



OurPet's®

Inspired by pets, driven by innovation.

Durapet Premium
Stainless Steel



Raised Feeders



2010
Annual Report



Shareholder's Report

Dear Shareholders:

2010 was another year of double-digit revenue and net income growth as OurPet's® increased its business both from internal growth and acquisition, highlighted by record fourth quarter net revenues and net income. Our asset purchase of Cosmic Pet® Products in July, 2010 enhanced our cat toy and accessory offerings. With Cosmic Catnip™, the world's best known catnip, Go! Cat Go!® and Play-N-Squeak®, we have one of the largest cat toy and accessory offerings in the pet industry. SmartScoop®, our automatic self-scooping litter box, was relaunched in early 2011 following more than three years of litigation in which we successfully prevailed.

Net revenues for 2010 increased 20% to a record \$17,091,741 from \$14,251,786 last year. Cosmic Pet contributed approximately \$738,000 in net sales in 2010. During 2010, international sales increased approximately 75% to \$1,629,791 as we expanded our sales in Canada, Europe, South America, Asia and Australia. Gross profit increased 12% to \$4,799,482 in 2010 from \$4,280,090 in 2009 while also investing in a new ERP system, operations infrastructure and personnel to position the company for future growth. Income from operations increased by 54% to \$1,222,250 for 2010 compared to \$791,522 for 2009. EBITDA for 2010 increased 36% to \$1,708,940 from \$1,255,152 in 2009. Net income for 2010 was \$986,534 or 27% higher than the \$775,767 reported for 2009.

During the last year, we made major strides in positioning OurPet's for achieving accelerated growth in both revenues and profits over the next five years. We feel confident that we can achieve such results for our shareholders through careful planning and execution of our growth strategy that includes aggressive product innovation, excellence in supply chain management, investment in IT for current and future needs in order to contain costs and provide quality customer service, aggressive marketing and sales programs that go beyond traditional markets and strategic acquisitions for achieving significant market, technology or operational advantages.

I want to again thank our Board of Directors for their continued support and advice, all our customers and strategic partners, our shareholders for their support and patience and most of all my fellow OurPet's associates whose pursuit of excellence remains unsurpassed. We encourage you to visit www.ourpets.com and share the OurPet's excitement.

Sincerely,

Dr. Steven Tsengas, PhD

Chairman, President and Chief Executive Officer

April 16, 2011



**United States
Securities and Exchange Commission
Washington, DC 20549**

Form 10-K

**Annual Report Pursuant to Section 13 or 15(d)
Of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2010**

OR

**Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
Commission file number: 000-31279**

OurPet's Company

(Exact Name of Registrant as Specified in Its Charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

34-1480558
(I.R.S. Employer
Identification No.)

1300 East Street, Fairport Harbor, OH
(Address of principal executive offices)

44077
(Zip code)

Issuer's telephone number: (440) 354-6500

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, no par value

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

Registrant's revenues for the fiscal year ended December 31, 2010 were \$17,091,741. The aggregate market value of the common stock of the registrant, no par value per share (the "Common Stock"), held by non-affiliates of registrant was \$5,205,123 as of March 15, 2011. As of March 15, 2011, the registrant had outstanding 15,731,141 shares of Common Stock.

Documents Incorporated by Reference

Part III – Portions of the registrant's definitive proxy statement to be issued in conjunction with registrant's annual meeting to be held on May 20, 2011.

www.ourpets.com

OURPET'S COMPANY

FORM 10-K

For The Fiscal Year Ended December 31, 2010

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This report on the Form 10-K (this “Report”) contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including, without limitation, statements regarding our cash needs and ability to fund our requirements, building of our market presence and ability to succeed as planned and our ability to successfully obtain and protect our patents. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or industry results to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. See “Item 1A. Risk Factors” for a discussion of these risks. When used in this Report, statements that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words “anticipates”, “plans”, “intends”, “expects” and similar expressions are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Report. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

Introductory Note

OurPet’s Company, a Colorado corporation, is engaged in developing, manufacturing and marketing various proprietary products for the retail pet business. As used herein, the terms “OurPet’s,” “we,” “us” and “our” include each of our subsidiaries, unless the context otherwise requires.

PART I

Item 1. Business.

Our management originally founded Napro, Inc. (“Napro”), an Ohio corporation, in 1985 as an enterprise for launching new ventures and acquiring companies in various lines of business. In 1996, Napro formed a wholly owned Ohio subsidiary, Virtu Company (“Virtu”), to market proprietary products to the retail pet business under the OurPet’s® label. Napro then changed its name to OurPet’s Company effective March 19, 1998. On July 16, 1998, Manticus, Inc. (“Manticus”), a Colorado corporation, obtained all of the outstanding shares of OurPet’s/Napro in exchange for 8,000,000 shares of Manticus common stock. After the transaction, the former holders of OurPet’s/Napro shares owned approximately 89% of Manticus’ shares. Effective August 10, 1998, OurPet’s/Napro was merged into Manticus and ceased to exist. Prior to this merger no affiliation or other relationship existed between Manticus and us or our shareholders. As operations for the newly merged entity were, and continue to be, conducted in Ohio, Manticus proceeded to become licensed in the State of Ohio as a foreign corporation, known as OurPet’s Company. Effective October 12, 1998, Manticus’ Articles of Incorporation was amended in the State of Colorado to reflect its new name as OurPet’s Company. After the merger, management of the former OurPet’s/Napro assumed management of the surviving company.

We develop and market products for improving the health, safety, comfort and enjoyment of pets. The products sold have increased from the initial “Big Dog Feeder” to approximately 500 products for dogs, cats, domestic and wild birds. Products are marketed under the OurPet’s®, Flappy®, Pet Zone®, SmartScoop®, Ecopure Naturals®, Play-N-Squeak®, Durapet®, Clipnosis®, Go! Cat!Go!®, and Cosmic Pet® labels to customers, both domestic and foreign. The manufacturing of these products is subcontracted to other entities, both domestic and foreign, based upon price, delivery and quality.

According to the most recent 2009/2010 APPMA National Pet Owners Survey, published by the American Pet Products Manufacturers Association, Inc®, approximately 71.4 million U.S. households reported owning a pet in 2008, with an estimated pet population of 77.5 million dogs, 93.6 million cats and 15.9 million birds.

We sell our products in the following market segments:

- Mass retailers—eg. Wal-Mart, Kmart
- Pet superstores—eg. PetsMart, Petco
- Regional Pet Chains—eg. Pet Supplies Plus, Pet Supermarket
- Pet catalogues—eg. Drs. Foster & Smith, Care-A-Lot, J-B Wholesale
- Internet—Amazon.com

Clubs—eg. Costco, Sam’s Club
Military Exchange chains—eg. AAFES, NEXCOM
Grocery chains—eg., Publix, Meijers, Krogers
Pet food manufacturers—eg., Ralston Purina
Pet distributors—eg. Bradley Caldwell, Wolverton, Central Garden & Pet
International customers—eg. Zellers, Freedom Pet Supplies, James Steele, Pet Care, Pet’s at Home

The companies listed above are intended to serve as examples solely for illustrative purposes. As a standard industry practice, price lists are provided to distributors, who in turn place products with retailers. Larger retailers with a national presence will generally order product directly from us pursuant to the price list and subject to negotiated additional terms, if any. With the exception of a written price list, many of the arrangements with retailers or distributors are verbal and written contracts often do not exist. Customers submit their own standard purchase orders based on our current price list. Even the larger retailers, which might have written contracts with us, are under no obligation to purchase specific product from us. While all of the above companies may currently buy product from OurPet’s, none of these customers are under any contractual obligation to purchase a specific volume of product nor to continue making any purchases in the future. We currently have approximately 400 customers to whom we sell products, with the total number and identity of our customers changing from time to time. With the exceptions of PetsMart and Wal-Mart none of our customers account for 10% or more of our sales. While we had approximately 400 customers for the year ended December 31, 2010, 31.0% of our revenue was derived from Walmart and PetsMart. Revenue generated from each of these customers amounted to \$2,713,663 and \$2,574,402, respectively, which represents 15.90% and 15.19% of total revenue.

We currently market products such as dog, cat and bird feeders, dog and cat toys, cat and dog waste management products, catnip products, and natural and nutritional pet supplements and topical products. We conduct our marketing and sales activities through 13 employees and 80 independent sales agents. Domestic independent sales agents are paid commissions, which range from 2% to 6% of net sales to customers.

Our marketing strategies include, among others, trade shows, customer visitation, telemarketing, direct mail, trade journal advertising, product sampling programs and customer support programs, such as advertising and promotional allowances.

We are one of many companies in the accessory and consumable pet products market with no measurable percentage of that market. Our competition in the healthy feeding systems, interactive toys and healthy consumable products markets are both domestic and foreign companies, many of whom manufacture their products in low cost areas such as Mexico and the Far East.

Most of our products are proprietary and we have been granted or assigned 62 United States and international patents for dog and cat feeders and have 58 United States and international patents pending for cat and dog toys, dog feeders and natural and nutritional pet supplements and treats. We registered our logo, “OurPet’s”, as a registered trademark. To protect our trade names we obtained 55 additional trademark registrations and applied for 15 trademark registrations, which are still pending.

As of March 15, 2011, we had 53 employees consisting of 4 officers, 12 employees in sales and marketing, 1 employee in engineering, 2 employees in quality assurance, 4 employees in finance and administration, 1 employee in IT, 9 employees in operations and 6 employees in warehousing and shipping and 14 employees at our Hagerstown facility. Most of our manufacturing is subcontracted out to outside vendors. However, we do perform some light manufacturing at our Hagerstown, Maryland facility for the production of catnip products. None of our employees are subject to a collective bargaining agreement and we have not experienced any work stoppages, nor to our knowledge, are any threatened.

We conduct our own research and development activities and also use outside sources to perform specific projects such as engineering drawings and prototype models. Research and development costs are charged to expenses as incurred, and totaled \$183,252 for the year ended December 31, 2010 and \$259,328 for the year ended December 31, 2009.

Item 1A. Risk Factors.

We are still building our market presence and are subject to substantial competition that could inhibit our ability to succeed as planned.

We are one of many companies in the pet product market with no measurable percentage of that market. We are still building our market presence as we compete with domestic and foreign companies, who also manufacture their products in low cost areas such as Mexico, India and the Far East. Any reputation that we may successfully gain with retailers for quality product does not necessarily translate into name recognition or increased market share with the end consumer. Our products may not be well received by the pet owners, or other companies may surpass us in product innovations. Certain retailers have been adversely impacted by economic conditions causing them to file for bankruptcy protection. This could adversely affect our sales, if this trend continues or these retailers are unable to emerge from bankruptcy protection.

Additional financing may not be available when required by us.

We may need additional financing for new product launches, warehouse equipment, working capital, research and development of new products, strategic acquisitions, and molds and tooling to produce new products. If the financial resources are not available when needed, or are not available on affordable terms, then our ability to increase our sales and profits will be hampered, which in turn harms our financial performance.

The loss of key personnel could adversely affect our operations.

We are and will continue to be dependent on our key management personnel: Dr. Steven Tsengas, Chairman, President and Chief Executive Officer; Konstantine S. Tsengas, Vice President of Operations and Secretary; Scott T. Fitzhugh, Vice President of Sales and Marketing, and Scott R. Mendes, Chief Financial Officer. The loss of one or more of these individuals could have a material adverse effect on our business and operations. In addition, we will need to attract and retain other qualified individuals to satisfy our personnel needs. We do not have employee contracts with our key personnel and may not succeed in retaining our key management personnel or in attracting and retaining new employees.

The inability to successfully obtain or protect our patents could harm our competitive advantage.

Our success will depend, in part, on our ability to maintain protection for our products under United States patent laws, to preserve our trade secrets and to operate without infringing the proprietary rights of third parties. We have 62 U.S. and international patents issued or assigned and 58 U.S. and international patent applications pending. Patent applications may not successfully result in an issued patent. Issued patents are still subject to challenges and infringements. Furthermore, others may independently develop similar products or otherwise circumvent our patent protection. Should we fail to obtain and protect our patents, our competitive advantage will be harmed.

The inability to successfully defend alleged patent infringement actions against us would result in loss of business and expense.

On February 16, 2011 we settled a litigation filed against us by a competitor that alleged we infringed upon certain patents for self-cleaning litter boxes. Had we not been successful in defending this litigation and settling it, we would not have been able to sell our SmartScoop™ self-scooping cat litter box, we could have incurred costs for damages paid to our competitor and for the write-off of our product development and tooling costs for our product. Furthermore, while we were successful in defending against this litigation, the cost of our defense has had a negative impact on our profitability. While we are not aware of any other significant patent infringement allegations, it is possible that future alleged patent infringement actions may have the same impact on our profitability and could have significant legal expenses associated with them.

The exercise of too many warrants and stock options would dilute the value of the Common Stock, and stockholder voting power.

We currently have 15,731,141 shares of Common Stock outstanding which could be diluted by the following potential issuances of Common Stock. As of March 15, 2011, we had outstanding 189,816 shares of Convertible Preferred Stock ("Preferred Stock") convertible into 1,896,160 shares of Common Stock at conversion rates of \$1.00 per share for 66,000 shares of Preferred Stock and \$.70 per share for 123,616 shares of Preferred Stock. Also as of March 15, 2011, we had outstanding 4,961,876 warrants to purchase an aggregate of 4,961,876 shares of Common Stock at exercise prices ranging from \$0.281 to \$1.426 per share and options to purchase an aggregate of 1,700,516 shares of Common Stock at exercise prices ranging from \$0.20 to \$1.55 per share. We have reserved an aggregate of 1,921,500 shares of Common Stock for issuance under the 1999 Stock Option Plan and the 2008 Stock Option Plan as of the date of this report. In addition, the exercise of such warrants and options could have a material adverse effect on the future market price of, and liquidity in the market for, shares of Common Stock trading in the over-the-counter market. Further, while these warrants and options are outstanding, our ability to obtain additional financing on favorable terms may be adversely affected.

Resale of our securities are and will continue to be subject to restrictions.

Our securities are subject to Rule 15g-9 under the Exchange Act, which imposes additional sales practice requirements on broker-dealers that sell securities to persons other than established customers and "accredited investors" (generally, individuals with a net worth in excess of \$1,000,000 or an annual income exceeding \$200,000 or \$300,000 together with their spouse). For transactions covered by such rule, a broker-dealer must make a special suitability determination for the purchaser and receive the

purchaser's written consent to the transaction prior to the sale. Consequently, this rule may adversely affect the ability of broker-dealers to sell our securities and may adversely affect the ability of the holders of our securities to sell such securities in the secondary market.

SEC regulations define a "penny stock" to be any non-NASDAQ equity security that has a market price (as therein defined) of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. Prior to any transaction involving a penny stock, unless exempt, SEC rules require delivery of a disclosure schedule prepared by the broker-dealer relating to the penny stock market. Disclosure is also required to be made about commissions payable to both the broker-dealer and the registered representative and about current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Possible Volatility of Market Price of Common Stock.

The market price of our securities, like that of many other emerging companies, has been highly volatile, experiencing wide fluctuations not necessarily related to the operating performance of such companies. Factors such as our operating results, announcements by us or our competitors concerning innovations and new products or systems may have a significant impact on the market price of our securities. In addition, we have experienced, and expect to continue experiencing limited trading volume in our Common Stock.

Item 2. Properties.

We lease a 64,000 square foot production, warehouse and office facility in Fairport Harbor, Ohio from a related entity, Senk Properties, at a current monthly rental of \$28,417 plus real estate taxes. Senk Properties is a general partnership comprised of Dr. Steven Tsengas, Konstantine S. Tsengas, Nicholas S. Tsengas and Evangelia S. Tsengas. Dr. Tsengas is our Chairman, President, Chief Executive Officer, a director and a major stockholder of the Company. Konstantine Tsengas is our Vice President and Secretary, as well as being a stockholder. Nicholas Tsengas and Evangelia Tsengas are both stockholders of OurPet's. We have entered into a ten year lease with Senk Properties which was effective upon completion of the 36,000 square foot warehouse expansion on June 1, 2007. The monthly rental is \$26,667 for the first two years, \$28,417 for the next two years, \$30,167 for the next three years, \$32,000 for the next two years, and \$33,750 for the last year, all plus real estate taxes. We have the option to extend the lease for an additional ten years at a rent amount to be mutually agreed upon. We believe that this facility will provide adequate warehouse and office space to meet our needs for the foreseeable future. Any longer-range future growth can be accommodated by expanding that facility or leasing nearby space.

We also lease a 20,000 square foot production, warehouse and office facility in Hagerstown, Maryland from Leon Seidman, the former owner of Cosmic Pet Products at a current monthly rental of \$10,018 plus real estate taxes. The lease term is two years from August 1, 2010 through July 31, 2012. We believe this facility will provide adequate production, warehouse and office space to meet our needs with respect to Cosmic Pet Products through July 31, 2012.

In the opinion of our management, all of the properties described here are adequately covered by insurance and such coverage is in accordance with the requirements contained in our various debt agreements.

Item 3. Legal Proceedings.

In 2007, Applica Consumer Products, the manufacturer of the LitterMaid™ Automatic Cat Litter Box, filed two lawsuits alleging that OurPet's SmartScoop® Self-Scoping Litter Box infringed multiple claims of U.S. Patent No. RE 36,847 and U.S. Patent No. 6,082,302. The SmartScoop® is a patented automated self-cleaning cat litter box that offers a unique modular design for easy cleaning and maintenance using any type of clumping litter. As previously announced, in October 2010, in one of the lawsuits, the United States Court of Appeals for the Federal Circuit ("Court") agreed with OurPet's legal position that the asserted patent claims were either not violated by the SmartScoop design and operation or were invalid. The Federal Circuit's decision was not appealed by Applica and was therefore finally resolved in OurPet's favor as of January 4, 2011.

On February 4, 2011, the Company settled the remaining patent infringement accusations in the second lawsuit related to the SmartScoop® Self Scoping Litter Box. That lawsuit was dismissed on February 16, 2011.

In addition to the above matters and in the normal course of conducting its business, we may become involved in various other litigation, including, but not limited to, preference claims by debtors in bankruptcy proceedings. We are not a party to any litigation or governmental proceeding which our management or legal representatives believe could result in any judgments or fines against us that would have a material adverse effect or impact in our financial position, liquidity or results of operation.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

Our Common Stock has been quoted on the Over-The-Counter Bulletin Board Market under the symbol "OPCO" since December 13, 2001. The following table sets forth, for each of the quarters indicated, the high and low bid quotations per share of Common Stock in the over-the-counter market (source, the Nasdaq Stock Chart). The bid quotations in the over-the-counter market represent prices between securities dealers, do not include retail markups, markdowns or commissions and may not represent actual transactions.

<u>Quarter Ended</u>	<u>High</u>	<u>Low</u>
March 31, 2009	0.35	0.19
June 30, 2009	0.35	0.20
September 30, 2009	0.51	0.27
December 31, 2009	0.63	0.43
March 31, 2010	0.85	0.45
June 30, 2010	0.92	0.74
September 30, 2010	0.92	0.75
December 31, 2010	1.06	0.83

As of March 15, 2011, we had approximately 139 holders of record of our Common Stock.

Each share of Common Stock has an equal right to receive dividends when and if the Board of Directors decides to declare a dividend after payment of any accrued dividends on the Preferred Stock. We have never paid any cash dividends nor do we intend, in the foreseeable future, to make any cash distributions to our common stockholders as dividends. We cannot currently distribute cash dividends to common stockholders without violating our loan agreement with our bank.

There are no conversion rights or redemption or sinking fund provisions with respect to the Common Stock. All of the outstanding shares of Common Stock are fully paid and non-assessable.

On January 28, 2010 and February 1, 2010, OurPet's sold an aggregate of 123,616 shares of its Series 2009 Preferred Stock in a private placement to a total of 15 accredited investors. All shares in the private placement were sold at a price of \$7.00 a share for a total of \$865,312. Payment for the shares comprised of \$595,000 in cash and \$270,312 in converted debt (including accrued interest). All were previously reported in Form 8-K filed February 2, 2010 except for 6,572 shares totaling \$46,004 purchased by two additional accredited investors on February 1, 2010. All shares are convertible at any time into Common Stock shares at a conversion price of \$.70/common share, subject to adjustment for stock splits, combinations and similar transactions. All shares receive a 6% (\$.42) cash dividend payable on December 1st of each year provided that payment may be deferred if necessary for our compliance with our loan covenants. We have the limited right to convert the shares into Common Stock at any time after the trading price of our Common Stock reaches \$1.50 per share for twenty (20) consecutive days. In accordance with the above provisions, in December 2010 the Company paid \$51,919 in cash dividends to holders of this Series 2009 Preferred Stock.

The shares sold were not registered under the Securities Act of 1933, as amended (the "Act"), in reliance on the private offering exemption from registration provided by Section 4(2) of the Act and Rule 506 of Regulation D of the rules promulgated under the Act. We did not utilize an underwriter or placement agent in connection with the private placement.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

OurPet's develops, designs, produces and markets a broad line of consumer brands containing innovative, high-quality accessory and consumable pet products. These products form our portfolio of brands, including Play-N-Squeak® www.playnsqueak.com, SmartScoop® www.smartscoop.com, ecoPure Naturals® www.ecopurenaturals.com, Flappy® Dog Toys www.flappydogtoys.com, Go! Cat Go! cat toys, Cosmic Pet® cat products, Durapet® premium stainless steel bowls, Pet Zone® dog waste management product, wild bird feeders, and dog houses, and a variety of raised feeders. These products are manufactured by domestic and foreign subcontractors and then sold by us to retailers and distributors who then sell the products to the end consumer.

On July 29, 2010, the Company entered into an Asset Purchase Agreement (the "Purchase Agreement") with Cosmic Pet Products, Inc. ("Cosmic") pursuant to which the company purchased certain assets and assumed certain liabilities. The results of Cosmic operations have been included in the consolidated financial statements since that date. Cosmic Pet Products designs, manufactures and distributes pet supply products for cats. Their products include catnip toys, containers of catnip, cat scratchers, cat treats and cat toys. Cosmic markets their products to pet specialty stores, distributors, mass retailers, grocery chains and independent retailers. The complementary strength of each company should allow significant product and distribution synergies to be realized with each company's product sales being expanded to the other's market segments and customers. OurPet's will gain entry into such new product categories as catnip toys, catnip products and cat treats utilizing the Cosmic Pet brand name.

As discussed below and in Liquidity and Capital Resources on Pages 11-14, we have funded our operations during 2010 principally from financing and borrowing activities and from net cash provided by operating activities during 2009.

During 2010, we had a net increase of \$1,679,000 in borrowings from our line of credit facilities with our bank under which we can borrow up to \$2,800,000 based on the level of qualifying accounts receivable and inventories. At December 31, 2010 and December 31, 2009 we had balances of \$2,528,000 and \$849,000, respectively, under the line of credit with our bank at an interest rate of prime plus .5% which had prior to October 2, 2009 had an interest rate of prime plus .75%

On October 2, 2009, we obtained a new \$800,000 term loan from our bank. The \$800,000 term loan was the second of two credit facilities extended to us by our bank on September 17, 2009, the other being a renewal of our existing \$2,000,000 line of credit through June 30, 2010. The term loan was used to pay down the line of credit by \$800,000 from \$1,800,000 to \$1,000,000. The term loan has a fixed interest rate of 4.61% and is payable monthly over a 3 year period in equal installments of \$23,859 that include interest. Effective October 2, 2009 the line of credit's interest rate was reduced to Prime + .5% from Prime + .75%. Both loans are secured by accounts receivable, inventory, equipment, trademarks, patents and the personal guarantee of certain stockholders. At December 31, 2010, this loan had an outstanding principal balance of \$478,540 versus \$735,952 at December 31, 2009.

On January 28, 2010 and February 1, 2010, OurPet's sold an aggregate of 123,616 shares of its Series 2009 Preferred Stock in a private placement to a total of 15 accredited investors. All shares in the private placement were sold at a price of \$7.00 a share for a total of \$865,312. Payment for the shares comprised of \$595,000 in cash and \$270,312 in converted debt (including accrued interest). All were previously reported in our Form 8-K filed February 2, 2010 except for 6,572 shares totaling \$46,004 purchased by two additional accredited investors on February 1, 2010. All shares are convertible at any time into shares of common stock at a conversion price of \$.70/common share, subject to adjustment for stock splits, combinations and similar transactions. All shares receive a 6% (\$0.42) cash dividend payable on December 1st of each year provided that payment may be deferred if necessary for our compliance with our loan covenants. We have the limited right to convert the shares into common stock at any time after the trading price of our common stock reaches \$1.50 per share for twenty consecutive days.

The shares sold were not registered under the Securities Act of 1933, as amended (the "Act"), in reliance on the private offering exemption from registration provided by Section 4(2) of the Act and Rule 506 of Regulation D of the rules promulgated under the Act. We did not utilize an underwriter or placement agent in connection with the private placement.

On July 16, 2010, we obtained a new \$500,000 term loan from our bank. \$400,000 of that loan was used to pay off a debt obligation of Cosmic Pet Products, Inc. with the \$100,000 balance used to purchase certain Cosmic Pet assets included in our July 29, 2010 asset purchase of Cosmic Pet. The Loan is payable in equal monthly installments of \$14,817 over a three year term at a fixed interest rate of 4.18%. This loan was secured by our accounts receivable, inventory, equipment, trademarks and patents. Steven Tsengas, OurPet's President and Chief Executive Officer and his wife provided an unlimited guarantee of the loan and for that guarantee were granted 62,500 warrants exercisable at \$.86/share for the right to purchase OurPet's common stock. Subsequent to their issuance the warrants were adjusted to 62,763 warrants exercisable at \$.85/share in accordance with the warrant antidilution provisions.

On October 18, 2010, we obtained a \$500,000 increase in our line of credit from \$2,000,000 to \$2,500,000. The increase was used to meet working capital requirements. This increase was secured by our accounts receivable, inventory, equipment, trademarks and patents. Steven Tsengas, OurPet's President and Chief Executive Officer and his wife have provided an unlimited guarantee of the Loan and for that guarantee were granted 62,500 warrants at \$.86/share for the right to purchase OurPet's common stock. Subsequent to their issuance the warrants were adjusted to 62,763 warrants exercisable at \$.85/share in accordance with the warrant anti-dilution provisions.

On November 30, 2010, we obtained a \$300,000 short term loan from our bank to fund specific working capital requirements for business growth. The Note matures on May 1, 2011 and provides for interest payments on the principal balance beginning January 1, 2011. This loan is secured by our accounts receivable, inventory, equipment, trademarks and patents. The interest rate is the same variable rate based on our bank's prime rate plus .50% with the initial prime rate set at 3.25%. The principal amount outstanding at December 31, 2010 was \$90,000.

On January 19, 2011, we obtained a \$450,000 short term loan from our bank to fund specific working capital requirements related to business growth. The Note matures on July 31, 2011 and provides for interest payments on the principal balance beginning March 1, 2011. This loan is also secured by our accounts receivable, inventory, equipment, trademarks and patents. The interest rate is a variable rate based on our Bank's prime rate plus .50% with the initial prime rate set at 3.25%.

On January 24, 2011 we obtained permission from our bank to use both the \$300,000 and \$450,000 notes for general working capital requirements bringing the total Line of Credit facility up to \$3,250,000.

In February of 2008, we entered into contribution agreements with six contributors, all of which are affiliated with OurPet's, pursuant to which each contributor loaned certain funds to us totaling \$600,000. We used these funds for expenses related to litigation on certain of our SmartScoop™ products (the "SmartScoop™ Litigation") and for expenses related to new product development. In consideration for these loans we (a) executed promissory notes due in two years with interest accruing at prime plus 2%, (b) issued warrants for the purchase of 300,000 shares of our Common Stock at an option price of \$0.825 per share and (c) entered into piggyback registration rights agreements with the contributors. Subsequent to their issuance the warrants were adjusted to 303,784 warrants exercisable at \$0.815 per share in accordance with the warrant anti-dilution provisions.

In June and July of 2008, we entered into additional contribution agreements with the same six contributors pursuant to which each contributor loaned certain funds to us totaling an additional \$292,500. We used the funds for additional expenses related to the SmartScoop™ Litigation. In consideration for these loans we (a) executed promissory notes due in three years with interest compounding quarterly at prime plus 2%, (b) issued warrants for the purchase of 146,250 shares of our Common Stock at an option price of \$0.50 per share, (c) issued warrants for the purchase of 292,500 shares of our Common Stock at an option price of \$0.50 per share, which replaced 292,500 of the warrants issued in February of 2008 and (d) entered into piggyback registration rights agreements with the contributors. Subsequent to their issuance the warrants were adjusted to 451,876 warrants exercisable at \$0.494 per share in accordance with the warrant anti-dilution provisions.

In July and August of 2008, we entered into additional contribution agreements with two other contributors, neither of which are affiliated with OurPet's, pursuant to which each contributor loaned certain funds to us totaling \$125,000. We also used these funds for expenses related to the SmartScoop™ Litigation. In consideration for these loans we (a) executed promissory notes due in three years with interest compounding quarterly at prime plus 2%, (b) issued warrants for the purchase of 12,500 shares and 50,000 shares of our Common Stock at option prices of \$0.50 and \$0.40 per share respectively, and (c) entered into piggyback registration agreements with the contributors. Subsequent to their issuance the warrants were adjusted to 12,657 and 50,680 warrants exercisable at \$0.494 and \$0.395 per share respectively, in accordance with the warrant anti-dilution provisions.

In October and November of 2008, we entered into additional contribution agreements with two other contributors, neither of which are affiliated OurPet's, pursuant to which each contributor loaned certain funds to us totaling \$350,000. We also used these funds for expenses related to the SmartScoop™ Litigation. In consideration for these loans we (a) executed promissory notes due in three years for \$50,000 and due in four years for \$300,000 both with interest compounding quarterly at prime plus 2%, (b) issued warrants for the purchase of 25,000 shares and 300,000 shares of our Common Stock at option prices of \$0.40 and \$0.37 per share respectively, and (c) entered into piggyback registration agreements with the contributors. Subsequent to their issuance the 25,000 warrants exercisable at \$0.40 per share were adjusted to 25,340 warrants exercisable at \$0.395 per share and the 300,000 warrants exercisable at \$0.37 per share were adjusted to 302,563 warrants exercisable at \$0.367 per share in accordance with the warrant anti-dilution provisions.

Results of Operations

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

In the following discussion all references to 2010 are for the year ended December 31, 2010 and all references to 2009 are for the year ended December 31, 2009. All references to Consolidated include OurPet's and Cosmic Pets. All references to OurPet's refer to OurPet's excluding Cosmic Pet. All references to Cosmic Pet include Cosmic Pet only.

Consolidated net revenue for 2010 was \$17,091,741, an increase of approximately 19.9% in revenue from \$14,251,786 in 2009, consisting of sales of proprietary products for the retail pet business. Of this \$2,839,955 increase, approximately \$738,000 came from our Cosmic Pet Product division's revenues over the last five months of 2010. Other significant components to the revenue increase were approximately \$785,000 in pet specialty store revenues, increased sales to distributors of approximately \$643,000, approximately \$569,000 increased sales from club store customers, sales to promotional customers of approximately \$435,000 and approximately \$158,000 increased sales from .com customers. The remaining approximately \$221,000 increased sales were to both new and existing customers. Offsetting these sales increases were declines in revenues from our two largest customers of approximately \$709,000.

Total sales to all customers for new products in 2010 that were not sold in 2009 including the new Play 'N Squeak® products, new Durapet Bowl products, new Go Cat Go products, new Flappy products, private label sales, new ecoPure products were approximately \$3,788,000 of which \$3,050,000 were OurPet's products and \$738,000 were Cosmic Pet Products.

Consolidated sales to foreign customers were \$1,629,791, an increase of approximately \$700,000, or 75.3%, from foreign sales of \$929,363 in 2009. This increase was mainly due to increased sales to customers in Canada, Sweden, Hong Kong, Netherlands and Taiwan which were offset by decreases in sales to customers in England and Finland. Cosmic Pet's international sales for the five months of August through December 2010 were approximately \$155,000.

While net revenue increased by 19.9% in 2010, cost of goods sold increased by 23.3%, from \$9,971,696 in 2009 to \$12,292,259 in 2010. This increase of approximately \$2,321,000 was the result of the cost of purchased products sold increasing 20.9%, or approximately \$1,729,000, due to (i) Cosmic Pet's \$263,000 cost of purchased products and (ii) the increased amount of purchased products and increased freight costs needed for the higher volume sales in 2010. Approximately \$355,000 of the increase in cost of goods sold came from increased salaries, wages, payroll taxes, bonus/profit sharing and benefits due to additional staffing and associated benefits costs of approximately \$170,000 for Cosmic Pet, and the remaining increase coming from OurPet's research & development and quality assurance, project management and indirect operations personnel. Our variable and fixed warehouse and overhead costs increased by 49.7% from the comparable twelve months in 2009 due to (i) Cosmic Pet's approximately \$360,000 variable and fixed overhead costs and (ii) approximately \$606,000 from OurPet's increased costs for salaries, wages, and payroll taxes in quality assurance and research and development departments along with increased accruals for operations employee bonus/profit sharing costs and casual labor.

Net revenue increased by 19.9% and the cost of goods sold increased by 23.3%, which resulted in our gross profit on sales increasing by 12.1%, or \$519,392, from \$4,280,090 in 2009 to \$4,799,482 in 2010. Approximately \$194,000 of the gross profit increase came from Cosmic Pet with the balance of gross profit coming from OurPet's. Gross profit margin declined to 28.1% in 2010 from 30.0% in 2009. This decrease was primarily due to costs related to the integration of the Cosmic Pet operations as well as higher than anticipated warehouse, freight, labor and overhead costs.

Selling, general and administrative expenses in 2010 were \$3,704,994, an increase of 18.9%, or \$590,034, from \$3,114,960 in 2009. This increase was primarily a result of (i) an increase in salaries and wages, payroll taxes and employee benefits of approximately \$236,000 due to additional employees in sales, marketing, and administration and an increase in accruals for managers' bonus and employee profit sharing, (ii) an increase in sales and marketing expenses of approximately \$198,000 mainly due to increased commissions, travel, promotional and marketing expenses, and (iii) an increase in professional expenses of approximately \$111,000 mainly from higher investor relations costs, intellectual property protection costs, accounting and IT costs. Cosmic Pet Products selling, general and administrative costs were approximately \$71,000.

Litigation expenses were \$112,861 for 2010, a decrease of \$260,747 or 69.8% from \$373,608 for 2009. These expenses were for (i) legal fees and expenses related to our defense of patent infringement actions filed against us in late 2007 by a competitor alleging that our SmartScoop® self scooping cat litter box infringes on their patents, and (ii) patent infringement suits we filed against several other competitors for their infringement on our Durapet® and Play 'N Squeak® patents. The primary reason for the significant decrease in litigation expenses was due to the reduced SmartScoop® case activity.

The Company recognized a onetime \$240,623 gain on the purchase of certain intangible assets from Cosmic Pet. This gain was comprised of the net excess in asset value OurPet's received from the Cosmic Pet asset purchase over the consideration OurPet's paid and assumed in obligations. The Company had an independent third party perform a valuation of such assets which concluded their

value to be \$461,000 with most of the value attributed to the Cosmic Pet brand name. The asset purchase and gain are discussed further in the Notes to Consolidated Financial statements.

Consolidated income from our operations improved by \$430,728 from \$791,522 in 2009 to \$1,222,250 in 2010 as a result of (i) our gross profit on sales increasing by \$519,392 or 12.1% , (ii) the decrease in litigation expenses of \$260,747 and (iii) the onetime \$240,623 gain from intangible asset valuation of which were partially offset by an 18.9% increase in selling, general and administrative expenses of \$590,034. OurPet's income from operations was \$1,099,461 while Cosmic Pet's contributed \$122,789 to income from operations.

Interest expense for 2010 was \$136,162, a decrease of \$42,740, from \$178,902 in 2009. This decrease was due to (i) a decrease in interest expense for our bank line of credit of approximately \$15,000, a result of the decrease in our average balance to approximately \$1,247,000 in 2010 from \$1,539,000 in 2009 combined with a rate decrease to 3.750% in 2010 from 4.00% for most of 2009, (ii) a decrease in interest expense of approximately \$30,700 related to outstanding balances on contributor notes which were reduced from \$1,367,500 to \$767,500 through a combination of payments and conversion of some of the notes into Preferred Stock, (iii) a decrease of supplier financing charges of approximately \$14,700 from the same period in 2009 and (iv) a decrease in our interest expense for our older bank term notes of approximately \$10,500 due to the reduced principal balances from the monthly payments. These decreases were partially offset by an increase in interest expense of approximately \$28,100 related to our three year \$800,000 bank term loan obtained in September 2009 and our three year \$500,000 bank term loan obtained in September 2010.

Other income and expense net for 2010 was \$1, a decrease from the \$38,153 in other income recorded in 2009. This decrease was primarily due to the receipt in April 2009 of \$37,659 in final settlement proceeds from an action we had filed against Akon Plastic Enterprises, Inc. and certain parties related to it.

Income tax expense net for 2010 was \$99,555, an increase of \$224,549 from the \$124,994 net income tax benefit recognized in 2009. This increase was primarily due to (i) federal income tax expense of approximately \$75,800 recognized from the adjustment of our Deferred Tax Asset to account for our anticipated utilization of tax loss carry forwards, (ii) \$15,500 in estimated 2010 federal income tax expense, (iii) \$6,100 in estimated local income tax expense for 2010 and (iv) a reduction of 2010 state income taxes of approximately \$1,600 and v) the \$125,370 reduction in income tax expense resultant from the 2009 Deferred Tax Asset estimate.

Net income for 2010 was \$986,534 as compared to net income in 2009 of \$775,767 or an increase in profitability of \$210,767. This increase was as a result of the following changes from 2009 to 2010:

Net revenue increase of 19.9%	\$ 2,839,955
Cost of goods sold increase of 23.3%	(2,320,563)
Gross profit on sales increase of 22.3%	519,392
Selling, general and administrative expenses increase of 18.9 %	(590,034)
Litigation expense decrease	260,747
Gain on Asset Purchase	240,623
Interest expense decrease of 23.9%	42,740
Other Income decrease	(38,152)
Income tax expense increase	(224,549)
Increase in Profitability	<u>\$ 210,767</u>

Liquidity and Capital Resources

Our operating activities provide cash from the sale of our products to customers with the principal use of cash being for the payments to suppliers that manufacture our products and for freight charges for shipments to our warehouse and to our customers. Our investing activities use cash mostly for the acquisition of equipment such as tooling, computers and software. Our financing activities provide cash, if needed, under our lines of credit with our bank that had approximately \$272,000 in available funds at December 31, 2010 based upon the balance of accounts receivable and inventories at that date.

As of December 31, 2010, we had \$4,371,820 in principal amount of indebtedness consisting of:

Bank line of credit - \$2,500,000	Prime plus .5%	\$2,438,000
Bank line of credit-short term note (\$300,000 available)	Prime plus .5%	90,000
Bank term note (\$800,000 original balance)	4.61%	478,540
Bank term note (\$500,000 original balance)	4.18%	434,334
Contributor notes payable	Prime plus 2%	767,500
Capitalized Leases	Various	55,433

Installment note payable	7.3%	8,013
Other notes payable	Prime plus 3% & 10%	100,000

On October 18, 2010, the Company and its bank, First Merit N.A., entered into an agreement to increase the Company's line of credit facility to \$2,500,000 from \$2,000,000. At December 31, 2010, that bank line of credit had indebtedness of \$2,438,000. Borrowings are based on the level of qualifying accounts receivable and inventories. The line of credit is renewable annually by the bank and therefore is classified as a current liability on our balance sheet. Currently the line of credit has been renewed by the bank through June 30, 2011. Under our agreement with the bank we are presently required to: (i) maintain a debt service coverage ratio of at least 1.15; (ii) maintain a tangible net worth of no less than \$3,000,000; and (iii) obtain the bank's permission to incur additional indebtedness, make any expenditures for property and equipment in excess of \$500,000 in any fiscal year, redeem any of our capital stock, or pay cash dividends other than dividends on our preferred stock (subject to meeting the debt service coverage ratio). At December 31, 2010 we were in compliance with the covenants and default provisions under our agreement with the bank and had a debt service coverage ratio of 1.32 and a tangible net worth of \$5,071,796.

On November 30, 2010, we obtained a \$300,000 short term loan from our bank to fund specific working capital requirements for business growth. The Note matures on May 1, 2011 and provides for interest payments on the principal balance beginning January 1, 2011. This loan is secured by our accounts receivable, inventory, equipment, trademarks and patents. The interest rate is the same variable rate based on our bank's prime rate plus .50% with the initial prime rate set at 3.25%. The principal amount outstanding at December 31, 2010 was \$90,000.

On October 2, 2009, we obtained an \$800,000 term loan from our bank. The term loan has a fixed interest rate of 4.61% and is payable monthly over a three year period in equal installments of \$23,859 that include interest. The loan is secured by our accounts receivable, inventory, equipment, trademarks, patents and the personal guarantee of certain stockholders. At December 31, 2010, this loan had a principal balance outstanding of \$478,540.

On July 16, 2010, we obtained a new \$500,000 term loan from our bank. \$400,000 of that loan was used to pay off a debt obligation of Cosmic Pet Products, Inc. with the \$100,000 balance used to purchase certain Cosmic Pet assets included in our July 29, 2010 asset purchase of Cosmic Pet. The Loan is payable in equal monthly installments of \$14,817 over a three year term at a fixed interest rate of 4.18%. This loan was secured by accounts receivable, inventory, equipment, trademarks, patents and the personal guarantee of certain stockholders. At December 31, 2010, this loan had a principal balance outstanding of \$434,334.

Contributor notes totaling \$1,367,500 were issued in 2008 to fund patent litigation expenses related to a lawsuit filed against us by a competitor. In February 2010, \$600,000 of the notes were retired through a cash payment of \$329,988 and conversion of \$270,012 of the notes to preferred stock. Of the remaining \$767,500 in outstanding contributor notes, \$265,000 is due June 20, 2011, \$27,500 is due July 30, 2011, \$25,000 is due July 24, 2011, \$100,000 is due August 13, 2011, \$50,000 is due on October 7, 2011 and \$300,000 is due on October 31, 2012.

On July 29, 2010 the Company assumed two capitalized leases for equipment purchased from Cosmic Pets. The capital leases are payable in monthly payments of \$2,424 through September 2011 and \$1,527 through October 2012. At December 31, 2010, the remaining balances on the capitalized leases totaled \$55,433.

The installment notes payable are for warehouse equipment and due in monthly payments of \$560 including interest, through March 2012. At December 31, 2010, this note had a principal balance outstanding of \$8,013.

The other notes payable are due in the amount of \$75,000 on December 1, 2011, to Beachcraft L.P. and \$25,000 on November 1, 2011 to Over the Hill Ltd., plus accrued interest. Our indebtedness, which is secured by liens on our assets, was used to finance our equipment and working capital requirements. The agreements related to such indebtedness contain the customary covenants and default provisions.

The note payable to Beachcraft L.P. was originally for \$150,000, \$75,000 of which was repaid in 2003. As of February 1, 2004, a new note payable to Beachcraft L.P. was issued to replace the \$75,000 remaining balance. The replacement note is due on December, 2011 with interest payable quarterly at prime plus 3%. In consideration for this refinancing we issued warrants for the purchase of 56,250 shares of Common Stock to Beachcraft L.P. at an exercise price of \$0.30 per share with an expiration date of February 1, 2010. Subsequent to their issuance the warrants were adjusted to 57,204 warrants exercisable at \$0.295 per share in accordance with the anti-dilution provisions of the warrants. These warrants were exercised in 2007.

Our short-term and long-term liquidity will continue to depend on our ability to achieve cash-flow break even on our operations and to increase sales of our products. For the year ended 2008, we recorded a loss of approximately \$1,728,000 due to approximately \$2,323,000 of litigation expenses and therefore had to rely on our financing activities to fund operations. For the year ended

December 31, 2009, litigation expenses were significantly lower, we recorded a profit of approximately \$776,000 and were able to rely on cash from our operating activities to fund our operations. In 2010, despite operating income of approximately \$982,000 (excluding the \$240,623 gain from intangible asset valuation) we again relied on our financing activities to fund operations as inventories increased by approximately \$2,592,000 due to increased sales, increased safety stock and the Cosmic Pet asset purchase. In 2011, we anticipate exceeding the required debt service coverage ratio and the tangible net worth required by our bank to maintain our line of credit and therefore we should be able to fund our operating cash requirements for 2011. We have no material commitments for capital expenditures.

A schedule of our contractual obligations as of December 31, 2010 is as follows:

Contractual Obligation	Payments Due By Period				
	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Short and Long Term Debt	\$4,316,387	\$3,534,063	\$ 782,324	\$ -0-	\$ -0-
Capital Lease Obligations	55,433	40,153	15,280	-0-	-0-
Purchase Obligations	-0-	-0-	-0-	-0-	-0-
Other Long Term Liabilities	-0-	-0-	-0-	-0-	-0-
Operating Leases	<u>2,964,932</u>	<u>526,268</u>	<u>896,846</u>	<u>871,825</u>	<u>669,993</u>
Total Contractual Cash Obligations	<u>\$7,336,752</u>	<u>\$4,100,484</u>	<u>\$1,694,450</u>	<u>\$871,825</u>	<u>\$669,933</u>

Net cash used in operating activities for the year ended December 31, 2010 was \$824,984. Cash was provided by the net operating income for the year of \$986,534, as well as the non-cash charges for depreciation of \$451,671, amortization of \$35,015, stock option expense of \$24,000, warrant expense of \$25,004 less the gain from Comic Pet asset purchase of \$240,623. Cash was reduced by \$2,106,585 due to the following changes in our operating assets and liabilities:

Accounts receivable increase	\$ (776,686)
Inventories increase	(2,155,225)
Prepaid expenses increase	(117,210)
Patent cost increase	(44,736)
Deferred Tax Benefit decrease	70,254
Domain names and other assets increase	(50,685)
Accounts payable increase	880,398
Accrued expenses increase	87,305
Net change	<u>\$(2,106,585)</u>

The increase in accounts receivable from December 31, 2009 to December 31, 2010 was caused principally by the increase in net sales from October 2010 to December 2010 of approximately \$967,000 of which approximately \$495,000 in the quarter's increased sales came from Cosmic Pet. Our inventory increase from December 31, 2009 to December 31, 2010 was the result of increased sales overall, increased safety stocks and lower sales than forecasted for certain products. The increase in other assets of approximately \$51,000 from December 31, 2009 to December 31, 2010 was due to increased inventory deposits required by new overseas vendors. Our increase in accounts payable of approximately \$880,000 from December 31, 2009 to December 31, 2010 was primarily due to the increase in inventories. Our accrued expenses increased from December 31, 2009 to December 31, 2010 by approximately \$87,000 primarily as a result of increased accrued legal expenses, salaries and bonus/profit sharing expenses.

Net cash used in investing activities for the year ended December 31, 2010 was \$1,136,569 of which \$600,000 was used for the asset purchase of Cosmic Pet and \$536,569 was used for the acquisition of property and equipment.

Net cash provided by financing activities for the year was \$1,955,672. The Company's \$865,000 issuance of its Series 2009 Preferred Stock provided \$ 595,000 in cash and converted approximately \$270,000 of debt. Net borrowings on the bank lines of credit provided \$1,679,000 comprised of \$1,589,000 against the line of credit and \$90,000 against the new \$300,000 note obtained in November 2010. Stock options exercised provided \$10,401. Approximately \$777,000 was used for principal payments of debt which were offset by the new \$500,000 note obtained in July 2010 used to finance the Cosmic Pet asset purchase. The Company also paid approximately \$52,000 in cash dividends to holders of its Series 2009 Preferred Stock.

Net cash provided by operating activities for the year ended December 31, 2009 was \$353,012. Cash was provided by the net income for the year of \$775,767 as well as the non-cash charges for depreciation of \$394,827, amortization of \$30,654, stock option expense of \$21,025, and warrant expense of \$24,030. Cash was reduced by \$893,291 due to increases in accounts receivable of \$460,295, decreases in inventory of \$319,582, increases in prepaid expenses of \$19,135, increases in patent costs of \$50,867, increases in deferred tax assets of \$125,370, increases in other assets of \$116,088, decreases in accounts payable of \$192,266 and decreases in accrued expenses of \$248,852.

Net cash used in investing activities for the year ended December 31, 2009 was \$273,082, which was used for the acquisition of property and equipment. Net cash used in financing activities for the year was \$358,948. Cash of \$207,948 was used for the principal repayment of long term debt. Cash of \$951,000 was used to decrease net borrowings under the line of credit with our bank. \$800,000 was provided by a new three year term note with our bank.

Critical Accounting Policies/Estimates

We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles. We have identified the accounting policies below as critical to our business operations and understanding of our results of operations. For a detailed discussion on the application of these and other accounting policies, see Summary of Significant Accounting Policies footnote to our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The application of these policies may require management to make judgments and estimates that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. Management uses historical experience and all available information to make these estimates and judgments, and different amounts could be reported using different assumptions and estimates.

Inventories. Inventories are stated at the lower of cost or net realizable value. We estimate net realizable value based on intended use, current market value and inventory aging analyses. We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Impairment of Long-Lived Assets. We review long-lived assets for possible impairment by evaluating whether the carrying amount of assets exceed its recoverable amount. Our judgment regarding the existence of impairment is based on legal factors, market conditions and operational performance of our assets. Future adverse changes in legal environment, market conditions or poor operating results could result in losses or an inability to recover the carrying value of the long-lived assets, thereby possibly requiring an impairment charge in the future.

Research and Development Expenses. Research and development expenditures are charged to operations when incurred and are included in cost of goods sold. If funding is not available from operations our ability to develop new and/or improved products could be adversely affected.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 8. Financial Statements and Supplementary Data.

The financial statements of OurPet's Company as of December 31, 2010 and 2009, and for the years then ended together with the Report of Independent Registered Public Accounting Firm are included in this Form 10-K on the pages indicated below.

	<u>Page No.</u>
Report of Independent Registered Public Accounting Firm	23
Report of Former Independent Registered Public Accounting Firm	24-25
Consolidated Balance Sheets	26-27
Consolidated Statements of Operations	28
Consolidated Statements of Stockholders' Equity	29
Consolidated Statements of Cash Flows	30
Notes to Consolidated Financial Statements	31-42

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

On April 16, 2010, we dismissed our independent accountant, S.R. Snodgrass, A.C., because S.R. Snodgrass no longer has an office convenient to us, and effective that same date we engaged Neece, Malec, Seifert & Vitaz, Inc. as our new independent accountant. More information regarding our change in independent accountant can be found in our Form 8-K filed with the Securities and Exchange Commission on April 22, 2010.

Item 9A(T). Controls and Procedures.

Evaluation of Controls and Procedures

As of December 31, 2010, we carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer along with our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Exchange Act”). Based upon that evaluation, our President and Chief Executive Officer and our Chief Financial Officer each concluded that our disclosure controls and procedures were effective as of December 31, 2010.

Management’s Report on Internal Control Over Financial Reporting

Management of OurPet’s is responsible for establishing and maintaining an adequate system of internal control over financial reporting as such term is defined in Rule 13a-15(f) of the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles defined in the Exchange Act.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation. 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.

We carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our internal control over financial reporting. In making this evaluation, management used the criteria set forth in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this evaluation, management has concluded that the internal control over financial reporting was effective as of December 31, 2010.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Attestation Report of Independent Registered Public Accounting Firm

This annual report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to the Securities and Exchange Commission rules that permit the Company to provide only management’s report in this annual report.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item is incorporated by reference from the information provided under the headings “Board of Directors,” and “Executive Officers,” contained in our Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for our Annual Meeting of Shareholders to be held on May 20, 2011.

Item 11. Executive Compensation.

The information required by this Item is incorporated by reference from the information provided under the headings “Executive Compensation and Other Information” and “Board of Directors—Director Compensation” contained in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required by this Item is incorporated herein by reference from the information provided under the headings “Executive Compensation and Other Information—Equity Compensation Plan Information” and “Principal Stockholders” of our Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is incorporated herein by reference from the information provided under the heading “Certain Relationships and Related Transactions, and Board of Directors—Director Independence” of our Proxy Statement.

Item 14. Principal Accountant Fees and Services.

The information required by this Item is incorporated by reference from the information provided under the heading “Principal Accountant Firm Fees” contained in our Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Financial Statement Schedules

The following consolidated financial statements of the Company and its subsidiary are incorporated by reference from Item 8 in Part II of this Form 10-K (see pages 30-49).

Report of Independent Registered Public Accounting Firm
Report of Former Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Operations
Consolidated Statements of Stockholders’ Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

All other schedules for which provision is made in the applicable accounting regulation of the SEC are omitted because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements and related notes thereto.

(b) Exhibits

- 2.1 Asset Purchase Agreement dated January 3, 2006, between the Company and Pet Zone Products Ltd.⁽⁵⁾
- 3.1 Articles of Incorporation of the Company, dated May 23, 1996.⁽¹⁾
- 3.1.1 Articles of Amendment to the Articles of Incorporation of the Company, effective September 1, 1998.⁽¹⁾
- 3.1.2 Articles of Amendment to the Articles of Incorporation of the Company, adopted July 20, 1999.⁽¹⁾
- 3.1.3 Articles of Amendment to the Articles of Incorporation of the Company effective January 21, 2010⁽¹⁶⁾
- 3.2 Bylaws of the Company.⁽¹⁾
- 4.1 Common Stock Certificate.⁽¹⁾
- 4.2 Preferred Stock Certificate.⁽¹⁾
- 4.3 Promissory Note dated September 1, 1999 for \$200,000, made by the Company to Joseph T. Aveni.⁽¹⁾
- 4.4 Registration Rights Agreement dated January 3, 2006 among the Company, Pet Zone Products Ltd. and certain other stockholders.⁽⁵⁾
- 4.5 Voting Agreement dated January 3, 2006 among the Company, Steven Tsengas, Evangelia S. Tsengas, Konstantine S. Tsengas, Nicholas S. Tsengas, Senk Properties, Joseph T. Aveni, Carl Fazio, Jr., John G. Murchie, Pet Zone Products Ltd., Capital One Partners, LLC, LJR Limited Partnership, Nottingham Ventures, Ltd. and Spirk Ventures, Ltd.⁽⁵⁾
- 10.1 Asset Purchase Agreement, dated March 31, 2000, between Akon Plastic Enterprises, Inc. and Sanar Manufacturing Company, a wholly-owned subsidiary of OurPet’s Company.⁽¹⁾
- 10.2 Lease Agreement dated March 17, 1993, with Addendums, between Senk Properties and GPI Division, Napro, Inc.⁽¹⁾

- 10.5 1999 Stock Option Plan.⁽¹⁾
- 10.6 Standard Option Agreement.⁽¹⁾
- 10.7 Standard Common Stock Purchase Warrant.⁽¹⁾
- 10.8 Indemnity Agreement, dated March 31, 2000, between Akon Plastic Enterprises, Inc. and its President, David Herman, individually, and OurPet's Company and Dr. Steven Tsengas, Evangelia Tsengas, Nicholas Tsengas and Konstantine Tsengas.⁽¹⁾
- 10.10 Small Business Administration loan agreement dated March 10, 1995 with Napro, Inc.⁽¹⁾
- 10.12 Vendor Agreement between the Company and Wal-Mart Stores, Inc.⁽¹⁾
- 10.17 PetsMart 2001 Vendor Purchasing Terms.⁽¹⁾
- 10.18 Credit Agreement, Revolving Note and Security Agreements, dated December 31, 2001, between FirstMerit Bank, N.A., the Company, Virtu Company, Dr. Steven Tsengas and Evangelia S. Tsengas.⁽²⁾
- 10.19 Promissory Note dated February 1, 2004 for \$75,000, made by the Company to Beachcraft Limited Partnership.⁽⁴⁾
- 10.20 Warrant issued to Pet Zone Products Ltd. to purchase 2,729,000 shares of the Company's Common Stock dated January 4, 2006.⁽⁵⁾
- 10.21 Warrant issued to Pet Zone Products Ltd. to purchase 125,000 shares of the Company's Common Stock dated January 4, 2006.⁽⁵⁾
- 10.22 Subordinated Promissory Note dated January 4, 2006 from the Company to Pet Zone Products Ltd.⁽⁵⁾
- 10.23 Commercial Security Agreement by and between the Company and FirstMerit Bank, N.A.⁽⁶⁾
- 10.24 Promissory Note executed by the Company in favor of FirstMerit Bank, N.A.⁽⁶⁾
- 10.25 Lease Agreement dated March 1, 2007 between Senk Properties and OurPet's Company.⁽⁷⁾
- 10.26 Amended Subordinated Promissory Note dated as of October 18, 2006, executed by OurPet's Company in favor of Pet Zone Products Ltd.⁽⁸⁾
- 10.27 Cat Litter Device Development Agreement dated January 15, 2007 by and between Nottingham-Spirk Design Associates, Inc. and OurPet's Company.⁽⁹⁾
- 10.28 Form of Indemnification Agreement, by and between OurPet's Company and each of its Directors.⁽⁹⁾
- 10.29 Amendment to Loan Agreement dated March 23, 2007 between FirstMerit Bank, N.A. and OurPet's Company.⁽¹⁰⁾
- 10.30 Promissory Note dated March 23, 2007 executed by the Company in favor of FirstMerit Bank, N.A.⁽¹⁰⁾
- 10.31 Commercial Security Agreement dated March 23, 2007 by and between the Company and FirstMerit Bank, N.A.⁽¹⁰⁾
- 10.32 Contribution Agreement dated February 7, 2008 among OurPet's Company, Capital One Partners LLC, Nottingham Ventures Ltd., Spirk Ventures Ltd. and LJR Limited Partnership.⁽¹¹⁾
- 10.33 Contribution Agreement dated February 7, 2008 among OurPet's Company, Senk Properties and Dr. William M. Fraser.⁽¹¹⁾
- 10.34 Form of Promissory Note issued by OurPet's to each Contributor.⁽¹¹⁾
- 10.35 Form of Warrant issued by OurPet's to each Contributor.⁽¹¹⁾
- 10.36 Form of Registration Rights Agreement among OurPet's and the Contributors.⁽¹¹⁾
- 10.37 Contribution Agreement dated June 20, 2008 among OurPet's Company, Capital One Partners LLC, Nottingham Ventures Ltd., Spirk Ventures Ltd. and LJR Limited Partnership.⁽¹²⁾
- 10.38 Contribution Agreement dated June 20, 2008 among OurPet's Company, Senk Properties and Dr. William M. Fraser.⁽¹²⁾
- 10.39 Form of Promissory Note issued by OurPet's to each Contributor.⁽¹²⁾
- 10.40 Form of Warrant issued by OurPet's to each Contributor.⁽¹²⁾
- 10.41 Form of Registration Rights Agreement among OurPet's and the Contributors.⁽¹²⁾

- 10.42 Fee Agreement dated November 25, 2008 between OurPet's and Nottingham-Spirk Design Associates, Inc.⁽¹³⁾
- 10.43 2008 Stock Option Plan⁽¹⁴⁾
- 10.44 First Amendment to the 2008 Stock Option Plan⁽¹⁵⁾
- 10.45 Business Loan Agreement (Asset Based), dated September 17, 2009, between OurPet's Company and FirstMerit Bank, N.A.⁽¹⁷⁾
- 10.46 Amendment to Note, dated September 17, 2009, between OurPet's Company and FirstMerit Bank, N.A.⁽¹⁷⁾
- 10.47 Promissory Note, dated September 17, 2009, executed by OurPet's Company in favor of FirstMerit Bank, N.A.⁽¹⁷⁾
- 10.48 Form of Warrant⁽¹⁷⁾
- 10.49 Asset Purchase Agreement among Cosmic Pet Products, Inc., Confusion, Inc., Leon Seidman and OurPet's Company dated June 28, 2010⁽¹⁸⁾
- 10.50 Commercial Security Agreement, dated July 16, 2010, between OurPet's Company and FirstMerit Bank, N.A. ⁽¹⁹⁾
- 10.51 Promissory Note, dated July 16, 2010, executed by OurPet's Company in favor of FirstMerit Bank, N.A. ⁽¹⁹⁾
- 10.52 Amendment to Note executed by OurPet's Company, and Steven and Evangelia Tsengas as Guarantors, on October 18, 2010⁽²⁰⁾
- 10.53 Form of Warrant⁽²⁰⁾
- 10.54 Promissory Note, dated November 30, 2010, executed by OurPet's Company in favor of FirstMerit Bank, N.A. ⁽²¹⁾
- 10.55 Commercial Security Agreement, dated November 30, 2010, between OurPet's Company and FirstMerit Bank, N.A. ⁽²¹⁾
- 10.56 Promissory Note, dated January 19, 2011, executed by OurPet's Company in favor of FirstMerit Bank, N.A. ⁽²²⁾
- 10.57 Commercial Security Agreement, dated January 19, 2011, between OurPet's Company and FirstMerit Bank, N.A. ⁽²²⁾
- 11 Statement of computation of Net Income Per Share.
- 14 OurPet's Code of Ethics.⁽³⁾

- 21 Subsidiaries of the Registrant.⁽¹⁾
- 31.1 Certification of the Chief Executive Officer pursuant to 17 CFR Section 240.13a-14(a) of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Principal Financial Officer pursuant to 17 CFR Section 240.13a-14(a) of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (1) Incorporated by reference to the exhibits to the Company's Registration Statement on Form 10SB/A filed on May 31, 2001.
- (2) Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-KSB filed on March 26, 2002.
- (3) Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-KSB filed on March 26, 2004.
- (4) Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-KSB filed on March 30, 2005.
- (5) Incorporated by reference to the exhibits to the Company's Form 8-K filed on January 6, 2006.
- (6) Incorporated by reference to the exhibits to the Company's Form 8-K filed on August 18, 2006.
- (7) Incorporated by reference to the exhibits to the Company's Form 8-K filed on August 25, 2006.
- (8) Incorporated by reference to the exhibits to the Company's Form 8-K filed on October 23, 2006.
- (9) Incorporated by reference to the exhibits to the Company's Form 8-K filed on January 19, 2006.
- (10) Incorporated by reference to the exhibits to the Company's Annual Report of Form 10-KSB filed on March 28, 2007.
- (11) Incorporated by reference to the exhibits to the Company's Form 8-K filed on February 12, 2008.
- (12) Incorporated by reference to the exhibits to the Company's Form 8-K filed on June 25, 2008.

- (13) Incorporated by reference to the Exhibits to the Company's Form 8-K filed on December 2, 2008.
- (14) Incorporated by reference to Annex A to the Company's Proxy Statement filed on May 7, 2008.
- (15) Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K filed on March 31, 2009
- (16) Incorporated by reference to the exhibits to the Company's Form 8-K filed on January 27, 2010
- (17) Incorporated by reference to the exhibits to the Company's Form 8-K filed on September 23, 2009
- (18) Incorporated by reference to the exhibits to the Company's Form 8-K filed on July 1, 2010
- (19) Incorporated by reference to the exhibits to the Company's Form 8-K filed on July 22, 2010
- (20) Incorporated by reference to the exhibits to the Company's Form 8-K filed on October 22, 2010
- (21) Incorporated by reference to the exhibits to the Company's Form 8-K filed on December 2, 2010
- (22) Incorporated by reference to the exhibits to the Company's Form 8-K filed on January 24, 2011

All other Exhibits filed herewith.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 31, 2011

OURPET'S COMPANY

By: /s/ STEVEN TSENGAS
Steven Tsengas
*Chairman, President and Chief
Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u> /s/ STEVEN TSENGAS </u> Steven Tsengas	Chairman, President, Chief Executive Officer and Director (principal executive officer)	March 31, 2011
<u> /s/ SCOTT R. MENDES </u> Scott R. Mendes	Chief Financial Officer (principal accounting officer)	March 31, 2011
<u> /s/ JOSEPH T. AVENI </u> Joseph T. Aveni	Director	March 31, 2011
<u> /s/ WILLIAM M. FRASER </u> William M. Fraser	Director	March 31, 2011
<u> /s/ JAMES D. IRELAND III </u> James D. Ireland III	Director	March 31, 2011
<u> /s/ JOHN SPIRK </u> John Spirk	Director	March 31, 2011

**OURPET'S COMPANY AND SUBSIDIARIES
FINANCIAL STATEMENTS**

	<u>Page Number</u>
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<u>Report of Former Independent Registered Public Accounting Firm</u>	24-25
<u>Consolidated Balance Sheets as of December 31, 2010 and December 31, 2009</u>	26-27
<u>Consolidated Statements of Operations for the years ended December 31, 2010 and December 31, 2009</u>	28
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2010 and December 31, 2009</u>	29
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
OurPet's Company and Subsidiaries

We have audited the accompanying consolidated balance sheets of OurPet's Company and Subsidiaries, a Colorado corporation, as of December 31, 2010, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of OurPet's Company and Subsidiaries for the year ended December 31, 2009 were audited by other auditors whose report, dated March 31, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OurPet's Company and Subsidiaries as of December 31, 2010, and the consolidated results of their operations, stockholders equity and cash flows for the year ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

Neece, Malec, Seifert & Vitaz, Inc.
Certified Public Accountants

Mentor, Ohio
March 31, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
OurPet's Company and Subsidiaries
Fairport Harbor, Ohio

We have audited the accompanying consolidated balance sheet of OurPet's Company and Subsidiaries as of December 31, 2009 and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These consolidated statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We have conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OurPet's Company and Subsidiaries as of December 31, 2009 and the consolidated results of their operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ S.R. Snodgrass, A.C.

Steubenville, Ohio
March 31, 2010

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

OurPet's Company and Subsidiaries
Fairport Harbor, Ohio

We hereby consent to the incorporation by reference in this Annual Report of OurPet's Company and Subsidiaries on Form 10-K of our report, dated March 31, 2010, with respect to the consolidated balance sheet as of December 31, 2009 and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended, which appear in the 2010 Annual Report to Shareholders.

/s/ S.R. Snodgrass, A.C.

Steubenville, Ohio
March 31, 2011

OURPET'S COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 78,673	\$ 84,555
Accounts receivable—trade, less allowance for doubtful accounts of \$47,475 and \$ 21,116	2,657,865	1,881,179
Inventories	5,576,129	2,984,035
Prepaid expenses	210,340	93,130
Deferred Tax Asset less Valuation Allowance of \$ -0- and \$377,734	55,116	125,370
Total current assets	8,578,123	5,168,269
PROPERTY AND EQUIPMENT		
Computers and office equipment	403,161	339,077
Warehouse equipment	493,277	254,811
Leasehold improvements	228,851	129,572
Tooling	3,615,589	3,432,508
Construction in progress	475,820	302,991
Total	5,216,698	4,458,959
Less accumulated depreciation	2,955,825	2,504,154
Net property and equipment	2,260,873	1,954,805
OTHER ASSETS		
Patents, less amortization of \$205,877 and \$170,863	289,441	279,719
Intangible Assets	461,000	—
Goodwill	67,511	67,511
Deposits and other assets	179,123	128,438
Total other assets	997,075	475,668
Total assets	\$11,836,071	\$7,598,742

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

OURPET'S COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)

	December 31,	
	2010	2009
LIABILITIES		
CURRENT LIABILITIES		
Notes payable	\$ 2,628,000	\$ 949,000
Current maturities of long-term debt	946,216	956,589
Accounts payable—trade	1,926,499	1,046,101
Accrued expenses	504,504	417,199
Total current liabilities	<u>6,005,219</u>	<u>3,368,889</u>
LONG-TERM DEBT		
Long-term debt—less current portion above	797,604	1,254,080
Total liabilities	<u>6,802,823</u>	<u>4,622,969</u>
STOCKHOLDERS' EQUITY		
COMMON STOCK,		
no par value; 50,000,000 shares authorized, 15,726,196 and 15,378,984 shares issued and outstanding at December 31, 2010 and December 31, 2009 respectively	4,514,267	4,235,093
CONVERTIBLE PREFERRED STOCK,		
no par value; convertible into Common Stock at the rate of 10 common shares for each preferred share; 66,000 shares authorized, 66,000 shares issued and outstanding	602,679	602,679
Series 2009 no par value; convertible into Common Stock at the rate of 10 common shares for each preferred share; 175,000 shares authorized, 123,616 shares issued and outstanding at December 31, 2010	865,312	—
PAID-IN CAPITAL	2,399	75,944
ACCUMULATED DEFICIT	(951,409)	(1,937,943)
Total stockholders' equity	<u>5,033,248</u>	<u>2,975,773</u>
Total liabilities and stockholders' equity	<u>\$11,836,071</u>	<u>\$ 7,598,742</u>

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

OURPET'S COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended Dec. 31,	
	2010	2009
Net revenue	\$17,091,741	\$14,251,786
Cost of goods sold	12,292,259	9,971,696
Gross profit on sales	4,799,482	4,280,090
Selling, general and administrative expenses	3,704,994	3,114,960
Litigation expense	112,861	373,608
Gain on Asset Purchase	240,623	—
Income from operations	1,222,250	791,522
Other income	1	38,153
Interest expense	136,162	178,902
Income before income taxes	1,086,089	650,773
Income tax (expense) benefit	(99,555)	124,994
Net income	<u>\$ 986,534</u>	<u>\$ 775,767</u>
Basic and Diluted Earnings Per Common Share After Dividend Requirements For Preferred Stock:		
Net Income	<u>\$ 0.05</u>	<u>\$ 0.05</u>
Weighted average number of common and equivalent shares outstanding used to calculate basic and diluted earnings per share	<u>19,102,046</u>	<u>15,523,288</u>

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

OURPET'S COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND DECEMBER 31, 2009

	<u>Preferred Stock</u>		<u>Series 2009 Preferred Stock</u>		<u>Common Stock</u>		<u>Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>			
Balance at January 1, 2009	66,000	\$602,679	—	\$ —	15,312,984	\$4,196,153	\$ 69,829	\$(2,713,710)	\$2,154,951
Common Stock issued in payment of Preferred Stock dividend	—	—	—	—	66,000	38,940	(38,940)	—	—
Net Income for year	—	—	—	—	—	—	—	775,767	775,767
Stock Based compensation expense	—	—	—	—	—	—	45,055	—	45,055
Balance at December 31, 2009	66,000	\$602,679	—	\$ —	15,378,984	\$4,235,093	\$ 75,944	\$(1,937,943)	\$2,975,773
Common Stock issued upon exercise of stock options	—	—	—	—	61,053	19,651	(9,250)	—	10,401
Common Stock issued for asset purchase	—	—	—	—	220,159	198,143	—	—	198,143
Common Stock issued in payment of Preferred Stock dividend	—	—	—	—	66,000	61,380	(61,380)	—	—
Preferred Stock issued	—	—	123,616	865,312	—	—	—	—	865,312
Cash Dividend paid on Preferred Stock	—	—	—	—	—	—	(51,919)	—	(51,919)
Net income	—	—	—	—	—	—	—	986,534	986,534
Stock-Based compensation expense	—	—	—	—	—	—	49,004	—	49,004
Balance at December 31, 2010	<u>66,000</u>	<u>\$602,679</u>	<u>123,616</u>	<u>\$ 865,312</u>	<u>15,726,196</u>	<u>\$4,514,267</u>	<u>\$ 2,399</u>	<u>\$(951,409)</u>	<u>\$5,033,248</u>

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

OURPET'S COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 986,534	\$ 775,767
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	451,671	394,827
Amortization expense	35,014	30,654
Stock option expense	24,000	21,025
Warrant expense	25,004	24,030
Gain on asset purchase	(240,623)	—
(Increase) decrease in assets:		
Accounts receivable—trade	(776,686)	(460,295)
Inventories	(2,155,225)	319,582
Prepaid expenses	(117,210)	(19,135)
Deferred Tax Asset less Valuation Allowance	70,254	(125,370)
Patent cost additions (net)	(44,736)	(50,867)
Domain names and other assets	(50,685)	(116,088)
Increase (decrease) in liabilities:		
Accounts payable—trade	880,398	(192,266)
Accrued expenses	87,305	(248,852)
Net cash (used in) provided by operating activities	<u>(824,985)</u>	<u>353,012</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(536,569)	(273,082)
Acquisition of business	(600,000)	—
Net cash used in investing activities	<u>(1,136,569)</u>	<u>(273,082)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(776,810)	(207,948)
Gross borrowing on bank line of credit	1,679,000	(951,000)
Issuances of long-term debt	500,000	800,000
Issuances of Common Stock	10,401	—
Issuances of Preferred Stock	595,000	—
Dividends paid on Preferred Stock	(51,919)	—
Net cash provided by (used in) financing activities	<u>1,955,672</u>	<u>(358,948)</u>
Net decrease in cash	(5,882)	(279,018)
CASH AT BEGINNING OF PERIOD	<u>84,555</u>	<u>363,573</u>
CASH AT END OF PERIOD	<u>\$ 78,673</u>	<u>\$ 84,555</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 159,745	\$ 163,827
Income taxes paid	\$ 19,505	—
SUPPLEMENTAL DISCLOSURE OF NON CASH TRANSACTIONS		
Non cash exercise of stock option	\$ 19,483	\$ —
Common Stock issued in payment of Preferred Stock Dividend	\$ 61,380	\$ 38,940
Common Stock issued in payment for acquisition of business	\$ 198,143	\$ —

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

OURPET'S COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations—OurPet's Company (the "Company") management originally founded Napro, Inc. ("Napro"), an Ohio corporation, in 1985 as an enterprise for launching new ventures and acquiring companies in various lines of business. In February 1996 Napro formed a wholly-owned Ohio subsidiary, Virtu Company ("Virtu"), to market proprietary products to the retail pet business under the OurPet's label. Napro then changed its name to OurPet's Company effective March 19, 1998.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include the accounts of the Company and its wholly owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates—The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Policy of Cash Equivalents—For purposes of the financial statements, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Accounts Receivable—Accounts receivable have been adjusted for all known uncollectible accounts. An allowance for possible bad debts was established at December 31, 2010 and 2009 in the amount of \$47,475 and \$21,116, respectively. Management reviews accounts receivable on a regular basis, based on contracted terms and how recently payments have been received, to determine if any such amounts will potentially be uncollected. After all attempts to collect a receivable have failed, the receivable is written off.

Inventory—Inventories are carried at the lower of cost, first-in, first-out method or market. Inventories at December 31, 2010 and December 31, 2009 consist of:

	<u>2010</u>	<u>2009</u>
Finished goods	\$3,949,340	\$2,163,787
Components and packaging	1,626,789	820,248
Total	<u>\$5,576,129</u>	<u>\$2,984,035</u>

All inventories are pledged as collateral for bank loans.

Impairments—Assets are evaluated for impairment when events change or change in circumstances indicates that the carrying amounts of the assets may not be recoverable. When any such impairment exists, the related assets are written down to fair value.

Property and Equipment—Property and equipment are reported at cost. Depreciation and amortization are provided by using the straight-line and units sold for certain tooling methods over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on a straight-line basis over the lesser of the useful lives of the related assets or the terms of the leases. The estimated useful lives of the assets are as follows:

Computers and office equipment	3 to 7 years
Leasehold improvements	20 to 39 years
Tooling	3 to 10 years
Warehouse equipment	5 to 7 years

All property and equipment is pledged as collateral for bank loans. Total amounts under capital lease were \$130,000 for the year ended December 31, 2010. Total depreciation for the years ended December 31, 2010 and December 31, 2009 was \$451,671 and \$394,827, respectively.

Intangible Assets—The Company adopted the provisions of ASC Topic 350 "Goodwill and Other Intangible Assets" which states that goodwill and other intangible assets that are subject to amortization are required to be tested for impairment at least annually.

OURPET'S COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company has filed for patents and trademarks for its proprietary products. The costs incurred of \$45,817 in the year ended December 31, 2010 and \$50,640 in the year ended December 31, 2009 have been capitalized and are being amortized over 15 years on a straight-line basis. In 2002 and 2006 the Company purchased domain names for its website for \$11,000 which is not subject to amortization.

Revenue Recognition and Major Customers—With respect to revenue from product sales, revenue is recognized only upon shipment of products to customers. The Company derives its revenues from the sale of proprietary pet products under the OurPet's®, Pet Zone®, SmartScoop®, EcoPure Naturals®, Play-N-Squeak®, Durapet®, Flappy®Go! Cat! Go®, Eat®, Smarter Toys®, Clipnosis® and Cosmic Pet® brand names. Net revenue is comprised of gross sales less discounts given to distributors and returns and allowances.

For the year ended December 31, 2010, 31.0% of the Company's revenue was derived from two major customers. Revenue generated from each of these customers amounted to \$ 2,713,663 and \$2,574,402, which represents 15.9% and 15.1% of total revenue, respectively.

For the year ended December 31, 2009, 42.9% of the Company's revenue was derived from two major customers. Revenue generated from each of these customers amounted to \$3,076,073 and \$2,921,058, which represents 22.0% and 20.9% of total revenue, respectively.

Research and Development Costs—Research and development costs are charged to operations when incurred and are included in cost of goods sold. The amount charged for the years ended December 31, 2010 and December 31, 2009 was \$183,252 and \$259,328, respectively.

Advertising Costs—Advertising costs are charged to operations when the advertising first takes place. Advertising expense for the years ended December 31, 2010 and December 31, 2009 was \$64,310 and \$67,897, respectively.

Shipping and Handling Costs—Shipping and handling costs for products sold are included in cost of goods sold when incurred.

Stock Options—Accounting Standards requires the grant-date fair value of all share-based payment awards that are expected to vest, including employee share options, to be recognized as employee compensation expense over the requisite service period. The Company is applying the modified prospective transition method. Under this transition method, the Company (1) did not restate any prior periods and (2) is recognizing compensation expense for all share-based payment awards that were outstanding, but not yet vested, as of January 1, 2006, based upon the same estimated grant-date fair values and service periods used to prepare the pro-forma disclosures. The amount of compensation expense recognized in 2010 and 2009 as a result of stock options was \$24,000 and \$21,025, respectively.

Net Income Per Common Share—Basic and diluted net income per share of Common Stock is based on the net income attributable to common stockholders after preferred stock dividend requirements for the year, divided by the weighted average number of common and equivalent dilutive shares outstanding during the year. Potential common shares whose effect would be antidilutive have not been included.

As of December 31, 2010, common shares that are or could be potentially dilutive include 1,655,516 stock options at exercise prices from \$0.200 to \$1.550 a share, 4,961,876 warrants to purchase Common Stock at exercise prices from \$0.281 to \$1.426 a share, 660,000 shares underlying Preferred Stock at a conversion rate of \$1.000 per share and 1,236,160 shares underlying a second series of Preferred Stock (2009) at a conversion rate of \$.70/share.

As of December 31, 2009, common shares that are or could be potentially dilutive include 1,593,000 stock options at exercise prices from \$0.200 to \$1.550 a share, 4,717,887 warrants to purchase Common Stock at exercise prices from \$0.282 to \$1.432 a share and 660,000 shares underlying Preferred Stock at a conversion rate of \$1.000 per share.

Fair Value of Financial Instruments—Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2010. The respective carrying value of certain balance sheet financial instruments approximated their fair values and are all classified within level one of the fair value hierarchy. These financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses. The fair value of the Company's long-term debt is estimated based upon the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The carrying value approximates the fair value of the debt.

OURPET'S COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Income Taxes

Deferred income tax assets and liabilities are recorded for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB ASC 740-10 (prior authoritative literature: Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, ("FIN 48") an interpretation of SFAS No. 109). FASB ASC 740-10 clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FASB ASC 740-10 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods and disclosure.

The Company adopted FASB ASC 740-10 on January 1, 2007. Under FASB ASC 740-10, tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely to be realized upon ultimate settlement. Unrecognized tax benefits are tax benefits claimed or to be claimed in tax returns that do not meet these measurement standards. The Company's adoption of FASB ASC 740-10 did not have a material effect on the Company's financial statements as the Company believes they have no uncertain tax positions.

As permitted by FASB ASC 740-10, the Company also adopted an accounting policy to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. Previously, the Company's policy was to classify interest and penalties as an operating expense in arriving at pre-tax income. At December 31, 2010 and 2009, the Company does not have accrued interest and penalties related to any unrecognized tax benefits. The years subject to potential audit vary depending on the tax jurisdiction. Generally, the Company's statutes of limitation for tax liabilities are open for tax years ended December 31, 2007 and forward. The Company's major taxing jurisdiction is the United States. Within the United States, only Ohio and Maryland could give rise to significant tax liabilities.

Subsequent Events—The Company has performed an evaluation of subsequent events. On January 19, 2011, the Company entered into a Commercial Security Agreement with FirstMerit Bank, N.A. and executed a Promissory Note for the principal amount of \$450,000. The Note matures on July 31, 2011 and provides for draws as needed with interest payments on the principal balance beginning March 1, 2011. The interest rate is a variable rate based on FirstMerit's prime rate plus .50%, with the initial prime rate set at 3.250%. The purpose of the short-term loan is to meet additional working capital needs of OurPet's related to new business growth. Under the Security Agreement FirstMerit was granted a blanket lien on OurPet's assets consistent with the lien granted to FirstMerit under its other outstanding loans to OurPet's. With this new Note, the total Line of Credit facility with First Merit increased to \$3,250,000 from \$2,800,000. As of March 15, 2011, the balance drawn against this Note and outstanding was \$150,000.

On February 4, 2011, the Company resolved all patent infringement accusations related to the SmartScoop® Self Scooping Litter Box. The SmartScoop® is a patented automated self-cleaning cat litter box that offers a unique modular design for easy cleaning and maintenance using any type of clumping litter. In 2007, Applia Consumer Products, the manufacturer of the LitterMaid™ Automatic Cat Litter Box, filed two lawsuits alleging that the SmartScoop® infringed multiple claims of U.S. Patent No. RE 36,847 and U.S. Patent No. 6,082,302. As previously announced in October 2010, in one of the lawsuits, the United States Court of Appeals for the Federal Circuit ("Court") agreed with OurPet's legal position that the asserted patent claims were either not violated by the SmartScoop design and operation or were invalid. The remaining patent infringement lawsuit has been resolved on satisfactory terms and was dismissed on February 16, 2011.

Recently Issued Accounting Pronouncements—In January 21, 2010, the FASB issued ASU No. 2010-6, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. Effective December 15, 2009 the Company adopted the disclosure requirements requiring reporting entities to provide information about movements of assets among Levels 1 and 2 of the three-tier fair value hierarchy established by ASC 820, *Fair Value Measurements*. This adoption had no impact on these Consolidated Condensed Financial statements. Effective for fiscal years beginning after December 15, 2020, a reconciliation of purchases, sales, issuance, and settlements of financial instruments valued with a Level 3 method, which is used to price the hardest to value instruments will be required. The Company currently believes the adoption related to Level 3 financial instruments will have no impact on the Consolidated Financial Statements.

OURPET'S COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Recently Issued Accounting Pronouncements (Continued)

In February, 2010, the FASB issued ASU No. 2010-09, Subsequent Events (Topic 855)—Amendments to Certain Recognition and Disclosure requirements (“ASU 2010-09”). ASU 2010-09 reiterates that an SEC filer is required to evaluate subsequent events through the date that the financial statements are issued and removes the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated. The updated guidance was effective upon issuance and was adopted by the Company in the second quarter of fiscal 2010.

In April 2010, the FASB issued ASU No. 2010-13, *Compensation-Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades*. ASU No. 2010-13 clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity’s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The provisions of ASU No. 2010-13 will be effective for the Company on January 1, 2011. Early adoption is permitted. Adoption of the provisions of ASU No. 2010-13 is not expected to have a material effect on the Company’s consolidated financial position, results of operations or cash flows.

In December 2010, the FASB issued Accounting Standards Update (“ASU”) No. 2010-28—*When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. This update provides amendments to ASC Topic 350—Intangibles, Goodwill and Other that requires an entity to perform Step 2 impairment test even if a reporting unit has zero or negative carrying amount. Step 1 tests whether the carrying amount of a reporting unit exceeds its fair value. Previously reporting units with zero or negative carrying value passed Step 1 because the fair value was generally greater than zero. Step 2 requires impairment testing and impairment valuation be calculated in between annual tests if an event or circumstances indicate that it is more likely than not that goodwill has been impaired. ASU 2010-28 is effective beginning January 1, 2011. As a result of this standard, goodwill impairments may be reported sooner than under current practice. The Company does not expect ASU 2010-28 to have a material impact on the financial statements.

In January 2010, the FASB issued ASU No. 2010-06—*Improving Disclosures about Fair Value Measurements*. This update provides amendments to ASC Topic 820—Fair Value Measurements and Disclosures that requires additional disclosures about significant transfers into and out of Levels 1 and 2 in the fair value measurements, as well as reasons for the transfers. It also clarifies existing disclosures related to the level of disaggregation in the disclosures as well as the required disclosures about inputs and valuation techniques. The adoption of this portion of the standard which was effective January 1, 2010, has not had a material impact on our financial statements. See the Fair Value note for further discussion of this statement and its effect on the financial statements presented herein. Additionally a portion of this standard is effective for interim and annual reporting periods beginning after December 15, 2010. This portion requires disclosure of purchases, sales, issuance and settlements in the reconciliation of Level 3 fair value measurements. This portion of the standard is not expected to have a material impact on the Company’s financial statements.

In December 2010, the FASB issued an update to ASC 805, *Business Combinations*. This ASU addresses the disclosure of comparative financial statements and expands on the supplementary pro forma information for business combinations. The Company has adopted this ASU for business combinations occurring on or after December 15, 2010.

OURPET'S COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTES PAYABLE AND LONG-TERM DEBT

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Revolving note payable—Bank, under line of credit facility of up to \$2,500,000 at December 31, 2010 with interest at prime plus .50% (3.75% at December 31, 2010) and up to \$2,000,000 at December 31, 2009 with interest at prime plus .50% (3.75% at December 31, 2009). The note is secured by accounts receivable, equipment, inventory, trademarks, patents and the personal guarantee of certain stockholders.	\$2,438,000	\$ 849,000
Note payable—Bank, additional \$300,000 line of credit facility due May 1, 2011 with interest at Prime plus .50% (3.75% at December 31, 2010). The note is secured by accounts receivable, equipment, inventory, trademarks, patents and the personal guarantee of certain stockholders.	90,000	- 0 -
Note payable—Bank, loan of \$300,000, due in 36 monthly installments of \$9,362 including interest at 7.60% beginning July 23, 2007. This note is secured by all inventory, chattel paper, accounts, equipment and general intangibles.	- 0 -	55,443
Note payable—Bank, loan of \$800,000, due in 36 monthly principal and interest installments of \$23,859 at an interest rate of 4.61% beginning September 17, 2009. This note is secured by all inventory, chattel paper, accounts, equipment, general intangibles and the personal guarantee of certain directors.	478,540	735,952
Note payable—Bank, loan of \$500,000, due in 36 monthly principal and interest installments of \$14,817 at an interest rate of 4.18% beginning July 16, 2010 This note is secured by all inventory, chattel paper, accounts, equipment, general intangibles and the personal guarantee of certain directors.	434,334	- 0 -
Note payable—Pet Zone Products Ltd, due in quarterly installments of \$9,878 through December 31, 2010 including interest at 7.75%. This note is subordinated to the bank loans.	- 0 -	37,842
Note payable—former director and shareholder, due on December 1, 2011. Interest at prime plus 3% (6.25% at December 31, 2010 and 6.25% at December 31, 2009) payable quarterly. This note is subordinated to the bank loans.	75,000	75,000
Note payable—shareholder and investor, due on November 30, 2011. Interest is payable quarterly at 10%. This note is subordinated to the bank loans.	25,000	25,000
Notes payable—directors, shareholders, and investors due beginning in 2010 through 2012. Interest calculated quarterly at prime plus 2% (5.25% at December 31, 2010 and December 31, 2009). These notes are subordinated to the bank loans.	767,500	1,367,500
Installment notes payable—due in monthly payments decreasing from \$3,554 to \$560 including interest through March 27, 2012. Interest rates range from 7% to 7.5%.	8,013	13,932
Capitalized Lease—due in monthly payments of \$1,527 including taxes and interest of 8.18% through October 5, 2012. Lease is secured by equipment.	33,615	- 0 -
Capitalized Lease—due in monthly payments of \$2,424 including interest of 5.29% through September 5, 2011. Lease is secured by equipment.	21,818	- 0 -
	<u>4,371,820</u>	<u>3,159,669</u>
Less current portion of long-term debt	<u>3,574,216</u>	<u>1,905,589</u>
	<u>\$ 797,604</u>	<u>\$1,254,080</u>

Future maturities of notes payable and long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$3,574,216
2012	695,332
2013	102,272
	<u>\$4,371,820</u>

OURPET'S COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTES PAYABLE AND LONG-TERM DEBT (Continued)

The bank loan agreements contain various restrictive and customary covenants and default provisions under which the Company must obtain permission from its lender to (i) purchase or retire any of its capital stock; (ii) pay dividends in cash on any of its capital stock other than dividends on our Preferred Stock subject to meeting the debt service coverage ratio; (iii) exceed \$500,000 annually for capital expenditures; and (iv) pay principal on subordinated notes due to officers and directors. In addition, the Company must follow certain other requirements as to maintaining a minimum debt service coverage ratio of at least 1.15 to 1.00 and an adjusted tangible net worth of at least \$3,000,000.

In July and August of 2000, the Company borrowed a total of \$275,000 from an officer, directors, and stockholders for working capital purposes at an annual interest rate of 10%. A note for \$25,000 is due on November 30, 2011 with interest payable quarterly. Three of the notes totaling \$100,000 were repaid in 2001 and 2003 by \$31,250 in cash and conversion into 172,526 shares of Common Stock. Another of the notes for \$150,000 was reduced to \$75,000 by a \$75,000 cash payment on December 30, 2003. On February 1, 2004 the reduced note of \$75,000 was extended (now due December 31, 2011) at an interest rate of prime plus 3% payable quarterly. In addition the lender received 57,204 warrants for the purchase of Common Stock at \$0.295 per share as adjusted for the Common Stock issued in payment of the Preferred Stock dividends in 2006, 2005 and 2004. These warrants were exercised in 2007.

In February, June, July, August, October and November of 2008, the Company entered into contribution agreements with ten contributors pursuant to which each contributor loaned certain funds to the Company totaling \$1,367,500. These funds were used for expenses related to litigation on certain of our SmartScoop™ products. In consideration for these loans the Company (a) executed promissory notes for \$600,000 due and paid/retired in 2010, \$467,500 due in 2011, and \$300,000 due in 2012 all with interest calculated quarterly at prime plus 2%, (b) issued warrants for the purchase of 833,750 shares of the Company's Common Stock at option prices from \$0.370 to \$0.825 per share and (c) entered into piggyback registration agreements with the contributors. Subsequent to their issuance the warrants were adjusted to 843,118 warrants exercisable at \$0.367 to \$0.815 per share in accordance with the warrant anti-dilution provisions.

INTANGIBLE ASSETS

	<u>As of December 31, 2010</u>		<u>As of December 31, 2009</u>	
	<u>Cost</u>	<u>Amortization</u>	<u>Cost</u>	<u>Amortization</u>
Amortized intangible assets:				
Patents and trademarks	\$495,318	\$ 205,877	\$450,582	\$ 170,863
Unamortized intangible assets:				
Domain names	\$ 11,000	\$ —	\$ 11,000	\$ —
Cosmic Pet assets	\$461,000	\$ —	\$ —	\$ —
Goodwill-PetZone	\$ 67,511	\$ —	\$ 67,511	\$ —
Amortization expense for year ended 12/31	\$ 35,014		\$ 30,654	
Estimated amortization expense:				
For year ending 12/31/11	\$ 36,958			
For year ending 12/31/12	\$ 36,958			
For year ending 12/31/13	\$ 36,958			
For year ending 12/31/14	\$ 36,958			
For year ending 12/31/15	\$ 36,958			

RELATED PARTY TRANSACTIONS

The Company leases warehouse and office facilities from a related entity, Senk Properties at a current monthly rental of \$28,417 plus real estate taxes. The Company entered into a new ten year lease with Senk Properties which was effective upon completion of the 36,000 square foot warehouse expansion on June 1, 2007. The monthly rental is \$26,667 for the first two years, \$28,417 for the next two years, \$30,167 for the next three years, \$32,000 for the next two years, and \$33,750 for the last year, all plus real estate taxes. The Company has the option to extend the lease for an additional ten years at a rental to be mutually agreed upon. Total lease expense for the year ended December 31, 2010 and the year ended December 31, 2009 was \$447,799 and \$358,678, respectively. Related party lease expense for the same periods was \$374,206 in 2010 and \$357,286 in 2009.

OURPET'S COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

RELATED PARTY TRANSACTIONS (Continued)

On January 15, 2007 and November 25, 2008, the Company entered into agreements with Nottingham-Spirk Design Associates, Inc. ("NSDA"), one of the principals of NSDA is John Spirk, a member of the Company's Board of Directors and a shareholder. Also, NSDA indirectly owns shares of the Company through its ownership in Pet Zone Products, Ltd., a significant shareholder of the Company. The agreements address the invoicing and payment of NSDA's fees and expenses related to the development of certain products on behalf of the Company.

Through December 31, 2010, the Company has been invoiced \$781,061 by NSDA of which \$415,496 has been paid in cash, \$50,000 paid with 50,454 shares of the Company's Common Stock and the remaining balance of \$315,565 deferred. The balance of the deferred payments is payable as a fee based upon sales of certain products beginning January 1, 2009. As of December 31, 2010, the fee accrued to date was \$10,565.

CONCENTRATION OF CREDIT RISK

At December 31, 2010, 27.9% of the Company's accounts receivable was due from four major customers. Amounts due from each of these customers were \$249,905, \$217,853, \$150,505, and \$121,892, which represents 9.4%, 8.2%, 5.7%, and 4.6% of total accounts receivable, respectively.

At December 31, 2009, 40.6% of the Company's accounts receivable was due from four major customers. Amounts due from each of these customers were \$344,632, \$184,789, \$148,854, and \$94,168, which represents 18.1%, 9.7%, 7.8%, and 5.0% of total accounts receivable, respectively.

CAPITAL STOCK

From July through November 1999, the Company sold through a private placement 100,000 shares of no par value non-voting convertible Preferred Stock. Each share of the Preferred Stock is convertible into ten shares of Common Stock at a conversion rate of \$1.00 per share. The Company may redeem the preferred stock at \$10 per share or convert each share of Preferred Stock into ten shares of Common Stock, at the option of the shareholder, at such time as the common stock is trading on a public exchange at a closing price of \$4.00 or above for a period of ten consecutive business days. The holders of the Preferred Stock are entitled to a 10% dividend paid annually in Common Stock beginning twelve months from the final close of the private placement. Under certain conditions, each preferred shareholder may elect to receive a cash dividend in lieu of the Common Stock dividend.

On January 28, 2010 and February 1, 2010, the Company sold an aggregate of 123,616 shares of its Series 2009 Preferred Stock in a private placement to a total of 15 accredited investors. All shares in the private placement were sold at a price of \$7.00 a share for a total of \$865,312. Payment for the shares comprised of \$595,000 in cash and \$270,312 in converted debt (including accrued interest). All were previously reported in our Form 8-K filed February 2, 2010 except for 6,572 shares totaling \$46,004 purchased by two additional accredited investors on February 1, 2010. All shares are convertible at any time into shares of common stock at a conversion price of \$.70/common share, subject to adjustment for stock splits, combinations and similar transactions. All shares receive a 6% (\$0.42) cash dividend payable on December 1st of each year provided that payment may be deferred if necessary for our compliance with our loan covenants. The Company has the limited right to convert the shares into common stock at any time after the trading price of our common stock reaches \$1.50 per share for twenty consecutive days. The shares sold were not registered under the Securities Act of 1933, as amended (the "Act"), in reliance on the private offering exemption from registration provided by Section 4 (2) of the Act and Rule 506 of Regulation D of the rules promulgated under the Act. The Company did not utilize an underwriter or placement agent in connection with the private placement.

OURPET'S COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

WARRANTS

At December 31, 2010, the Company had the following Common Stock purchase warrants outstanding, all of which were exercisable:

	<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiration Date</u>
2004 Directors for fees	57,875	0.281	October 1, 2012
2005 Directors for guarantees	153,422	0.420	November 14, 2012
2006 Acquisition of business	2,794,227	0.587	January 2, 2013
2006 Note payable to stockholder	127,206	0.329	January 3, 2013
2006 Payment for services	20,416	0.490	April 20, 2013
2006 Director for guarantee	255,419	0.685	August 2, 2013
2007 Directors for fees	52,203	1.426	August 17, 2012
2008 Payment for services	50,640	0.938	January 11, 2013
2008 Note payable to contributor	7,601	0.815	February 8, 2013
2008 Notes payable to contributors	296,184	0.494	February 8, 2013
2008 Notes payable to contributors	134,168	0.494	June 20, 2013
2008 Note payable to contributor	12,657	0.494	July 24, 2013
2008 Note payable to contributor	13,923	0.494	July 30, 2013
2008 Note payable to contributor	50,680	0.395	August 13, 2013
2008 Note payable to contributor	25,341	0.395	October 7, 2013
2008 Note payable to contributor	302,563	0.367	November 7, 2013
2009 Director for guarantee	352,990	0.449	September 17, 2012
2009 Payment for services	30,256	0.480	October 15, 2014
2010 Director for guarantee	28,244	0.807	June 28, 2015
2010 Director for guarantee	62,763	0.852	July 16, 2015
2010 Acquisition of business	55,272	0.863	July 30, 2015
2010 Payment for services	15,063	0.996	October 15, 2015
2010 Director for guarantee	62,763	0.976	October, 18, 2015
Total	<u>4,961,876</u>		

The exercise price for the common shares issuable under the warrants to purchase 2,782,500 shares is \$0.587 per share if exercised on or before January 2, 2011 or \$0.660 per share if exercised on or after January 3, 2011 and on or before January 2, 2012 or \$0.735 per share if exercised on or after January 3, 2012 and on or before the expiration of the warrants on January 2, 2013.

The exercise price and number of warrant shares are subject to adjustment in the event of a Common Stock dividend or distribution, a stock split or reverse stock split, or reorganization of the Company. The financial statements reflect the adjustments for the Common Stock issued in payment of the Preferred Stock dividends.

OURPET'S COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

STOCK OPTION PLANS

On December 4, 1999, the Board of Directors approved the 1999 Stock Option Plan, which was approved by the shareholders on August 5, 2000. On May 2, 2008, the Board of Directors approved the 2008 Stock Option Plan, which was approved by the shareholders on May 30, 2008. The 2008 Plan supersedes the 1999 Plan and no further options will be granted under the 1999 Plan. Stock options may be granted at the discretion of the Board of Directors for which the Company has reserved 1,000,000 shares of its Common Stock for issuance upon the exercise of options granted under the 2008 Plan. The options vest one-third on each of the second, third and fourth anniversaries of the date of grant and expire on the fifth anniversary of the date of grant. The Company grants stock options at exercise prices equal to or greater than the fair market value of the Company's Common Stock on the date of grant. On May 8, 2003, the Board of Directors approved the adjustment of the exercise price of unexercised stock options to the higher of 50% of the existing exercise price or the current market price on May 8, 2003. On February 11, 2009, the Board of Directors approved the adjustment of the expiration date for all options expiring in 2009 for an additional five years from the original expiration date. The following table summarizes activity in options under the Plans:

	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2009	1,395,000	.42
Granted	203,000	.25
Exercised	—	—
Forfeited	5,000	.31
Expired	—	—
Outstanding at December 31, 2009	1,593,000	.40
Granted	153,016	.81
Exercised	83,333	.33
Forfeited	7,167	.57
Expired	—	—
Outstanding at December 31, 2010	<u>1,655,516</u>	.44

The following table summarizes options outstanding at December 31, 2010:

Range	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Exercise Price
\$0.75-\$1.55	201,016	\$ 0.90	3.7 Years	34,000	\$ 1.12
\$0.45-\$0.69	531,000	\$ 0.50	2.1 Years	254,333	\$ 0.50
\$0.20-\$0.35	923,500	\$ 0.30	3.5 Years	772,167	\$ 0.31

There were 1,060,500 and 904,166 options exercisable at December 31, 2010 and December 31, 2009, respectively. The weighted average exercise price of options granted in 2010 and 2009 was \$0.81 and \$0.25, respectively. The weighted average exercise price of options exercised in 2010 was \$.33. There were no options exercised in 2009.

OPERATING LEASES

Minimum future lease payments under operating leases as of December 31, 2010 are as follows:

2011	\$ 526,268
2012	477,723
2013	419,123
2014	432,128
2015	439,697
Thereafter	669,993
Total minimum lease payments	<u>\$2,964,932</u>

Total rent expense of the Company for the years ended December 31, 2010 and December 31, 2009 was \$447,799 and \$358,678, respectively.

OURPET'S COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

INCOME TAXES

At December 31, 2010, the Company did not have any unrecognized tax benefits. The year subject to potential audit varies depending on the tax jurisdiction. Generally, the Company's statutes are open for tax years ended December 31, 2007 and forward. The Company's major taxing jurisdictions include the United States, Ohio, Maryland.

For the year ended December 31, 2010 there was a provision for income tax expense of \$99,555 which came from i) utilization of approximately \$70,000 of Deferred Tax Assets, ii) approximately \$24,500 of federal alternative minimum income tax expense and iii) approximately \$4,800 of state and local income tax expense.

For the year ended December 31, 2009 there was an income tax benefit of \$124,994 from the use of operating loss carry forwards by the Company.

Following is a reconciliation of the expected income tax expense/benefit to the amount based on the U.S. statutory rate of 34% for the years ended December 31, 2010 and December 31, 2009.

	<u>2010</u>	<u>2009</u>
Income tax expense/benefit based on US statutory rate	\$ 369,270	\$ 221,263
Current period change in the valuation allowance	(377,734)	(363,733)
Deferred Tax asset change	407,675	17,476
Utilization of net operating loss	(328,959)	—
State/Local income tax	4,795	—
Alternative Minimum Tax	24,508	—
Provision for Income Taxes	<u>\$ 99,555</u>	<u>\$(124,994)</u>

The significant components of the Company's deferred tax assets and liabilities are as follows:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Net operating loss carry forward	\$55,116	\$ 503,104
Valuation allowances	-0-	(377,734)
Net deferred tax assets	<u>\$55,116</u>	<u>\$ 125,370</u>

OURPET'S COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

INCOME TAXES (Continued)

The Company's valuation allowance decreased by approximately \$377,700 for the year ended December 31, 2010, which represents the effect of the current year's net income and the current year's calculation of the net deferred tax asset. The Company adjusted its valuation allowance in 2010 to record its deferred tax assets at estimated net realizable value based on its assessment of the realization of these assets through future taxable income being "more likely than not."

The Company's valuation allowance decreased by approximately \$363,700 for the year ended December 31, 2009, which represents the effect of the current year's net income and the current year's calculation of the net deferred tax asset.

The Company has available at December 31, 2010, unused operating loss carryforwards that may be applied against future taxable income and that expire as follows:

<u>Year Of Loss</u>	<u>Amount of Unused Operating Loss Carryforwards</u>	<u>Expiration During Year Ending</u>
2008	\$ 162,106	2028

LITIGATION

On March 31, 2000, SMP Company, Incorporated (formerly known as Sanar Manufacturing, Inc.) ("SMP"), a wholly-owned subsidiary of the Company, entered into an asset purchase agreement with Akon Plastic Enterprises, Inc. ("Akon") whereby Akon agreed to purchase substantially all of the assets used by SMP in molding plastics. Further, as part of the sale, Akon and its President, David F. Harman ("Harman"), entered into an Indemnity Agreement whereby Akon and Harman, jointly and severally, agreed to indemnify the Company and the individual guarantors of the Small Business Administration loans to SMP against any liability for such loans, which were assumed as a part of the asset purchase by Akon. On June 5, 2003, the Company filed an action against Akon, the directors of Akon, and Harman in the Court of Common Pleas of Lake County, Ohio for damages, including non-payment of loans, due to Akon's breach of the asset purchase agreement. On March 3, 2009, the parties agreed to settle and dismiss the pending action and the settlement agreement and mutual release were executed as of March 27, 2009. Under the agreement the Company received approximately \$37,000 after deductions for contingent legal fees and expenses.

In 2007, Applica Consumer Products, the manufacturer of the LitterMaid™ Automatic Cat Litter Box, filed two lawsuits alleging that the SmartScoop® infringed multiple claims of U.S. Patent No. RE 36,847 and U.S. Patent No. 6,082,302. The SmartScoop® is a patented automated self-cleaning cat litter box that offers a unique modular design for easy cleaning and maintenance using any type of clumping litter. As previously announced, in October 2010, in one of the lawsuits, the United States Court of Appeals for the Federal Circuit ("Court") agreed with OurPet's legal position that the asserted patent claims were either not violated by the SmartScoop design and operation or were invalid. The Federal Circuit's decision was not appealed by Applica and was therefore final resolved in OurPet's favor as of January 4, 2011. On February 4, 2011, the Company settled the remaining patent infringement accusations in the second lawsuit related to the SmartScoop® Self Scooping Litter Box. That lawsuit was dismissed on February 16, 2011.

In addition to the above matters and in the normal course of conducting its business, the Company may become involved in various other litigation, including, but not limited to, preference claims by debtors in bankruptcy proceedings. The Company is not a party to any litigation or governmental proceeding which management or legal representatives believe could result in any judgments or fines against the Company that would have a material adverse effect or impact in the Company's financial position, liquidity or results of operation.

OURPET'S COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

PURCHASE OF BUSINESS

On July 29, 2010, the Company entered into an Asset Purchase Agreement (the "Purchase Agreement") with Cosmic Pet Products, Inc. ("Cosmic") pursuant to which the company purchased certain assets and assumed certain liabilities. The results of Cosmic operations have been included in the consolidated financial statements since that date. Cosmic Pet Products designs, manufactures and distributes pet supply products for cats. Their products include catnip toys, containers of catnip, cat scratchers, cat treats and cat toys. Cosmic markets their products to pet specialty stores, distributors, mass retailers, grocery chains, independent retailers. The complementary strength of each company should allow significant product and distribution synergies to be realized with each company's product sales being expanded to the other's market segments and customers. OurPet's will gain entry into such new product categories as catnip toys, catnip products and cat treats utilizing the Cosmic Pet brand name.

The purchase price for Cosmic consisted of i) \$600,000 in cash (of which \$400,000 was used to retire Cosmic's secured line of credit), ii) \$198,143 provided through the issuance of approximately 220,000 shares of OurPet's common stock at an issuance price of \$.8665/share and iii) and a warrant to purchase approximately 55,000 shares of common stock(1 warrant for every 4 shares of common stock), subsequently adjusted to 55,272 shares in accordance with the warrant anti-dilutions provisions.

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition.

At July 29, 2010:

<u>ASSET ACQUIRED</u>	
Inventories	\$ 436,869
Equipment	201,950
Office Furniture and computers	19,220
Intangible Assets	461,000
Total assets acquired	<u>1,119,039</u>
<u>LIABILITIES ASSUMED</u>	
Capital Leases assumed	(80,273)
Total Liabilities assumed	<u>(80,273)</u>
Net assets acquired	<u>\$1,038,766</u>

On July 29, 2010, the Company purchased certain assets of Cosmic Pet Products. During the fourth quarter of 2010, the Company had an independent third party Certified Appraiser perform a valuation of Cosmic Pet's intangible assets. The appraisal was performed in accordance with general accepted accounting principles including but not limited to FASB ASC 820, Fair Value Measurements and Disclosures and FASB ASC 805 Business Combinations. As a result of that appraisal, the Company recognized \$461,000 in intangible assets mostly related to the brand/trade names "Cosmic Cat" and "Cosmic Pet." The recoverability of the carrying value of intangible assets is evaluated on an ongoing basis, and permanent declines in value, if any, are charged to expense. All intangible assets are pledged as collateral for the bank loans.

Cosmic's revenues and earnings since the acquisition date and included in the Company's consolidated financial statements were \$738,144 and \$122,789 respectively.

The Company has determined we are unable to supply supplemental pro forma information for either the quarterly or the year to date reporting periods ending December 31, 2010 as financial statements for Cosmic Pet Products have not been prepared for any reporting period after December 31, 2009. We believe that after making every reasonable effort to do so, we have deemed it impracticable to apply the requirements of ASC 805-10-50 which requires the revenues and earnings of the combined entity for the current year to date reporting be reported as though the asset purchase had been completed as of the beginning of the annual reporting period and the prior period.

OURPET'S COMPANY AND SUBSIDIARIES

STATEMENT OF COMPUTATION OF NET INCOME PER SHARE

	Three Months Ended December 31,		For the Year Ended December 31,	
	2010	2009	2010	2009
Net income (loss)	\$ 396,539	\$ 319,136	\$ 986,534	\$ 775,767
Preferred Stock dividend requirements	(15,471)	—	(61,380)	(38,940)
Net income (loss) attributable to common stockholders	<u>\$ 381,068</u>	<u>\$ 319,136</u>	<u>\$ 925,154</u>	<u>\$ 736,827</u>
Weighted average number of common shares outstanding	15,703,092	15,356,745	15,520,079	15,324,014
Preferred Stock Common Share Equivalents	1,236,160	660,000	1,143,998	—
Dilutive Stock Options outstanding for the Period	904,849	519,469	821,564	169,459
Dilutive Warrants outstanding for the Period	<u>2,021,146</u>	<u>360,832</u>	<u>1,616,405</u>	<u>29,815</u>
Weighted average number of common and equivalent shares outstanding	<u>19,865,247</u>	<u>16,897,046</u>	<u>19,102,046</u>	<u>15,523,288</u>
Net income (loss) per common share	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.05</u>	<u>\$ 0.05</u>

Certification of the Chief Executive Officer Pursuant to 17 CFR Section 240.13a-14(a)

I, Steven Tsengas, certify that:

1. I have reviewed this annual report on Form 10-K of OurPet's Company.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

- a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2011

/s/ STEVEN TSENGAS
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Certification of the Principal Financial Officer Pursuant to 17 CFR Section 240.13a-14(a)

I, Scott R. Mendes, certify that:

1. I have reviewed this annual report on Form 10-K of OurPet's Company.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2011

/s/ SCOTT R. MENDES
Chief Financial Officer
(Principal Financial Officer)

Certification Pursuant to 18 U.S.C. Section 1350,

As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of OurPet's Company (the "Company") on Form 10-K for the year ended December 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, being the Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) I have reviewed this Report on Form 10-K for the year ended December 31, 2010 of OurPet's Company.
- (2) This Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (3) The financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report.

/s/ STEVEN TSENGAS

BY STEVEN TSENGAS

Chairman of the Board, President and
Chief Executive Officer

Dated: March 31, 2011

This certification is made solely for the purpose of 18 U.S.C. Section 1350, subject to the knowledge standard contained in that statute, and not for any other purpose. A signed original of this written statement required by Section 906 has been provided to OurPet's Company and will be retained by OurPet's Company and furnished to the Securities and Exchange Commission or its staff upon request.

Certification Pursuant to 18 U.S.C. Section 1350,

As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of OurPet's Company (the "Company") on Form 10-K for the year ended December 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, being the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) I have reviewed this Report on Form 10-K for the year ended December 31, 2010 of OurPet's Company.
- (2) This Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (3) The financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report.

/s/ SCOTT R. MENDES

BY SCOTT R. MENDES
Chief Financial Officer

Dated: March 31, 2011

This certification is made solely for the purpose of 18 U.S.C. Section 1350, subject to the knowledge standard contained in that statute, and not for any other purpose. A signed original of this written statement required by Section 906 has been provided to OurPet's Company and will be retained by OurPet's Company and furnished to the Securities and Exchange Commission or its staff upon request.

SCHEDULE 14A
(Rule 14A-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-11(c) §240.14a-12

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

OURPET'S COMPANY

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:



April 13, 2011

Dear Fellow Shareholder:

You are cordially invited to attend the 2011 Annual Meeting of Shareholders of OurPet's Company on Friday, May 20, 2011, starting at 9:00 A.M. local time at our offices at 1300 East Street, Fairport Harbor, Ohio 44077.

As more fully described in the attached notice of annual meeting and the accompanying proxy statement, the principal business to be addressed at the meeting is the election of directors and the ratification of the appointment of our independent accountants for 2011.

In addition, our management will report on our results and will be available to respond to your questions.

Your vote is important to us. Whether or not you plan to attend the annual meeting, please return the enclosed proxy card as soon as possible to ensure your representation at the meeting. You may choose to vote in person at the annual meeting even if you have returned a proxy card.

On behalf of the directors and management of OurPet's Company, I would like to thank you for your support and confidence and look forward to seeing you at the meeting.

Sincerely,

DR. STEVEN TSENGAS
*Chairman of the Board, President and Chief
Executive Officer*

OURPET'S COMPANY
1300 East Street
Fairport Harbor, Ohio 44077

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 20, 2011

To the Shareholders of OurPet's Company:

The Annual Meeting of the Shareholders of OurPet's Company, a Colorado corporation, will be held on Friday, May 20, 2011, at our offices at 1300 East Fairport Harbor, Ohio 44077, beginning at 9:00 A.M. local time, for the following purposes:

1. To elect five directors to serve until the next annual meeting or until their successors are duly elected and qualified,
2. To ratify the appointment of Neece, Malec, Seifert & Vitaz Inc. as our independent accountants for the fiscal year ending December 31, 2011, and
3. To transact such other business as may properly come before the meeting or any adjournment thereof.

These items of business are more fully described in the proxy statement accompanying this Notice.

Only shareholders of record at the close of business on March 31, 2011, are entitled to vote at the annual meeting.

All shareholders are cordially invited to attend the meeting in person. However, to ensure your representation at the meeting, please sign and return the enclosed proxy card as promptly as possible in the postage prepaid envelope enclosed for your convenience. Any shareholder attending the meeting may vote in person even if he or she has returned a proxy card.

By Order of the Board of Directors,

KONSTANTINE A. TSENGAS
Secretary

Fairport Harbor, Ohio

OURPET'S COMPANY

PROXY STATEMENT

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 20, 2011:

This proxy statement and our annual report for the fiscal year ending December 31, 2010 are available on our website at www.ourpets.com.

GENERAL INFORMATION

This proxy statement is furnished in connection with the solicitation of proxies by our Board of Directors to be used at the 2011 Annual Meeting of Shareholders to be held on Friday, May 20, 2011, and any postponements or adjournments of the meeting.

This proxy statement and the accompanying Chairman's letter, notice and proxy card, together with our annual report on Form 10-K for the year ended December 31, 2010, are being sent to our shareholders beginning on or about April 20, 2011.

QUESTIONS AND ANSWERS

Q: WHEN AND WHERE IS THE ANNUAL MEETING?

A: Our 2011 Annual Meeting of Shareholders will be held on Friday, May 20, 2011, at 9:00 A.M. local time, at our offices at 1300 East Street, Fairport Harbor, Ohio 44077.

Q: WHAT ARE SHAREHOLDERS VOTING ON?

A: Proposal 1—Election of five directors — Joseph T. Aveni, Dr. William M. Fraser, James D. Ireland III, John Spirk and Dr. Steven Tsengas; and

Proposal 2—Ratification of the appointment of our independent accountants for the year ending December 31, 2011.

If a proposal other than the listed proposals is presented at the annual meeting, your signed proxy card gives authority to Konstantine S. Tsengas to vote on any additional proposal.

Q: WHO IS ENTITLED TO VOTE?

A: Shareholders as of the close of business on March 31, 2011, the record date, are entitled to vote at the annual meeting. Each share of common stock is entitled to one vote.

Q: HOW DO I VOTE?

A: Sign and date each proxy card you receive and return it in the prepaid envelope. If you do not mark any selections, your proxy card will be voted in favor of the proposals. You have the right to revoke **YOUR** proxy any time before the meeting by:

- notifying our secretary,
- voting in person, or
- returning a later-dated proxy.

If you return your signed proxy card, but do not indicate your voting preferences, Konstantine S. Tsengas will vote **FOR** the proposals on your behalf.

Q: WHO WILL COUNT THE VOTE?

A: Scott R. Mendes, our Chief Financial Officer and Treasurer, will be responsible for tabulating the vote count as election inspector.

Q: WHAT SHARES ARE INCLUDED ON THE PROXY CARD AND WHAT DOES IT MEAN IF I RECEIVED MORE THAN ONE PROXY CARD?

A: The number of shares printed on your proxy card(s) represents all your shares. Receipt of more than one proxy card means that your shares are registered differently and are in more than one account. Sign and return all proxy cards to ensure that all your shares are voted.

Q: WHAT CONSTITUTES A QUORUM?

A: As of the record date, 15,731,141 shares of our common stock were outstanding. A majority of the outstanding shares, present or represented by proxy, constitutes a quorum for the transaction of adopting proposals at the annual meeting. If you submit a properly executed proxy card, you will be considered part of the quorum. If you are present or represented by a proxy at the annual meeting and you abstain, your abstention will have the same effect as a vote against the proposals. "Broker non-votes" will not be part of the voting power present, but will be counted to determine whether or not a quorum is present. A "broker non-vote" occurs when a broker holding stock in "street name" indicates on the proxy that it does not have discretionary authority to vote on a particular matter.

Q: WHO CAN ATTEND THE ANNUAL MEETING?

A: All shareholders as of the record date, March 31, 2011, can attend.

Q: WHAT PERCENTAGE OF STOCK ARE THE DIRECTORS AND OFFICERS ENTITLED TO VOTE AT THE ANNUAL MEETING?

A: Together, they own 8,888,236 shares of our common stock, or 56.5% of the stock entitled to vote at the annual meeting. (See pages 14 and 15 for more details.)

Q: WHO ARE OUR LARGEST PRINCIPAL SHAREHOLDERS?

A:

- Dr. Steven Tsengas, our Chairman of the Board, President and Chief Executive Officer and his wife, Evangelia S. Tsengas, beneficially own 4,182,828 shares of our common stock, or 26.6%, as of the record date.
- Pet Zone Products, Ltd. beneficially owns 3,082,000 shares of our common stock, or 19.6%, as of the record date. James D. Ireland III, a director of OurPet's, is the chairman and a managing director of Capital One Partners, LLC, a private equity investment firm that owns a majority of the membership interests in Pet Zone and may be deemed to beneficially own the shares of common stock owned by Pet Zone. Mr. Ireland disclaims beneficial ownership of the shares of common stock owned by Pet Zone.

Q: WHEN IS A SHAREHOLDER PROPOSAL DUE FOR THE NEXT ANNUAL MEETING?

A: In order to be considered for inclusion in next year's proxy statement, shareholder proposals must be submitted in writing by January 13, 2012, to Konstantine S. Tsengas, Secretary, OurPet's Company, 1300 East Street, Fairport Harbor, Ohio 44077, and must be in accordance with the provisions of Rule 14a-8 under the Securities Exchange Act of 1934. (See page 20 for more details.)

Q: HOW DO I COMMUNICATE WITH THE BOARD OF DIRECTORS?

A: Shareholders may send communications to our Board to Konstantine S. Tsengas, Secretary, OurPet's Company, 1300 East Street, Fairport Harbor, Ohio 44077. (See page 20 for more details.)

Q: HOW DO I NOMINATE SOMEONE TO BE A DIRECTOR OF OURPET'S?

A: Any shareholder may recommend any person as a nominee for director by writing to Konstantine S. Tsengas, Secretary, OurPet's Company, 1300 East Street, Fairport Harbor, Ohio 44077. Recommendations for next year's annual meeting must be submitted by January 13, 2012. (See page 8 for more details.)

Q: WHO PAYS FOR THE SOLICITATION EXPENSES?

A: The expense of soliciting proxies, including the cost of preparing, printing and mailing the proxy materials, will be paid by us. In addition to solicitation of proxies by mail, solicitation may be made personally, by telephone and by facsimile, and we may pay persons holding shares for others their expenses for sending proxy materials to their principals. No solicitation will be made other than by our directors, officers and employees.

PROPOSAL 1—ELECTION OF DIRECTORS

At this annual meeting, five directors are to be elected to hold office until the next annual meeting of shareholders or until their respective successors are duly elected and qualified. Nominees for election this year are Joseph T. Aveni, Dr. William M. Fraser, James D. Ireland III, John Spirk and Dr. Steven Tsengas. Each has consented to serve until the next annual meeting or until his successor is duly elected and qualified. See below for more information.

If any director to be elected is unable to stand for re-election, the Board may, by resolution, provide for a lesser number of directors or designate a substitute. In the latter event, shares represented by proxies may be voted for a substitute director. We need the affirmative vote of the holders of a plurality of the shares of our common stock present or represented by proxy at the annual meeting to elect directors.

The Board of Directors recommends that you vote FOR Mr. Aveni, Dr. Fraser, Mr. Ireland, Mr. Spirk and Dr. Tsengas.

BOARD OF DIRECTORS

The nomination of each of the nominees listed below to serve for a one year terms was approved by the Board. The names, ages, positions, and business experience of each director is below.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>
Dr. Steven Tsengas	73	Chairman, President, Chief Executive Officer and Director	1998
Joseph T. Aveni	79	Director	1998
Dr. William M. Fraser	53	Director	2007
James D. Ireland III	61	Director	2006
John Spirk	62	Director	2006

Dr. Steven Tsengas has served on our Board of Directors since the merger with Manticus, Inc. in 1998 and also was a director of our predecessor company since it was incorporated in 1985. Dr. Tsengas has also served as Chairman, President and Chief Executive Officer since the merger in 1998. Dr. Tsengas received his BS in Industrial Engineering from the State of New York University at Buffalo, his MS in Business from the University of Rochester, W. Simon Graduate School of Management, and his Ph.D. degree in Natural Health from Clayton College of Natural Health. He holds numerous patents, has taught and lectured at various colleges, was elected to the National Inventors Hall of Fame and is a Fellow of The Ohio Academy of Science. He is active in numerous professional, community and technical associations, including the Ohio Venture Association, American Naturopathic Medical Association, the Coalition for Natural Health, the Lake County Development Council and the Lake County Workforce Development Council. His son, Konstantine S. Tsengas, serves as OurPet's Vice President of Operations and Secretary. The Board believes that the attributes, skills and qualifications Dr. Tsengas has developed through his education and experiences in the pet industry, as well as his significant leadership position with OurPets, enable him to provide continued business and leadership insight to the Board of Directors.

Joseph T. Aveni has been the Chairman Emeritus of First Realty Property Management LLP since 1997. He was the Chairman and Chief Executive Officer of Realty One from 1990 to 2001 and served on the Board of Directors of the Cleveland Ballet and the Greater Cleveland Growth Association. He has served as President of Property Management Division of FIABCI and of National Institute of Real Estate Management, as a member of the Board of Directors of the National Association of Realtors, as Chairman of the Genesis Relocation Services and as a member of the Leadership Cleveland Class of 1992. He has received the Distinguished Service Award and Realtor of the Year Award from the Association of Realtors and the Franklin Delano Roosevelt Award for Excellence from the March of Dimes. The Board believes that the attributes, skills and qualifications Mr. Aveni has developed through his extensive experience as a chief executive officer, various board memberships as well as his experience as a director of OurPet's enable him to provide significant business and leadership insight to the Board of Directors.

Dr. William M. Fraser has been the President and owner of Companion Pet Care Centers in Ohio since 1986 and he is a member of the Ohio Veterinary Medical Association and the American Veterinary Medical Association where he serves on the Practice Act Task Force. Dr. Fraser received his Bachelor of Science in Chemistry from John Carroll University and his Doctor of Veterinary Medicine from the Ohio State University, College of Veterinary Medicine. Dr. Fraser also is a contributing author for a pet encyclopedia and several journals and has made extensive appearances on radio and television programs. The Board believes that the attributes, skills and qualifications Dr. Fraser has developed through his education and professional experience as a veterinarian as well as his experience as a director of OurPet's enable him to provide valuable pet care expertise and insight to the Board of Directors.

James D. Ireland III is the Chairman and Managing Director of Capital One Partners, LLC and Early Stage Partners, Cleveland-based private equity investment firms he founded in 1993 that specialize in early stage and middle market companies. Mr. Ireland served as Chairman of Pet Zone Products, Ltd., a pet supply products manufacturer and distributor, acquired by us in January 2006. He is also a director of Cleveland-Cliffs, Inc., a publicly traded manufacturing company, and other privately held companies funded by Capital One and Early Stage Partners. The Board believes that the attributes, skills and qualifications Mr. Ireland has developed through his business and leadership experiences as chairman of a pet supply company as well as his extensive experience in public company leadership, investment banking, mergers and acquisitions, various board memberships and his experience as a director of OurPet's enable him to provide continued business, financial and leadership expertise to the Board of Directors.

John Spirk is co-founder and co-President of Nottingham-Spirk Design Associates, one of the leading product invention and development groups in the United States. Nottingham-Spirk is responsible for the creation of hundreds of successful products with over 400 commercialized patents and combined product sales of over \$30 billion. Clients of Nottingham-Spirk have included Fortune 500 companies as well as fast growth entrepreneurial firms. The Board believes that the attributes, skills and qualifications Mr. Spirk has developed through his business and leadership experiences as founder of a leading product development group specializing in innovation as well as his experience as a director of OurPet's enable him to provide significant entrepreneurial business and leadership expertise to the Board of Directors.

Director Compensation

In 2010, directors who were full-time employees of OurPet's received no cash compensation for services rendered as members of the Board of Directors. Directors who were not full-time employees of OurPet's received reimbursement of out-of-pocket expenses for their attendance at Board of Director meetings. Non-employee directors received compensation in 2010 of 7,000 stock options each to Mr. Aveni, Dr. Fraser, Mr. Ireland, and Mr. Spirk for their services for the period May 1, 2009 to April 30, 2010, all at an exercise price of \$0.75.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards ⁽¹⁾ (\$)	Total (\$)
Joseph T. Aveni	—	—	229	229
Dr. William M. Fraser	—	—	229	229
Jamie D. Ireland III	—	—	229	229
John Spirk	—	—	229	229

(1) The amounts reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2010 in accordance with FASB ASC Topic 718 for stock options granted in 2010, 2009, and 2008.

Director Independence

The Board of Directors has determined and confirmed that each of Mr. Aveni, Dr. Fraser, Mr. Ireland and Mr. Spirk do not have a material relationship with OurPet's that would interfere with the exercise of independent judgment and are independent pursuant to applicable laws and regulations and the listing standards of Nasdaq.

Board Leadership Structure

The Board does not have a policy as to whether the roles of our Chairman and Chief Executive Officer should be separate. Instead, the Board makes this determination based on what best serves the company's needs at any given time. Currently, Dr. Tsengas holds the positions of Chairman and Chief Executive Officer of OurPet's and the Board does not have a lead independent director. The Board may decide to separate the positions of Chairman and Chief Executive Officer or choose a lead independent director in the future if circumstances warrant.

The Board believes that effective board leadership is highly dependent on the experience, skills and personal interaction between persons in leadership roles. Our current leadership structure has been in place since OurPet's inception and continued after the merger with Manticus, Inc. in 1998. The Board believes that this leadership structure is appropriate given Dr. Tsengas' extensive knowledge, skills and experience. With significant input from our Board, including our four independent directors, Dr. Tsengas sets the strategic direction for Our Pet's. He also provides daily leadership and guidance to our management and employees.

Role of the Board in Risk Oversight

Our Board has broad oversight responsibility for OurPet's risk management processes and programs and senior management is responsible for the day-to-day evaluation and management of risks to the company. In its oversight role, the Board is responsible for satisfying itself that the risk management processes designed and implemented by management are functioning and effective.

Management meets monthly to assess risk management processes and evaluate potential risks. Management then presents any significant or potentially significant risks to the Board for its review and evaluation. Senior management also prepares a detailed annual budget that is presented to the Board. Any significant deviation from this budget is identified and assessed by the Board for potential risk.

Attendance of the Board of Directors at Meetings

In 2010, the Board of Directors met four times and acted by unanimous written consent six times. During 2010, all members of the Board of Directors participated in at least 75% of all Board and applicable committee meetings.

Directors are also strongly encouraged to attend the annual meeting of shareholders, either in person or by teleconference. All directors attended last year's annual meeting in person.

Committees of the Board of Directors

Compensation Committee.

The Board of Directors has established a compensation committee, which makes recommendations to the Board with respect to general compensation and benefit levels for employees, determines the compensation and benefits for OurPet's executive officers and administers the our stock option plan. The members of this committee are Joseph T. Aveni, Dr. William Fraser and James D. Ireland III. The compensation committee met once in 2010.

Audit Committee.

A description of the audit committee is contained in the audit committee report beginning on page 16.

Director Nominating Process

Nomination by Directors.

We do not have a nominating committee of the Board of Directors. Instead, the Board believes it is in the best interests of the company to rely on the insight and expertise of all directors in the nominating process. We do not use a third party to locate or evaluate potential candidates for director. Generally, our Chairman of the Board recommends qualified candidates for director to the full Board and nominees are approved by a majority of the Board, including Mr. Aveni, Dr. Fraser, Mr. Ireland and Mr. Spirk, who are independent directors as defined by Nasdaq. Nominees are not required to possess specific qualities to serve on our Board. However, the Board has identified the following important qualifications and skills:

- integrity,
- sound judgment,
- diverse background,
- ability to objectively analyze complex business problems and develop creative solutions,
- pertinent expertise, experience and achievement in education and career,
- familiarity with issues affecting our business,
- ability to work well with other directors,
- adequate time to devote to board responsibilities, and
- commitment to enhancing shareholder value.

Nominees are also considered in the context of the current composition of the Board. Although we do not have a formal policy of considering diversity in identifying nominees, OurPet's seeks to maintain a Board of Directors with a diversity of experience, background, skills, and education.

Nomination by Shareholders.

It is the policy of the Board to consider nominees recommended by shareholders according to the same criteria as candidates nominated by directors. A shareholder desiring to nominate a director for election at our 2012 annual meeting of shareholders must deliver a written notice to our secretary at our offices located at 1300 East Street, Fairport Harbor, Ohio 44077 no later than January 13, 2012. The notice must include as to each person the shareholder proposes to nominate for election or re-election as a director:

- the name, age, business address and residence address of the person,
- the principal occupation or employment of the person,

- the written consent of the person, consenting to be named in the proxy as a nominee and to serve as a director,
- the class and number of our shares beneficially owned by the person, if any, and
- any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Rule 14a under the Exchange Act,

and as to the shareholder giving the notice:

- the name and record address of the shareholder, and
- the class and number of our shares beneficially owned by the shareholder.

We may require any proposed nominee to furnish additional information required by us to determine the eligibility of the proposed nominee to serve as our director.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers, and persons who own more than 10% of our common stock, to file with the Securities and Exchange Commission (“SEC”) initial reports of ownership and reports of changes in ownership of our common stock. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

Based solely on its review of copies of reports furnished to OurPet’s or written representations that no reports were required, we believe that all Section 16(a) filing requirements were met in 2010.

Code of Ethics

On February 6, 2004, our Board adopted a code of conduct and ethics that applies to all officers, directors and employees of OurPet’s, including our principal executive officer, principal financial officer, principal accounting officer, and any person performing similar functions. A copy of our code of ethics is available on our website at www.ourpets.com.

EXECUTIVE OFFICERS

Below are the names, ages, positions and certain other information concerning our current executive officers:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Dr. Steven Tsengas *	73	Chairman of the Board, President, Chief Executive Officer and Director
Konstantine S. Tsengas	46	Vice President of Operations and Secretary
Scott T. Fitzhugh	36	Vice President of Sales and Marketing
Scott R. Mendes	58	Chief Financial Officer and Treasurer

* Biographical information for Dr. Tsengas can be found under “Board of Directors.”

Konstantine S. Tsengas has been our Vice President of Operations and Secretary since the merger with Manticus in 1998 and served in the same capacities with our predecessor company since 1995. Mr. Tsengas received his BS in Industrial Engineering from the University of Toledo and has completed graduate level courses in marketing and organizational behavior at Cleveland State University. He is the son of Dr. Steven Tsengas, our Chairman, President and Chief Executive Officer.

Scott T. Fitzhugh has been our Vice President of Sales and Marketing since October of 2006. From 2002 through 2006, Mr. Fitzhugh had been in the OurPet’s sales and marketing department as National Sales Manager and then Business Manager—Mass Markets. Previously, Mr. Fitzhugh had been in a sales capacity with several independent sales brokerage companies, representing a wide variety of consumer products. Mr. Fitzhugh received his BS in Business Management from the University of Toledo.

Scott R. Mendes has been our Chief Financial Officer and Treasurer since February 2009. Mr. Mendes was previously employed for 13 years with Northern Ohio-based Safeguard Properties, Inc., the nation’s largest privately-held provider of property inspections and preservation services for the mortgage servicing industry, serving as its controller for the majority of his tenure with the company. Mr. Mendes received his MBA from the Owen Graduate School of Management, Vanderbilt University.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

Overview of Compensation Program

The compensation committee of our Board of Directors has the responsibility for establishing, implementing and continually monitoring adherence with our compensation philosophy. The purpose of the committee is to assist the Board in discharging its responsibilities relating to the compensation of our Chief Executive Officer and our other executive officers who directly report to the CEO. Throughout this proxy statement, the individuals who serve as our Chief Executive Officer, Vice President of Operations, Vice President of Sales and Marketing, and Chief Financial Officer are also referred to as “named executive officers” and are included in the summary compensation table on page 12.

Compensation Philosophy

Our compensation philosophy is designed to provide an executive compensation structure and system that is both competitive in the marketplace and also internally equitable based upon the weight and level of responsibilities in the respective executive positions. Our philosophy is designed to also attract, retain and motivate qualified executives within this structure. We reward executives for outstanding performance-to-objectives and business results through financial and other appropriate management incentives while aligning our financial results and compensation paid to our executive officers with the enhancement of shareholder value. Finally, our compensation philosophy is designed to structure the compensation policy so that executive officers’ compensation is dependent, in one part, on the achievement of current year business plan objectives and, in another part, on the long-term increase in shareholder value.

Executive Compensation Components

The principal components for the compensation of our executive officers are:

- base salary;
- annual cash incentives (bonus plan); and
- long-term incentives (stock option awards).

Base Salary

We provide executive officers a base salary to compensate them for services rendered during the fiscal year. Base salary ranges are determined for each executive officer based upon his position, responsibility and unique value and historical contributions to our success. In addition, the base salaries of the executive officers are periodically reviewed and measured against market data provided by outside consultants. Our compensation committee reviews salaries annually as part of our performance review process as well as upon a promotion or other change in job responsibility.

Bonus Plan

OurPet’s has an executive bonus plan that is tied to achieving specific corporate performance metrics tailored to each position. Executive officers bonuses are based on a blend of metrics comparing actual to budget weighted toward each individual’s area of responsibility. Factors measured include net sales, gross profit, operating expenses, net income, return on investment and inventory turns.

Stock Option Awards

Our stock option plan encourages participants to focus on our long-term performance and provides an opportunity for executive officers to increase their ownership in OurPet’s through grants under the stock option plan. The purposes of the stock option plan are to provide additional incentive to executive officers to make contributions that are essential to the continued growth and success of our business, to motivate employees to perform their responsibilities and to attract and retain competent and dedicated individuals whose efforts will result in our long-term growth and profitability.

Other Benefits

Executive officers are eligible to participate in all of our employee benefit plans, such as medical, dental, group life and disability insurances and 401(k) plan.

Employment Agreements

Other than our standard form of employee patent, copyright and confidentiality agreement, we do not have any employment contracts with our executive officers, including any compensatory plans or arrangements resulting from the resignation, retirement or other terminations of the executive officers.

Summary Compensation Table

The following table summarizes the compensation paid by us to our named executive officers.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Bonus (\$)</u>	<u>Option Awards⁽¹⁾ (\$)</u>	<u>All Other Compensation (\$)</u>	<u>Total (\$)</u>
Dr. Steven Tsengas	2010	189,423	29,021	4,050	2,070 ⁽²⁾	224,564
Chairman, President and Chief Executive Officer	2009	170,769	17,530	4,050	1,708 ⁽²⁾	194,057
Konstantine S. Tsengas	2010	120,350	20,352	—	1,382 ⁽³⁾	142,084
Vice President of Operations and Secretary	2009	111,462	17,904	—	1,115 ⁽³⁾	130,481
Scott R. Mendes	2010	111,545	17,793	900	885 ⁽⁴⁾	131,123
Chief Financial Officer and Treasurer	2009	90,385	17,689	450	—	108,524
Scott T. Fitzhugh	2010	126,245	29,031	2,348	1,464 ⁽⁵⁾	159,088
Vice President of Sales and Marketing	2009	106,615	20,088	2,506	1,066 ⁽⁵⁾	130,275

- (1) The amounts reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2010 in accordance with FASB ASC Topic 718 for option awards granted under the Stock Incentive Plan and thus include amounts from awards granted in and prior to 2010. The amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Assumptions used in the calculation of these amounts are included in footnotes to OurPet's audited financial statements for the fiscal year ended December 31, 2010 included in our Annual Report on Form 10-K filed with the SEC on March 31, 2011.
- (2) Includes \$2,070 in 2010 and \$1,708 in 2009 in company contributions to our 401(k) plan for Dr. Tsengas.
- (3) Includes \$1,382 in 2010 and \$1,115 in 2009 in company contributions to our 401(k) plan for Mr. Konstantine Tsengas.
- (4) Includes \$885 in 2010 in company contributions to our 401(k) plan for Mr. Mendes.
- (5) Includes \$1,464 in 2010 and \$1,066 in 2009 in company contributions to our 401(k) plan for Mr. Fitzhugh.

Outstanding Equity Awards at December 31, 2010

The following table summarizes information with respect to the stock options held by our named executive officers as of the end of the past fiscal year.

Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price ⁽¹⁾ (\$)	Option Expiration Date
Dr. Steven Tsengas	300,000	—	0.350	04/28/14 ⁽²⁾
	200,000	—	0.290	10/01/14 ⁽²⁾
	100,000	200,000	0.495	06/20/13 ⁽³⁾
Konstantine Tsengas	150,000	—	0.290	10/01/14 ⁽²⁾
Scott R. Mendes	—	100,000	0.222	02/18/14 ⁽³⁾
Scott T. Fitzhugh	25,000	—	0.270	06/21/14 ⁽²⁾
	40,000	—	0.530	10/25/11 ⁽³⁾
	6,667	3,333	1.240	05/07/12 ⁽³⁾
	16,666	33,333	0.450	06/20/13 ⁽³⁾
	—	15,000	0.270	05/15/14 ⁽³⁾
	—	25,000	0.750	05/21/15 ⁽³⁾
	—	25,000	0.810	08/06/15 ⁽³⁾

- (1) We grant stock options at exercise prices equal to or greater than the fair market value of our common stock on the date of grant.
- (2) The options vest one-third on each of the second, third and fourth anniversaries of the date of grant and expire on the tenth anniversary of the date of grant.
- (3) The options vest one-third on each of the second, third and fourth anniversaries of the date of grant and expire on the fifth anniversary of the date of grant.

Equity Compensation Plan Information as of December 31, 2010

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	1,655,516	\$ 0.436	275,984
Equity compensation plans not approved by security holders	116,375	\$ 0.748	0
Total	1,771,891	\$ 0.456	275,984

The equity compensation plans not approved by security holders include the issuance in 2006 of 20,416 warrants to purchase shares of our common stock at \$0.490 per share which expire on April 20, 2013 to an unrelated firm as partial payment for public and investor relations services, the issuance in 2008 of 50,640 warrants to purchase shares of our common stock at \$0.938 per share which expire on January 11, 2013 to our intellectual property counsel as partial payment for legal services, the issuance in 2009 of 30,256 warrants to purchase shares of our common stock at \$0.480 per share which expire on October 15, 2014 to an unrelated firm as partial payment for public and investor relations services, and the issuance in 2010 of 15,063 warrants to purchase shares of our common stock at \$0.996 per share which expire on October 15, 2015 to an unrelated firm as partial payment for public and investor relations services.

PRINCIPAL SHAREHOLDERS

The following table sets forth the amount and nature of the beneficial ownership of our common stock as of March 31, 2011 by:

- each person known by us to own more than 5% of the outstanding shares,
- each director,
- each executive officer, and
- all our directors and executive officers as a group.

<u>Name and Address⁽²⁾</u>	Beneficial Ownership ⁽¹⁾				
	Common	Preferred ⁽³⁾	Options and Warrants ⁽⁴⁾	Total	Percent
Dr. Steven Tsengas ⁽⁵⁾ Pet Zone Products Ltd. 1801 East 9 th St. Suite 1700 Cleveland, Ohio 44114	4,182,828	64,000	1,449,774	5,696,602	33.0%
James D. Ireland III ⁽⁶⁾	3,082,000	—	2,921,433	6,003,433	32.2%
Konstantine S. Tsengas ⁽⁷⁾	1,028,952	18,000	160,253	1,207,205	7.6%
Nicholas S. Tsengas ⁽⁸⁾	1,035,752	18,000	10,253	1,064,005	6.8%
Joseph T. Aveni	459,452	—	94,120	553,572	3.5%
John Spirk ⁽⁹⁾	96,004	35,720	109,087	240,811	1.5%
Scott T. Fitzhugh	20,000	—	96,666	116,666	*
Dr. William M. Fraser	19,000	—	21,344	40,344	*
Scott R. Mendes	—	—	33,333	33,333	*
All directors and officers as a group (8 individuals)	8,888,236	153,440	4,995,098	14,036,774	67.2%

* Less than 1%.

- (1) Unless otherwise indicated, we believe that all persons named in the table have sole investment and voting power over the shares of common stock owned.
- (2) Unless otherwise indicated, the address of each of the beneficial owners identified is c/o OurPet's Company, 1300 East Street, Fairport Harbor, Ohio 44077.
- (3) Each share of preferred stock is convertible into 10 shares of common stock. The preferred stock shown in the table is shown as if already converted into common stock. Preferred stock is nonvoting unless and until converted into common stock.
- (4) Includes options to purchase our common stock issued under the 1999 Stock Option Plan, 2008 Stock Option Plan, and common stock subject to warrants that are presently or will become exercisable in 60 days.
- (5) Includes 2,999,218 shares of common stock, 600,000 options and 813,320 warrants owned by Dr. Tsengas. Also includes 24,960 shares of common stock, 52,000 shares of equivalent preferred stock, and 29,619 warrants owned by Senk Properties in which Dr. Tsengas is a partner. The number of shares of common stock and warrants owned by Senk Properties attributed to Dr. Tsengas is based on his ownership percentage of 52%. Also includes 766,952 shares of common stock owned by Evangelia Tsengas, Dr. Tsengas's wife, and 5,760 shares of common stock, 12,000 shares of equivalent preferred stock, and 6,835 warrants owned by Senk Properties in which Evangelia Tsengas is a partner, based on her ownership percentage of 12%. Includes 285,938 shares of common stock for which Dr. Tsengas is custodian for his grandchildren under the UGMA of Ohio and 100,000 shares of common stock held by the Tsengas Foundation, an Ohio nonprofit corporation of which Dr. Tsengas is one of the trustees.
- (6) Includes 9,491 warrants owned by Mr. Ireland. All shares of common stock and 2,921,433 warrants included on the above table are owned by Pet Zone Products, Ltd. Mr. Ireland, as Pet Zone's Chairman of the Board and a Managing Director of Capital One Partners, LLC, a private equity investment firm that owns a majority of the membership interests in Pet Zone, directs the voting of Pet Zone stock. Mr. Ireland disclaims beneficial ownership of the shares of common stock and warrants owned by Pet Zone. The table also includes 35,720 shares of equivalent preferred stock and 94,931 warrants owned by Capital One Partners, LLC of which Mr. Ireland is a Managing Director. Mr. Ireland disclaims beneficial ownership of the preferred stock and warrants owned by Capital One Partners.
- (7) Includes 997,903 shares of common stock and 150,000 stock options owned by Konstantine Tsengas and 8,640 shares of common stock, 18,000 shares of equivalent preferred stock, and 10,253 warrants owned by Senk Properties in which Mr. Tsengas is a partner, based on his ownership percentage of 18%. Also includes 22,409 shares of common stock owned by Konstantine Tsengas's daughter.

- (8) Includes 1,004,703 shares of common stock owned by Nicholas Tsengas and 8,640 shares of common stock, 18,000 shares of equivalent preferred stock, and 10,253 warrants owned by Senk Properties in which Nicholas Tsengas is a partner, based on his ownership percentage of 18%. Also includes 22,409 shares of common stock owned by Mr. Tsengas's daughter.
- (9) Includes 45,550 shares of common stock, 4,666 stock options, and 9,490 warrants owned by Mr. Spirk, 50,454 shares of common stock owned by Nottingham-Spirk Design Associates, and 35,720 shares of equivalent preferred stock and 94,931 warrants owned by Spirk Ventures Ltd. Mr. Spirk is Co-Founder and Co-President of Nottingham-Spirk. Mr. Spirk disclaims beneficial ownership of the shares of common stock owned by Nottingham-Spirk. Mr. Spirk is also a significant owner in Pet Zone Products, Ltd.

PROPOSAL 2—RATIFICATION OF INDEPENDENT ACCOUNTANTS

Our audit committee selected, and the Board of Directors ratified, Neece, Malec, Seifert & Vitaz Inc. as our independent accountants for the year ending December 31, 2011. Our prior principal accountants, S.R. Snodgrass, no longer has a Lake County, Ohio office. As a result, we dismissed S.R. Snodgrass as our principal accountants in April 2010. The principals of S.R. Snodgrass who performed OurPet's prior audits formed the new accounting firm Neece, Malec, Seifert & Vitaz Inc. and were subsequently engaged as OurPet's principal accountants in April 2010. Representatives of Neece, Malec, Seifert & Vitaz Inc., who also performed OurPet's prior audits as members of S.R. Snodgrass, will attend the annual meeting to answer appropriate questions and make a statement if they desire.

Although our bylaws do not require the selection of independent accountants to be submitted to shareholders for approval, this selection is being presented to you for ratification or rejection at the annual meeting. We need the affirmative vote of the majority of shares present in person or by proxy and entitled to vote at the meeting in order to ratify Neece, Malec, Seifert & Vitaz Inc. as our independent auditors for the fiscal year ending December 31, 2011. Although shareholder approval of this appointment is not required by law or binding on the audit committee, OurPet's believes that shareholders should be given the opportunity to express their views. If our shareholders do not ratify the appointment of Neece, Malec, Seifert & Vitaz Inc. as our independent accountants, the audit committee will consider this vote in determining whether or not to continue the engagement of Neece, Malec, Seifert & Vitaz Inc.

The Board of Directors recommends that you vote FOR the ratification of Neece, Malec, Seifert & Vitaz Inc. as our independent accountants for the fiscal year ending December 31, 2011.

Principal Accounting Firm Fees

The following table sets forth the aggregate fees billed to us by Neece, Malec, Seifert & Vitaz Inc., our current independent accountants and by S.R. Snodgrass, A.C., our prior independent accountants, for the fiscal years ended December 31, 2010 and 2009:

<u>Category</u>	<u>2010</u>	<u>2009</u>
Audit Fees	\$52,043	\$65,860
Audit-Related Fees	12,537	1,200
Tax Fees	7,500	7,500
All Other Fees	—	—
Total Fees	<u>\$72,080</u>	<u>\$74,560</u>

Audit Fees. These fees comprise professional services rendered in connection with the audit of our financial statements and the review of our quarterly financial statements on Form 10-Q that are customary under generally accepted auditing standards.

Audit Related Fees. These fees comprise professional services rendered in connection with compliance with the provisions of the Sarbanes-Oxley Act of 2002.

Tax Fees. These fees comprise professional services rendered in connection with the preparation of our corporate tax returns.

All Other Fees. These fees comprise professional services rendered in connection with the purchase of the assets of Cosmic Pet Products.

AUDIT COMMITTEE REPORT

The Board of Directors has established an audit committee, which meets with financial management and our independent registered public accounting firm to make recommendations to the Board regarding the quality and integrity of our financial statements, review the results and scope of audit and any other services provided by our independent registered public accounting

firm. The audit committee oversees the qualifications and independence of our independent registered public accounting firm, or independent accountants, and is directly responsible for the engagement of the independent accountants. The audit committee also considers and approves all services performed by the independent accountants. The members of this committee are Mr. Aveni, Mr. Ireland and Mr. Spirk. The audit committee met four times in 2010.

The audit committee operates under a written charter setting forth the committee's composition, responsibilities and authority. This charter was adopted by OurPet's on February 6, 2004 to fully comply with new SEC rules and adopted pursuant to the Sarbanes-Oxley Act of 2002. The charter is reviewed and assessed annually by the audit committee. A copy of the audit committee's charter can be found on our website at www.ourpets.com.

The directors who serve on the audit committee have no financial or personal ties to OurPet's other than as described in this proxy statement. The Board of Directors has determined all members of the audit committee satisfy the regulations of Nasdaq governing audit committee composition, including the requirement that all committee members be "independent" as defined in applicable Nasdaq regulations. In addition, the Board has determined that Mr. Ireland is an audit committee financial expert as defined by the SEC.

The audit committee: (1) reviewed and discussed with management and Neece, Malec, Seifert & Vitaz Inc., our independent accountants for the year ended December 31, 2010, our audited financial statements for the year ended December 31, 2010; (2) discussed with Neece, Malec, Seifert & Vitaz Inc. the matters required by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended by Statement on Auditing Standards No. 90, Audit Committee Communications; (3) received the written disclosures and the letter from Neece, Malec, Seifert & Vitaz Inc. required by the Public Company Accounting Oversight Board regarding Neece, Malec, Seifert & Vitaz Inc.'s communications with the audit committee concerning independence that might impact its objectivity and independence; (4) considered whether the provision of non-audit services is compatible with maintaining the accountant's independence; and (5) discussed with the accountants the accountant's independence.

Based on the review and discussions, the audit committee recommended to the Board of Directors that the audited financial statements for the year ended December 31, 2010, be included in OurPet's Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

Audit Committee

JOSEPH T. AVENI
JAMES D. IRELAND, III
JOHN SPIRK

Audit Committee Pre-Approval Policies and Procedures

Before the accountants are engaged by OurPet's to render audit or permissible non-audit services, the audit committee approves the engagement. The audit committee also reviews the scope of any audit and other assignments given to our accountants to assess whether these assignments would affect their independence. In 2010, our audit committee reviewed all services provided by Neece, Malec, Seifert & Vitaz Inc. to ensure that the services were within the scope previously approved by the audit committee.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

OurPet's leases a 64,000 square foot warehouse and office facility from a related entity, Senk Properties, a general partnership comprised of Dr. Steven Tsengas, Konstantine S. Tsengas, Evangelia S. Tsengas and Nicholas S. Tsengas. At December 31, 2010, the current monthly rental was \$28,417 plus real estate taxes. We entered into a new ten year lease with Senk Properties which was effective upon completion of the 36,000 square foot warehouse expansion on June 1, 2007. The monthly rental is \$26,667 for the first two years, \$28,417 for the next two years, \$30,167 for the next three years, \$32,000 for the next two years, and \$33,750 for the last year, all plus real estate taxes. We have the option to extend the lease for an additional ten years at a rent amount to be mutually agreed upon. Related party lease expense was \$374,206 for 2010 and \$357,286 for 2009.

On October 18, 2010, we issued 62,500 warrants for the purchase of common stock at \$0.86 a share, subsequently adjusted to 62,763 warrants exercisable at \$0.85 a share in accordance with the warrant anti-dilution provisions to Dr. Tsengas in consideration for his guarantee of the increase in our bank line of credit. These warrants expire on October 18, 2015.

On July 16, 2010, we issued 62,500 warrants for the purchase of common stock at \$0.8555 a share, subsequently adjusted to 62,763 warrants exercisable at \$.8519 a share in accordance with the warrant anti-dilution provisions to Dr. Tsengas in consideration of his guarantee of OurPet's bank loan. These warrants expire on July 16, 2015.

On June 28, 2010, we issued 28,125 warrants for the purchase of common stock at \$0.81 a share, subsequently adjusted to 28,244 warrants exercisable at \$0.807 a share in accordance with the warrant anti-dilution provisions to Dr. Tsengas in consideration of his guarantee of OurPet's loan from the Ohio 166 Loan Program. These warrants expire on June 28, 2015.

On January 28, 2010 and February 1, 2010, we sold an aggregate of 123,616 shares of our Series 2009 Preferred Stock in a private placement to a total of 15 accredited investors, five of which are affiliated investors. All shares in the private placement were sold at a price of \$7.00 a share for a total of \$865,312. Payment for the shares comprised of \$595,000 in cash from the non-affiliated investors and \$270,312 in converted debt (including accrued interest) from the affiliated investors. All shares are convertible at any time into shares of our common stock at a conversion price of \$0.70 a common share, subject to adjustment for stock splits, combinations and similar transactions. All shares receive a six percent (\$0.42) cash dividend payable on December 1 of each year provided that payment may be deferred if necessary for our compliance with our loan covenants. We have the limited right to convert the shares into common stock at any time after the trading price of our common stock reaches \$1.50 per share for twenty consecutive days. The affiliated investors converted debt we owed to them in the amount of \$25,004 each by Capital One Partners LLC, Nottingham Ventures Ltd, and Spirk Ventures Ltd, \$70,000 by Senk Properties, and \$125,300 by LJR Limited Partnership as payment for their respective shares.

On September 17, 2009, we issued 350,000 warrants for the purchase of common stock at \$0.453 a share, subsequently adjusted to 352,990 warrants exercisable at \$0.449 a share in accordance with the warrant anti-dilution provisions to Dr. Tsengas in consideration of his guarantee of OurPet's bank loan. These warrants expire on September 17, 2014.

In February, June, and July of 2008, we entered into contribution agreements with six affiliated contributors, pursuant to which each contributor loaned certain funds to us totaling \$892,500. These funds were used by us for expenses related to litigation on certain of our SmartScoop™ products and for expenses related to new product development. In consideration for these loans we (1) executed promissory notes due in two and three years with interest accruing at prime plus 2%, (2) issued warrants for the purchase of shares of our common stock (see chart below) and (3) provided for piggyback registration rights.

Contributor	Loans	Warrants Issued		Warrants Adjusted	
		Number	Price	Number	Price
Capital One Partners LLC	\$187,500	93,750	\$0.500	94,931	\$0.494
Nottingham Ventures Ltd	187,500	93,750	0.500	94,931	0.494
Spirk Ventures Ltd	187,500	93,750	0.500	94,931	0.494
LJR Limited Partnership	187,500	93,750	0.500	94,931	0.494
Senk Properties	112,500	56,250	0.500	56,959	0.494
Dr. William M. Fraser	30,000	7,500	0.825	7,601	0.815
		7,500	0.500	7,594	0.494

On January 15, 2007 and November 25, 2008, OurPet's entered into agreements with Nottingham-Spirk Design Associates, Inc. ("NSDA"). One of the principals of NSDA is John Spirk, a member of our Board and a shareholder. Also, NSDA indirectly owns shares of OurPet's through its ownership in Pet Zone Products, Ltd., a significant shareholder of OurPet's. The agreement addresses the invoicing and payment of NSDA's fees and expenses related to the development of certain products on behalf of OurPet's. Through December 31, 2010, OurPet's has been invoiced \$781,061 by NSDA of which \$410,496 has been paid in cash, \$50,000 paid with 50,454 shares of our common stock and the remaining balance of \$320,565 deferred. The balance of the deferred payments is payable as a fee based upon sales of certain products beginning January 1, 2009. As of December 31, 2010, the fee accrued to date was \$15,565 of which \$5,000 has been paid in cash.

On August 17, 2007, we issued 51,332 warrants for the purchase of common stock at \$1.45 a share, subsequently adjusted to 52,202 warrants exercisable at \$1.426 a share in accordance with the warrant anti-dilution provisions to members of our Board of Directors as compensation for their services in 2005, 2006, and the first four months of 2007 including 16,610 warrants to Mr. Aveni, 9,491 warrants each to Mr. Ireland and Mr. Spirk, and 1,483 warrants to Dr. Fraser. These warrants expire on August 17, 2012.

In 2006, we issued 250,000 warrants for the purchase of common stock at \$0.70 a share, subsequently adjusted to 255,419 warrants exercisable at \$0.685 a share in accordance with the warrant anti-dilution provisions to Dr. Tsengas in consideration for his guarantee of the increase in our bank line of credit. These warrants expire on August 2, 2013.

In 2005, we issued 50,000 warrants for the purchase of common stock at \$0.43 a share, subsequently adjusted to 51,141 warrants exercisable at \$0.420 a share in accordance with the warrant anti-dilution provisions, to each of Dr. Tsengas, Mr. Aveni and Mr. Fazio in consideration for their guarantee of OurPet's bank loan. These warrants expire on November 14, 2012.

On December 30, 2003 we repaid Beachcraft \$75,000 in cash in partial payment for the note dated August 2, 2000 for \$150,000. As of February 1, 2004, a new note payable for \$75,000 was issued to Beachcraft to replace the remaining balance on the August 2, 2000 note. The new note is due on December 31, 2011 with interest payable quarterly at prime plus 3%. In consideration for this refinancing we issued warrants for the purchase of 56,250 shares of common stock to Beachcraft at an exercise price of \$0.30 per share, subsequently adjusted to 57,204 warrants exercisable at \$0.295 a share in accordance with the warrant anti-dilution provisions. These warrants were exercised in 2007.

In October 2004, we issued an aggregate total of 70,000 warrants for the purchase of common stock at \$0.29 per share, subsequently adjusted after the exercise of 14,246 warrants in 2007 to 57,875 warrants exercisable at \$0.281 a share in accordance with the warrant anti-dilution provisions, which expire on October 1, 2012. These warrants were issued to current directors and the special advisor to our Board as compensation for services.

Related Person Transaction Policy

Our entire Board of Directors is responsible for reviewing and approving or ratifying all material transactions between us and any related person. To identify these transactions, we require our directors and officers to complete an annual questionnaire identifying any transactions with us in which the officer or director or their immediate family members have an interest. When the Board reviews, approves or ratifies transactions with related persons, any director associated with the transaction must abstain from voting and is not present while discussions and deliberations are held. In approving these transactions, the Board considers whether the terms of the transactions are at least as favorable as terms we could have obtained from unaffiliated third parties. The Board believes that all of the loans and agreements described above meet this criteria. Our related party transaction policy is not in writing but the practice has been approved by our Board.

SHAREHOLDER PROPOSALS AND COMMUNICATIONS

A shareholder intending to present a proposal to be included in our proxy statement for our 2012 annual meeting of shareholders must deliver a notice, in accordance with the requirements of our bylaws and Rule 14a-8 under the Exchange Act, to our Secretary at our principal executive office no later than January 13, 2012. The notice must set forth as to each matter the shareholder proposes to bring before the meeting:

- a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting,
- the name and record address of the shareholder proposing such business,
- the class and number of shares of our common stock that are beneficially owned by the shareholder, and
- any material interest of the shareholder in such business.

OurPet's Board of Directors also provides a process for our shareholders to send communications to the Board. Shareholders may mail any communications to our Secretary at 1300 East Street, Fairport Harbor, Ohio 44077. Our Secretary will review all communications and forward to the Board all communications other than solicitations for products or services or trivial or obscene items. Mail addressed to a particular director or committee of the Board will be forwarded to that director or committee. All other communications will be forwarded to the Chairman for the review of the entire Board.

OTHER MATTERS

Our Board of Directors is not aware of any other matters to be submitted to the annual meeting. If any other matters properly come before the annual meeting, it is the intention of the persons named in the accompanying proxy to vote the shares they represent as the Board may recommend.

You are urged to sign and return your proxy card promptly to make certain your shares will be voted at the annual meeting. For your convenience, a return envelope is enclosed requiring no additional postage if mailed in the United States.

By Order of the Board of Directors,

Konstantine S. Tsengas
Secretary

[FRONT]

PROXY

OURPET'S COMPANY

PROXY

**ANNUAL MEETING OF SHAREHOLDERS, May 20, 2011
1300 East Street, Fairport Harbor, Ohio 44077
9:00 a.m. local time**

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Konstantine S. Tsengas the proxy or proxies of the undersigned to attend the Annual Meeting of Shareholders of OurPet's Company to be held on May 20, 2011, at 1300 East Street, Fairport Harbor, Ohio 44077, beginning at 9:00 a.m. local time, and any adjournments, and to vote all shares of stock that the undersigned would be entitled to vote if personally present in the manner indicated below, and on any other matters properly brought before the Meeting or any adjournments thereof, all as set forth in the April 13, 2011 Proxy Statement. The undersigned hereby acknowledges receipt of the Notice of Annual Meeting, Proxy Statement and Annual Report of OurPet's Company.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" ALL NOMINEES AND "FOR" PROPOSAL TWO.

1. Election of Joseph T. Aveni, Dr. Will Fraser, James D. Ireland III, John Spirk and Dr. Steven Tsengas as directors.

FOR WITHHELD
FOR, EXCEPT WITHHELD FROM THE FOLLOWING NOMINEE(S):

2. Ratification of the appointment of Neece, Malec, Seifert & Vitaz Inc. as the independent accountant of OurPet's Company.

FOR AGAINST WITHHELD

THIS PROXY IS CONTINUED ON THE REVERSE SIDE. PLEASE DATE, SIGN AND RETURN PROMPTLY.

[BACK]

(Signature should be exactly as name or names appear on this proxy. If stock is held jointly each holder should sign. If signature is by attorney, executor, administrator, trustee or guardian, please give full title.)

Dated: _____, 2011

Signature

Signature if held jointly

I plan to attend the meeting: Yes No

This proxy will be voted FOR all nominees and FOR Proposal Two unless otherwise indicated, and in the discretion of the proxies on all other matters properly brought before the meeting.



Shareholder's Information

DIRECTORS

Joseph T. Aveni
Chairman Emeritus
First Realty Property Management, LLC

Dr. William M. Fraser
Owner
Companion Pet Care Centers

James D. Ireland
Chairman, Managing Director
Capital One Partners and Early Stage Partners, LP

John Spirk
Co-President
Nottingham-Spirk Design Associates

Dr. Steven Tsengas
Chairman of the Board, President and Chief Executive Officer
OurPet's Company

OFFICERS

Dr. Steven Tsengas
Chairman of the Board, President and Chief Executive Officer

Konstantine (Dean) S. Tsengas
Vice President of Operations and Secretary

Scott R. Mendes
Chief Financial Officer and Treasurer

Scott T. Fitzhugh
Vice President of Sales and Marketing

BOARD ADVISORS

Jennifer Berlin
Attorney
Tucker, Ellis & West LLP

William Lechtner
Chief Executive Officer and Managing Director
The Lechtner Group

CORPORATE INFORMATION

Corporate Headquarters
1300 East Street
Fairport Harbor, Ohio 44077
(440) 354-6500
Email: sales@ourpets.com

Transfer Agent and Registrar
Transfer Online, Inc.
317 SW Alder Street, 2nd Floor
Portland, Oregon 97204

Stock Exchange Listing
NASDAQ OTC Bulletin Board
Trading Symbol: OPCO

Investor Relations
Robert A. Lentz and Associates
Columbus, Ohio

General Information
Information about OurPet's Company including product, corporate and stockholder news, recent press releases, financial reports and more is available on the Internet at www.ourpets.com

General Counsels
Kohrman Jackson & Krantz, PLL
Cleveland, Ohio

Choken & Welling, LLP
Akron, Ohio

Intellectual Property Counsel
John D. Gugliotta, Esq.
Independence, Ohio

Independent Auditors
Neece, Malec, Seifert & Vitaz
Mentor, Ohio

Financial Information
Quarterly and annual reports on Form 10-Q and Form 10-K are available at no charge to shareholders from the Company upon request.



www.ourpets.com

Public Company Symbol: OPCO (OTC BB)
Member of APPA • NASC • RILA