned all property and confidential information belonging to any prior employers.

(d) Commencement Date. It is expected that the Executive will commence full-time Employment on [START DATE].

### 2. Cash and Incentive Compensation.

(a) Salary. The Company shall pay the Executive as compensation for the Executive’s services a base salary at a gross annual rate of \$[\_\_\_\_], payable in accordance with the Company’s standard payroll schedule. The compensation specified in this Subsection (a), together with any adjustments by the Company from time to time, is referred to in this Agreement as “ **Base Salary** .”

(b) Annual Bonus. The Executive shall be entitled to participate in an annual bonus program that will provide the Executive with an opportunity to earn a potential annual bonus (the “ **Annual Bonus** ”) equal to [\_\_]% of the Executive’s Base Salary at target levels of performance (the “ **Target Bonus** ”). [ For the Company’s current fiscal year (“ **FY2016** ”), however, the Executive will earn a guaranteed Annual Bonus equal to \$[\_\_\_\_] provided the Executive remains an employee of the Company as of December 31, [2016] (the “ **Guaranteed Bonus** ”). For FY2016 only, should the Company exceed its target level of achievement, the Executive’s Annual Bonus will be capped at the Guaranteed Bonus amount. For years subsequent to FY2016, the amount of the Annual Bonus shall be based upon the performance of the Executive, as set by the individual performance objectives described in this Subsection, and the Company in each calendar year. Notwithstanding anything in this Section 2(b) to the contrary, the Executive must remain employed by the Company through December 31 of a particular year in order to earn an Annual Bonus for such year, and each Annual Bonus that is earned shall be paid by no later than March 1 of the year following the year it is earned. The Executive’s individual performance objectives shall be set by the CEO after consultation with the Executive and the Company’s objectives shall be approved by the Compensation Committee of the Company’s Board of Directors (the “ **Compensation Committee** ”) in each case by no later than March 31 of each calendar year; provided, however, that the Executive’s individual performance objectives for 2016 will be set within sixty (60) calendar days of the Executive’s hire date]. The amount of any Annual Bonus awarded or paid to the Executive [(except for the Guaranteed Bonus)] will be subject to the discretion of the Compensation Committee.

(c) Incentive Awards. The Executive shall be granted an award of restricted stock units covering [\_\_\_\_] shares of the Company’s common stock (the “ **Restricted Stock Unit Award** ”), subject to the approval of the Compensation Committee in all respects, including the terms described herein. The Restricted Stock Unit Award will vest as to 25% on each yearly anniversary of [VESTING COMMENCEMENT DATE], subject to the Executive’s continuous service through each applicable vesting date. The grant of the Restricted Stock Unit Award shall be subject to the other terms and conditions set forth in the Company’s 2005 Incentive Plan, as amended from time to time, and in the Company’s standard form of restricted stock unit agreement.

3. Vacation and the Executive Benefits. During the term of the Executive’s Employment, the Executive shall be eligible to accrue 17 days’ vacation per year on a pro-rata basis throughout the year, in accordance with the Company’s standard policy for senior management, including provisions with respect to maximum accrual, as it may be amended from time to time. During the term of the Executive’s Employment, the Executive shall be eligible to participate in any employee benefit plans maintained by the Company for senior management, subject in each case to the generally applicable terms and conditions of the plan in question and to the determinations of any person or committee administering such plan, and to the right of the Company to make changes in such plans from time to time.

4. Business Expenses. During the term of the Executive’s Employment, the Executive shall be authorized to incur necessary and reasonable travel, entertainment and other business expenses in connection with her duties hereunder. The Company shall reimburse the Executive for such expenses upon presentation of an itemized account and appropriate supporting documentation, all in accordance with the Company’s generally applicable policies.

### 5. Term of Employment.

(a) At-Will Employment. The Executive’s Employment with the Company shall be “at will” and either the Executive or the Company may

terminate the Executive's Employment at any time, for any reason, with or without Cause (though certain terminations of the Executive's Employment may trigger the Executive's right to receive payments and benefits under Section 6). Any contrary representations, which may have been made to the Executive, whether orally or in writing, shall be superseded by this Agreement. This Agreement shall constitute the full and complete agreement between the Executive and the Company on the "at will" nature of the Executive's Employment, which may only be changed in an express written agreement signed by the Executive and a duly authorized officer of the Company.

(b) Termination. The Company may terminate the Executive's Employment at any time and for any reason (or no reason), with or without Cause, by giving the Executive notice in writing. The Executive may terminate the Executive's Employment by giving the Company fourteen (14) days' advance notice in writing. The Executive's Employment shall terminate automatically in the event of the Executive's death. Notwithstanding anything to the contrary, upon the Executive's termination due to death or Disability, the Executive shall only be entitled to the payments and benefits provided under Section 5(c)(i)-(v) below.

(c) Rights Upon Termination. In the event the Executive's Employment with the Company terminates for any reason, the Executive will be entitled to any (i) unpaid base salary accrued up to the effective date of termination, as well as unpaid, but accrued vacation; (ii) unpaid, but earned and accrued annual incentive; (iii) benefits or compensation as provided under the terms of any employee benefit and compensation agreements or plans applicable to the Executive; (iv) unreimbursed business expenses required to be reimbursed to the Executive; and (v) rights to indemnification the Executive may have under the Company's Articles of Incorporation, Bylaws, the Agreement, or separate indemnification agreement, as applicable. Except as expressly provided in Section 6, upon the termination of the Executive's Employment pursuant to this Section 5, the Executive shall only be entitled to the compensation, benefits and reimbursements described in Sections 2, 3 and 4 for the period preceding the effective date of the termination. The payments under this Agreement shall fully discharge all responsibilities of the Company to the Executive.

(d) Termination of Agreement. The termination of this Agreement shall not limit or otherwise affect any of the Executive's obligations under Section 7.

#### 6. Termination Benefits.

(a) General Release Agreement. Any other provision of this Agreement notwithstanding, Subsections (b), (c) or (d) below shall not apply unless (i) the Executive has executed a General Release Agreement in a form prescribed by the Company which will include a provision whereby the Executive waives and releases with irrevocable effect all known and unknown claims that the Executive may then have against the Company or persons affiliated with the Company which are waivable under applicable law, and (ii) the Executive has pursuant to such General Release Agreement has agreed not to prosecute any legal action or other proceeding based upon any of such claims to the full extent permissible under applicable law, and (iii) the Executive has, pursuant to such General Release Agreement, acknowledged the Executive's continuing obligations under this Agreement and the EPIA referenced below, and (iv) the General Release Agreement has become effective and irrevocable within sixty (60) days following the date of the Executive's termination of Employment. Any benefits under this Agreement that would be considered deferred compensation under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the final regulations and official guidance promulgated thereunder ("Code Section 409A") will be paid on, or, in the case of installments, will not commence until, the sixtieth (60th) day following the Executive's separation from service, or, if later, such time as required by Section 6(h) of this Agreement. Any installment payments that would have been made to the Executive during the sixty (60) day period immediately following the Executive's separation from service but for the preceding sentence will be paid to the Executive on the sixtieth (60th) day following the Executive's separation from service, or, if later, such time as required by Section 6(i) of this Agreement and the remaining payments shall be made as provided in this Agreement.

(b) Apart From a Change of Control. If, during the term of this Agreement, and not in connection with a Change of Control as addressed in Section 6(c) below, the Company terminates the Executive's Employment other than for Cause, death or Disability, or the Executive resigns for Good Reason, then, subject to Section 6(a), the Company shall pay the Executive, in a lump sum upon the effectiveness of the General Release to be executed by the Executive in accordance with Section 6(a) above, an amount equal to one year's Base Salary at the rate in effect at the time of the termination of Employment (or if the termination is due to a resignation for Good Reason based on a material reduction in Base Salary, then the Executive's Base Salary in effect immediately prior to such reduction).

(c) In Connection With a Change of Control. If within eighteen (18) months following the occurrence of the Change of Control, one of the following events occurs:

- (i) the Executive's Employment is terminated by the Company (or its successor) other than for Cause, death or Disability, or
- (ii) the Executive resigns for Good Reason,

then, in lieu of any payments or benefits under Section 6(b) above and subject to Section 6(a), the Executive shall immediately conditionally vest as to all shares under all outstanding equity awards that are subject to vesting conditions based solely on continued employment or service, subject to the Executive's execution of the General Release Agreement described above with irrevocable effect and suspension of exercise rights with respect to such conditionally vested shares until such execution, and the Company shall pay the Executive, in a lump sum, an amount equal to: (x) the then-current year's Target Bonus prorated for the number of days of the Executive is employed in said year; (y) one year's Base Salary (or if the termination is due to a resignation for Good Reason based on a material reduction in Base Salary, then the Executive's Base Salary in effect immediately prior to such reduction); and (z) the greater of the then-current year's Target Bonus (or if the termination is due to a resignation for Good Reason based on a material reduction in Target Bonus, then the Executive's Target Bonus in effect immediately prior to such reduction) or the actual prior year's Annual Bonus. The Executive's Base Salary shall be paid at the rate in effect at the time of the termination of Employment.

(d) Health Insurance. If Section 6(b) or (c) above applies, and if the Executive timely elects to continue the Executive's health insurance coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), following the termination of Employment, then subject to Section 6(a), the Company shall pay the Executive's monthly premium under COBRA for COBRA coverage for the Executive until the earliest of (i) 12 months following the termination of the Executive's Employment, or (ii) the date upon which the Executive commences employment with an entity other than the Company. In addition, and notwithstanding anything to the contrary in this Section 6, if the Company determines in its sole discretion that it cannot provide the COBRA benefits without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service

Act), the Company will in lieu thereof provide to the Executive a taxable lump sum payment in an amount equal to the monthly COBRA premium that the Executive would be required to pay to continue the Executive's group health coverage in effect on the date of the Executive's termination of Employment (which amount will be based on the premium for the first month of COBRA coverage) for 12 months following the termination, which payment will be made regardless of whether the Executive elects COBRA continuation coverage.

(e) Definition of "Cause." For all purposes under this Agreement, "**Cause**" shall mean any of the following:

- (i) Unauthorized use or disclosure of the confidential information or trade secrets of the Company;
- (ii) Any breach of this Agreement or the EPIA between the Executive and the Company;
- (iii) Conviction of, or a plea of "guilty" or "no contest" to, a felony under the laws of the United States or any state thereof;
- (iv) Misappropriation of the assets of the Company or any act of fraud or embezzlement by the Executive, or any act of dishonesty by the Executive in connection with the performance of his duties for the Company that adversely affects the business or affairs of the Company;
- (v) Intentional misconduct; or
- (vi) The Executive's failure to satisfactorily perform the Executive's duties after having received written notice of such failure and at least thirty (30) days to cure such failure.

(f) Definition of "Disability." For all purposes under this Agreement, "**Disability**" shall mean a disability under Section 22(e)(3) of the Code.

(g) Definition of "Good Reason." Except as noted below, for all purposes under this Agreement, subject to the notice and cure period requirements described below, the Executive's resignation for "**Good Reason**" shall mean the Executive's resignation upon written notice to the Company delivered within ninety (90) days after the occurrence of any one or more of the following events without the Executive's consent:

- (i) The Executive's position, authority or responsibilities being materially reduced;
- (ii) the Executive being asked to relocate the Executive's principal place of Employment such that the Executive's commuting distance from the Executive's residence prior to such relocation is increased by over thirty-five (35) miles;
- (iii) The Executive's annual Base Salary or Target Bonus being materially reduced; or
- (iv) The Executive's benefits being materially reduced.

The Executive shall provide written notice to the Company at least thirty (30) days prior to the effective date of the Executive's resignation, identifying the event or events the Executive claims constitute Good Reason and describing in reasonable detail the fact supporting the claim. The Company shall have at least thirty (30) days to take action to remedy the condition claimed by the Executive as Good Reason, but shall have no obligation to take such action. In the event the Company remedies the condition then Good Reason shall be deemed not to exist. At the expiration of the remedial period and prior to the effective date of the Executive's resignation, the Executive shall provide written notice to the Company, stating whether the Executive (A) withdraws the Executive's resignation based on the Company's remedy of the condition, (B) chooses to resign anyway notwithstanding such remedy, or (C) claims the condition has not been remedied and chooses to resign based on a claim of Good Reason. In the absence of such notice, the Executive's resignation shall become effective and the Executive shall be deemed to have resigned without Good Reason. Notwithstanding the foregoing, in order for the Executive's resignation to be for Good Reason, the Executive must resign within six (6) months following the initial existence of the event(s) constituting Good Reason.

(h) Definition of "Change of Control." For all purposes under this Agreement, "**Change of Control**" shall mean any of the following:

- (i) A sale of all or substantially all of the assets of the Company;
- (ii) The acquisition of more than fifty percent (50%) of the common stock of the Company (with all classes or series thereof treated as a single class) by any person or group of persons;
- (iii) A reorganization of the Company wherein the holders of common stock of the Company receive stock in another company (other than a subsidiary of the Company), a merger of the Company with another company wherein there is a fifty percent (50%) or greater change in the ownership of the common stock of the Company as a result of such merger, or any other transaction in which the Company (other than as the parent corporation) is consolidated for federal income tax purposes or is eligible to be consolidated for federal income tax purposes with another corporation; or
- (iv) In the event that the common stock is traded on an established securities market, a public announcement that any person has acquired or has the right to acquire beneficial ownership of more than fifty percent (50%) of the then-outstanding common stock and for this purpose the terms "person" and "beneficial ownership" shall have the meanings provided in Section 13(d) of the Securities and Exchange Act of 1934 or related rules promulgated by the Securities and Exchange Commission, or the commencement of or public announcement of an intention to make a tender offer or exchange offer for more than fifty percent (50%) of the then outstanding Common Stock.

(i) Section 409A. Notwithstanding anything to the contrary in this Agreement, no severance pay or benefits to be paid or provided to the Executive, if any, pursuant to this Agreement, when considered together with any other severance payments or separation benefits that are considered deferred compensation under Code Section 409A (together, the "**Deferred Compensation Separation Benefits**") will be paid or otherwise provided until the Executive has a "separation from service" within the meaning of Code Section 409A. Any provision of this Agreement to the contrary notwithstanding, if, at the time of the Executive's separation from service, the Executive is a "specified employee," within the meaning of Code Section 409A, then any Deferred Compensation Separation Benefits due to the Executive pursuant to this Agreement or otherwise on or within the six-month period following the

Executive's separation from service will accrue during such six-month period and will become payable in a lump sum payment on the date six (6) months and one (1) day following the date of the Executive's separation from service, provided, that such cash severance or other benefits will be paid earlier, at the times and on the terms set forth in the applicable provisions of this Agreement, if the Company reasonably determines that the imposition of additional tax under Code Section 409A, will not apply to an earlier payment of such cash severance or other benefits. Each payment and benefit payable under this Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations. Any amount paid under this Agreement that satisfies the requirements of the "short-term deferral" rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations or that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations will not constitute Deferred Compensation Separation Benefits to the extent permissible under the applicable Treasury Regulations. The foregoing provisions are intended to comply with the requirements of Code Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Code Section 409A, and any ambiguities herein will be interpreted to so comply. In addition, this Agreement will be deemed amended to the extent necessary to avoid imposition of any additional tax or income recognition prior to actual payment to the Executive under Code Section 409A and any temporary, proposed or final Treasury Regulations and guidance promulgated thereunder and the parties agree to cooperate with each other and to take reasonably necessary steps in this regard.

(j) Limitation on Payments; Section 280G. Notwithstanding anything to the contrary in this Agreement, in the event the severance and other benefits provided for in this Agreement or otherwise payable to the Executive (the "**Payments**") (A) are "parachute payments" within the meaning of Section 280G of the Code and (B) but for this Section 6(j), would be subject to the excise tax imposed by Section 4999 of the Code, then the Executive's Payments will be either:

(i) delivered in full, or

(ii) delivered as to such lesser extent which would result in no portion of such Payments being subject to the excise tax under Section 4999 of the Code,

whichever of (i) or (ii), taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by the Executive on an after-tax basis, of the greatest amount of Payments, notwithstanding that all or some portion of such Payments may be taxable under Section 4999 of the Code. If a reduction in the Payments constituting "parachute payments" is necessary so that no portion of such Payments is subject to excise tax under Section 4999 of the Code, (x) the Executive will have no rights to any additional Payments that are being reduced, and (y) the reduction shall occur in the following order: (1) reduction of the cash payments, if any, which shall occur in reverse chronological order such that the cash payment owed on the latest date following the occurrence of the event triggering such excise tax will be the first cash payment to be reduced; (2) cancellation of accelerated vesting of equity awards other than stock options, if any; (3) cancellation of accelerated vesting of stock options, if any; and (4) reduction of other benefits, if any, paid or provided to the Executive, which shall occur in reverse chronological order such that the benefit owed on the latest date following the occurrence of the event triggering such excise tax will be the first benefit to be reduced. In the event that acceleration of vesting of equity awards or stock options is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant of the Executive's equity awards or stock options. If two or more equity awards or stock options are granted on the same date, each award or stock option will be reduced on a pro-rata basis. Notwithstanding, any excise tax imposed will be solely the responsibility of the Executive. Notwithstanding the foregoing, to the extent the Company submits any Payments to the Company's stockholders for approval in accordance with Treasury Regulation Section 1.280G-1 Q&A 7, and such Payments will be treated in accordance with the results of such vote, the foregoing provisions shall not apply following such submission and such Payments will be treated in accordance with the results of such vote, except that any reduction in, or waiver of, such Payments required by such vote will be applied without any application of discretion by the Executive and in the order prescribed by this Section 6(j). In no event shall the Executive have any discretion with respect to the ordering of the Executive's Payment reductions.

Unless the Company and the Executive otherwise agree in writing, any determination required under this Section 6(j) will be made in writing by a nationally recognized firm of independent public accountants selected by the Company, the Company's legal counsel or such other person or entity to which the parties mutually agree (the "**Firm**"), whose determination will be conclusive and binding upon the Executive and the Company for all purposes. For purposes of making the calculations required by this Section 6(j), the Firm may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Executive will furnish to the Firm such information and documents as the Firm may reasonably request in order to make a determination under this Section 6(j). The Company will bear all costs the Firm may reasonably incur in connection with any calculations contemplated by this Section 6(j).

#### 7. Non-Solicitation and Non-Disclosure.

(a) Non-Solicitation. During the period commencing on the date of this Agreement and continuing until the first anniversary of the date when the Executive's Employment terminated for any reason, the Executive shall not directly or indirectly, personally or through others, solicit or attempt to solicit (on the Executive's own behalf or on behalf of any other person or entity) the employment of any employee of the Company or any of the Company's affiliates.

(b) Proprietary Information. As a condition of Employment, the Executive has entered into an Employee Proprietary Information Agreement with the Company (the "**EPIA**") in the Form attached as Exhibit A, which is incorporated herein by reference.

#### 8. Successors.

(a) Company's Successors. This Agreement shall be binding upon any successor (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets. For all purposes under this Agreement, the term "Company" shall include any successor to the Company's business and/or assets which becomes bound by this Agreement.

(b) the Executive's Successors. This Agreement and all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

#### 9. Arbitration and Equitable Relief.

(a) Arbitration. In consideration of the Executive's Employment with the Company, its promise to arbitrate all employment-related disputes, and the Executive's receipt of the compensation, pay raises, and other benefits paid to the Executive by the Company, at present and in the future, the Executive agrees that any and all controversies, claims, or disputes with anyone (including the Company and any employee, officer, director, shareholder, or benefit plan of the Company, in their capacity as such or otherwise), arising out of, relating to, or resulting from the Executive's Employment with the Company or the termination of the Executive's Employment with the Company, including any breach of this Agreement, shall be subject to binding arbitration under the arbitration provisions set forth in California Code of Civil Procedure Sections 1280 through 1294.2 (the "Act"), and pursuant to California law. The Federal Arbitration Act shall continue to apply with full force and effect notwithstanding the application of procedural rules set forth in the Act. **Disputes that the Executive agrees to arbitrate, and thereby agrees to waive any right to a trial by jury, include any statutory claims under local, state, or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans With Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the Sarbanes-Oxley Act, the Worker Adjustment and Retraining Notification Act, the California Fair Employment and Housing Act, the Family and Medical Leave Act, the California Family Rights Act, the California Labor Code, claims of harassment, discrimination, and wrongful termination, and any statutory or common law claims. Notwithstanding the foregoing, the Executive understands that nothing in this Agreement constitutes a waiver of the Executive's rights under Section 7 of the National Labor Relations Act.** The Executive further understands that this agreement to arbitrate also applies to any disputes that the Company may have with the Executive.

(b) Procedure. The Executive agrees that any arbitration will be administered by Judicial Arbitration & Mediation Services, Inc. ("JAMS"), pursuant to its Employment Arbitration Rules & Procedures (the "JAMS Rules"), which are available at [HTTP://WWW.JAMSADR.COM/RULES-EMPLOYMENT-ARBITRATION/](http://WWW.JAMSADR.COM/RULES-EMPLOYMENT-ARBITRATION/) and from Human Resources. The Executive agrees that the arbitrator shall have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication, and motions to dismiss and demurrers, applying the standards set forth under the California Code of Civil Procedure. The Executive agrees that the arbitrator shall issue a written decision on the merits. The Executive also agrees that the arbitrator shall have the power to award any remedies available under applicable law, and that the arbitrator shall award attorneys' fees and costs to the prevailing party, where provided by applicable law. The Executive agrees that the decree or award rendered by the arbitrator may be entered as a final and binding judgment in any court having jurisdiction thereof. The Executive understands that the Company will pay for any administrative or hearing fees charged by the arbitrator or JAMS except that the Executive shall pay any filing fees associated with any arbitration that the Executive initiates, but only so much of the filing fees as the Executive would have instead paid had the Executive filed a complaint in a court of law. The Executive agrees that the arbitrator shall administer and conduct any arbitration in accordance with California law, including the California Code of Civil Procedure and the California Evidence Code, and that the arbitrator shall apply substantive and procedural California law to any dispute or claim, without reference to rules of conflict of law. To the extent that the JAMS Rules conflict with California law, California law shall take precedence. The Executive agrees that any arbitration under this agreement shall be conducted in Santa Clara County, California.

(c) Remedy. Except as provided by the Act and this Agreement, arbitration shall be the sole, exclusive, and final remedy for any dispute between the Executive and the Company. Accordingly, except as provided for by the Act and this Agreement, neither the Executive nor the Company will be permitted to pursue court action regarding claims that are subject to arbitration.

(d) Administrative Relief. The Executive understands that this Agreement does not prohibit the Executive from pursuing an administrative claim with a local, state, or federal administrative body or government agency that is authorized to enforce or administer laws related to employment, including, but not limited to, the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission, the National Labor Relations Board, or the Workers' Compensation Board. This Agreement does, however, preclude the Executive from pursuing court action regarding any such claim, except as permitted by law.

(e) Voluntary Nature of Agreement. The Executive acknowledges and agrees that the Executive is executing this Agreement voluntarily and without any duress or undue influence by the Company or anyone else. The Executive acknowledges and agrees that the Executive has carefully read this Agreement and that the Executive has asked any questions needed for the Executive to understand the terms, consequences, and binding effect of this agreement and fully understand it, including that *the Executive is waiving the Executive's right to a jury trial*. Finally, the Executive agrees that the Executive has been provided an opportunity to seek the advice of an attorney of the Executive's choice before signing this agreement.

#### 10. Miscellaneous Provisions.

(a) Notice. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by overnight courier, U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Executive, mailed notices shall be addressed to the Executive at the home address which the Executive most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

(b) Modifications and Waivers. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of the Company (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Whole Agreement. No other agreements, representations or understandings (whether oral or written) which are not expressly set forth in this Agreement have been made or entered into by either party with respect to the subject matter of this Agreement. This Agreement and the EPIA contain the entire understanding of the parties with respect to the subject matter hereof.

(d) Withholding Taxes. All payments made under this Agreement shall be subject to reduction to reflect taxes or other charges required to be withheld by law.

(e) Governing Law; Consent to Personal Jurisdiction. This agreement will be governed by the laws of the State of California without regard for conflicts or choice of laws principles. without regard for choice-of-law provisions. The Executive consents to personal and exclusive jurisdiction and venue in the State of California.

(f) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(g) No Assignment. This Agreement and all rights and obligations of the Executive hereunder are personal to the Executive and may not be transferred or assigned by the Executive at any time. The Company may assign its rights under this Agreement to any entity that assumes the Company's obligations hereunder in connection with any sale or transfer of all or a substantial portion of the Company's assets to such entity.

(h) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year first above written.

[NAME] \_\_\_\_\_

ALIGN TECHNOLOGY, INC.

By: Joseph M. Hogan  
Title: President and CEO \_\_\_\_\_

EXHIBIT A

PROPRIETARY INFORMATION AND INVENTIONS AGREEMENT  
(ATTACHED)  
ALIGN TECHNOLOGY, INC.

**EMPLOYEE PROPRIETARY INFORMATION  
AND INVENTIONS AGREEMENT**

In consideration of my employment or continued employment by **ALIGN TECHNOLOGY, INC.** (the "**Company**"), and the compensation now and hereafter paid to me, I hereby agree as follows:

**1. PROPRIETARY INFORMATION.** At all times during my employment and thereafter, I will hold in strictest confidence and will not disclose, use, lecture upon or publish any of the Company's Proprietary Information (defined below), except as such disclosure, use or publication may be required in connection with my work for the Company or constitutes Protected Activity (defined below), or unless an officer of the Company expressly authorizes such in writing. "**Proprietary Information**" shall mean any and all confidential and/or proprietary knowledge, data or information of the Company, its affiliated entities, customers and suppliers, including but not limited to information relating to products, processes, know-how, designs, formulas, methods, developmental or experimental work, improvements, discoveries, inventions, ideas, source and object codes, data, programs, other works of authorship, and plans for research and development. During my employment by the Company I will not improperly use or disclose any confidential information or trade secrets, if any, of any former employer or any other person to whom I have an obligation of confidentiality, and I will not bring onto the premises of the Company any unpublished documents or any property belonging to any former employer or any other person to whom I have an obligation of confidentiality unless consented to in writing by that former employer or person.

**2. Assignment of Inventions.**

**2.1. Proprietary Rights.** The term "**Proprietary Rights**" shall mean all trade secret, patent, copyright, mask work and other intellectual property



rights throughout the world.

**2.2. Inventions.** The term "Inventions" shall mean all trade secrets, inventions, mask works, ideas, processes, formulas, source and object codes, data, programs, other works of authorship, know-how, improvements, discoveries, developments, designs and techniques.

**2.3. Prior Inventions.** I have set forth on Exhibit B (Previous Inventions) attached hereto a complete list of all Inventions that I have, alone or jointly with others, made prior to the commencement of my employment with the Company that I consider to be my property or the property of third parties and that I wish to have excluded from the scope of this Agreement (collectively referred to as "**Prior Inventions**"). If no such disclosure is attached, I represent that there are no Prior Inventions. If, in the course of my employment with the Company, I incorporate a Prior Invention into a Company product, process or machine, the Company is hereby granted and shall have a nonexclusive, royalty-free, irrevocable, perpetual, worldwide license (with rights to sublicense through multiple tiers of sublicensees) to make, have made, modify, use and sell such Prior Invention. Notwithstanding the foregoing, I agree that I will not incorporate, or permit to be incorporated, Prior Inventions in any Company Inventions without the Company's prior written consent.

**2.4. Assignment of Inventions.** Subject to Section 2.6 and except for those Inventions which I can prove qualify fully under the provisions of California Labor Code 2870 (as set forth in *Exhibit A*), I hereby assign and agree to assign in the future (when any such Inventions or Proprietary Rights are first reduced to practice or first fixed in a tangible medium, as applicable) to the Company all my right, title and interest in and to any and all Inventions (and all Proprietary Rights with respect thereto). I will, at the Company's request, promptly execute a written assignment to the Company of any such Company Invention, and I will preserve any such Invention as part of the Proprietary Information of the Company (the "**Company Inventions**").

**2.5. Obligation to Keep Company Informed.** I will promptly and fully disclose in writing to the Company all Inventions during my employment and for one (1) year after my employment, including any that may be covered by Section 2870. I agree to assist in every proper way and to execute those documents and take such acts as are reasonably requested by the Company to obtain, sustain and from time to time enforce patents, copyrights and other rights and protections relating to Inventions in the United States or any other country.

**2.6. Government or Third Party.** I also agree to assign all my right, title and interest in and to any particular Company Invention to a third party, including without limitation the United States, as directed by the Company.

**3. NO CONFLICTING OBLIGATION. I REPRESENT** that my performance of all the terms of this Agreement and as an employee of the Company does not and will not breach any agreement to keep in confidence information acquired by me in confidence or in trust prior to my employment by the Company. I have not entered into, and I agree I will not enter into, any agreement either written or oral in conflict herewith.

**4. RETURN OF COMPANY DOCUMENTS.** Upon termination of my employment with the Company for any reason whatsoever, voluntarily or involuntarily, and at any earlier time the Company requests, I will deliver to the person designated by the Company all originals and copies of all documents and other property of the Company in my possession, under my control or to which I may have access. I will not reproduce or appropriate for my own use, or for the use of others, any property, Proprietary Information or Company Inventions. Notwithstanding the foregoing, I understand that I am allowed to keep a copy of the Employee Handbook and personnel records relating to my employment.

**5. LEGAL AND EQUITABLE REMEDIES.** Because my services are personal and unique and because I may have access to and become acquainted with the Proprietary Information of the Company, the Company shall have the right to enforce this Agreement and any of its provisions by injunction, specific performance or other equitable relief, without bond and without prejudice to any other rights and remedies that the Company may have for a breach of this Agreement.

**6. NOTICES.** Any notices required or permitted hereunder shall be given to the appropriate party at the address specified below or at such other address as the party shall specify in writing. Such notice shall be deemed given upon personal delivery to the appropriate address or if sent by certified or registered mail, three (3) days after the date of mailing.

**7. EMPLOYMENT.** I agree and understand that nothing in this

Agreement shall confer any right with respect to continuation of employment by the Company, nor shall it interfere in any way with my right or the Company's right to terminate my employment at any time, with or without cause.

**8. PROTECTED ACTIVITY NOT PROHIBITED.** I understand that nothing in this Agreement shall in any way limit or prohibit me from engaging in any Protected Activity. For purposes of this Agreement, “**Protected Activity**” means filing a charge or complaint with, or otherwise communicating or cooperating with or participating in any investigation or proceeding that may be conducted by any federal, state or local government agency or commission, including the Securities and Exchange Commission, the Equal Employment Opportunity Commission, the Occupational Safety and Health Administration, and the National Labor Relations Board (“**Government Agencies**”). I understand that in connection with such Protected Activity, I am permitted to disclose documents or other information as permitted by law, and without giving notice to, or receiving authorization from, the Company. Notwithstanding, in making any such disclosures or communications, I agree to take all reasonable precautions to prevent any unauthorized use or disclosure of any information that may constitute Company Confidential Information to any parties other than the Government Agencies. I further understand that “**Protected Activity**” does not include the disclosure of any Company attorney-client privileged communications. In addition, I hereby acknowledge that the Company has provided me with notice in compliance with the Defend Trade Secrets Act of 2016 regarding immunity from liability for limited disclosures of trade secrets. The full text of the notice is attached in Exhibit C.

**GENERAL PROVISIONS.** This Agreement will be governed by and construed according to the laws of the State of California, as such laws are applied to agreements entered into and to be performed entirely within California between California residents. In case any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect the other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein. This Agreement will be binding upon my heirs, executors, administrators and other legal representatives and will be for the benefit of the Company, its successors, and its assigns. The provisions of this Agreement shall survive the termination of my employment and the assignment of this Agreement by the Company to any successor in interest or other assignee. No waiver by the Company of any breach of this Agreement shall be a waiver of any preceding or succeeding breach. No waiver by the Company of any right under this Agreement shall be construed as a waiver of any other right. The obligations pursuant to Sections 1 and 2 of this Agreement shall apply to any time during which I was previously employed, or am in the future employed, by the Company as a consultant if no other agreement governs nondisclosure and assignment of inventions during such period. This Agreement is the final, complete and exclusive agreement of the parties with respect to the subject matter hereof and supersedes and merges all prior discussions between us. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in writing and signed by the party to be charged. Any subsequent change or changes in my duties, salary or compensation will not affect the validity or scope of this Agreement.

This Agreement shall be effective as of the first day of my employment with the Company.

Dated:

(Signature)

—

(Printed Name) \_\_\_\_\_

ACCEPTED AND AGREED TO:  
ALIGN TECHNOLOGY, INC.

(Signature) \_\_\_\_\_

By: Joseph M. Hogan  
Title: President and Chief the Executive Officer

Dated: \_\_\_\_\_

**EXHIBIT A**

**LIMITED EXCLUSION NOTIFICATION**

**THIS IS TO NOTIFY** you in accordance with Section 2872 of the California Labor Code that the foregoing Agreement between you and the Company does not require you to assign or offer to assign to the Company any invention that you developed entirely on your own time without using the Company's equipment, supplies, facilities or trade secret information except for those inventions that either:

1. Relate at the time of conception or reduction to practice of the invention to the Company's business, or actual or demonstrably anticipated research or development of the Company;
2. Result from any work performed by you for the Company.

To the extent a provision in the foregoing Agreement purports to require you to assign an invention otherwise excluded from the preceding paragraph, the provision is against the public policy of this state and is unenforceable.

This limited exclusion does not apply to any patent or invention covered by a contract between the Company and the United States or any of its agencies requiring full title to such patent or invention to be in the United States.

**I ACKNOWLEDGE RECEIPT** of a copy of this notification.

By: \_\_\_\_\_  
**(PRINTED NAME OF EMPLOYEE)**

Date: \_\_\_\_\_

**WITNESSED BY:**

\_\_\_\_\_  
**(PRINTED NAME OF REPRESENTATIVE)**

**EXHIBIT B**

**TO: ALIGN TECHNOLOGY, INC.**

**FROM: \_\_\_\_\_**

**DATE: \_\_\_\_\_**

**SUBJECT: Previous Inventions**

1. Except as listed in Section 2 below, the following is a complete list of all inventions or improvements relevant to the subject matter of my employment by **ALIGN TECHNOLOGY, INC.** (the "**Company**") that have been made or conceived or first reduced to practice by me alone or jointly with others prior to my engagement by the Company:

No inventions or improvements.

See below:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Additional sheets attached.

2. Due to a prior confidentiality agreement, I cannot complete the disclosure under Section 1 above with respect to inventions or improvements generally listed below, the proprietary rights and duty of confidentiality with respect to which I owe to the following party(ies):

	<b>Invention or Improvement</b>	<b>Party(ies)</b>	<b>Relationship</b>
1.	_____	_____	___
2.	_____	_____	___
3.	_____	_____	___

Additional sheets attached.

Firmwide:99913069.1 999999.1384

### **EXHIBIT C**

#### **SECTION 7 OF THE DEFEND TRADE SECRETS ACT OF 2016**

“ . . . An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that—(A) is made—(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. . . . An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual—(A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order.”

**Subsidiaries of Align Technology, Inc.**

The registrant's principal subsidiaries as of December 31, 2016, are as follows:

**Entity**

Align Tech De Costa Rica, Costa Rica
Align Technology, B.V., Netherlands
Aligntech de Mexico, S. de, Mexico
Align Technology, Inc., Delaware
Align Tech (Shanghai), China
Malocclusion C.V., Netherlands

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-134477, No. 333-143319, No. 333-161054, No. 333-82874, No. 333-116912, No. 333-125586, No. 333-168548, No. 333-176134, No. 333-190351 and No. 333-214493) of Align Technology, Inc. of our report dated February 28, 2017, relating to the financial statements, financial statement schedule, and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
February 28, 2017

## CERTIFICATIONS

I, Joseph M. Hogan, certify that:

1. I have reviewed this annual report on Form 10-K of Align Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

/s/ JOSEPH M. HOGAN

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Joseph M. Hogan  
*President and Chief Executive Officer*

I, John F. Morici, certify that:

1. I have reviewed this annual report on Form 10-K of Align Technology, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

/s/ JOHN F. MORICI

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**John F. Morici**

*Chief Financial Officer*



**906 Certification**  
**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER**  
**PURSUANT TO**  
**18 U.S.C. SECTION 1350,**  
**AS ADOPTED PURSUANT TO**  
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2003**

I, Joseph M. Hogan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2003, that the Annual Report of Align Technology, Inc. on Form 10-K for the fiscal year ended December 31, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Form 10-K fairly presents in all material respects the financial condition and results of operations of Align Technology, Inc.

Date: February 28, 2017

**By:** \_\_\_\_\_ /S/ JOSEPH M. HOGAN  
**Name:** **Joseph M. Hogan**  
**Title:** *President and Chief Executive Officer*

I, John F. Morici, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2003, that the Annual Report of Align Technology, Inc. on Form 10-K for the fiscal year ended December 31, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Form 10-K fairly presents in all material respects the financial condition and results of operations of Align Technology, Inc.

Date: February 28, 2017

**By:** \_\_\_\_\_ /S/ JOHN F. MORICI  
**Name:** **John F. Morici**  
**Title:** *Chief Financial Officer*