

ALIGN TECHNOLOGY, INC.

Unaudited GAAP to non-GAAP Reconciliation
(in thousands except per share data)

	Three Months Ended March 31, 2019	Three Months Ended June 30, 2019	Three Months Ended September 30, 2019	Three Months Ended December 31, 2019	FY 2019
GAAP gross profit	\$ 402,096	\$ 432,289	\$ 437,554	\$ 471,958	\$ 1,743,897
Stock-based compensation	1,112	1,278	1,354	1,410	5,154
Non-GAAP gross profit	\$ 403,208	\$ 433,567	\$ 438,908	\$ 473,368	\$ 1,749,051
GAAP gross margin	73.2%	72.0%	72.0%	72.6%	72.5%
Non-GAAP gross margin	73.4%	72.2%	72.3%	72.8%	72.7%
GAAP income from operations	\$ 87,701	\$ 176,490	\$ 127,152	\$ 151,150	\$ 542,493
Stock-based compensation	21,044	22,467	24,176	20,497	88,184
Impairments and other (gains) charges ⁽¹⁾	29,782	-	(6,792)	-	22,990
Litigation settlement gain ⁽²⁾	-	(51,000)	-	-	(51,000)
Non-GAAP income from operations	\$ 138,527	\$ 147,957	\$ 144,536	\$ 171,647	\$ 602,667
GAAP operating margin	16.0%	29.4%	20.9%	23.3%	22.5%
Non-GAAP operating margin	25.2%	24.6%	23.8%	26.4%	25.0%
GAAP Net income before provision for income taxes and equity in losses of investee	\$ 84,588	\$ 193,847	\$ 128,419	\$ 155,797	\$ 562,651
Stock-based compensation	21,044	22,467	24,176	20,497	88,184
Impairments and other (gains) charges ⁽¹⁾	29,782	-	(6,792)	-	22,990
Litigation settlement gain ⁽²⁾	-	(51,000)	-	-	(51,000)
Non-GAAP Net income before provision for income taxes and equity in losses of investee	\$ 135,414	\$ 165,314	\$ 145,803	\$ 176,294	\$ 622,825
GAAP provision for income taxes	\$ 8,796	\$ 43,121	\$ 25,895	\$ 34,535	\$ 112,347
Tax impact on the Non-GAAP adjustments	22,134	(1,356)	1,467	2,390	24,635
Non-GAAP provision for income taxes	\$ 30,930	\$ 41,765	\$ 27,362	\$ 36,925	\$ 136,982
GAAP effective tax rate	10.4%	22.2%	20.2%	22.2%	20.0%
Non-GAAP effective tax rate	22.8%	25.3%	18.8%	20.9%	22.0%
GAAP net income	\$ 71,848	\$ 147,142	\$ 102,524	\$ 121,262	\$ 442,776
Stock-based compensation	21,044	22,467	24,176	20,497	88,184
Impairments and other (gains) charges ⁽¹⁾	29,782	-	(6,792)	-	22,990
Litigation settlement gain ⁽²⁾	-	(51,000)	-	-	(51,000)
Tax impact on the Non-GAAP adjustments	(22,134)	1,356	(1,467)	(2,390)	(24,635)
Non-GAAP net income	\$ 100,540	\$ 119,965	\$ 118,441	\$ 139,369	\$ 478,315
GAAP diluted net income per share	\$ 0.89	\$ 1.83	\$ 1.28	\$ 1.53	\$ 5.53
Non-GAAP diluted net income per share	\$ 1.25	\$ 1.49	\$ 1.48	\$ 1.76	\$ 5.97
Shares used in computing diluted net income per share	80,687	80,590	79,825	79,137	80,100

Notes:

⁽¹⁾ Q1'19 includes \$29.8 million of impairments and other charges as a result of closing our Invisalign Stores due to the arbitrator's decision regarding SDC including operating lease right-of-use asset impairments, store leasehold improvement and fixed asset impairments and employee severance and other charges. Q3'19 includes a \$6.8 million gain due to negotiation of early termination of our Invisalign store leases.

⁽²⁾ Q2'19 includes a \$51.0 million gain from settlement of Straumann litigation

About Non-GAAP Financial Measures

To supplement our condensed consolidated financial statements, which are prepared and presented in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), we intend to provide investors with certain non-GAAP financial measures beginning in Q1'20 including, non-GAAP gross profit, gross margin, operating expenses, income from operations, operating margin, effective tax rate, net income and diluted EPS, which exclude certain items that may not be indicative of our fundamental operating performance including discrete cash and non-cash charges or gains that are included in the most directly comparable GAAP measure. Non-GAAP measures will exclude the effects of stock-based compensation, non-cash deferred tax assets and associated amortization related to intra-entity transfer of non-inventory assets, impairments and other (gains) charges, and litigation settlement gains, and, if applicable, any associated tax impacts.

We use non-GAAP financial measures for financial and operational decision-making and as a means to evaluate period-to-period comparisons. Our management believes that these non-GAAP financial measures provide meaningful supplemental information regarding our recurring core operating performance. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate management's internal evaluation of period-to-period comparisons. We believe these non-GAAP financial measures are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and (2) they will be provided to and used by our institutional investors and the analyst community to help them analyze the performance of our business.

There are limitations to using non-GAAP financial measures, though, because they are not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies. The non-GAAP financial measures are limited in value because they exclude certain items that may have a material impact upon our reported financial results. In addition, they are subject to inherent limitations as they reflect the exercise of judgments by management about which charges are excluded from the non-GAAP financial measures. We compensate for these limitations by analyzing current and future results on a GAAP as well as a non-GAAP basis and also by providing GAAP measures in our public disclosures. The presentation of non-GAAP financial information is meant to be considered in addition to, not as a substitute for or in isolation from, the directly comparable financial measures prepared in accordance with GAAP.