

100+

OVER ONE HUNDRED YEARS YOUNG

Young Innovations, Inc.

2010 Annual Report

FINANCIAL HIGHLIGHTS

OPERATING RESULTS (In thousands except for per share data)	2010	2009	2008	% Change 2009-2010
Net Sales	\$102,842	\$97,737	\$99,143	5.2%
Operating Income	23,020	21,538	19,753	6.9%
Net Income	14,937	13,481	12,181	10.8%
Diluted Earnings Per Share	1.86	1.69	1.51	10.1%
Weighted Average Fully Diluted Shares Outstanding	8,037	7,966	8,069	0.9%
Net Cash Flows from Operating Activities	\$22,025	\$22,480	\$22,465	(2.0%)

FINANCIAL POSITION

Working Capital	\$23,883	\$22,752	\$23,493
Cash and Equivalents	741	67	667
Stockholders' Equity	127,104	120,865	106,277

FINANCIAL RATIOS

Operating Income to Net Sales	22.4%	22.0%	19.9%
Net Income to Net Sales	14.5%	13.8%	12.3%



LETTER TO
SHAREHOLDERS

Few companies founded over a hundred years ago are still in existence today, and even fewer are stronger and more vital. A single-product proprietorship in the year 1900, Young Innovations today offers a broad range of products spanning a variety of clinical categories for dental professionals throughout the world. What has not changed is our employees' steadfast commitment to quality, integrity, and innovation. As a result, at the end of 2010, though over a hundred years old, we feel like we are just beginning.

Young Innovations made progress in a variety of areas during 2010. The introduction of new products, improved operating efficiencies, and increased effectiveness of our sales and marketing efforts all helped to drive solid performance. Sales increased 5.2 percent to a record \$102.8 million, while income from operations rose 6.9 percent to \$23.0 million and net income increased 10.8 percent to \$14.9 million. In addition, diluted earnings per share reached a record high of \$1.86 for the year. Demand for our consumables products increased steadily over 2009, and after several challenging years, sales of our diagnostic product line rebounded in 2010.

Healthy cash flows from operating activities of \$22 million enabled us to reduce long-term debt by \$7.9 million and pay \$8.0 million in a special dividend of \$1 per share to our shareholders. We ended the year with \$6.1 million in long-term debt, preserving significant capacity to invest in strategic growth opportunities.

We introduced several new products during 2010. Partnering with Susan G. Komen for the Cure®, the world's leading organization dedicated to the fight against breast cancer, Young Dental launched a pink version of its disposable prophylaxis to focus the connection between oral and systemic health. Denticator expanded its popular animal-themed Zooby line to include pastes, fluorides, and varnishes. These new varnishes tie two of our product lines together for the first time by including Microbrush applicators for fluoride application. The Biotrol line of infection control products added a pre-soaked wipe to its Birex brand. Our endodontic product line, Obtura Spartan, introduced a new line of ultrasonic tips. Our practice enhancement line of products, Plak Smacker, added new specialty kits for orthodontic, pedodontic, and periodontic professionals, as well as flavored gloves and paper barrier products. Panoramic continued to develop its digital imaging solutions, expanding its value-priced product offering of X-ray equipment.

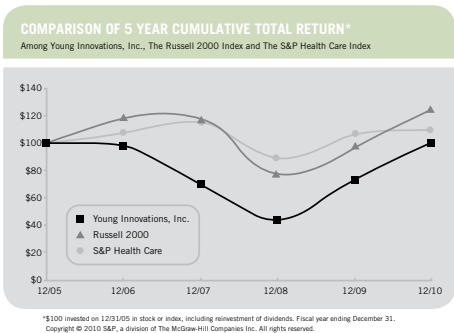
STRATEGY FOR GROWTH

ACQUIRE

ENHANCE

IMPROVE

During 2010, we added new sales representatives across the Company, enhancing existing customer relationships while creating new ones. For many years, the Young Dental, Microbrush, and Obtura Spartan product lines were represented separately throughout the world. In 2010, we began integrating our international product offerings and increasing our presence in Europe and Asia. We continued to apply information technology in order to improve our ability to understand and more effectively meet the needs of our customers.



We also achieved significant operating efficiencies throughout the year. Automation of a key production process enabled us to consolidate our Brownsville operations into Earth City. In addition, Obtura Spartan production was relocated from our Earth City, Missouri facility to our Algonquin, Illinois facility. We made improvements to our Earth City and Corona, California facilities to increase sales floor and warehouse capacity and to improve workflow.

As always, we would like to thank our Board of Directors, whose leadership and vision remain vital to our success. As each year continues to present new opportunities to improve and grow our business, we are especially grateful for our employees' commitment to quality, integrity, and innovation. It is their adherence to these core values that keeps us feeling over one hundred years Young.



Arthur L. Herbst

ARTHUR L. HERBST
PRESIDENT & CHIEF
FINANCIAL OFFICER

Alfred E. Brennan

ALFRED E. BRENNAN
CHAIRMAN OF THE BOARD &
CHIEF EXECUTIVE OFFICER



INNOVATION

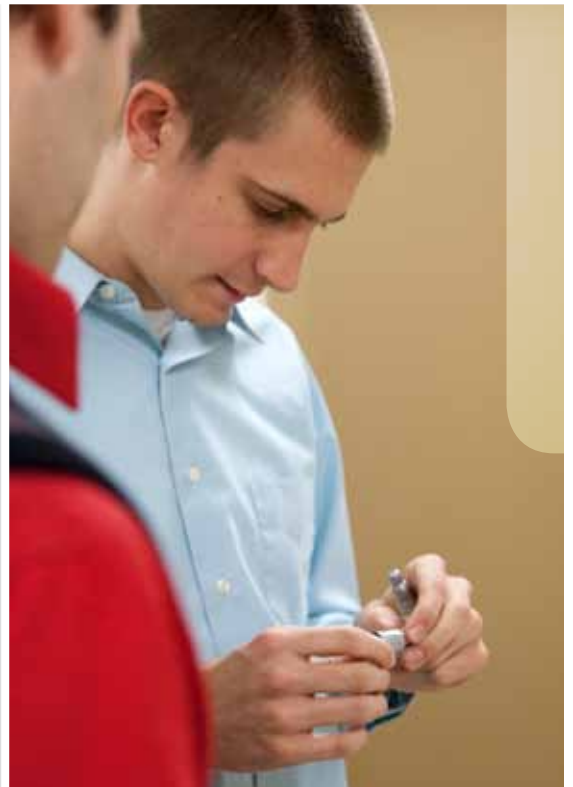
“Since becoming part of the Young organization in 2006, Microbrush in Ireland has gone from strong to stronger. The positive approach of Young management has brought a new dynamism to the Irish plant, which is reflected in our performance over the last few years. Personally it has given me the opportunity to work with a group of wonderful, professional people whose help, advice and support I greatly appreciate.”



Mary O’Keeffe

+ VITALITY

“Young Innovations has given me the opportunity to work in many different facets of business, while providing a challenging environment that constantly pushes me to grow. Just two years removed from college, I have had the opportunity to work with people of all levels of experience and management who share a commitment to delivering quality products to improve oral health. This has given me a wide breadth of experience that many of my peers in other organizations do not know.”



Dan Veile

“Today, priorities can change quickly in response to a world of instantaneous communications, short product life cycles and global competition. The non-linear demands of this work require dotted-line responsibilities between colleagues. At Young, I am amazed at the capacity of our people to adapt to this flattened, networked work style.”



Dan Tarullo



Ankur Raniwala

“At Young Innovations, I am surrounded by people who bring out the best in my abilities as an engineer and challenge me to grow as a leader. We continue to adapt to our product development to fit the changing needs of dental professionals. By doing this, we will continue to make a positive impact on the healthcare industry.”

“I love that the business is constantly changing, because there are always new and exciting opportunities available. I have seen the company grow tremendously, while still caring about each employee’s needs. This has allowed me to grow professionally, while still giving me the work-life balance I need.”



Jordan White



“Personally, what keeps me engaged is the ability to learn something new just about every day. Young’s innovative nature and flat organizational structure have allowed me to explore different aspects of the business that I would have never previously thought about. I have been involved with regulatory, quality systems, and process improvements. The flexibility allows me to choose what I think is important to improvement/growth at Microbrush and apply my skills as I see appropriate. I also enjoy the small-business feel while still having access to resources at different locations across the world.”

Todd Madole

+ QUALITY

“Twelve years ago, I came to Young as an eager but inexperienced consultant, and have had the opportunity to be part of the management teams for factories, product lines, regions, businesses and acquisitions. I have been able to have such a variety of work, because the business is growing and changing while always remaining committed to the highest levels of quality and integrity; this is why we continue to find success after over 110 years. This ever-changing business has pushed me to the boundaries of my capabilities and has led to tremendous personal and professional growth.”



Dan Garrick

+ INTEGRITY



Pam Nutt

“From a professional growth standpoint, working at Young gives me an opportunity to be involved in every aspect of operating a business. It also provides a wonderful setting where we can all learn and grow from associates of various backgrounds and ages. Our continuous adaptation to industry needs is what allows us to remain vital in this industry.”

SELECTED FINANCIAL DATA

The following table presents selected financial data of the Company. This historical data should be read in conjunction with the Consolidated Financial Statements and the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations." All amounts except per share data are expressed in thousands.

<i>Years ended December 31</i>	2010	2009	2008	2007	2006 ⁽¹⁾
Income Statement Data					
Net sales	\$102,842	\$97,737	\$99,143	\$97,402	\$90,805
Cost of goods sold	45,681	43,166	46,847	45,623	41,694
Gross profit	57,161	54,571	52,296	51,779	49,111
Selling, general and administrative expenses	34,141	33,033	32,543	31,019	25,628
Income from operations	23,020	21,538	19,753	20,760	23,483
Interest expense (income) and other, net	215	798	867	1,150	(28)
Income from operations before provision for income taxes	22,805	20,740	18,886	19,610	23,511
Provision for income taxes	7,868	7,259	6,705	6,677	8,732
Net income	\$14,937	\$13,481	\$12,181	\$12,933	\$14,779
Basic earnings per share	\$1.87	\$1.71	\$1.52	\$1.46	\$1.65
Basic weighted average common shares outstanding	7,969	7,881	7,999	8,828	8,954
Diluted earnings per share	\$1.86	\$1.69	\$1.51	\$1.44	\$1.61
Diluted weighted average common shares outstanding	8,037	7,966	8,069	8,982	9,182
Cash dividends declared per common share	\$1.16	\$0.16	\$0.16	\$0.16	\$0.16

⁽¹⁾ On July 31, 2006 and August 18, 2006, the Company acquired substantially all of the assets of Microbrush, Inc. and Microbrush International Ltd., respectively (collectively "Microbrush"). The income statement data for the year ended December 31, 2006 includes results of operations for Microbrush, Inc. from

July 31, 2006 through December 31, 2006 and Microbrush International Ltd. from August 18, 2006 through December 31, 2006. The balance sheet data as of December 31, 2006 includes the Microbrush acquisition.

<i>As of December 31</i>	2010	2009	2008	2007	2006
Balance Sheet Data					
Working capital	\$23,883	\$22,752	\$23,493	\$25,491	\$25,982
Total assets	161,625	160,000	159,576	158,768	156,588
Long-term debt (including current maturities)	6,100	13,979	29,349	36,646	21,810
Stockholders' equity	127,104	120,865	106,277	103,338	117,498

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Prices and Dividends

The Company's Common Stock is listed on The NASDAQ Global Select Market under the symbol "YDNT."

The following table sets forth the high and low closing prices of the Company's Common Stock as reported by The NASDAQ Global Select Market and cash dividends declared during the last eight quarters.

On December 31, 2010, there were approximately 70 holders of record of the Company's Common Stock.

The Company has paid quarterly dividends on its Common Stock since the third quarter of 2003. In addition to the quarterly cash dividend of \$.04 per share, the Company issued a special, one-time, cash dividend of \$1.00 per share in the fourth quarter of 2010.

Payment of future cash dividends will be at the discretion of the Company's Board of Directors and will be dependent upon the

earnings and financial condition of the Company and any other factors deemed relevant by the Board of Directors, and will also be subject to any applicable restrictions contained in the Company's then existing credit arrangements.

2009	First	\$16.97	\$12.42	\$0.04
	Second	\$22.38	\$14.79	\$0.04
	Third	\$26.41	\$21.90	\$0.04
	Fourth	\$27.71	\$22.78	\$0.04
2010	First	\$29.17	\$22.12	\$0.04
	Second	\$28.94	\$23.17	\$0.04
	Third	\$28.98	\$24.47	\$0.04
	Fourth	\$32.82	\$27.01	\$1.04

Forward-Looking Statements

This Annual Report (including, without limitation, the description of our business and "Management's Discussion and Analysis of Financial Condition and Results of Operations") includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts included herein are "forward-looking statements." Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements include statements which are predictive in nature, which depend upon or refer to future events or conditions and which include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," or similar expressions. These statements are not guaranties of future performance, and the Company makes no commitment to

update or disclose any revisions to forward-looking statements, or any facts, events or circumstances after the date hereof that may bear upon forward-looking statements. Because such statements involve risks and uncertainties, actual actions and strategies and the timing and expected results thereof may differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, those disclosed in this Annual Report and other reports filed with the Securities and Exchange Commission.

The Company makes no commitment to update these factors or to revise any forward-looking statements for events or circumstances occurring after the statement is issued.

At any time when the Company makes forward-looking statements, it desires to take advantage of the "safe harbor" which is afforded such statements under the Private Securities Litigation Reform Act of 1995.

Performance Graph

The graph on page 2 and table below compare the cumulative total shareholder return on the Company's Common Stock from December 31, 2005, through December 31, 2010, with the Russell 2000 Index and the S&P Health Care Index. The comparisons reflected in the table and graph are not intended

to forecast the future performance of the Common Stock and may not be indicative of such future performance. The table and graph assume an investment of \$100 in the Common Stock and indexes on December 31, 2005, and the reinvestment of all dividends.

	12/05	12/06	12/07	12/08	12/09	12/10
Young Innovations, Inc.	\$100.00	\$98.17	\$70.91	\$44.96	\$74.76	\$100.21
Russell 2000	100.00	118.37	116.51	77.15	98.11	124.46
S&P Health Care	100.00	107.53	115.22	88.94	106.46	109.55

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

All numbers in thousands, except per share data

General

Young Innovations, Inc. and its subsidiaries ("the Company") develop, manufacture and market supplies and equipment used by dentists, dental hygienists, dental assistants and patients. The Company's product offering includes disposable and metal prophylaxis ("prophy") angles, prophy cups and brushes, dental micro-applicators, panoramic X-ray machines, moisture control products, infection control products, dental handpieces (drills) and related components, endodontic systems, orthodontic tooth-brushes, flavored examination gloves, children's toothbrushes, and children's toothpastes.

The Company's manufacturing and distribution facilities are located in Missouri, Illinois, California, Indiana, Wisconsin and Ireland.

The Company operates in one reporting segment, which is the development and manufacture of a broad line of products

marketed to dental professionals. The Company markets its products primarily in the U.S. The Company also markets its products in several international markets, including: Canada, Europe, South America, Central America, and the Pacific Rim. Sales outside the United States represented approximately 18%, 17%, and 18% of the Company's total net sales in 2010, 2009, and 2008, respectively.

Some of the risk factors that affect the Company's business and financial results are discussed in "Item 1A: Risk Factors" in the 10-K for the year ended December 31, 2010. We wish to caution the reader that the risk factors discussed in "Item 1A: Risk Factors," and those described elsewhere in this report or our other Securities and Exchange Commission filings, could cause our actual results to differ materially from those stated in the forward-looking statements.

Critical Accounting Policies

The SEC has requested that all registrants include in their MD&A a description of their most critical accounting policies, the judgments and uncertainties affecting the application of those policies, and the likelihood that materially different amounts would be reported under different conditions using different assumptions. The SEC indicated that a "critical accounting policy" is one which is both important to the portrayal of the company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company believes that the following accounting policies fit this definition:

Revenue Recognition – Revenue from the sale of products is recorded at the time title passes, generally when the products are shipped, as the Company's shipping terms are customarily FOB shipping point.

The Company generally requires payment within 30 days from the date of invoice and offers cash discounts for early payment. For certain acquired businesses that offer different terms, the Company migrates these customers to the terms referred above over time.

The Company offers discounts to its distributors if certain conditions are met. Customer allowances, volume discounts and rebates, and other short-term incentive programs are recorded as a reduction in reported revenues at the time of sale. The Company reduces product revenue for the estimated redemption of annual rebates on certain current product sales. Customer allowances and rebates are estimated based on historical experience and known trends.

The policy with respect to sales returns generally provides that a customer may not return inventory except at the Company's option. The Company generally warrants its products against defects, and its most generous policy provides a two-year parts and labor warranty on X-ray machines. The Company owns X-ray equipment rented on a month-to-month basis to customers.

Allowance for Doubtful Accounts – The Company has 34% of its December 31, 2010 accounts receivable balance with two large customers (see footnote 4 of the notes to consolidated financial statements) with the remaining balance comprised of amounts due from numerous customers, some of which are international. Accounts receivable balances are subject to credit risk. Management has reserved for expected credit losses, sales returns and allowances, and discounts based upon past experience, as well as knowledge of current customer information. The Company believes that its reserves are adequate. It is possible, however, that the accuracy of our estimation process could be impacted by unforeseen circumstances. The Company continuously reviews its reserve balance and refines the estimates to reflect any changes in circumstances.

Inventory – The Company values inventory at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventory values are based upon standard costs, which approximate actual costs. Management regularly reviews inventory quantities on hand and records a write-down for excess or obsolete inventory based primarily on estimated product demand and other information related to the inventory including planned introduction of new products and changes in technology. If demand for the Company's products is significantly different than management's expectations, the value of inventory could be materially impacted. Inventory write-downs are included in cost of goods sold.

Goodwill and Other Intangible Assets – In accordance with Accounting Standards Codification (“ASC”) Topic 350, “Intangibles – Goodwill and Other,” goodwill and other intangible assets with indefinite useful lives are reviewed by management for impairment at least annually, or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. If indicators of impairment are present, the determination of the amount of impairment would be based on management’s judgment as to the future operating cash flows to be generated from the assets. ASC Topic 350 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with ASC Topic 360, “Property, Plant, and Equipment.”

Stock Compensation – In accordance with ASC Topic 718, “Stock Compensation,” compensation cost is recognized within the financial statements at the grant date based on the award’s fair-value. Stock option fair value is calculated by an option pricing model, and is recognized as expense ratably over the requisite service period. The option pricing models require judgmental assumptions including: volatility, forfeiture rates, and expected option life. If any of the assumptions used in the model change significantly, share-based compensation expense may differ in the future from that recorded in the current period. The Company

uses the Black-Scholes option pricing model. Compensation expense is also recognized for restricted stock using the fair market value of our Common Stock at the date of grant.

Assets Acquired and Liabilities Assumed in Business Combinations – The Company periodically acquires businesses. All business acquisitions completed subsequent to January 1, 2009 are accounted for under the provisions of ASC Topic 805, “Business Combinations,” which requires an entity to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally expensed in the periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. The changes related to income taxes also impact the accounting for acquisitions completed prior to the effective date of ASC 805. In addition, acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life. Acquisitions completed prior to this adoption were made using the purchase method. Future acquisitions will be impacted using the provisions of the new accounting standard.

Results of Operations

The following table sets forth, for the periods indicated, certain items from the Company’s statements of income expressed as a percentage of net sales.

<i>Year ended December 31</i>	2010	2009	2008
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	<u>44.4</u>	<u>44.2</u>	<u>47.3</u>
Gross profit	55.6	55.8	52.7
Selling, general and administrative expenses	<u>33.2</u>	<u>33.8</u>	<u>32.8</u>
Income from operations	22.4	22.0	19.9
Interest expense and other, net	<u>0.2</u>	<u>0.8</u>	<u>0.9</u>
Income from operations before provision for income taxes	22.2	21.2	19.0
Provision for income taxes	<u>7.7</u>	<u>7.4</u>	<u>6.7</u>
Net income	<u>14.5%</u>	<u>13.8%</u>	<u>12.3%</u>

Year Ended December 31, 2010, Compared to Year Ended December 31, 2009

Net Sales – Sales for the year ended December 31, 2010 were \$102,842, up 5.2% from \$97,737 in the prior year. The sales increase was driven by strengthening demand for our diagnostic products as well as strong demand for our consumable products. Diagnostic product line sales increased approximately 20.1%, demonstrating a recovery from the 2009 decline which was largely due to the general economic downturn. Consumable products, which comprise approximately 90% of total annual sales and include preventative, infection control, endodontic, micro-applicator, and home care product lines, showed an increase of approximately 3.6%. A stronger U.S. Dollar negatively impacted sales by \$257 in 2010.

Gross Profit – Gross profit increased \$2,590, or 4.7%, to \$57,161 in 2010 compared to \$54,571 in 2009. The gross margin percentage of 55.6% in 2010 changed slightly from 55.8% in 2009. The increase in gross margin dollars was a result of higher sales volume, while the slight decline in gross margin percentage is primarily attributable to the mix of products sold.

Selling, General and Administrative Expenses (SG&A) – SG&A expenses increased \$1,108, or 3.4%, to \$34,141 in 2010 from \$33,033 in 2009, primarily due to higher personnel and marketing costs. The increase is mainly attributable to incentive compensation and advertising & promotional costs, which are in line

with the Company's overall performance. As a percentage of net sales, SG&A expenses decreased modestly to 33.2% in 2010 compared to 33.8% in 2009, primarily due to sales increasing faster than expenses.

Income from Operations – Income from operations increased 6.9% to \$23.0 million in 2010 from \$21.5 million in the prior year. The change was a result of factors explained above.

Interest Expense, net – Interest expense, net decreased to \$322 in 2010 from \$665 in 2009. The decrease was attributable to lower borrowings under the Company's credit facility.

Other (Income) Expense, net – Other (Income) Expense, net is (\$107) in 2010 versus \$133 in 2009. The change is primarily attributable to foreign exchange transaction gains on inventory purchases.

Provision for Income Taxes – Provision for income taxes increased \$609 in 2010 to \$7,868 from \$7,259, as a result of higher pre-tax income offset partially by a decrease in the effective tax rate. The effective tax rate was 34.5% in 2010 compared to 35.0% in 2009. The decrease in rates was primarily due to an increase in the allowance rates for the Section 199 manufacturing deduction. The rate was further positively impacted by a change in measurement of a prior period uncertain tax position.

Year Ended December 31, 2009, Compared to Year Ended December 31, 2008

Net Sales – Net sales for the year ended December 31, 2009 were \$97,737, down 1.4% or \$1,406 from \$99,143 in the prior year. The sales decrease is attributable to the general economic downturn that primarily impacted diagnostic product line sales which declined approximately 20.1% from 2008. We experienced solid demand for our consumable products, which include preventive, infection control, endodontic, micro-applicator and home care product lines, increasing modestly by 1.1% from 2008, which helped to offset the weak demand for diagnostic sales.

Gross Profit – Gross profit increased \$2,275 or 4.4%, to \$54,571 in 2009 from \$52,296 in 2008 or 55.8% of sales in 2009 as compared to 52.7% in 2008. The increase in gross margin was attributable to improved manufacturing processes, price increases, and product mix.

Selling, General and Administrative Expenses (SG&A) – SG&A expenses increased by \$490, or 1.5% to \$33,033 in 2009 from \$32,543 in 2008. Our SG&A as a percentage of sales was 33.8% in 2009 as compared to 32.8% in 2008. The increase is attributable in part to incentive compensation which was in-line with the Company's overall performance and stock-based compensation which reflects the third year phase-in of expensing stock awards.

Income from Operations – Income from operations increased \$1,785 or 9.0% in 2009 to \$21,538 from \$19,753 in 2008. The change was a result of the factors described above.

Interest Expense, net – Interest expense, net decreased to \$665 in 2009 compared to \$1,332 in 2008. The decrease was attributable to lower levels of debt outstanding.

Other (Income) Expense, net – The Company generated other (income)/expense of \$133 versus (\$465) in 2008. The 2009 impact was primarily attributable to foreign exchange impact on inventory purchases. The largest impact in 2008 was attributable to a beneficial impact on debt repaid from the Company's Irish subsidiary in 2008.

Provision for Income Taxes – During the year ended 2009, the Company's provision for income taxes increased to \$7,259 versus \$6,705 in 2008. The effective tax rate in 2009 was 35.0% compared to 35.5% in 2008. The effective tax rate was lower due to state law changes and rates.

Sources of Cash

Historically, the Company has financed its operations primarily through cash flow from operating activities and, to a lesser extent, through borrowings under its credit facility. Net cash flow from operating activities was \$22,025, \$22,480, and \$22,465, in 2010, 2009 and 2008, respectively. Operating cash flow declined slightly in 2010 due to planned increases in inventory levels, as well as increases in accounts receivable as a result of increased sales. The timing of collections did not adversely impact the aging of receivables. These items were partially offset by an increase in net income and accounts payable.

On January 16, 2008, the Company transferred a majority of its X-ray equipment loans to a third party for a cash payment of \$3,519. The Company transferred \$4,154 of the notes receivable portfolio for a purchase price of \$4,140. Of the purchase price, \$621 is subject to a recourse holdback pool that has been established with respect to the limited recourse the third party has on the loans. On May 5, 2008, the Company transferred additional X-ray equipment loans to a third party for a cash payment of \$235. There is an additional \$42 subject to a recourse holdback pool. As the transactions do not qualify as sales of assets under ASC Topic 860 "Transfers and Servicing" the transactions have been treated as financing and the loans remain on the Company's balance sheet. As the third party receives payments on the transferred notes, the Company reduces the corresponding notes receivable and secured borrowing balances. As of December 31, 2010, the residual amount of notes receivable transferred to a third party was \$655, of which \$467 is classified as a short-term notes receivable and \$188 as a long-term notes receivable. A corresponding long-term and short-term liability has been recorded, net of the recourse holdback pool of \$136, on the Company's balance sheet.

The Company maintains a credit agreement with a borrowing capacity of \$60,000, which expires in July 2012. Borrowings under the agreement bear interest at rates ranging from LIBOR + 2.0% to LIBOR + 2.5%, or Prime, depending on the Company's level of indebtedness. Commitment fees for this agreement range from .25% to .5% of the unused balance. The agreement is unsecured and contains various financial and other covenants. As of December 31, 2010, the Company was in compliance with all of these covenants. During 2010, the Company borrowed under the credit facility to finance investments in facilities and for working capital needs. At December 31, 2010, the Company had \$6,100 in outstanding borrowings under this agreement and \$53,900 available for borrowing. The \$6,100 borrowing was used, in part, to fund the \$1.00 special dividend paid in

December 2010. Management believes that through its operating cash flows as well as borrowing capabilities, the Company has adequate liquidity and capital resources to meet its needs on a short and long-term basis.

Uses of Cash

Consistent with historical spending, the Company's uses of cash primarily relate to acquisition activity, capital expenditures, dividend distributions to shareholders, and stock repurchases. Specific significant uses of cash over the three years are as follows:

2010

During the year the Company invested \$3,230 in property, plant and equipment. Significant capital expenditures were made to support facility expansion and improvements, as well as investments in new machinery and equipment.

The Company also repurchased 108 shares of its Common Stock for \$2,642. Quarterly dividends of \$0.04 per share were paid February 10, May 19, August 11, November 10, 2010 and on December 3, 2010 a special dividend of \$1.00 per share was paid, for a total payment of \$9,235.

2009

During the year the Company invested \$4,010 in property, plant and equipment. Significant expenditures were made to support facility expansion and improvements in addition to investments in production machinery. We invested \$1,657 to purchase dental distribution rights for a new surface disinfectant, a non-compete agreement and core technology which provides a manufacturing enhancement for our micro-applier products. Lastly, we funded a capital call for a private equity fund investment for \$300.

The Company also repurchased 19 shares of its Common Stock for \$270. Quarterly dividends of \$0.04 per share were paid March 12, June 11, September 14, and December 14, 2009, for a total payment of \$1,256.

2008

Net capital expenditures for property, plant and equipment were \$3,214 in 2008. Significant capital expenditures included facility expansion and improvements, production machinery and new equipment purchases. In May 2008, the Company paid \$2,735 as an earn out payment for certain performance targets achieved in the purchase of Microbrush Inc. and Microbrush International, Ltd.

The Company also repurchased 505 shares of its Common Stock for \$9,406. Quarterly dividends of \$0.04 per share were paid March 14, June 16, September 15, and December 15, 2008, for a total payment of \$1,281.

<i>Contractual Obligations (Payments due by period)</i>	Total	Less than 1 year	1-3 years	4-5 years	Beyond 5 years
Operating leases (including buildings)	\$787	\$501	\$286	—	—
Long-term debt	6,100	—	6,100	—	—
Liability for uncertain tax positions	34	34	—	—	—
Total	\$6,921	\$535	\$6,386	—	—

As of December 31, 2010 and 2009, there were no relationships with any other unconsolidated entities, financial partnerships, structured finance entities, or special purpose entities that

were established for the purpose of facilitating off-balance-sheet arrangements or for other contractually narrow or limited purposes.

Quantitative and Qualitative Disclosures About Market Risk

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign exchange rates. From time to time, the Company finances acquisitions, capital expenditures and its working capital needs with borrowings under a revolving credit facility. Due to the variable interest rate feature on the debt, the Company is exposed to interest rate risk. Based on the Company's average debt balance, a theoretical 100-basis-point increase in interest rates would have resulted in approximately \$100, \$211, and \$317 of additional interest expense in the years ended December 31, 2010, 2009 and 2008, respectively.

Sales of the Company's products in a given foreign country can be affected by fluctuations in the exchange rate. The Company sells approximately 18% of its products outside the United States. Of these foreign sales, 6% are denominated in Euros and 1% in Canadian dollars with the remainder denominated in U.S. dollars. The Company does not feel that foreign currency movements have a material impact on its financial statements.

The Company does not use derivatives to manage its interest rate or foreign exchange rate risks.

Board of Directors and Stockholders
Young Innovations, Inc.

We have audited the accompanying consolidated balance sheets of Young Innovations, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. We also have audited Young Innovations' internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Young Innovations' management is responsible for these financial statements, 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 "Management's Annual Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the company's internal control over financial reporting based on our 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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Young Innovations, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Young Innovations, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Crowe Horwath LLP
Oak Brook, Illinois
March 11, 2011

The management of Young Innovations, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes 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 the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America;
- provide reasonable assurance that receipts and expenditures of the Company are being made in accordance with authorization of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring and testing, and actions taken to correct deficiencies as identified.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility that controls can be circumvented or overridden, and misstatements due to error or fraud may occur and not be detected. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, conditions in the Company's business change over time, and, therefore, internal control effectiveness may vary over time.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Based on this assessment and the foregoing criteria, management believes that, as of December 31, 2010, the Company's internal control over financial reporting is effective. The effectiveness of the Company's internal control over financial reporting as of December 31, 2010 has been audited by Crowe Horwath LLP, an independent registered public accounting firm, as stated in their report, which is included on page 16 of this report.

CONSOLIDATED BALANCE SHEETS

<i>December 31 (In thousands, except per share data)</i>	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$741	\$67
Trade accounts receivable, net of allowance for doubtful accounts of \$246 and \$232 in 2010 and 2009, respectively	11,721	11,397
Inventories	17,260	14,816
Other current assets	4,861	4,849
Total current assets	34,583	31,129
Property, plant and equipment, net	33,162	33,668
Goodwill	80,289	80,374
Other intangible assets	11,579	12,097
Other assets	2,012	2,732
Total assets	\$161,625	\$160,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$10,700	\$8,377
Total current liabilities	10,700	8,377
Long-term debt	6,100	13,979
Long-term secured borrowing	56	550
Deferred income taxes	17,417	15,947
Other noncurrent liabilities	248	282
Total liabilities	34,521	39,135
Stockholders' equity:		
Common Stock, voting, \$.01 par value, 25,000 shares authorized; 10,219 shares issued in 2010 and 2009	102	102
Additional paid-in capital	24,190	23,985
Retained earnings	151,458	145,756
Common Stock in treasury, at cost; 2,248 and 2,294 shares in 2010 and 2009, respectively	(48,484)	(49,090)
Accumulated other comprehensive (loss) income	(162)	112
Total stockholders' equity	127,104	120,865
Total liabilities and stockholders' equity	\$161,625	\$160,000

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

<i>Years ended December 31 (In thousands, except per share data)</i>	2010	2009	2008
Net sales	\$102,842	\$97,737	\$99,143
Cost of goods sold	45,681	43,166	46,847
Gross profit	57,161	54,571	52,296
Selling, general and administrative expenses	34,141	33,033	32,543
Income from operations	23,020	21,538	19,753
Interest expense, net	322	665	1,332
Other (income) expense, net	(107)	133	(465)
Income before provision for income taxes	22,805	20,740	18,886
Provision for income taxes	7,868	7,259	6,705
Net income	\$14,937	\$13,481	\$12,181
Basic earnings per share	\$1.87	\$1.71	\$1.52
Diluted earnings per share	\$1.86	\$1.69	\$1.51
Basic weighted average shares outstanding	7,969	7,881	7,999
Diluted weighted average shares outstanding	8,037	7,966	8,069

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<i>(In thousands)</i>	Common Stock	Additional Paid-In Capital	Retained Earnings	Common Stock in Treasury	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income
Balance, January 1, 2008	\$102	\$25,024	\$122,631	\$(44,595)	\$176	\$103,338	
Net income	—	—	12,181	—	—	12,181	\$12,181
Common Stock purchased	—	—	—	(9,438)	—	(9,438)	
Stock options exercised	—	(335)	—	589	—	254	
Issuance of restricted stock	—	(771)	—	771	—	—	
Share-based compensation	—	1,442	—	—	—	1,442	
Excess income tax (shortfall) benefit from stock options	—	(24)	—	—	—	(24)	
Cash dividends (\$0.16 per share)	—	—	(1,281)	—	—	(1,281)	
Foreign currency translation adjustments	—	—	—	—	(195)	(195)	(195)
Comprehensive income							\$11,986
Balance, December 31, 2008	\$102	\$25,336	\$133,531	\$(52,673)	\$(19)	\$106,277	
Net income	—	—	13,481	—	—	13,481	\$13,481
Common Stock purchased	—	—	—	(270)	—	(270)	
Stock options exercised	—	(941)	—	1,859	—	918	
Issuance of restricted stock	—	(2,183)	—	1,994	—	(189)	
Share-based compensation	—	1,687	—	—	—	1,687	
Excess income tax (shortfall) benefit from stock options	—	86	—	—	—	86	
Cash dividends (\$0.16 per share)	—	—	(1,256)	—	—	(1,256)	
Foreign currency translation adjustments	—	—	—	—	131	131	131
Comprehensive income							\$13,612
Balance, December 31, 2009	\$102	\$23,985	\$145,756	\$(49,090)	\$112	\$120,865	
Net income	—	—	14,937	—	—	14,937	\$14,937
Common Stock purchased	—	—	—	(2,642)	—	(2,642)	
Stock options exercised	—	(681)	—	2,270	—	1,589	
Issuance of restricted stock, net	—	(1,455)	—	978	—	(477)	
Share-based compensation	—	1,696	—	—	—	1,696	
Excess income tax (shortfall) benefit from stock options	—	645	—	—	—	645	
Cash dividends (\$1.16 per share)	—	—	(9,235)	—	—	(9,235)	
Foreign currency translation adjustments	—	—	—	—	(274)	(274)	(274)
Comprehensive income							\$14,664
Balance, December 31, 2010	\$102	\$24,190	\$151,458	\$(48,484)	\$(162)	\$127,104	

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Years ended December 31 (In thousands)</i>	2010	2009	2008
Cash flows from operating activities:			
Net income	\$14,937	\$13,481	\$12,181
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	4,170	4,015	4,013
Share-based compensation expense	1,696	1,687	1,442
Deferred income taxes	1,463	1,734	1,898
Excess tax benefit from share exercises	(645)	(86)	—
Loss on private equity investment fund	—	75	89
Changes in assets and liabilities, net of effects of acquisitions and divestitures:			
Trade accounts receivable	(491)	(851)	2,542
Inventories	(2,491)	1,707	(2,142)
Other current assets	56	(42)	646
Other assets	703	970	1,530
Accounts payable and accrued liabilities	2,627	(210)	266
Total adjustments	7,088	8,999	10,284
Net cash flows from operating activities	22,025	22,480	22,465
Cash flows from investing activities:			
Payments for acquisitions of businesses and intangible assets, net of cash acquired	—	(1,657)	(2,735)
Purchases of property, plant and equipment	(3,230)	(4,010)	(3,214)
Purchases of private equity investment	—	(300)	(750)
Net cash flows from investing activities	(3,230)	(5,967)	(6,699)
Cash flows from financing activities:			
Payment of deferred finance costs	—	(158)	—
Payments on long-term debt	(48,493)	(60,334)	(58,363)
Borrowings on long-term debt	40,614	44,964	51,066
Payments of long-term secured borrowings	(494)	(1,217)	(1,602)
Borrowings of long-term secured borrowings	—	346	3,754
Excess tax benefit (deficit) from share exercises	645	86	(24)
Proceeds from stock options exercised	1,589	918	443
Purchases of treasury stock	(2,642)	(459)	(9,627)
Payment of cash dividends	(9,235)	(1,256)	(1,281)
Net cash flows from financing activities	(18,016)	(17,110)	(15,634)
Effect of exchange rate changes on cash and cash equivalents	(105)	(3)	7
Net increase (decrease) in cash and cash equivalents	674	(600)	139
Cash and cash equivalents, beginning of period	67	667	528
Cash and cash equivalents, end of period	\$741	\$67	\$667
Non-cash disclosure – acquired property, plant and equipment in accounts payable			
	—	155	—

The accompanying notes are an integral part of these statements.

December 31, 2010 (In thousands, except per share data)

1. Organization

Young Innovations, Inc. and its subsidiaries (“the Company”) develop, manufacture and market supplies and equipment used by dentists, dental hygienists, dental assistants and consumers. The Company’s product offering includes disposable and metal prophylaxis (“prophy”) angles, prophy cups and brushes, dental micro-applicators, panoramic X-ray machines, moisture control products, infection control products, dental handpieces (drills) and related components, endodontic systems, orthodontic

toothbrushes, flavored examination gloves, children’s toothbrushes, and children’s toothpastes.

The Company’s manufacturing and distribution facilities are located in Missouri, Illinois, California, Indiana, Wisconsin and Ireland. Export sales were approximately 18%, 17%, and 18% of total net sales for 2010, 2009, and 2008, respectively. Sales outside the U.S. are approximately 7% of total sales in each of 2010, 2009, and 2008.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Young Innovations, Inc. and its direct and indirect wholly owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. Some of the more significant estimates include allowances for doubtful accounts, inventory valuation reserves, rebate accruals, warranty reserves, liabilities for potential incentive compensation and uncertain income tax positions.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with an initial maturity of three months or less.

Inventories

Inventories are stated at the lower of cost (which includes material, labor and manufacturing overhead) or net realizable value. Inventory values are based upon standard costs which approximate actual costs, determined by the first-in, first-out (FIFO) method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Expenditures for repairs and maintenance are charged to expense as incurred, and additions and improvements that significantly extend the lives of assets are capitalized. Upon disposition, cost and accumulated depreciation are eliminated from the related accounts, and any gain or loss is reflected in the statements of income. The Company provides depreciation using the straight-line method over the estimated useful lives of respective classes of assets as follows:

Buildings and improvements	3 to 40 years
Machinery and equipment	3 to 10 years
Equipment rented to others	4 to 15 years

Goodwill and Other Intangible Assets

Goodwill represents the excess of cost over fair value of net assets of businesses acquired. Goodwill and indefinite life intangible assets acquired in a purchase business combination are not amortized, but are instead tested for impairment at least annually in accordance with the provisions of ASC Topic 350. Additionally, ASC Topic 350 requires that intangible assets with estimable useful lives be amortized to their estimated residual values, and reviewed for impairment in accordance with ASC Topic 360, “Property, Plant, and Equipment.” Intangible assets primarily consist of trademarks, license agreements, core technology, patents and patent applications, product formulas, and supplier and customer relationships. Certain trademarks have been determined to have indefinite useful lives, and therefore the carrying value is reviewed at least annually for recoverability in accordance with the requirements of ASC Topic 350. Other intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets, generally between 5 and 40 years, and tested for impairment whenever conditions indicate that an asset may be impaired. The Company annually reviews the remaining useful lives of its finite-lived intangible assets to assess the appropriateness of their life.

Impairment of Long-Lived Assets

The Company assesses and measures any impairment of long-lived assets other than goodwill and indefinite life intangibles in accordance with the provisions of ASC Topic 360. If facts and circumstances suggest that a long-lived asset may be impaired, the carrying value is reviewed. If this review indicates that the carrying value of the asset will not be recovered, as determined based on projected undiscounted cash flows related to the asset over its remaining life, the carrying value of the asset is reduced to its estimated fair value. The Company has not incurred any material impairment of long-lived assets during 2010, 2009 or 2008.

Fair Value of Financial Instruments

Financial instruments consist principally of cash, accounts receivable, notes receivable, accounts payable and debt. The estimated fair value of these instruments approximates their carrying value. Due to the short-term nature of the notes receivable, book value approximates fair value.

Shipping and Handling

Shipping and handling costs are included as a component of cost of sales. Shipping and handling costs billed to customers are included in sales.

Revenue Recognition

Revenue from the sale of products is recorded at the time title passes, generally when the products are shipped, as the Company's shipping terms are customarily FOB shipping point.

The Company generally requires payment within 30 days from the date of invoice and offers cash discounts for early payment. For certain acquired businesses that offer different terms, the Company migrates these customers to the terms referred to above over time.

The Company offers discounts to its distributors if certain conditions are met. Customer allowances, volume discounts and rebates, and other short-term incentive programs are recorded as a reduction in reported revenues at the time of sale. The Company reduces product revenue for the estimated redemption of annual rebates on certain current product sales. Customer allowances and rebates are estimated based on historical experience and known trends.

The policy with respect to sales returns generally provides that a customer may not return inventory except at the Company's option. The Company generally warrants its products against defects, and its most generous policy provides a two-year parts and labor warranty on X-ray machines. The Company owns X-ray equipment rented on a month-to-month basis to customers.

The Company adopted the disclosure requirements of ASC Topic 605, "Revenue Recognition" (that is, gross versus net presentation) for tax receipts on the face of their income statements. The scope of this guidance includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise taxes (gross receipts taxes are excluded). The Company presents such taxes on a net basis.

Advertising Costs

Advertising costs are expensed when incurred. Advertising costs were approximately \$3,645, \$3,381, and \$2,857, for 2010, 2009 and 2008, respectively.

Research and Development Costs

Research and development costs are expensed when incurred and totaled \$840, \$797, and \$796 for 2010, 2009 and 2008, respectively.

Interest Expense, net

Interest expense, net includes interest paid related to borrowings on the Company's credit facility, as well as interest income earned on various investments and notes receivable. In 2010, 2009 and 2008, interest income totaled \$119, \$208, and \$367, respectively, and interest expense totaled \$441, \$873, and \$1,699, respectively.

Other (Income) Expense, net

Other (income) expense, net, includes foreign currency transaction gain/loss and other miscellaneous income, all of which are not directly related to the Company's primary business.

Income Taxes

The Company accounts for income taxes under ASC Topic 740, "Income Taxes," which requires an asset and liability approach to accounting for and reporting income taxes. Deferred income taxes are provided for temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities using rates which are expected to apply in the period the differences are estimated to reverse.

The Company follows the provisions of ASC 740, "Income Taxes" related to the accounting for uncertain tax provisions." Topic 740 requires the Company to maintain a liability for underpayment of income taxes and related interest and penalties, if any, for uncertain income tax positions. In considering the need for and magnitude of a liability for uncertain income tax positions, the Company must make certain estimates and assumptions regarding the amount of income tax benefit that will ultimately be realized. The ultimate resolution of an uncertain tax position may not be known for a number of years, during which time the Company may be required to adjust these provisions, in light of changing facts and circumstances.

Share-Based Compensation

In accordance with ASC Topic 718, "Compensation – Stock Compensation," compensation cost is recognized within the financial statements at the grant date based on the award's fair value. Stock option fair value is calculated by an option pricing model, and is recognized as expense ratably over the requisite service period. The option pricing models require judgmental assumptions, including: volatility, forfeiture rates, and expected option life. The Company uses the Black-Scholes option pricing model. Compensation expense is also recognized for restricted stock over the vesting period using the fair value of our Common Stock at the date of grant.

Foreign Currency Translation

The translation of financial statements into U.S. dollars has been performed in accordance with ASC Topic 830, "Foreign Currency Matters." The local currency for all entities included in the consolidated financial statements has been designated as the functional currency. Non-U.S. dollar denominated assets and liabilities have been translated into U.S. dollars at the rate of exchange prevailing at the balance sheet date. Revenues and expenses have been translated at the weighted-average of exchange rates in effect during the year. Translation adjustments are recorded in accumulated comprehensive (loss) income. Net currency transaction (gains) losses included in other (income) expense, net were \$(68), \$106, and \$(434) for 2010, 2009 and 2008, respectively.

Segment Information

The Company operates as a single reportable operating segment. While management monitors the revenue streams of various products, the identifiable segments' operations are managed and financial performance is evaluated on a company-wide basis. Accordingly, all of the Company's products are considered by management to be aggregated in one reportable operating segment.

Supplemental Cash Flow Information

Cash flows from operating activities include \$6,134, \$5,417, and \$4,375 for the payment of federal, foreign, and state

income taxes and \$310, \$691, and \$1,846 for the payment of interest related to borrowings on the Company's credit facility during 2010, 2009 and 2008, respectively.

3. Investments

On February 21, 2006, the Company invested in a private equity investment fund. At December 31, 2010, the Company has an unfunded capital commitment of up to \$300. As of December 31, 2010, the total capital commitment paid by the Company was \$1,950. Through December 31, 2009, the Company accounted for this investment under the equity method as the Company had an ability to exercise significant influence over the fund through board membership. Effective January

2010, the Company's investment no longer qualifies for equity method accounting as the Company's delegate to the board resigned. As of January 1, 2010, the Company is accounting for its investment using the cost method. The Company no longer records equity earnings or losses as a result of this change. The Company's loss attributed to this private equity investment was included in other (income) expense, net, and totaled \$75 and \$89 in 2009 and 2008, respectively.

4. Major Customers and Credit Concentration

The Company generates trade accounts receivable in the normal course of business. The Company grants credit to distributors and customers throughout the world and generally does not require collateral to secure the accounts receivable. The Company's

credit risk is concentrated among two distributors that together accounted for 34% and 41% of accounts receivable at December 31, 2010 and 2009, respectively.

The percentage of net sales made to major distributors of the Company's continuing operations were as follows:

<i>December 31</i>	2010	2009	2008
Distributor			
Henry Schein, Inc.	15.8%	15.5%	15.9%
Patterson Companies, Inc.	14.1%	15.2%	12.7%

5. Notes Receivable

The Company offers various financing options to its X-ray equipment customers, which includes notes payable to the Company. The X-ray equipment is used to secure the notes. These transactions are recorded as a sale upon the transfer of title to the purchaser, which generally occurs at the time of shipment, at an amount equal to the sales price of non-financed sales. Interest on these notes is accrued as earned and recorded as interest income.

On January 16, 2008, the Company transferred a majority of its X-ray equipment loans to a third party for a cash payment of \$3,519. The Company transferred \$4,154 of the notes receivable portfolio for a purchase price of \$4,140. Of the purchase price, \$621 is subject to a recourse holdback pool that has been established with respect to the limited recourse the third party has on the loans. On May 5, 2008, the Company transferred

additional X-ray equipment loans to a third party for a cash payment of \$235. There is an additional \$42 subject to a recourse holdback pool. As the transactions do not qualify as sales of assets under ASC Topic 860, "Transfers and Servicing," the transactions have been treated as financing and the loans remain on the Company's balance sheet. As the third party receives payments on the transferred notes, the Company reduces the corresponding notes receivable and secured borrowing balances. As of December 31, 2010, the residual amount of notes receivable transferred to a third party was \$655, of which \$467 is classified as a short-term notes receivable and \$188 as a long-term notes receivable. A corresponding long-term and short-term liability has been recorded, net of the recourse holdback pool of \$136 on the Company's balance sheet.

Notes receivable consist of the following:

<i>December 31</i>	2010	2009
Notes receivable, short-term	\$593	\$892
Notes receivable, long-term	262	890
Total notes receivable	\$855	\$1,782

Notes receivable are included in other current assets and other assets in the accompanying Consolidated Balance Sheets.

Notes bear interest at rates ranging from 0% to 10.0%, and have a weighted average maturity of 28 months. Interest income and expense related to the notes are included in the Consolidated Statement of Income caption "Interest expense, net."

6. Inventories

Inventories consist of the following:

<i>December 31</i>	2010	2009
Finished products	\$9,374	\$6,905
Work in process	2,663	2,584
Raw materials and supplies	5,223	5,327
Total inventories	<u>\$17,260</u>	<u>\$14,816</u>

7. Property, Plant and Equipment

Property, plant and equipment consist of the following:

<i>December 31</i>	2010	2009
Land	\$3,449	\$3,449
Buildings and improvements	22,720	21,550
Machinery and equipment	28,055	27,560
Equipment rented to others	4,510	5,464
Construction in progress	1,476	1,527
	<u>\$60,210</u>	<u>\$59,550</u>
Less – Accumulated depreciation	27,048	25,882
Total property, plant and equipment, net	<u>\$33,162</u>	<u>\$33,668</u>

The Company has no machinery and equipment under capital lease. At December 31, 2010, \$1,228 of net property, plant and equipment was located outside of the U.S. Depreciation

expense was \$3,620, \$3,451 and, \$3,481 for 2010, 2009, and 2008, respectively.

8. Other Assets

Other assets consist of the following:

<i>December 31</i>	2010	2009
Notes receivable, long-term	\$262	\$890
Investments	1,670	1,670
Other	80	172
Total other assets	<u>\$2,012</u>	<u>\$2,732</u>

9. Goodwill and Other Intangible Assets

Goodwill activity is as follows:

<i>December 31</i>	2010	2009
Balance, beginning of the year	\$80,374	\$80,334
Foreign currency translation	(85)	40
Balance, end of the year	<u>\$80,289</u>	<u>\$80,374</u>

There have been no changes in goodwill related to impairment losses or write-offs due to sales of businesses during the years ended December 31, 2010, 2009 and 2008.

Other intangibles consist of the following:

<i>December 31, 2010</i>	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets			
License agreements	\$2,944	\$448	\$2,496
Core technology	739	229	510
Patents	2,265	1,301	964
Product formulas	430	103	327
Customer relationships	813	549	264
Non-compete agreements	519	371	148
Supplier relationships	399	386	13
Total	\$8,109	\$3,387	\$4,722
Intangible assets not subject to amortization			
Trademarks	\$6,857	—	\$6,857
Total intangible assets	\$14,966	\$3,387	\$11,579

<i>December 31, 2009</i>	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets			
License agreements	\$1,251	\$382	\$869
Core technology	739	184	555
Patents	2,265	1,094	1,171
Product formulas	430	92	338
Customer relationships	813	479	334
Non-compete agreements	519	306	213
Supplier relationships	399	332	67
Total	\$6,416	\$2,869	\$3,547
Intangible assets not subject to amortization			
License Agreements	\$1,693	—	\$1,693
Trademarks	\$6,857	—	\$6,857
Total intangible assets	\$14,966	\$2,869	\$12,097

During the year ended December 31, 2009, the Company acquired dental distribution rights for a new surface disinfectant recorded as a non-amortized license agreement. The Company recorded the asset as an indefinite lived license agreement through September 30, 2010. Effective October 1, 2010, the Company no longer believes that the asset should have an indefinite life. The Company began depreciating the asset over a 25 year period and recognized \$17 of depreciation expense during the fourth quarter of 2010. Additionally, during the year ended December 31, 2009, the Company acquired core technology and a non-compete agreement which provides a manufacturing enhancement for our micro-applicator products.

The costs of other intangible assets with finite lives are amortized over their expected useful lives using the straight-line method.

The amortization lives are as follows: 10 to 25 years for patents, license agreements and core technology; 40 years for product formulations; and 5 to 8 years for supplier and customer relationships. Non-compete agreements are amortized over the length of the signed agreement. The weighted-average life for amortizable intangible assets is 16 years. Aggregate amortization expense for the years ended December 31, 2010, 2009 and 2008 was \$550, \$554, and \$532, respectively. Estimated amortization expense for each of the next five years is as follows:

For the year ending 12/31/11	\$ 541
For the year ending 12/31/12	476
For the year ending 12/31/13	476
For the year ending 12/31/14	402
For the year ending 12/31/15	286

10. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

<i>December 31</i>	2010	2009
Accounts payable	\$4,741	\$2,454
Accrued compensation and benefits	2,912	1,725
Accrued taxes	121	345
Accrued warranty	293	292
Accrued expenses and other	2,633	3,561
Total accounts payable and accrued liabilities	\$10,700	\$8,377

11. Credit Arrangements

On May 21, 2009, the Company renewed its credit facility. The new credit facility reduced the aggregate commitment from \$75,000 to \$60,000 and expires in July 2012. The Company has \$53,900 available under the line of credit at December 31, 2010. Borrowings under the arrangement bear interest at rates ranging from LIBOR + 2.00% to LIBOR + 2.50% or Prime + .50% to Prime + 1.00%, depending on the Company's level of indebtedness. Commitment fees for this arrangement range from

.25% to .50% of the unused balance. Borrowings under the previous arrangement had interest rates ranging from LIBOR + .75% to LIBOR + 1.50% or Prime and commitment fees from .125% to .15% of the unused balance. The agreement is unsecured and contains various financial and other covenants. As of December 31, 2010 and December 31, 2009, the Company was in compliance with these covenants.

Long-term debt was as follows:

<i>December 31</i>	2010	2009
Revolving credit facility due 2012 with a weighted-average interest rate of 2.65%	\$6,100	\$13,979
Less – current portion	—	—
	\$6,100	\$13,979

Aggregate debt maturities are: 2011-\$0; 2012-\$6,100; 2013-\$0; 2014-\$0; and 2015-\$0.

12. Common Stock

During 2010, the Company repurchased 108 shares of its Common Stock from various stockholders for \$2,642. The Company also reissued 105 shares of its Common Stock from treasury in conjunction with stock option exercises for \$1,589. The Company also issued 49 shares (net of 20 shares returned for tax withholding) of its Common Stock from treasury pursuant to restricted stock awards.

During 2009, the Company repurchased 19 shares of its Common Stock from various stockholders for \$270. The Company also reissued 87 shares of its Common Stock from treasury in conjunction with stock option exercises for \$1,859.

The Company also issued 104 shares of its Common Stock from treasury pursuant to restricted stock awards.

During 2008, the Company repurchased 505 shares of its Common Stock from various stockholders for \$9,406. The Company also reissued 36 shares of its Common Stock from treasury in conjunction with stock option exercises for \$805. The Company also issued 34 shares of its Common Stock from treasury pursuant to restricted stock awards. In addition, the restrictions on 38 previously issued shares of Common Stock lapsed and 10 were repurchased by the Company for \$221.

13. Share-Based Compensation

The Company adopted the 1997 Stock Option Plan (the 1997 Plan) effective November 1997 and amended the Plan in 1999 and 2001. A total of 1,725 shares of Common Stock were reserved for issuance under this plan which is administered by the compensation committee of the Board of Directors (Compensation Committee). The Company adopted the 2006 Long-Term Incentive Plan (the 2006 Plan) effective May 2006. The 2006 Plan is intended to be a successor to the 1997 Plan. A total of 700 shares were authorized for grant under the 2006

Plan. Awards under the 2006 Plan may be stock options, stock appreciation rights, restricted stock, restricted stock units, and other equity awards.

Any employee of the Company or its affiliates, any consultant whom the Compensation Committee determines is significantly responsible for the Company's success and future growth and profitability, and any member of the Board of Directors, may be eligible to receive awards under the 2006 Plan. The purpose of the 2006 Plan is to: (a) attract and retain highly competent

persons as employees, directors, and consultants of the Company; (b) provide additional incentives to such employees, directors, and consultants by aligning their interests with those of the Company's shareholders; and (c) promote the success of the business of the Company. The Compensation Committee establishes vesting schedules for each option issued under the Plan. Under the 1997 Plan, outstanding options generally vested over a period of up to four years while non-vested equity shares vested over five years. Under the 2006 Plan, outstanding options generally vest over a period of up to three years while non-vested equity shares vest over one, two, three, four and five year periods. All outstanding options expire ten years from the date of grant under the 1997 Plan and five years from the date of grant under the 2006 Plan.

Under the provisions of Topic 718, share-based compensation cost is estimated at the grant date based on the award's fair value as calculated by an option pricing model, and is recognized as expense ratably over the requisite service period. The option pricing models require judgmental assumptions including volatility, forfeiture rates, and expected option life. If any of the assumptions used in the model change significantly, share-based compensation expense may differ in the future from that recorded in the current period.

Stock Options

During the years ended December 31, 2010, 2009, and 2008, the Company recorded pre-tax compensation expense of \$77, \$222, and \$241 related to the Company's stock option shares. As of December 31, 2010, there was approximately \$6 of unrecognized compensation expense related to stock options, which will be recognized over the weighted-average remaining requisite service period of 0.12 years. The total aggregate intrinsic value

of options exercised was \$1,589, \$769, and \$378 for the years ended December 31, 2010, 2009, and 2008, respectively. Payments received upon the exercise of stock options were \$1,589, \$918, and \$443 for the years ended December 31, 2010, 2009, and 2008, respectively. The related tax (shortfall) benefit realized related to these exercises and restricted stock vesting was \$645, \$86, and \$(24) for the years ended December 31, 2010, 2009, and 2008, respectively. The Company issues shares from treasury upon share option exercises.

The Company granted 863 shares in 2008 with a weighted-average exercise price of \$23.67. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The weighted-average estimated value of stock options granted during the year ended December 31, 2008 was \$5.27 per share, respectively, using the following weighted-average assumptions:

	2008
Dividend yield ⁽¹⁾	0.68%
Expected volatility ⁽²⁾	28%
Risk-free interest rate ⁽³⁾	2.35%
Expected life ⁽⁴⁾	3.5

⁽¹⁾ Represents cash dividends paid as a percentage of the share price on the date of grant.

⁽²⁾ Based on historical volatility of the Company's Common Stock over the expected life of the options.

⁽³⁾ Represents the U.S. Treasury STRIP rates over maturity periods matching the expected term of the options at the time of grant.

⁽⁴⁾ The period of time that options granted are expected to be outstanding based upon historical evidence.

The Company did not grant stock options during the year ended December 31, 2010 or 2009. The following table summarizes stock option activity for the year ended December 31, 2010:

Options	Shares (000)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2010	712	\$26.27		
Granted	—	—		
Exercised	(105)	\$15.06		
Forfeited or expired	(30)	\$31.06		
Outstanding at December 31, 2010	577	\$28.08	2.71 yrs	\$3,243
Exercisable at December 31, 2010	567	\$28.15	2.72 yrs	\$3,166

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the year ended December 31, 2010 and the exercise price, multiplied by the number of in-the-money options).

Non-Vested Equity Shares

Under the 2006 Plan, non-vested equity share units and restricted stock may be awarded or sold to participants under terms and conditions established by the Compensation Committee. The Company calculates compensation cost for restricted stock grants to employees and non-employee directors by using the fair value

of its Common Stock at the date of grant and the number of shares issued. This compensation cost is amortized over the applicable vesting period. During the year ended December 31, 2010, 2009 and 2008, the Company recorded pre-tax compensation expense of \$1,619, \$1,465, and \$1,201, respectively, related to the Company's non-vested equity shares. As of December 31, 2010, there was approximately \$2,797 of unrecognized compensation cost related to non-vested equity shares which will be amortized over the weighted-average remaining requisite service period of 1.16 years. The Company issues share grants from treasury.

The following table details the status and changes in non-vested equity shares for the year ended December 31, 2010:

	Shares (000)	Weighted-Average Grant Date Fair Value
Non-vested equity shares, January 1, 2010	188	\$20.98
Granted	69	\$24.81
Vested	(63)	\$23.24
Forfeited	(1)	\$18.28
Non-vested equity shares, December 31, 2010	193	\$21.62

14. Income Taxes

Income taxes are based on pretax earnings as follows:

Years ended December 31	2010	2009	2008
Domestic	\$20,201	\$18,306	\$16,427
Foreign	2,604	2,434	2,459
Total	\$22,805	\$20,740	\$18,886

The components of the provision for income taxes were:

Years ended December 31	2010	2009	2008
Current			
Federal	\$5,378	\$4,923	\$3,923
Foreign	334	(31)	275
State	693	633	609
Total current	6,405	5,525	4,807
Deferred			
Federal	1,398	\$1,763	\$1,856
Foreign	—	20	—
State	65	(49)	42
Total deferred	1,463	1,734	1,898
Provision for income taxes	\$7,868	\$7,259	\$6,705

Reconciliation of the provision for income taxes computed at the U.S. federal statutory rate to the reported provision for income taxes:

Years ended December 31	2010	2009	2008
Income before provision for income taxes	\$22,805	\$20,740	\$18,886
U.S. federal income tax rate	35%	35%	35%
Computed income taxes	7,982	7,259	6,610
State income taxes, net of federal tax benefit	486	380	423
Foreign income taxes provision (benefit)	—	—	(29)
Deduction for domestic production activities	(513)	(335)	(275)
Other	(87)	(45)	(24)
Total provision for income taxes	\$7,868	\$7,259	\$6,705

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. With certain exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years prior to 2006. The

Company follows the provisions of ASC 740, "Income Taxes," related to the accounting for uncertain tax provisions. A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

	2010	2009	2008
Balance at January 1	\$95	\$101	\$111
Additions based on tax positions related to the current year	—	18	15
Additions for tax positions of prior years	3	6	7
Reduction for tax positions of prior years	(44)	(16)	—
Settlements	(20)	(14)	(32)
Balance at December 31	\$34	\$95	\$101

If recognized in future periods, the total unrecognized tax benefits as of December 31, 2010 would favorably affect the effective income tax rate. The Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The Company includes interest and penalties related to unrecognized tax benefits in income tax expense. Tax expense for the current year ended December 31, 2010 includes \$3 of penalties and interest. The total amount of interest and penalties recognized related to uncertain tax provisions at December 31, 2009 was approximately \$18.

Temporary differences that gave rise to deferred income tax assets and (liabilities):

<i>December 31</i>	2010	2009
Deferred income tax assets:		
Trade accounts receivable	\$154	\$158
Inventories	1,217	920
Stock-based compensation	801	730
Accrued liabilities	638	545
State tax loss benefit	33	21
Currency translation adjustment	85	—
Other	4	46
Total deferred income tax assets	\$2,932	\$2,420
Deferred income tax liabilities:		
Property, plant and equipment	\$(2,879)	\$(2,758)
Intangibles	(14,189)	(12,413)
Tax on undistributed foreign earnings	(339)	(675)
Currency translation adjustment	—	(72)
Other	(10)	(29)
Total deferred income tax liabilities	(17,417)	(15,947)
Net deferred income tax liability	\$(14,485)	\$(13,527)

Current deferred income tax assets of \$2,932 and \$2,420 are included in other current assets as of December 31, 2010 and 2009, respectively.

Applicable U.S. income and foreign withholding taxes have not been provided on approximately \$100 of undistributed earnings of the Company's foreign subsidiary for the year ended December 31, 2008. These earnings are considered to be permanently invested and, under certain tax laws, are not subject to taxes

unless distributed as dividends, loaned to the Company or a U.S. affiliate, or if the Company sold its investment in the foreign subsidiary. Tax on such potential distributions would be partially offset by foreign tax credits. If the earnings were not considered permanently invested, approximately \$29 of additional deferred income taxes would need to be provided for the year ended December 31, 2008. Earnings of the Company's foreign subsidiary subsequent to December 31, 2008 are not classified as permanently invested and have been taxed accordingly.

15. Sales of Equipment Rented to Others

Periodically, customers who rent X-ray equipment from the Company elect to purchase the equipment. The Company recognizes revenue from the proceeds of such sales and records as cost of goods sold the net book value of the equipment. Net sales

of equipment consistent with this practice were \$492, \$787, and \$1,600 for 2010, 2009 and 2008, respectively, and gross profit from these sales was \$288, \$461, and \$868 for 2010, 2009 and 2008, respectively.

16. Employee Benefits

The Company has defined contribution 401(k) plans covering substantially all full-time employees meeting service and age requirements. Contributions to the Plan can be made by an employee through deferred compensation and through a discre-

tionary employer contribution. Compensation expense related to this plan was \$471, \$461, and \$553 for 2010, 2009 and 2008, respectively. The Company also offers certain healthcare insurance benefits for substantially all employees.

17. Related-Party Transactions

The Company paid consulting fees of \$50 each year in 2009 and 2008 to a corporation, which is wholly owned by George E. Richmond, the Company's Vice Chairman and principal stockholder. On February 25, 2010, the Company terminated its consulting agreement with this corporation effective December 31, 2009.

The Company has an employment agreement with George E. Richmond, the Company's Vice Chairman and principal stockholder, which paid him \$50 each year in 2009 and 2008, to perform such duties as may be assigned to him by the Company's Board of Directors or Chief Executive Officer. On February 25, 2010, the Company increased his base salary from \$50 to \$100.

18. Earnings Per Share

Basic earnings per share (Basic EPS) is computed by dividing net income by the weighted-average number of shares of Common Stock outstanding and total number of shares of restricted stock during the period. Diluted earnings per share

(Diluted EPS) include the dilutive effect of stock options, if any, using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share:

<i>Years ended December 31</i>	2010	2009	2008
Net income	\$14,937	\$13,481	\$12,181
Weighted-average shares outstanding for basic earnings per share	7,969	7,881	7,999
Dilutive effect of stock options	68	85	70
Weighted-average shares outstanding for diluted earnings per share	8,037	7,966	8,069
Basic earnings per share	\$1.87	\$1.71	\$1.52
Diluted earnings per share	\$1.86	\$1.69	\$1.51

19. Quarterly Financial Data (Unaudited)

2010	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
Net sales	\$24,782	\$25,778	\$26,423	\$25,859	\$102,842
Gross profit	13,802	14,596	14,582	14,181	57,161
Income from operations	5,407	5,693	6,081	5,839	23,020
Net income	3,558	3,701	3,919	3,759	14,937
Basic earnings per share	\$.45	\$.46	\$.49	\$.47	\$1.87
Diluted earnings per share	\$.44	\$.46	\$.49	\$.47	\$1.86

2009	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
Net sales	\$23,764	\$24,637	\$24,805	\$24,531	\$97,737
Gross profit	13,310	13,684	13,948	13,628	54,571
Income from operations	4,995	5,398	5,650	5,493	21,538
Net income	3,155	3,331	3,474	3,520	13,481
Basic earnings per share	\$.40	\$.42	\$.44	\$.44	\$1.71
Diluted earnings per share	\$.40	\$.42	\$.43	\$.44	\$1.69

Full-year 2009 basic earnings per share do not equal the sum of the quarters due to rounding.

20. Commitments and Contingencies

The Company leases certain office and warehouse space, manufacturing facilities and equipment under non-cancelable operating leases. The total rental expense for all operating leases was \$521, \$527, and \$780 for 2010, 2009 and 2008, respectively. Rental commitments amount to \$501 for 2011, \$281 for 2012, \$5 for 2013, \$0 for 2014, and \$0 for 2015.

In certain circumstances, the Company provides recourse on loans for X-ray equipment purchased by customers. Certain banks require the Company to provide recourse to finance X-ray equipment for new dentists and other customers with credit histories which are not consistent with the banks' lending criteria. In the event that a bank requires recourse on a given loan, the Company would assume the bank's security interest in the equipment securing the loan. As of December 31, 2010, 2009 and 2008, respectively, approximately \$0, \$579, and \$788 of the X-ray equipment financed with various lenders were subject to such recourse. Recourse on a given loan is generally for the life of the loan. Based on the Company's past experience with

respect to these arrangements, it is the opinion of management that the fair value of the recourse provided is minimal and not material to the results of operations or financial position of the Company.

The Company and its subsidiaries from time to time are parties to various legal proceedings arising in the normal course of business. Management believes that none of these proceedings, if determined adversely, would have a material adverse effect on the Company's financial position, results of operations or liquidity.

The policy with respect to sales returns generally provides that a customer may not return inventory except at the Company's option, with the exception of X-ray equipment. Historically, the level of product returns has not been significant. The Company generally warrants its products against defects, and its most generous policy provides a two-year parts and labor warranty on X-ray machines. The accrual for warranty costs was \$293 and \$292 at December 31, 2010 and 2009, respectively. The following is a rollforward of the Company's warranty accrual:

<i>December 31</i>	2010	2009
Balance, beginning of the year	\$292	\$309
Accruals for warranties issued during the year	207	243
Warranty settlements made during the year	(206)	(260)
Balance, end of the year	\$293	\$292

21. Subsequent Events

Due to changes in enacted state tax laws during January 2011, the Company will recognize an additional tax charge in the first quarter of 2011. The impact on the financial statements is being evaluated by the Company.

In January 2011, the Company recognized other income of approximately \$400 related to the sale of a portion of its private equity investment fund. The Company could receive additional amounts in the future related to excess funds being released from escrow or a potential additional earn-out based on financial performance.

On January 31, 2011, the Board of Directors declared a quarterly dividend of \$0.04 per share, payable to all shareholders of record on February 15, 2010.

On February 10, 2011, the Compensation Committee of the Board of Directors issued 54 shares of restricted stock to certain employees.



L to R: Brian Bremer, Richard Bliss, George Richmond, Alfred Brennan and Dr. Patrick J. Ferrillo, Jr.

DIRECTORS AND OFFICERS

Alfred E. Brennan
Chairman of the Board &
Chief Executive Officer

George E. Richmond
Vice Chairman of the Board

Brian F. Bremer^{1, 2, 3}
Partner – CroBern Management
Partnership II LP

Richard J. Bliss^{1, 2, 3}
Shareholder – Godfrey & Kahn S.C.

Dr. Patrick J. Ferrillo, Jr.^{1, 2, 3}
Dean – Arthur A. Dugoni
School of Dentistry
The University of The Pacific

¹ Audit Committee

² Compensation Committee

³ Nominating Committee

Alfred E. Brennan
Chairman of the Board &
Chief Executive Officer

George E. Richmond
Vice Chairman of the Board

Arthur L. Herbst, Jr.
President & Chief Financial Officer

Daniel J. Tarullo
Vice President

Julia A. Carter
Vice President of
Finance & Controller

Katherine Sprowls
Secretary

Josh McKey
Vice President

CORPORATE INFORMATION

Corporate Headquarters
13705 Shoreline Court East
Earth City, Missouri 63045
314-344-0010
Investor Relations: 312-644-4174

Stock Listing
NASDAQ Global Select Market
Symbol: YDNT

Independent Certified Public Accountants
Crowe Horwath LLP
Oak Brook, Illinois

Transfer Agent
Computershare Trust Company, N.A.
c/o Shareholders Services
P.O. Box 43078
Providence, RI 02940-3078
1-800-884-4225

ANNUAL MEETING

The Annual Meeting for Shareholders
of Young Innovations will be held on
Tuesday, May 10, 2011, starting at
9:00 a.m. (CST) at:

Conrad Chicago Hotel
521 North Rush Street
Chicago, IL 60611

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Young Innovations, Inc.

13705 Shoreline Court East
Earth City, Missouri 63045
314-344-0010
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