

the opportunity ahead





Align Technology, Inc. is a global medical device company that develops technology-rich orthodontic products for dental professionals. Since the company's inception in 1997, Align has traveled the path of true innovation and change. By introducing the Invisalign® system, a first-of-its-kind product and a game-changing approach to treatment, Align created the market we now call *invisible orthodontics*—with all of the benefits and challenges that forging new ground entails. We pioneered the market and today we lead it—and the greatest opportunity is still ahead of us.

You want to know “why Align?” We have a compelling answer. But first, you need to know

**who we are...**

# this is who we are

Align Technology is the company behind the Invisalign system, a combination of proprietary 3-D modeling software, cutting-edge custom manufacturing technology, and clear, removable appliances that are used to straighten teeth—alone for comprehensive orthodontic treatment or as a key component of restorative or cosmetic dental work. With strong brand recognition and products that address simple to complex cases and post-treatment retention, Invisalign has evolved from disruptive technology to niche product to an increasingly mainstream treatment option in just ten years.

That ten-year history is rich with “firsts.” We were the first to create a commercially viable removable appliance for straightening teeth, the first to bring cutting-edge, 3-D modeling and virtual treatment planning into doctors’ practices, the first to apply mass customization to a medical device, the first to market an orthodontic product directly to consumers, and the first to bring technology-driven precision to the previously subjective, labor- and time-intensive process of manually moving teeth with wires and brackets.

After working to develop, define and expand the market for invisible orthodontics, Align continues to drive innovation and is the only significant player delivering clear aligner

therapy in this market. By the end of 2007, Align had trained more than 48,000 doctors around the world, started more than 730,000 patients in treatment, manufactured more than 32 million unique Invisalign aligners, and compiled a well-defended intellectual property portfolio that includes more than 130 patents worldwide. These credentials, and the depth of product data and treatment know-how they represent, are competitive advantages that put Align years ahead of future players in this evolving market.

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## the Align product family

### Invisalign Full

Used to treat a wide range of malocclusion, or misalignment of teeth, from simple to complex. Aligners are shipped to the doctor in one batch.

Availability ⇨ Since 1999

### Invisalign Express

Lower-priced solution for minor crowding/spacing cases, or as a precursor to restorative or cosmetic treatment. A maximum of 10 stages of aligners are shipped in one batch.

Availability ⇨ Since 2005

### Vivera™ Retainers

Post-treatment retention product for Invisalign and non-Invisalign patients. New retainers are shipped every three months during the annual subscription period.

Availability ⇨ Since late 2007

### Invisalign Teen™

Designed to meet the specific needs of the teen market with features that address patient compliance and dentition challenges common in patients age 13 to 19. Aligners will be shipped in one batch, with up to 3 replacement aligners included.

Availability ⇨ Target: late 2008

### Invisalign® ClinAssist™

Designed as an instructive product for newly trained, less-experienced Invisalign doctors or doctors who want a streamlined process with additional monitoring and support tools. Aligners will be shipped in batches based on built-in progress checks.

Availability ⇨ Target: late 2008/early 2009

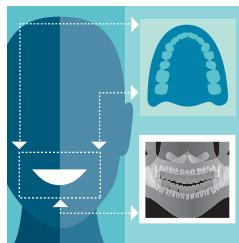
# this is how it works

Invisalign products combine proprietary software and a series of clear, medical-grade plastic appliances called “aligners” to move teeth in stages as determined by the treating doctor. Align’s highly trained technicians use a patient’s dental records and the doctor’s detailed prescription to create a 3-D virtual treatment plan called ClinCheck®, which resembles a movie file of how the patient’s teeth will move stage by stage. Doctors use ClinCheck to review, modify and approve the final outcome and specific movements that

are programmed into the series of Invisalign aligners that Align will manufacture.

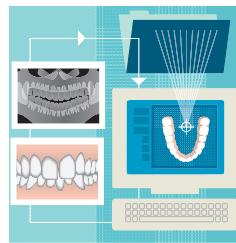
Invisalign aligners work by applying precise, predetermined force to the teeth. The patient wears each set of aligners continuously for two weeks, removing the appliances only to eat, drink and brush. At the end of each two-week period, the patient moves to the next set of aligners. The treating doctor may employ additional tools or techniques as necessary to add additional force or to aid difficult tooth movements.

## the manufacturing process



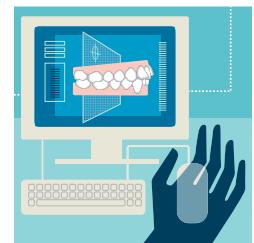
### 1 / consultation & dental records

A new Invisalign patient begins the treatment process by visiting an Invisalign-trained orthodontist or general dentist (GP) for a consultation and initial records, including photos, x-rays, and dental impressions.



### 2 / records undergo 3-D scanning

The doctor sends the patient’s records to Align, where they undergo a scanning process that converts the physical dimensions of the impression into a precise, 3-D computer model of the patient’s upper and lower dentition.



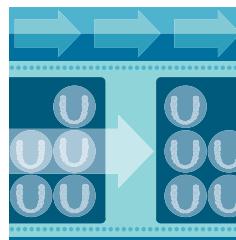
### 3 / virtual treatment plan

Based on the 3-D model and doctor’s instructions, Align uses its proprietary Treat software to stage a sequence of start-to-finish tooth movements that simulate the desired course of treatment. The output is a digital movie depicting each stage of tooth movement.



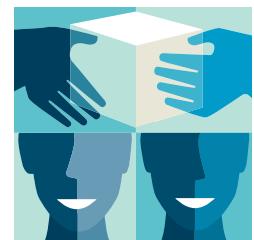
### 4 / ClinCheck review

Using Align’s ClinCheck software, the doctor reviews the movie file of the projected movements and final set-up. ClinCheck gives the doctor the opportunity to request modifications in the projected course of treatment until he or she is satisfied.



### 5 / aligner fabrication

World-class manufacturing technology is used to create a series of physical molds that correspond to each stage of treatment in the approved set-up. The molds are used to fabricate a series of customized aligners with specified tooth movements built into each one.



### 6 / aligner delivery & treatment

The doctor receives the complete series of aligners and dispenses 2 to 3 sets to the patient at each visit. The patient moves to the next set of aligners every two weeks, visiting the doctor periodically for new aligners and progress checks.

# dear fellow shareholders

2007 was a very good year for Align Technology. It was a year of strong revenue growth, a return to profitability, and the launch of a new product and pilot releases that will ultimately deliver the benefits of Invisalign treatment to more patients than ever before. Interest in and demand for Invisalign remained strong; Align trained a record number of new doctors in 2007, had almost 3 million consumers visit Invisalign.com for treatment information, and helped several hundred thousand consumers find an Invisalign-trained doctor through our website.

For the past two years, we've talked consistently about the key objectives that shape our overall strategy and serve as metrics for our progress:

1. Drive strong top-line growth and profitability;
2. Develop and deploy new orthodontist and general dentist-specific products that drive adoption;
3. Continue to expand our customer base with cost-efficient, effective demand generation and brand-building efforts;
4. Evolve our manufacturing platform, enterprise systems and core business processes to improve efficiencies.

In 2007, Align delivered on each of these objectives, starting with 38 percent annual revenue growth. We also:

- Accelerated international revenue growth, primarily through a focused strategy that led to greater adoption in Europe;
- Expanded our global reach and coverage through additions and enhancements to our sales force and increased productivity across the sales organization;
- Delivered on the first stages of our product roadmap with the launch of Vivera Retainers and multiple new pilots including Invisalign Teen and Invisalign ClinAssist;
- Significantly improved treatment quality and the overall user experience through Treat software evolution and the integration of best practice clinical protocols;
- Continued to scale our manufacturing platform to support our long-term growth.

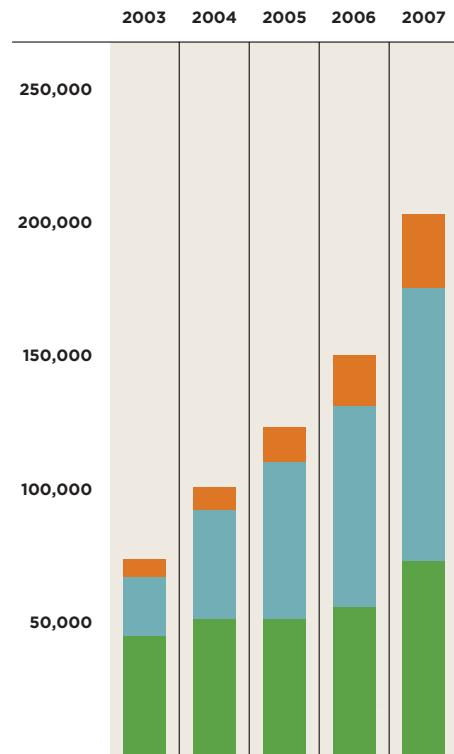
**It was a year of strong revenue growth, a return to profitability, and the launch of a new product and pilot releases that will ultimately deliver the benefits of Invisalign treatment to more patients than ever before.**

**case shipments**

In 2007, Align shipped nearly 203,000 Invisalign cases worldwide. This resulted in a 29 percent compound annual growth rate (CAGR) from 2003 and an increasingly larger percentage of international cases.

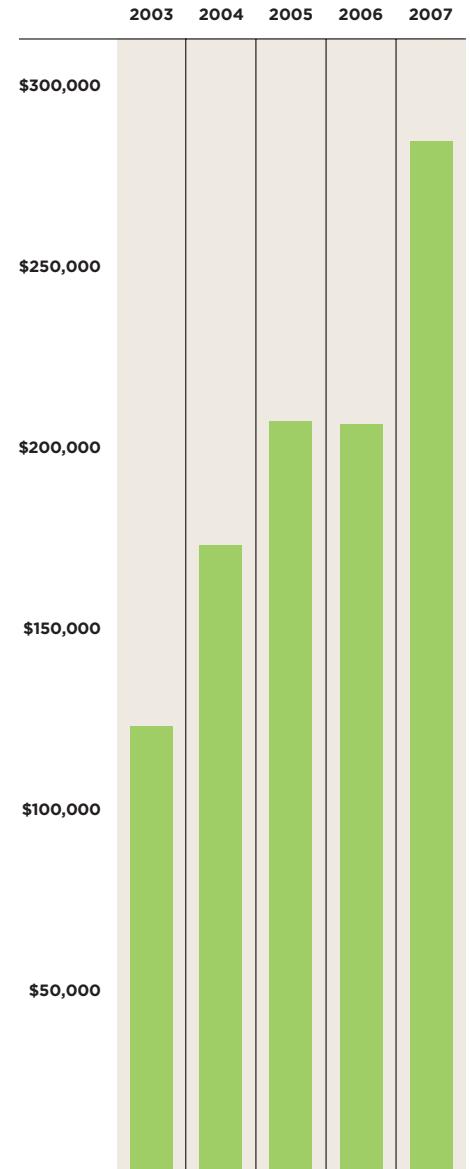


● U.S. Orthos    ● U.S. GPs    ● International



**net revenue in \$000's**

In 2007, Align's net revenue reached \$284 million. This resulted in a 23 percent CAGR from 2003, which is lower than annualized growth in case shipments due primarily to lower average selling prices (ASPs) during 2006.



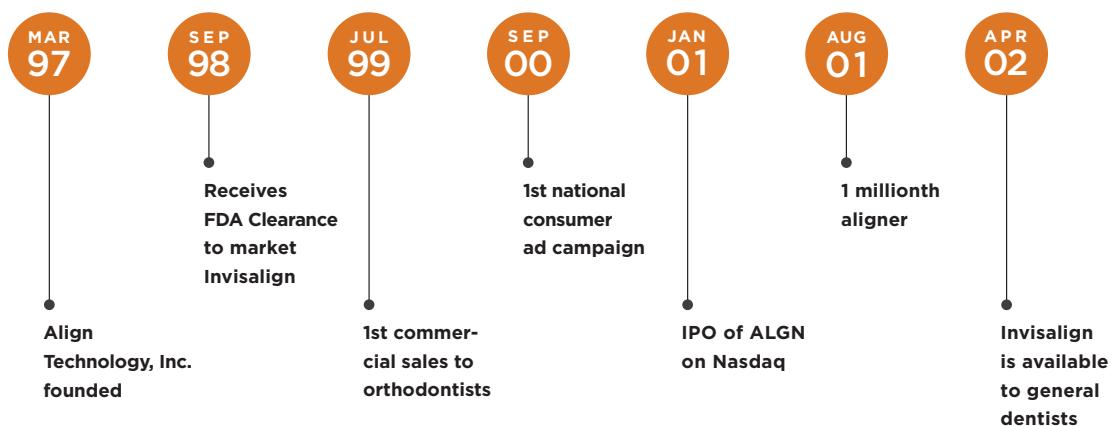
**We serve a market that takes a measured approach to new techniques and is sometimes slow to embrace change. By comparison, Invisalign's adoption thus far has been meteoric.**

2007 also marked Align's ten-year anniversary. Ten years is a lifetime in many industries, but it's just a blip on the radar screen in ours. Dentistry and orthodontics date back to ancient civilization, and we serve a market that takes a measured approach to new techniques and is sometimes slow to embrace change. By comparison, Invisalign's adoption thus far has been meteoric. More than 48,000 doctors around the world have completed Invisalign training. The Invisalign system is part of the curriculum of more than 63 universities worldwide. And Invisalign has not only become a brand consumers ask for by name, it has infiltrated pop culture with regular references in mainstream magazines and TV hits like "Ugly Betty."

We are extremely proud of what we have accomplished over the course of our brief history, but we are focused on the larger opportunity and unmet needs we have yet to address. When you look at the huge worldwide population of potential Invisalign patients, it's clear that we are just scratching the surface. Align's current products are

**1997 - 2007**

2007 marked Align's ten-year anniversary and gave us an opportunity to reflect on the milestones and accomplishments of our first ten years.



applicable for roughly 900,000 of the 2.3 million existing orthodontic case starts in the U.S. each year, making our current served market share 8 percent. This is based on nearly 73,000 cases shipped in 2007 and only represents our business with orthodontists—not general dentists. To capture more of the market, we have to overcome common barriers to greater utilization, such as the time it takes for doctors to become proficient and confident with the technique, the knowledge of orthodontic concepts necessary to treat cases, limitations regarding younger patients, and so on.

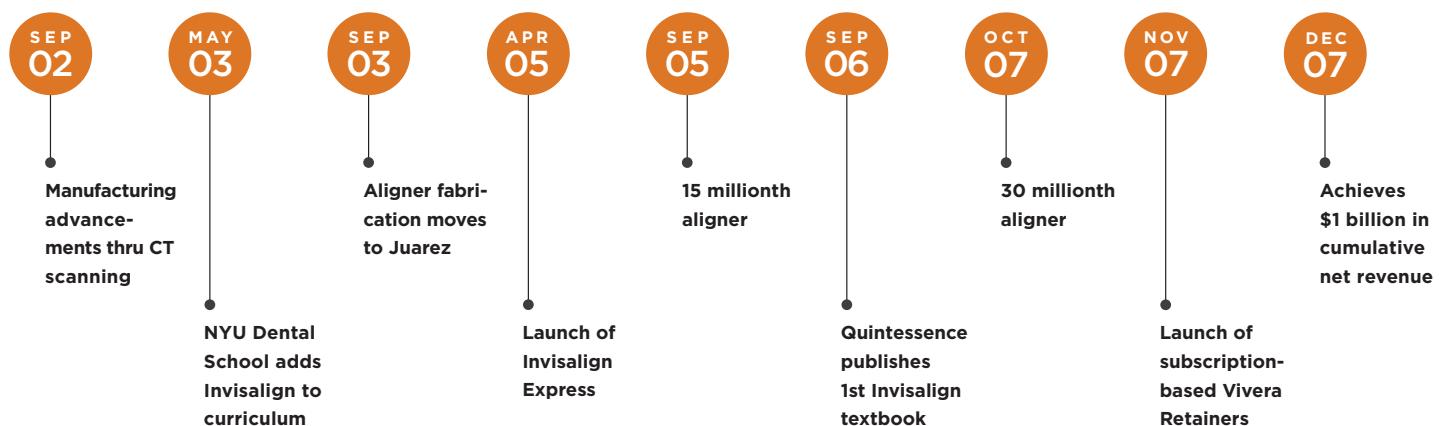
In 2007, we began delivering on our plan for Invisalign products that will help overcome these barriers—but 2008 is the year our product strategy will really come to life. The products planned for 2008 are the result of extensive customer research and are designed to address issues that doctors identified as barriers to treating more patients with Invisalign. We’ve maintained the best attributes of the Invisalign system, but are evolving away from a “one size fits all” product to a product line with specific uses, tools, and delivery options that will help doctors treat more patients successfully. This product innovation, along with adoption growth and consumer demand, will be the critical levers for driving long-term growth in the U.S. and around the world.

We’re excited to continue to build on our history of innovation and the market for invisible orthodontics. We believe we are helping our customers embrace new technology more readily—perhaps we are even accelerating the pace of change and adoption for all new techniques in dentistry.

“Game-changing” is a term that is often overused. But I believe that it truly applies to Align Technology—from a historical standpoint and from our perspective today. We have pioneered a market, changed the way our customers do business, and created an orthodontic product that patients actually love and ask for by name. And we’re not done yet—2008 is poised to be another year of innovation, growth and excitement for Align Technology.



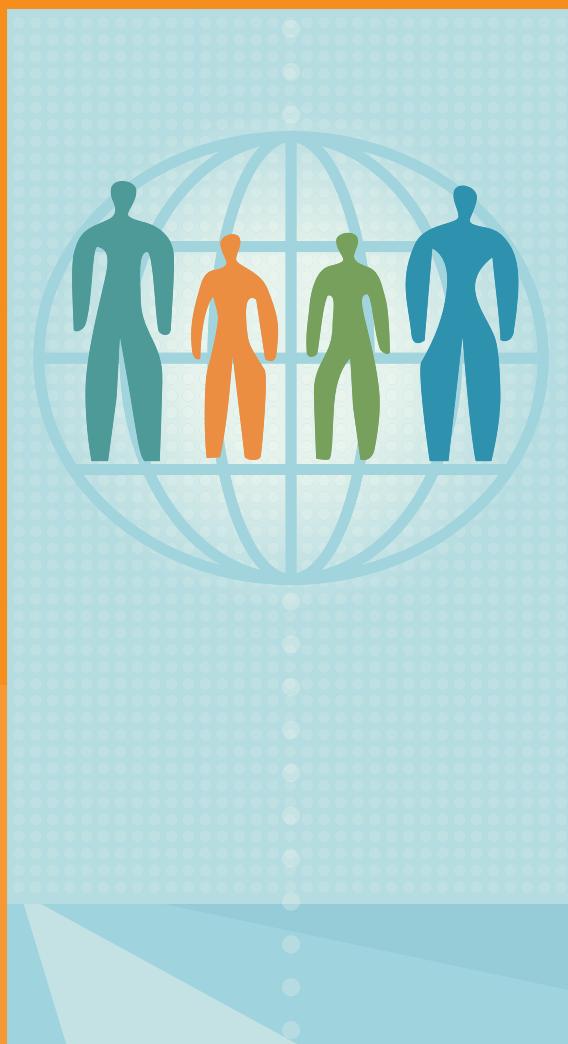
**Thomas M. Prescott**  
President and Chief Executive Officer



# this is the opportunity

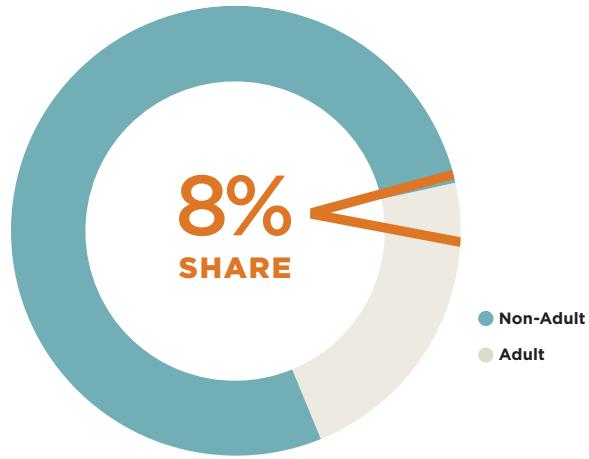
Think of everyone you know with crooked teeth...with overlapping teeth or with spaces between their teeth. It would be easy to say "that's the opportunity." But that's a pie-in-the-sky approach. To assess our true market opportunity, we researched the population that has Class 1 malocclusion, sees a dentist regularly, is predisposed to treatment, and

fits our age and earnings demographic. Applying all of those criteria may seem like a conservative approach, but it yields a potential patient population of approximately 65 million consumers in the U.S. alone. Our current penetration into that market is less than 1 percent. And we see that as a huge, exciting opportunity for growth.



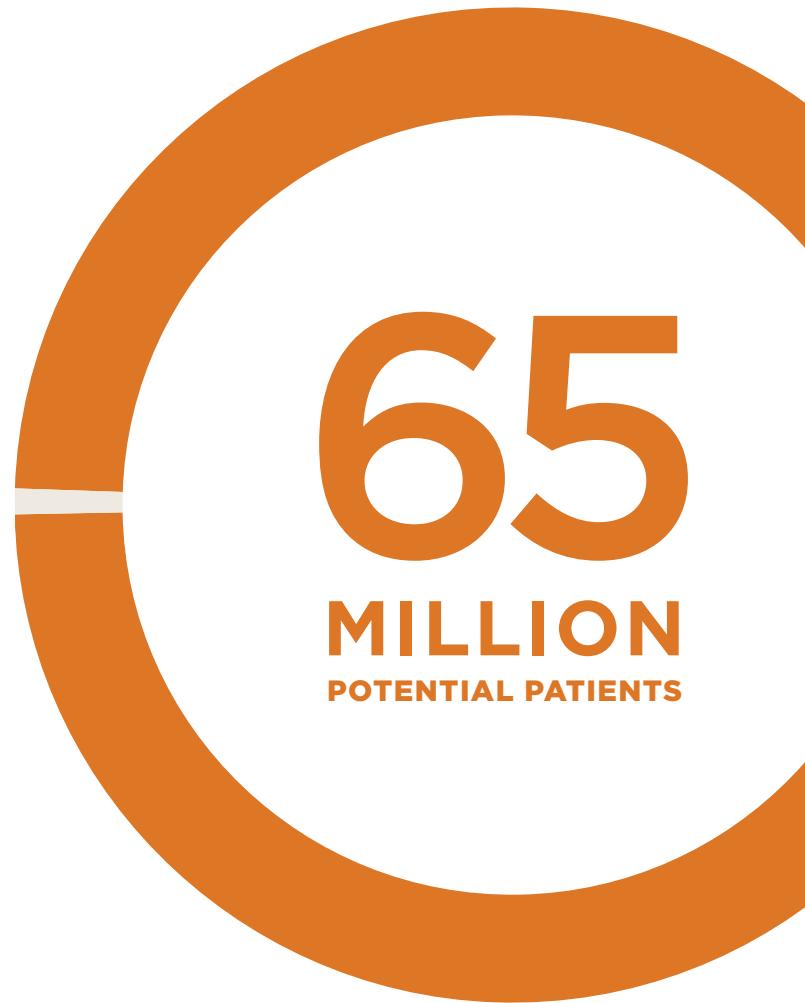
**existing U.S. orthodontic market opportunity**

There are approximately 2.3 million orthodontic case starts in the U.S. annually, of which 22 percent are adult and 78 percent are non-adult (children or teens). Invisalign treatment has historically been applicable to 900,000 of those cases, primarily adults. In 2007, Align had approximately 8 percent share of the total addressable U.S. orthodontic market, based on nearly 73,000 cases shipped. With the launch of Invisalign Teen in late 2008, the addressable market for Invisalign will increase substantially.



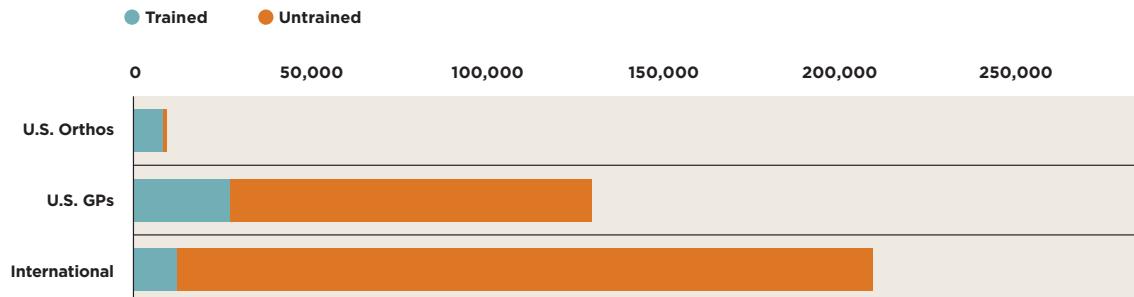
**potential U.S. market opportunity**

While the existing U.S. orthodontic market opportunity is significant, there is an even bigger opportunity for Invisalign based on the 65 million potential patients in the U.S. alone. These are people who would like to improve their smiles, but would not seek traditional orthodontic treatment using wires and brackets. With less than 1 percent penetration into this huge potential market, Align has tremendous room for growth.



**worldwide Invisalign-trained doctors**

The opportunity for Invisalign is also evident by assessing the number of Invisalign-trained doctors around the world. We estimate that the opportunity for Invisalign internationally is roughly the same size as that of the U.S. market.



# this is how we're getting at it

Align's market opportunity is huge—so how do we get at it? Three critical levers will drive our long-term growth in the U.S. and around the world: product innovation, adoption growth, and consumer demand. A lever is just a way of applying force to one area to achieve movement in another—much like our aligners are used to apply

force to move teeth. By simultaneously applying product development to meet specific customer needs, growing our base of customers and their use of Invisalign, and converting consumers into qualified leads for doctors, we'll have all the force we need to achieve positive movement and worldwide growth.



## product innovation

Product innovation is the most critical of our three levers for achieving growth. Align was founded on the bedrock of innovation, but the priorities early on were to improve the initial product and to drive clinical acceptance of the Invisalign technique. Over the past two years that focus has shifted. We asked “what will make more doctors choose Invisalign for more of their patients?” Customer feedback was clear and consistent—orthodontists want to know they can successfully use Invisalign for a wider range of patients, especially teens and complex cases. They also want more control over the outcome of the case. General dentists want products that are easy to use and that work in concert with the restorative and cosmetic services that make up the bulk of their practices. Their message was clear—we need to do a better job of meeting their unique needs and customers will then make Align’s products a more mainstream part of their practices.

Based on customer research and input, we began the evolution from a single, one-size-fits-all Invisalign system to a suite of end-to-end products based on specific clinical and practice needs. We ended 2007 by adding Vivera Retainers to our family of products, and in 2008 we plan to introduce additional new products. Align’s products will all leverage the innovative technology, extensive database of clinical information, and proven efficacy of the

Invisalign system; however, our recent and planned new product offerings will rely on new features, aligner delivery methods, and support options that meet specific customer demands. Within a year, the Align product family will complete the first stage of evolution that we began two years ago and will include solutions for most day-to-day customer needs:

- Invisalign Express for simple cases or as a component of cosmetic or restorative treatment;
- Invisalign Full for comprehensive treatment or more complex cases;
- Invisalign ClinAssist for an instructive, Align-assisted approach to full treatment;
- Invisalign Teen for Phase 2, non-adult comprehensive treatment;
- Vivera Retainers for long-term, post-treatment retention;
- A robust product development pipeline to build on these significant changes.

But how does product innovation really drive long-term growth for Align? By increasing customer utilization and creating incremental market opportunities.

### ramping utilization growth

Previously, all customers used the same Invisalign product—whether they were a specialist with years of orthodontic treatment experience or a general dentist who rarely did orthodontics but wanted to add Invisalign treatment to his or her practice. By creating products that meet our customers’ specific needs for treatment, we expect to increase

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their use or “utilization” of Invisalign. This is especially true for doctors who are new to Invisalign treatment, such as newly trained general dentists. Invisalign ClinAssist, scheduled for launch in late 2008 or early 2009, is being designed as a more instructive, turnkey product that streamlines treatment planning and offers case monitoring support for new doctors who are just ramping up their Invisalign case experience or for doctors who want a very efficient, less time-intensive solution for their practices.

#### **creating incremental market opportunities**

Product innovation at Align is also creating new, incremental revenue opportunities. Vivera Retainers, launched in late 2007, is an aesthetic, subscription-based retention product that can extend the patient relationship past active treatment. It is the first product that is available to both Invisalign and non-Invisalign patients.

Invisalign Teen, slated for a late 2008 release, has even greater potential for incremental growth as a product designed to address the significant untapped population of non-adult comprehensive cases—or teens.

## **adoption growth**

Long-term growth depends on customer adoption and utilization. Quite simply, we need more customers using the product more widely and more often in their practices. And while delivering product innovation is one way to increase utilization, we also have to provide ongoing clinical education and practice support to ensure doctors see success with our products.

As with any new clinical technique, there is a learning curve with Invisalign products. With many medical devices and related techniques, the adoption cycle is relatively brief. Doctors

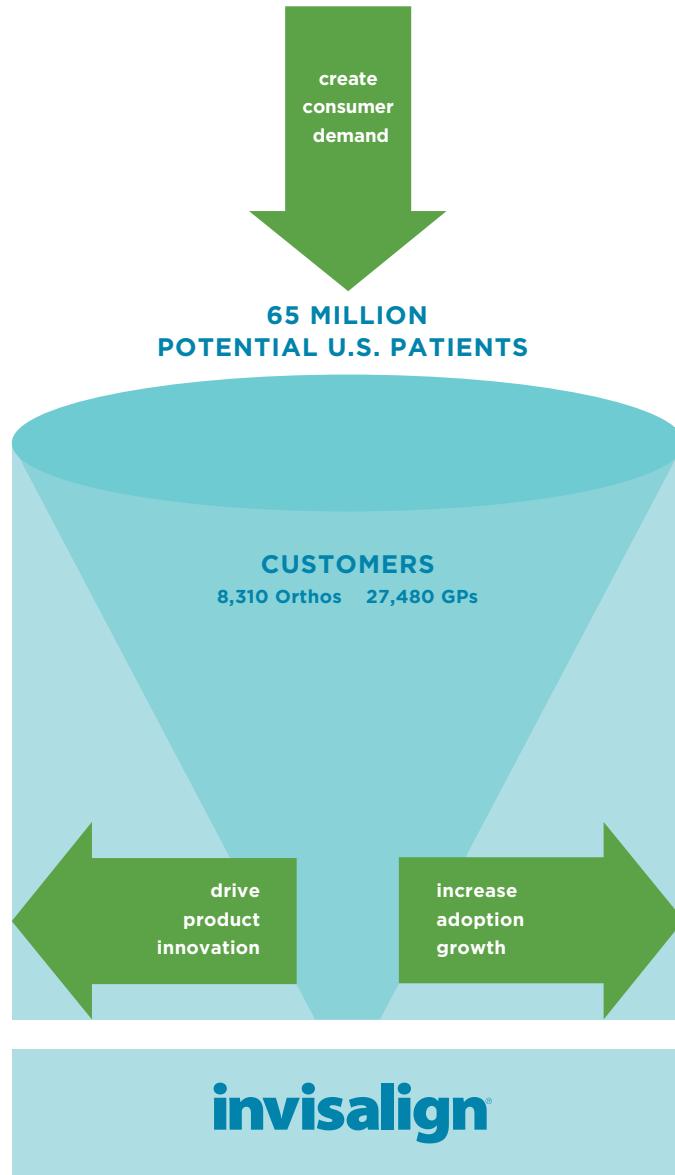
can test a new product or procedure in a few hours and see initial results within days. In contrast, the adoption cycle with Invisalign is longer. Treatment can take up to a year or longer, and initial results may take weeks or months to see. Sustained adoption comes when doctors gain confidence from seeing the results of multiple cases. With many doctors, the biggest benefits in terms of efficiency start to kick in at around 40 or 50 case starts. To support doctors through the initial and extended learning curve, Align has implemented a variety of strategic go-to-market initiatives, including expansion of its sales force, world-class customer and clinical support, and significant investment in clinical education content and delivery technology.

All of these initiatives must be scalable to accommodate our growing base of customers. We’ve trained the majority of U.S. orthodontists; now our biggest opportunities for expanding our customer base lie with general dentists in North America and with doctors in key international markets. In 2007, we trained more than 7,000 doctors worldwide, making it one of our most significant training years

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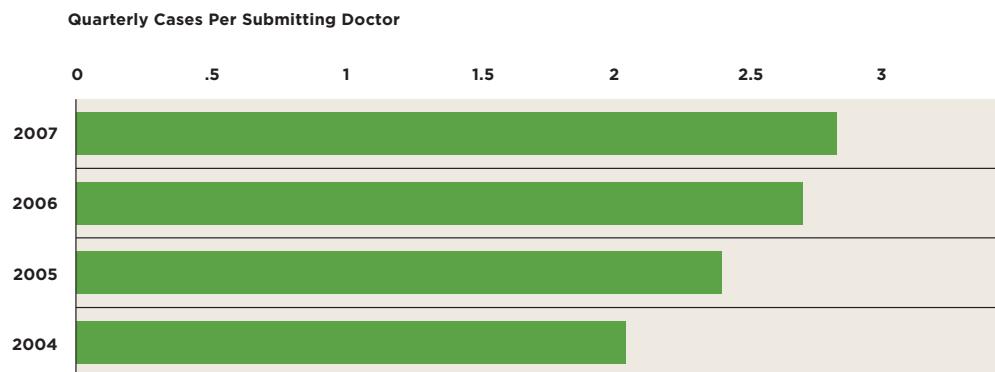
**three levers for long-term growth**

Together, product innovation, adoption growth, and consumer demand are driving more patients to more doctors and will result in long-term growth for Align.



**increased utilization reflects adoption**

The rate of adoption growth, as measured by U.S. GP utilization rates, has increased slowly over time. It reflects the average quarterly number of Invisalign cases shipped per submitting doctor and is the equivalent of Align's "same store sales" metric that is often used in the retail industry. Utilization has steadily increased despite significantly faster growth in the number of newly trained, low-volume doctors.



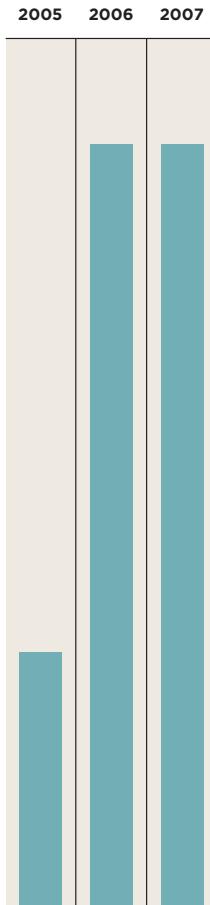
### patients love Invisalign

According to Align's research, nine out of ten Invisalign patients surveyed are "very" to "extremely" satisfied with treatment.



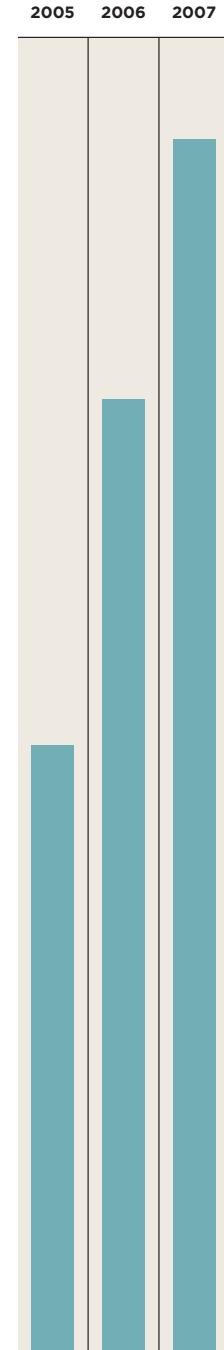
### lead generation

In 2007, qualified leads for Invisalign treatment increased threefold from 2005, with responses measuring in the millions.



### conversion rate

In 2007, the percentage of qualified leads that were converted into actual Invisalign cases increased twofold from 2005.



to date. To support these and future customers, we are developing smarter, more efficient support systems that scale to meet customer needs.

In 2007, Align expanded its worldwide field sales organization and fully implemented a single-channel model where sales representatives support both orthodontists and general dentists in a given market. The single-channel approach allows sales representatives to facilitate strong referral relationships and collaboration between doctors. This has led Align to pilot a new network model where experienced orthodontists are paired with newly trained general dentists to provide mentoring and a clinical “safety net” as they start their first few Invisalign cases.

In early 2008, Align launched the next generation of its industry-leading clinical education program. Aligntech Institute and the AligntechInstitute.com portal will provide scalable training resources for every experience level through instructor-led courses, web-based tutorials and case studies, downloadable content, and a new training process that may shorten the time it takes for doctors to start their initial cases.

## consumer demand

More than anything else, consumer demand—no, consumer passion drives our growth. It always has. Consumers love what Invisalign does for their smiles and how good treatment makes them feel about themselves, so consumer demand was the first lever we ever applied to increase the use of Invisalign. Knowing that it can take years for a new orthodontic product or technique to catch on, Align accelerated early clinical adoption of Invisalign with the launch of its first national consumer advertising campaign in 2000—making it the first time an orthodontic product company marketed directly to consumers.

The result of that initial and all subsequent consumer marketing campaigns is an ever-increasing population of excited, knowledgeable, passionate consumers who walk into doctors’ offices and ask for Invisalign by name. Their demand encourages doctors to make Invisalign a bigger part of their practices.

In the past, our focus has been on building brand awareness among adults, but with the launch of Invisalign Teen in late 2008, Align will begin marketing specifically to the teen market for the first time. That’s a very exciting prospect for us, but consumer outreach and response have always been among the most exciting and rewarding parts of our business. With more than 730,000 Invisalign patients to date, we’ve had an opportunity to learn a lot about what motivates consumers to seek treatment and what a life-changing experience treatment becomes for so many of them. According to Align’s research, nine out of ten Invisalign patients surveyed are “very” to “extremely” satisfied with treatment. That’s an experience we want to extend to as many people as possible.

65 million people, actually.

**The result of that initial and all subsequent consumer marketing campaigns is an ever-increasing population of excited, knowledgeable, passionate consumers who walk into doctors’ offices and ask for Invisalign by name. Their demand encourages doctors to make Invisalign a bigger part of their practices.**

## financial highlights

(in thousands, except per share data)

	2007	2006	2005
(GAAP)			
<b>Statement of Operations</b>			
Total net revenues	\$284,332	\$206,354	\$207,125
Gross profit	209,297	141,579	143,341
Total operating expenses	175,442	179,115	140,895
Net profit (loss)	\$ 35,724	\$ (34,963)	\$ 1,413
Net profit (loss) per fully diluted share	\$ 0.50	\$ (0.55)	\$ 0.02
Shares used in computing net profit (loss) per diluted share	71,444	63,246	63,152

### Non-GAAP Net Profit (Loss) Including Reconciliation of GAAP to Non-GAAP

Net profit (loss)	\$ 35,724	\$ (34,963)	\$ 1,413
Stock-based compensation included in:			
Cost of revenues	994	700	—
Operating expenses	11,217	8,210	12
Patients First Program and settlement costs	(1,796)	14,343	—
Tax effect of stock-based compensation expense	(214)	—	—
Non-GAAP net profit (loss)	\$ 45,925	\$ (11,710)	\$ 1,425
Non-GAAP net profit (loss) per fully diluted share	\$ 0.64	\$ (0.19)	\$ 0.02

### Balance Sheet

Cash, cash equivalents and marketable securities	\$ 127,911	\$ 64,137	\$ 74,369
Working capital	123,058	40,306	62,978
Total assets	222,761	151,558	142,110
Total long-term liabilities	148	219	64
Stockholders' equity	161,154	83,556	93,438

Forward-Looking Statement: This Annual Report contains forward-looking statements related to our expectations about future events or results, including among other things, statements regarding the release of Invisalign ClinAssist, Invisalign Teen and Vivera Retainers, including anticipated product release dates, product features and the expected impact these new products and product enhancements will have on doctor utilization, customer adoption growth rates, the size of our addressable market and our share of the addressable market, our belief that product innovation and consumer marketing programs will drive incremental revenue growth and increase utilization over time, as well as other statements regarding our future operations, prospects and business strategy. These forward-looking statements are based upon information available to Align as of the date hereof and are not guarantees of the date of availability, which may be delayed or cancelled, or of the availability of the features mentioned, which may be changed or removed prior to release. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. As a result, actual results may differ materially and adversely from those expressed in any forward-looking statement. Factors that might cause such a difference include, but are not limited to, the possibility that the development and release of new products does not proceed in accordance with the anticipated timeline, the possibility that the market for the sale of these new products may not develop as expected, the risks relating to Align's ability to sustain or increase profitability or revenue growth in future periods while controlling expenses, continued customer demand for Invisalign and new products, acceptance of Invisalign and new products by consumers and dental professionals, competition from manufacturers of traditional braces and new competitors, Align's ability to develop and successfully introduce new products and product enhancements, and the loss of key personnel. These and other risks are detailed from time to time in Align's periodic reports filed with the Securities and Exchange Commission, including, but not limited to, its Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which was filed with the Securities and Exchange Commission on February 26, 2008, and its Quarterly Reports on Form 10-Q. Align undertakes no obligation to revise or update publicly any forward-looking statements for any reason.



