



OurPet's®

Inspired by pets, driven by innovation.

Durapet™ Premium
Stainless Steel



Raised Feeders



2009
Annual Report



Shareholder's Report

Dear Shareholders:

Despite severe economic conditions, American's spending on pets increased in 2009 and OurPet's Company fully participated in that growth. The American Pet Products Association (APPA) and Packaged Facts reported that the pet market grew by about 5.4 percent in 2009 to a record level of \$45.5 billion. OurPet's Company net revenues increased at nearly three times that rate last year compared to 2008. Furthermore, the two organizations have forecasted continued industry growth to \$72 billion by 2014. We continue to execute our focused strategy and look forward to continuing to increase our presence in this attractive growth industry.

2009 was an important year for OurPet's Company. We achieved solid growth and returned to profitability, while also successfully addressing litigation issues that significantly impacted our performance during 2008. We are moving forward with increased confidence, guided by our strategic plan and pursuing significant growth opportunities. Our product portfolio is expanding in several key markets in the pet industry and we continue to differentiate through quality, innovation and service.

Net revenues for 2009 increased 15% to \$14,251,756 from \$12,410,135 in 2008. Gross profit increased 22% for 2009 versus a year ago, while gross profit margin rose to 30% for 2009 from 28% in 2008. Litigation expenses declined to \$373,608 for 2009 from \$2,322,983 a year ago. Income from operations was \$791,522 for 2009 compared to a loss from operations of \$1,530,350 for 2008. Net income for 2009 was \$775,767 or \$.05 per diluted common share, compared to a net loss of \$1,728,198 or (\$.11) per common share for 2008. We entered 2010 with a solid balance sheet, improving fundamentals and new products that should benefit our results this year.

To achieve and maintain our goal of above average, double-digit growth in annual revenue and profit, OurPet's launched a multi-pronged strategic plan that involves aggressive new product innovation, international sales growth, brand line enhancement and extension, and increased market segment penetration, as well as the establishment of strategic domestic and overseas partnerships. We remain committed to continuous improvement and enhancement of organizational resources and operations. Successful execution of our strategic plan coupled with continued growth in the pet industry, will contribute to increased market penetration and improved financial performance well into the future.

We introduced over 100 new products (SKUs) at the Global Pet Exposition held in Orlando, Florida on March 25-27, 2010. Pictures of our booth and product displays can be viewed in the Corporate Investors section of our website (www.ourpets.com) under the Presentations tab. This exposition was attended by several thousand pet product buyers from around the world. Events such as this enable us to continue expanding our geographic presence in North America and other regions that also exhibit attractive growth opportunities. We received positive feedback during the exposition and solid interest from current and prospective customers. Initial contributions from these sales and marketing efforts are expected to be realized in our financial results later this year.

As always, I want to thank our Board of Directors for their continued support and advice, all our customers and strategic partners, and our shareholders for their support and patience. Most of all, I want to acknowledge the ongoing efforts of my fellow OurPet's associates whose pursuit of excellence remains unsurpassed. We are excited about 2010 and our future.

Sincerely,

Dr. Steven Tsengas, PhD

Chairman, President and Chief Executive Officer



April 16, 2010

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 16, 2010

Dear Fellow Shareholder:

You are cordially invited to attend the 2010 Annual Meeting of Shareholders of OurPet's Company on Friday, May 21, 2010, 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 2010.

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 21, 2010

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 21, 2010, 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 accountant for the fiscal year ending December 31, 2010, 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, 2010, 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
April 16, 2010

OURPET'S COMPANY

PROXY STATEMENT

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 21, 2010:

This proxy statement and our annual report for the fiscal year ending December 31, 2009 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 2010 Annual Meeting of Shareholders to be held on Friday, May 21, 2010, 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, 2009, are being sent to our shareholders beginning on or about April 22, 2010.

QUESTIONS AND ANSWERS

Q: WHEN AND WHERE IS THE ANNUAL MEETING?

A: Our 2010 Annual Meeting of Shareholders will be held on Friday, May 21, 2010, 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, 2010.

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, 2010, 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, 15,393,667 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, 2010, can attend.

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

A: Together, they own 8,878,236 shares of our common stock, or 57.7% 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 27.2%, as of the record date.
 - Pet Zone Products, Ltd. beneficially owns 3,082,000 shares of our common stock, or 20.0%, 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, 2011, 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, 2011. (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	72	Chairman, President, Chief Executive Officer and Director	1998
Joseph T. Aveni	78	Director	1998
Dr. William M. Fraser	52	Director	2007
James D. Ireland III	60	Director	2006
John Spirk	61	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 2009, 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 2009 of 7,000 stock options each to Mr. Aveni, Dr. Fraser, Mr. Ireland, and Mr. Spirk for their services for the period May 1, 2008 to April 30, 2009, all at an exercise price of \$0.27.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards ⁽¹⁾ (\$)	Total (\$)
Joseph T. Aveni	—	—	126	126
Dr. William M. Fraser	—	—	126	126
Jamie D. Ireland III	—	—	126	126
John Spirk	—	—	126	126

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

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 2009, the Board of Directors met three times and acted by unanimous written consent four times. During 2009, 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 2009.

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 2011 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, 2011. 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 2009.

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 *	72	Chairman of the Board, President, Chief Executive Officer and Director
Konstantine S. Tsengas	45	Vice President of Operations and Secretary
Scott T. Fitzhugh	35	Vice President of Sales and Marketing
Scott R. Mendes	57	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 provide 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 non-competition 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 Chairman, President and Chief Executive Officer	2009	170,769	17,530	4,050	1,708 ⁽²⁾	194,057
	2008	153,096	—	8,025	10,668 ⁽²⁾	171,789
Konstantine S. Tsengas Vice President of Operations and Secretary	2009	111,462	17,904	—	1,115 ⁽³⁾	130,481
	2008	103,421	—	1,687	7,473 ⁽³⁾	112,581
Scott R. Mendes Chief Financial Officer and Treasurer ⁽⁴⁾	2009	90,385	17,689	450	—	108,524
Scott T. Fitzhugh Vice President of Sales and Marketing	2009	106,615	20,088	2,506	1,066 ⁽⁵⁾	130,275
	2008	96,656	—	2,509	7,704 ⁽⁵⁾	106,869

- (1) The amounts reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2009 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 2009. 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, 2009 included in our Annual Report on Form 10-K filed with the SEC on March 31, 2010.
- (2) Includes \$9,137 in 2008 representing Dr. Tsengas' share of the 8 percent profit sharing plan, based upon OurPet's net income before litigation expense and taxes and \$1,708 in 2009 and \$1,531 in 2008 in company contributions to a 401(k) plan for Dr. Tsengas.
- (3) Includes \$6,439 in 2008 representing Mr. Konstantine Tsengas' share of the profit sharing plan and \$1,115 in 2009 and \$1034 in 2008 in company contributions to our 401(k) plan.
- (4) Mr. Mendes was appointed our Chief Financial Officer and Treasurer in February 2009.
- (5) Includes \$6,737 in 2008 representing Mr. Fitzhugh's share of the profit sharing plan and \$1,066 in 2009 and \$967 in 2008 in company contributions to our 401(k) plan.

Outstanding Equity Awards at December 31, 2009

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⁾
	—	300,000	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⁾
	10,000	—	0.290	05/18/10 ⁽³⁾
	26,667	13,333	0.530	10/25/11 ⁽³⁾
	3,333	6,667	1.240	05/07/12 ⁽³⁾
	—	50,000	0.450	06/20/13 ⁽³⁾
	—	15,000	0.270	05/15/14 ⁽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, 2009

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	1,593,000	\$0.395	424,000
Equity compensation plans not approved by security holders	100,886	\$0.714	0
Total	1,693,886	\$0.414	424,000

The equity compensation plans not approved by security holders include the issuance in 2006 of 20,330 warrants to purchase shares of our common stock at \$0.494 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 50,427 warrants to purchase shares of our common stock at \$0.946 per share which expire on January 11, 2013 to our intellectual property counsel as partial payment

for legal services, and the issuance in 2009 of 30,129 warrants to purchase shares of our common stock at \$0.482 per share which expire on October 15, 2014 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, 2010 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.

Name and Address ⁽²⁾	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	1,193,083	5,439,911	32.7%
James D. Ireland III ⁽⁶⁾	3,082,000	—	2,909,173	5,991,173	32.7%
Konstantine S. Tsengas ⁽⁷⁾	1,028,952	18,000	160,210	1,207,162	7.8%
Nicholas S. Tsengas ⁽⁸⁾	1,035,752	18,000	10,210	1,063,962	6.9%
Joseph T. Aveni	459,452	—	89,078	548,530	3.5%
John Spirk ⁽⁹⁾	96,004	35,720	103,983	235,707	1.5%
Scott T. Fitzhugh	10,000	—	68,334	78,334	*
Dr. William M. Fraser	19,000	—	16,608	35,608	*
Scott R. Mendes	—	—	—	—	—
All directors and officers as a group (8 individuals)	8,878,236	153,440	4,644,453	13,676,129	67.7%

* 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 3,099,218 shares of common stock, 500,000 options and 656,783 warrants owned by Dr. Tsengas. Also includes 24,960 shares of common stock, 52,000 shares of equivalent preferred stock, and 29,494

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 6,806 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.

- (6) Includes 9,452 warrants owned by Mr Ireland. All shares of common stock and 2,909,173 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 94,532 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 10,210 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 10,210 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 and 9,451 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 94,532 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, 2010. 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, 2010. 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, 2010.

Principal Accounting Firm Fees

The following table sets forth the aggregate fees billed to us by S.R. Snodgrass, A.C., our prior independent accountants, for the fiscal years ended December 31, 2009 and 2008:

<u>Category</u>	<u>2009</u>	<u>2008</u>
Audit Fees	\$65,860	\$57,078
Audit-Related Fees	1,200	380
Tax Fees	7,500	—
All Other Fees	—	1,220
Total Fees	\$74,560	\$58,678

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.

Audited 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 filing of our Form S-8 for our 2008 Stock Option Plan.

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, 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 2009.

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 S.R. Snodgrass, A.C., our independent accountants for the year ended December 31, 2009, our audited financial statements for the year ended December 31, 2009; (2) discussed with S.R. Snodgrass 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 S.R. Snodgrass required by the Public Company Accounting Oversight Board regarding S.R. Snodgrass'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 auditor's independence; and (5) discussed with the auditors the auditor'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, 2009, 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 auditors 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 auditors to assess whether these assignments would affect their independence. In 2009, our audit committee reviewed all services provided by S.R. Snodgrass 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, 2009, 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. Lease expense was \$358,678 for 2009 and \$341,213 for 2008.

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.

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.

<u>Contributor</u>	<u>Loans</u>	<u>Warrants Issued</u>		<u>Warrants Adjusted</u>	
		<u>Number</u>	<u>Price</u>	<u>Number</u>	<u>Price</u>
Capital One Partners LLC	\$187,500	93,750	\$0.500	94,532	\$0.496
Nottingham Ventures Ltd	187,500	93,750	0.500	94,532	0.496
Spirk Ventures Ltd	187,500	93,750	0.500	94,532	0.496
LJR Limited Partnership	187,500	93,750	0.500	94,532	0.496
Senk Properties	112,500	56,250	0.500	56,720	0.496
Dr. William M. Fraser	30,000	7,500	0.825	7,569	0.818
		7,500	0.500	7,563	0.496

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, 2009, 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, 2009, the fee accrued to date was \$8,748.

On August 17, 2007, we issued 51,332 warrants for the purchase of common stock at \$1.45 a share, subsequently adjusted to 51,983 warrants exercisable at \$1.432 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 16,470 warrants to Mr. Aveni, 9,411 warrants each to Mr. Ireland and Mr. Spirk, and 1,470 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 254,348 warrants exercisable at \$0.688 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 50,926 warrants exercisable at \$0.422 a share in accordance with the warrant anti-dilution provisions, to each of Dr. Tsengas, Mr. Aveni and Mr. Fazio in consideration for their guaranty 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, 2010 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 57,632 warrants exercisable at \$0.282 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 2011 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, 2011. 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

April , 2010

[FRONT]

PROXY

OURPET'S COMPANY

PROXY

**ANNUAL MEETING OF SHAREHOLDERS, May 21, 2010
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 21, 2010, 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 19, 2010 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 Sprik 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: _____, 2010

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.



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, 2009
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)

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

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

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, 2009 were \$14,251,786. 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 \$4,085,524 as of March 15, 2010. As of March 15, 2010, the registrant had outstanding 15,393,667 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 21, 2010.

OURPET'S COMPANY

FORM 10-K

For The Fiscal Year Ended December 31, 2009

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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 400 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®, Go! Cat Go®, and DockDogs® 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

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, Underworld, 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 340 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 340 customers for the year ended December 31, 2009, 42.9% of our revenue was derived from PetsMart and Wal-mart. Revenue generated from each of these customers amounted to \$3,076,073 and \$2,921,058, respectively, which represents 22.0% and 20.9% of total revenue.

We currently market products such as dog, cat and bird feeders, dog and cat toys, cat and dog waste management products, and natural and nutritional pet supplements and topical products. We conduct our marketing and sales activities through ten 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 56 United States and international patents for dog and cat feeders and have 51 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 34 additional trademark registrations and applied for 19 trademark registrations, which are still pending.

As of March 15, 2010, we had 30 full-time employees consisting of four officers, nine other employees in sales and marketing, one employee in engineering, two employees in quality assurance, four employees in finance and administration, one employee in IT, five employees in operations and four employees in warehousing and shipping. We do not have any employees in manufacturing since that operation is subcontracted to outside vendors. 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 \$259,328 for the year ended December 31, 2009 and \$141,111 for the year ended December 31, 2008.

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 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 56 U.S. and international patents issued or assigned and 51 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 the alleged patent infringement actions against us would result in loss of business and expense.

We are currently defending litigation filed against us by a competitor that alleges that we infringed upon certain patents for self-cleaning litter boxes. If we are not successful in defending this litigation we would not be able to sell our SmartScoop™ self-scooping cat litter box and we could incur costs for damages paid to our competitor and for the write-off of our product development and tooling costs for our product.

The costs of defending the alleged patent infringement actions against us may not be recouped even if we are successful in our defense, and could harm our profitability.

While we have been successful thus far in defending certain patent litigation filed against us by a competitor, the cost of our defense has had a negative impact on our profitability. We do not know how long the litigation (including appeals) may continue. Even if we continue to be successful in defending this litigation, our legal expenses could be significant.

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

We currently have 15,393,667 shares of Common Stock outstanding which could be diluted by the following potential issuances of Common Stock. As of March 15, 2010, 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, 2010, we had outstanding 4,717,887 warrants to purchase an aggregate of 4,717,887 shares of Common Stock at exercise prices ranging from \$0.283 to \$1.438 per share and options to purchase an aggregate of 1,575,500 shares of Common Stock at exercise prices ranging from \$0.20 to \$1.55 per share. We have reserved an aggregate of 1,991,500 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.

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.

On October 12, 2007, Applica Consumer Products, Inc. ("Applica") filed an action in the U.S. District Court, Eastern District of Texas, against the Company alleging patent infringement of certain of its patents. Applica has alleged that the Company's SmartScoop™ self-scooping cat litter box infringes upon patents Applica controls for self-cleaning litter boxes. Applica is seeking damages and a permanent injunction prohibiting the Company from further infringement of Applica's patents. The case is currently partially stayed in view of the U.S. International Trade Commission ("ITC") investigation discussed below. Certain activity regarding the patent suit is continuing and is in the discovery stage.

On or about December 2, 2007, Applica filed a complaint with the ITC in Washington D.C. whereby Applica sought an order that permanently excludes the Company from importing products that allegedly infringe on Applica's patents. The ITC held a hearing on the matter in August and the Initial Determination was issued in December by the Administrative Law Judge with the ITC on the action filed against us by Applica and found in our favor on all but one claim. On April 7, 2009 the ITC issued a ruling upholding the Initial Determination by the ITC Administrative Law Judge. On April 21, 2009, we certified to the U.S. Customs that our new revised products are non-infringing so that we could continue to import the products and on May 28, 2009, U.S. Customs ruled in our favor that the new model SmartScoop™ can be freely imported into the United States. Applica appealed the ITC's April 7, 2009 ruling in our favor and the appeal is currently pending in the Court of Appeals for the Federal Circuit. We separately appealed the ITC decision finding infringement under the one claim because we believe it was decided on incorrect facts. A ruling on our and Applica's appeals is expected in April.

Applica also sought a restraining order against a retailer carrying OurPet's SmartScoop™ litterbox, which was denied by the court. Applica's legal action against the retailer has since been consolidated with our patent infringement litigation in the U.S. District Court. Pursuant to our agreement with the retailer we will indemnify a portion of the costs of its defense against Applica. We believe that Applica's lawsuit against us and its legal actions against the retailer are without merit and aimed at discouraging competition, a belief we feel is supported by our recent success in obtaining a U.S. patent for the SmartScoop™ litter box in December 2009.

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.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2009.

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, 2008	1.00	0.56
June 30, 2008	1.01	0.38
September 30, 2008	0.54	0.27
December 31, 2008	0.43	0.15
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

As of March 15, 2010 , we had approximately 135 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 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 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.

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, 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.

As discussed below and in Liquidity and Capital Resources on Pages 11-13, we have funded our operations during 2009 principally from net cash provided by operating activities and from borrowings during 2008.

During 2009 we had a net reduction of \$951,000 in borrowings from our line of credit facility with our bank under which we can borrow up to \$2,000,000 based on the level of qualifying accounts receivable and inventories. At December 31, 2009 and December 31, 2008 we had balances of \$849,000 and \$1,800,000, respectively, under the line of credit with our bank at an interest rate of prime plus .5% versus an interest rate of prime plus .75% during all of 2008.

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, 2009, the new term loan had an outstanding principal balance of \$735,952.

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 301,212 warrants exercisable at \$0.821 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 442,412 warrants exercisable at \$0.496 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 12,604 and 50,468 warrants exercisable at \$0.496 and \$0.397 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 25,234 warrants exercisable at \$0.397 per share and the 300,000 warrants exercisable at \$0.37 per share were adjusted to 301,293 warrants exercisable at \$0.368 per share in accordance with the warrant anti-dilution provisions.

Results of Operations

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

In the following discussion all references to 2009 are for the year ended December 31, 2009 and all references to 2008 are for the year ended December 31, 2008.

Net revenue for 2009 was \$14,251,786, an increase of 14.8% in revenue from \$12,410,135 in 2008, consisting of sales of proprietary products for the retail pet business. Of this \$1,841,651 increase, approximately \$896,000 came from our two largest customers primarily due to new product introductions and new packaging roll out. The remaining increase of approximately \$945,000 came from increased International sales of \$270,000 and increased sales to new customers and distributors of \$ 675,000. Total sales to all customers of new products in 2009 that were not sold in 2008, including the new Flappy products, Play-N-Squeak products, new Durapet Bowl products, new Go Cat Go products, private label sales and ecoPure products were approximately \$1,879,000. Our sales to foreign customers increased by approximately \$270,000, or 35.7, from 2008 mainly due to increased sales to customers in England, Finland and Sweden.

While net revenue increased by 14.8% in 2009, cost of goods sold increased by 11.9%, from \$8,911,274 in 2008 to \$9,971,696 in 2009. This increase of \$1,060,422 was due primarily to the increase in sales volume driving a 13.7% (\$965,000) increase in the cost of purchased products sold and a 21.0 % (\$95,000) increase in operations labor costs as we added one new indirect employee, had significant increases in health insurance costs as well as increased accruals for bonus and profit sharing. Research and development costs are included in cost of goods sold and increased 92.7% (\$120,000) as we hired a full time engineering manager for new product development and incurred additional R&D expenses related to new product prototyping and samples. Our freight out costs dropped 25.8% (\$80,000) due to improved logistics management. Depreciation expenses decreased 10.3% (\$40,000) as molds and tooling assets with three year lives became fully depreciated. Customer back charges and warranty costs decreased 52.4% (\$73,000) due to improved quality control and decreased Smart Scoop litter box shipments. Personal Property /Ohio Commercial activity Tax adjustments resulted in approximately \$30,000 of increased expense. Warehouse rent increased approximately \$11,000 due to escalations in our lease agreement. Operations travel expense increased approximately \$6,000 due to our visiting overseas vendors. Overall, our variable and fixed warehouse and overhead costs increased by 5.2% (\$96,000) from 2008.

Net revenue increased by 14.8% and the cost of goods sold increased by 11.9%, which resulted in our gross profit on sales increasing by 22.3%, or \$781,229, from \$3,498,861 in 2008 to \$4,280,090 in 2009.

Selling, general and administrative expenses in 2009 were \$3,114,960, an increase of \$408,732, or 15.1%, from \$2,706,228 in 2008. The significant increases were in (i) increased salaries, wages, payroll taxes and benefits of approximately \$235,000 due to the hiring of two additional employees, one in sales, one in IT, overlap transition costs related to our CFO transition, overall increased health insurance costs and the increased accruals for employee profit sharing and managers' bonuses, (ii) increased sales and marketing expenses of approximately \$99,000 mainly due to promotional and incentive expenses by our customers and higher costs incurred for trade shows, (iii) accruals for commissions due to our sales representatives of approximately \$39,000 mainly due to increased sales in 2009 and (iv) consulting services of approximately \$17,000 for Sarbanes Oxley compliance.

Litigation expenses were \$373,608 for 2009, a decrease of \$1,949,375 from \$2,322,983 due to the decreased costs and activities related to our defense of a competitor's 2007 lawsuit against us for alleged patent infringement in connection with our SmartScoop™ self-scooping cat litter box .

Income (loss) from operations increased by \$2,321,872, from a loss of \$1,530,350 in 2008 to income of \$ 791,522 in 2009. This was the result of increases in our gross profit on sales of \$781,229 and decreases in litigation expenses of \$1,949,375 which more than offset the increases in selling, general and administrative expenses of \$408,732.

Interest expense for 2009 was \$178,902, a decrease of 7.5%, or \$14,448, from \$193,350 in 2008. This decrease was primarily due to a \$39,000 decrease in our line of credit interest expense which more than offset the \$18,000 increase in contributor notes interest expense and a \$13,000 supplier financing charge. The line of credit interest expense decrease was primarily due to the average interest rate reduction to 3.95% in 2009 from 5.86% in 2008. Also, the line of credit average outstanding balance in 2009 decreased from \$1,738,000 in 2008 to \$1,539,000 in 2009. The increase in interest expense related to contributor notes was primarily due to 2009 being the first complete year of interest being charged vs. the partial 2008 year during which the notes were executed throughout that year. The supplier financing charges are no longer being incurred since we obtained the additional financing in September of 2009.

Other income for 2009 was \$38,153 compared to \$1,577 in 2008. The approximate \$37,000 increase was due to a settlement received in connection with our lawsuit against Akon Plastic Enterprises, Inc.

Income tax expense was a benefit of \$124,994 in 2009 compared to an expense of \$6,075 in 2008. The change of approximately \$131,000 was primarily due to an approximately \$125,000 deferred tax benefit.

The net income for 2009 was \$775,767 as compared to a net loss 2008 of \$1,728,198 or an increase in profitability of \$2,503,965. This increase was as a result of the following changes from 2008 to 2009:

Net revenue increase of 14.8%	\$ 1,841,651
Cost of goods sold increase of 11.9%	<u>(1,060,422)</u>
Gross profit on sales increase of 22.3%	781,229
Selling, general and administrative expenses increase of 15.1 %	(408,732)
Litigation expense	1,949,375
Other income and expense	36,576
Interest expense decrease of 7.5%	14,448
Income tax benefit	<u>131,069</u>
Increase in Profitability	<u>\$ 2,503,965</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 line of credit with our bank that had approximately \$1,351,000 in available funds at December 31, 2009 based upon the balance of accounts receivable and inventories at that date.

As of December 31, 2009, we had \$3,159,669 in principal amount of indebtedness consisting of:

Bank line of credit	Prime plus .5%	\$ 849,000
Bank term note 1	7.60%	55,443
Bank term note 2	4.61%	735,952
Contributor notes payable	Prime plus 2%	1,367,500
Pet Zone Products Ltd term loan	7.75%	37,842
Installment note payable	7.3%	13,932
Other notes payable	Prime plus 3% & 10%	100,000

The bank line of credit indebtedness of \$849,000 is from a line of credit with our bank under which we can borrow up to \$2,000,000 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, 2010. Under our agreement with the bank we are currently 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, 2009 we were in compliance with the covenants and default provisions under our agreement with the bank and had a debt service coverage ratio of 3.57 and a tangible net worth of \$4,130,761.

On October 2, 2009, we obtained a \$800,000 term loan (bank term note 2) from our bank. The term loan was the second of two credit facilities extended to us by our bank on September 17, 2009, the other being the renewal of our existing \$2,000,000 line of credit through June 30, 2010. The term loan was used to pay down our 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 interest rate on our line of credit's was reduced to Prime + .5% from Prime + .75%. Both loans are secured by our accounts receivable, inventory, equipment, trademarks, patents and the personal guarantee of certain stockholders.

The installment notes payable are paid in monthly payments of \$560 including interest through March 2012. The other notes payable are due in the amount of \$75,000 on December 1, 2010 to Beachcraft L.P. and \$25,000 on November 30, 2010 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 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 31, 2010 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 at an exercise price of \$0.30 per share. Subsequent to their issuance the warrants were adjusted to 57,204 warrants exercisable at \$0.295 per share in accordance with the warrant anti-dilution provisions. The 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. However, for the year ended 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, 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 2010. We have no material commitments for capital expenditures.

A schedule of our contractual obligations as of December 31, 2009 is as follows:

<u>Contractual Obligation</u>	<u>Payments Due By Period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>After 5 years</u>
Long-Term Debt	\$3,159,669	\$1,905,589	\$1,254,080	\$ -0-	\$ -0-
Capital Lease Obligations	-0-	-0-	-0-	-0-	-0-
Purchase Obligations	-0-	-0-	-0-	-0-	-0-
Other Long Term Liabilities	-0-	-0-	-0-	-0-	-0-
Operating Leases	3,119,080	377,989	788,038	844,351	1,108,702
Total Contractual Cash Obligations	<u>\$6,278,749</u>	<u>\$2,283,578</u>	<u>\$2,042,118</u>	<u>\$844,351</u>	<u>\$1,108,702</u>

Net cash provided by operating activities for the year ended December 31, 2009 was \$353,012. Cash was provided by the net operating income for the year of \$1,246,303, including 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 the following changes in our operating assets and liabilities:

Accounts receivable increase	\$ (460,295)
Inventories decrease	319,582
Prepaid expenses increase	(19,135)
Patent cost increase	(50,867)
Deferred Tax Benefit increase	(125,370)
Other assets increase	(116,088)
Accounts payable decrease	(192,266)
Accrued expenses decrease	(248,852)
Net change	<u>\$ (893,291)</u>

The increase in accounts receivable from December 31, 2008 to December 31, 2009 was caused principally by the increase in gross sales from October 2009 to December 2009 of approximately \$583,000. Our inventory decrease from December 31, 2008 to December 31, 2009 was the result of improved inventory management. The increase in other assets of approximately \$116,000 from December 31, 2008 to December 31, 2009 was due to increased inventory deposits required by new overseas vendors. Our reduction in accounts payable of approximately \$192,000 from December 31, 2008 to December 31, 2009 was due to improved cash flow from operating activities allowing us to take discounts. Our accrued expenses decreased from December 31, 2008 to December 31, 2009 by approximately \$249,000 primarily as a result of our paying down deferred legal fees of approximately \$368,000 which were offset by an increase of accrued interest of approximately \$77,000 and an increase in accrued bonus/profit sharing of approximately \$64,000.

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.

Net cash used in operating activities for the year ended December 31, 2008 was \$692,764. Cash was used in the net operating loss for the year of \$1,202,472, including the non-cash charges for depreciation of \$441,219, amortization of \$27,767, stock option expense of \$19,356, and warrant expense of \$37,384. Cash was provided by the net change of \$509,708 in our operating assets and liabilities. These changes consisted of increases in accounts receivable of \$181,474, patent costs of \$33,638 and decreases in inventory of \$91,895, prepaid expenses of \$17,074 and other assets of \$4,471 and increases in accounts payable of \$68,142 and accrued expenses of \$543,238.

Net cash used in investing activities for the year ended December 31, 2008 was \$208,240, which was used for the acquisition of property and equipment. Net cash provided by financing activities for the year was \$1,235,734. Cash of \$100,000 was provided by the net borrowing under our line of credit with the bank, \$1,367,500 was provided by the issuance of long-term debt and \$629 was provided by the exercise of stock options. Cash of \$232,395 was used for the principal payments on long-term debt.

Subsequent to December 31, 2009, on February 1, 2010, the Company completed a private placement of Preferred Stock totaling \$865,312. Payment for the Preferred Stock was comprised of cash in the aggregate amount of \$595,000, the conversion of contributor debt in the aggregate amount of \$270,012 and the conversion of \$300 in accrued interest on the contributor notes. The debt conversion reduced the amount of contributor notes payable in February 2010 from \$600,000 to \$329,988.

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, 2009 and 2008, 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	19
Consolidated Balance Sheets	20-21
Consolidated Statements of Operations	22
Consolidated Statements of Stockholders' Equity	23
Consolidated Statements of Cash Flows	24
Notes to Consolidated Financial Statements	25-39

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

During our two most recent calendar years or any later interim period, there have been no changes in, or disagreements with, our principal independent accountant or a significant subsidiary's independent accountant.

Item 9A(T). Controls and Procedures.**Evaluation of Controls and Procedures**

As of December 31, 2009, 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, 2009.

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, 2009.

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 temporary rules of the Securities and Exchange Commission 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 21, 2010.

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
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⁾
- 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
- 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, 2010

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, 2010
<u> /s/ SCOTT R. MENDES </u> Scott R. Mendes	Chief Financial Officer (principal accounting officer)	March 31, 2010
<u> /s/ JOSEPH T. AVENI </u> Joseph T. Aveni	Director	March 31, 2010
<u> /s/ WILLIAM M. FRASER </u> William M. Fraser	Director	March 31, 2010
<u> /s/ JAMES D. IRELAND III </u> James D. Ireland III	Director	March 31, 2010
<u> /s/ JOHN SPIRK </u> John Spirk	Director	March 31, 2010

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, 2009 and December 31, 2008, and the related consolidated statements of operations, stockholders' equity and cash flows for the years 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of OurPet's Company and Subsidiaries as of December 31, 2009 and December 31, 2008, and the consolidated results of their operations and cash flows for the years ended December 31, 2009 and December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to examine management's assertion about the effectiveness of OurPet's Company and Subsidiaries' internal control over financial reporting as of December 31, 2009, which is included in Form 10-K and, accordingly, we do not express an opinion thereon.

S. R. Snodgrass, A. C.
Certified Public Accountants

Mentor, Ohio
March 31, 2010

OURPET'S COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 84,555	\$ 363,573
Accounts receivable—trade, less allowance for doubtful accounts of \$21,116 and \$22,477	1,881,179	1,420,884
Inventories	2,984,035	3,303,617
Prepaid expenses	93,130	73,995
Deferred Tax Asset less Valuation Allowance of \$377,734 and \$741,467	125,370	—
Total current assets	5,168,269	5,162,069
PROPERTY AND EQUIPMENT		
Computers and office equipment	339,077	296,298
Warehouse equipment	254,811	254,176
Leasehold improvements	129,572	120,705
Tooling	3,432,508	3,316,059
Construction in progress	302,991	199,386
Total	4,458,959	4,186,624
Less accumulated depreciation	(2,504,154)	(2,110,074)
Net property and equipment	1,954,805	2,076,550
OTHER ASSETS		
Patents, less amortization of \$170,863 and \$140,209	279,719	259,506
Goodwill	67,511	67,511
Deposits and other assets	128,438	12,350
Total other assets	475,668	339,367
Total assets	\$ 7,598,742	\$ 7,577,986

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

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

	December 31,	
	2009	2008
LIABILITIES		
CURRENT LIABILITIES		
Notes payable	\$ 949,000	\$ 1,900,000
Current maturities of long-term debt	956,589	144,581
Accounts payable—trade	1,046,101	1,238,367
Accrued expenses	417,199	666,051
Total current liabilities	3,368,889	3,948,999
LONG-TERM DEBT		
Long-term debt—less current portion above	1,254,080	1,474,036
Total long-term debt	1,254,080	1,474,036
Total liabilities	4,622,969	5,423,035
STOCKHOLDERS' EQUITY		
COMMON STOCK,		
no par value; authorized 50,000,000 shares, issued and outstanding 15,378,984 and 15,312,984 shares	4,235,093	4,196,153
CONVERTIBLE PREFERRED STOCK,		
no par value; convertible into Common Stock at the rate of 10 common shares for each preferred share; authorized 5,000,000 shares, issued and outstanding 66,000 shares	602,679	602,679
PAID-IN CAPITAL	75,944	69,829
ACCUMULATED DEFICIT	(1,937,943)	(2,713,710)
Total stockholders' equity	2,975,773	2,154,951
Total liabilities and stockholders' equity	\$ 7,598,742	\$ 7,577,986

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

OURPET'S COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,	
	2009	2008
Net revenue	14,251,786	\$12,410,135
Cost of goods sold	9,971,696	8,911,274
Gross profit on sales	4,280,090	3,498,861
Selling, general and administrative expenses	(3,114,960)	(2,706,228)
Litigation expense	(373,608)	(2,322,983)
Income (loss) from operations	791,522	(1,530,350)
Other income and expense, net	38,153	1,577
Interest expense	(178,902)	(193,350)
Income (loss) before income taxes	650,773	(1,722,123)
Income tax benefit (expense)	124,994	(6,075)
Net income (loss)	<u>\$ 775,767</u>	<u>\$ (1,728,198)</u>
Basic and Diluted Earnings Per Common Share After Dividend Requirements For Preferred Stock:		
Net income (loss)	<u>\$ 0.05</u>	<u>\$ (0.12)</u>
Weighted average number of common and equivalent shares outstanding used to calculate basic and diluted earnings per share	<u>15,523,288</u>	<u>15,257,050</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, 2009 AND DECEMBER 31, 2008

	Preferred Stock		Common Stock		Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Number of Shares	Amount	Number of Shares	Amount			
Balance at January 1, 2008	66,000	\$ 602,679	15,243,984	\$4,167,804	\$ 40,809	\$ (985,512)	\$3,825,780
Common Stock issued upon exercise of stock options	—	—	3,000	629	—	—	629
Common Stock issued in payment of Preferred Stock dividend	—	—	66,000	27,720	(27,720)	—	—
Net (loss) for the year	—	—	—	—	—	(1,728,198)	(1,728,198)
Stock-based compensation expense	—	—	—	—	56,740	—	56,740
Balance at December 31, 2008	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 the year	—	—	—	—	—	775,767	775,767
Stock based compensation expense	—	—	—	—	45,055	—	45,055
Balance at December 31, 2009	<u>66,000</u>	<u>\$ 602,679</u>	<u>15,378,984</u>	<u>\$4,235,093</u>	<u>\$ 75,944</u>	<u>\$(1,937,943)</u>	<u>\$2,975,773</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,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 775,767	\$ (1,728,198)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	394,827	441,219
Amortization expense	30,654	27,767
Stock option expense	21,025	19,356
Warrant expense	24,030	37,384
(Increase) decrease in assets:		
Accounts receivable—trade	(460,295)	(181,474)
Inventories	319,582	91,895
Prepaid expenses	(19,135)	17,074
Deferred Tax Asset	(125,370)	—
Patent costs	(50,867)	(33,638)
Deposits and other assets	(116,088)	4,471
Increase (decrease) in liabilities:		
Accounts payable—trade	(192,266)	68,142
Accrued expenses	(248,852)	543,238
Net cash (used in) provided by operating activities	353,012	(692,764)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(273,082)	(208,240)
Net cash used in investing activities	(273,082)	(208,240)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(207,948)	(232,395)
Gross borrowing on bank line of credit	(951,000)	100,000
Issuances of Common Stock	—	629
Issuance of long-term debt	800,000	1,367,500
Net cash (used in) provided by financing activities	(358,948)	1,235,734
Net increase (decrease) in cash	(279,018)	334,730
CASH AT BEGINNING OF YEAR	363,573	28,843
CASH AT END OF YEAR	\$ 84,555	\$ 363,573
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 163,827	\$ 138,535
SUPPLEMENTAL DISCLOSURE OF NON CASH TRANSACTIONS		
Common Stock issued in payment of Preferred Stock dividend	\$ 38,940	\$ 27,720

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, 2009 and 2008 in the amount of \$21,116 and \$22,477, respectively.

Inventory—Inventories are carried at the lower of cost, first-in, first-out method or market. Inventories at December 31, 2009 and December 31, 2008 consist of:

	<u>2009</u>	<u>2008</u>
Finished goods	\$2,163,787	\$2,425,396
Components and packaging	820,248	878,221
Total	<u>\$2,984,035</u>	<u>\$3,303,617</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.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 7 years
Warehouse equipment	5 to 7 years

All property and equipment is pledged as collateral for bank loans. Total depreciation for the years ended December 31, 2009 and December 31, 2008 was \$394,827 and \$441,219, 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.

The Company has filed for patents and trademarks for its proprietary products. The costs incurred of \$50,640 in the year ended December 31, 2009 and \$33,638 in the year ended December 31, 2008 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. 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.

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®, and DockDogs® brand names. Net revenue is comprised of gross sales less discounts given to distributors and returns and allowances.

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.

For the year ended December 31, 2008, 42.5% of the Company's revenue was derived from two major customers. Revenue generated from each of these customers amounted to \$2,798,485 and \$2,472,099, which represents 22.6% and 19.9% 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, 2009 and December 31, 2008 was \$259,328 and \$141,111, respectively.

Advertising Costs—Advertising costs are charged to operations when the advertising first takes place. Advertising expense for the years ended December 31, 2009 and December 31, 2008 was \$67,897 and \$32,513, respectively.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2009 and 2008 as a result of stock options was \$21,025 and \$19,356, 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, 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 the Preferred Stock at a conversion rate of \$1.000 per share. As of December 31, 2008, common shares that are or could be potentially dilutive include 1,395,000 stock options at exercise prices from \$0.260 to \$1.550 a share, 4,363,817 warrants to purchase Common Stock at exercise prices from \$0.283 to \$1.438 a share and 660,000 shares underlying the 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, 2009. The respective carrying value of certain on balance sheet financial instruments approximated their fair values. 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.

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.

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

Income Taxes (Continued)

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, 2009 and 2008, 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, 2006 and forward. The Company's major taxing jurisdiction is the United States. Within the United States, only Ohio could give rise to significant tax liabilities.

Subsequent Events—The Company has performed an evaluation of subsequent events. On January 28, 2010 and February 1, 2010, the Company sold an aggregate of 123,616 shares of its series 2009 preferred stock (the "Preferred Shares"), in a private placement to a total of 15 accredited investors. All Preferred Shares in the private placement were sold at a price of \$7.00 a share for a total of \$865,312. All Preferred 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 Preferred Shares receive a 6% (\$.42) cash dividend payable on December 1st of each year provided that payment may be deferred if necessary in order for the Company to comply with its loan covenants. The Company has the right to convert the Preferred Shares into Common Stock at any time after the trading price of its common stock reaches \$1.50 per share for twenty (20) consecutive days.

The Preferred 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.

This series of Preferred Shares was established by an amendment to the Company's articles of incorporation, as amended, which amendment is described in the Company's current report filed with the Securities and Exchange Commission on January 27, 2010. Each Preferred Share is currently convertible into ten shares of the Company's Common Stock, subject to adjustments as described in the amendment.

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

Recently Issued Accounting Pronouncements—In June 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2009-01, *Topic 105 - Generally Accepted Accounting Principles - FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles*. The Codification is the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. The Company adopted this standard for the interim reporting period ending September 30, 2009.

In June 2008, the FASB issued accounting guidance related to determining whether instruments granted in share-based payment transactions are participating securities, which is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. This guidance clarified that instruments granted in share-based payment transactions can be participating securities prior to the requisite service having been rendered. A basic principle of this guidance is that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of EPS pursuant to the two-class method. All prior-period EPS data presented (including interim financial statements, summaries of earnings, and selected financial data) are required to be adjusted retrospectively to conform with this guidance. This accounting guidance was subsequently codified into ASC Topic 260, *Earnings Per Share*. The Company has presented the necessary disclosures in Note—Stock Options herein.

In April 2009, the FASB issued new guidance impacting ASC Topic 820, *Fair Value Measurements and Disclosures*. This ASC provides additional guidance in determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The adoption of this new guidance did not have a material effect on the Company's results of operations or financial position.

In September 2006, the FASB issued an accounting standard related to fair value measurements, which was effective for the Company on January 1, 2008. This standard defined fair value, established a framework for measuring fair value, and expanded disclosure requirements about fair value measurements. On January 1, 2008, the provisions of this accounting standard became effective for the Company's financial assets and financial liabilities and on January 1, 2009 for nonfinancial assets and nonfinancial liabilities. This accounting standard was subsequently codified into ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note Fair Value of Financial Instruments for the necessary disclosures.

In August 2009, the FASB issued ASU No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value*. This ASU provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. ASU 2009-05 also clarifies that when estimating a fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance or fourth quarter 2009. The adoption of this new guidance did not have a material impact on the Company's financial position or results of operations.

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

Recently Issued Accounting Pronouncements – (Continued)

In April 2009, the FASB issued new guidance impacting ASC 825-10-50, *Financial Instruments*, which relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. This guidance amended existing GAAP to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This guidance is effective for interim and annual periods ending after June 15, 2009. The adoption of this new guidance did not have a material impact on the Company's financial position or results of operations.

In April 2009, the FASB issued new guidance impacting ASC 320-10, *Investments — Debt and Equity Securities*, which provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. This guidance is effective for interim and annual periods ending after June 15, 2009. The adoption of this new guidance did not have a material impact on the Company's financial position or results of operations.

In December 2007, the FASB issued an accounting standard related to non-controlling interests in consolidated financial statements, which is effective for fiscal years beginning on or after December 15, 2008. This standard establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. This accounting standard was subsequently codified into ASC 810-10, *Consolidation*. The adoption of this standard did not have a material effect on the Company's financial statements.

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

Recently Issued Accounting Pronouncements – (Continued)

In June 2009, the FASB issued new authoritative accounting guidance under ASC Topic 810, *Consolidation*, which amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The new authoritative accounting guidance requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. The new authoritative accounting guidance under ASC Topic 810 will be effective January 1, 2010 and is not expected to have a significant impact on the Company's financial statements.

The FASB issued new authoritative accounting guidance under ASC Topic 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC Topic 855 defines (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. The new authoritative accounting guidance under ASC Topic 855 is effective for periods ending after June 15, 2009. The required disclosures are provided in Note Subsequent Events.

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

NOTES PAYABLE AND LONG-TERM DEBT

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Revolving note payable—Bank, under line of credit facility of up to \$2,000,000 with interest at prime plus .50% (3.75% at December 31, 2009 and 4.00% at December 31, 2008). The note is secured by accounts receivable, equipment, inventory, trademarks, patents and the personal guarantee of certain stockholders.	\$ 849,000	\$1,800,000
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.	55,443	159,110
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.	735,952	- 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.	37,842	72,560
Note payable—former director and shareholder, due on December 1, 2010. Interest at prime plus 3% (6.25% at December 31, 2009 and 6.25% at December 31, 2008) payable quarterly. This note is subordinated to the bank loans.	75,000	75,000
Note payable—shareholder and investor, due on November 30, 2010. 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, 2009 and December 31, 2008). These notes are subordinated to the bank loans.	1,367,500	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%.	13,932	19,447
	<u>3,159,669</u>	<u>3,518,617</u>
Less current portion of long-term debt	<u>1,905,589</u>	<u>2,044,581</u>
	<u>\$1,254,080</u>	<u>\$1,474,036</u>

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

NOTES PAYABLE AND LONG-TERM DEBT (Continued)

Future maturities of long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2010	\$1,905,589
2011	743,528
2012	510,552
	<u>\$3,159,669</u>

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, 2010 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, 2010) 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 due in two years for \$600,000, due in three years for \$467,500, and due in four years for \$300,000 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 839,580 warrants exercisable at \$0.368 to \$0.818 per share in accordance with the warrant anti-dilution provisions.

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

INTANGIBLE ASSETS

	<u>As of December 31, 2009</u>		<u>As of December 31, 2008</u>	
	<u>Cost</u>	<u>Amortization</u>	<u>Cost</u>	<u>Amortization</u>
Amortized intangible assets:				
Patents and trademarks	\$450,582	\$ 170,863	\$ 399,715	\$ 140,209
Unamortized intangible assets:				
Domain names	\$ 11,000	\$ —	\$ 11,000	\$ —
Amortization expense for year ended 12/31			\$ 27,767	
Estimated amortization expense:				
For year ending 12/31/10	\$ 33,072			
For year ending 12/31/11	\$ 33,072			
For year ending 12/31/12	\$ 33,072			
For year ending 12/31/13	\$ 33,072			
For year ending 12/31/14	\$ 33,072			

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. Lease expense for the year ended December 31, 2009 and the year ended December 31, 2008 was \$358,678 and \$341,213, respectively.

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, 2009, the Company has been invoiced \$781,061 by NSDA of which \$410,496 has been paid in cash, \$50,000 paid with 50,454 shares of the Company's 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, 2009, the fee accrued to date was \$8,748.

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

CONCENTRATION OF CREDIT RISK

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.

At December 31, 2008, 47.6% of the Company's accounts receivable was due from four major customers. Amounts due from each of these customers were \$328,642, \$165,218, \$97,535, and \$95,123, which represents 22.8%, 11.4%, 6.8%, and 6.6% 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.

WARRANTS

At December 31, 2009, 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	57,632	0.282	October 1, 2012
2005 Directors for guarantees	152,778	0.422	November 14, 2012
2006 Acquisition of business	2,782,500	0.589	January 2, 2013
2006 Note payable to stockholder	126,673	0.330	January 3, 2013
2006 Payment for services	20,330	0.492	April 20, 2013
2006 Director for guarantee	254,348	0.688	August 2, 2013
2007 Directors for fees	51,983	1.432	August 17, 2012
2008 Payment for services	50,427	0.942	January 11, 2013
2008 Note payable to contributor	7,569	0.818	February 8, 2013
2008 Notes payable to contributors	294,941	0.496	February 8, 2013
2008 Notes payable to contributors	133,606	0.496	June 20, 2013
2008 Note payable to contributor	12,604	0.496	July 24, 2013
2008 Note payable to contributor	13,865	0.496	July 30, 2013
2008 Note payable to contributor	50,468	0.397	August 13, 2013
2008 Note payable to contributor	25,234	0.397	October 7, 2013
2008 Note payable to contributor	301,293	0.368	November 7, 2013
2009 Director for guarantee	351,507	0.451	September 17, 2012
2009 Payment for services	30,129	0.482	October 15, 2014
Total	<u>4,717,887</u>		

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

WARRANTS (Continued)

The exercise price for the common shares issuable under the warrants to purchase 2,782,500 shares is \$0.589 per share if exercised on or before January 2, 2011 or \$0.663 per share if exercised on or after January 3, 2011 and on or before January 2, 2012 or \$0.738 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.

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:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2008	1,000,500	.38
Granted	413,000	.51
Exercised	3,000	.21
Forfeited	—	—
Expired	15,500	.21
Outstanding at December 31, 2008	<u>1,395,000</u>	.42
Granted	203,000	.25
Exercised	—	—
Forfeited	5,000	.31
Expired	—	—
Outstanding at December 31, 2009	<u><u>1,593,000</u></u>	.40

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

STOCK OPTION PLANS (Continued)

The following table summarizes options outstanding at December 31, 2009:

<u>Range</u>	<u>Number Outstanding</u>	<u>Options Outstanding</u>		<u>Options Exercisable</u>	
		<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Number Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$0.85-\$1.55	56,000	\$ 1.10	2.4 Years	15,333	\$ 1.13
\$0.45-\$0.65	553,500	\$ 0.50	3.0 Years	98,333	\$ 0.50
\$0.20-\$0.35	983,500	\$ 0.30	4.2 Years	790,500	\$ 0.31

There were 904,166 and 821,662 options exercisable at December 31, 2009 and December 31, 2008, respectively. The weighted average exercise price of options granted in 2009 and 2008 was \$0.25 and \$0.51, respectively.

OPERATING LEASES

Minimum future lease payments under operating leases as of December 31, 2009 are as follows:

2010	\$ 377,989
2011	390,902
2012	397,136
2013	415,228
2014	429,123
Thereafter	<u>1,108,702</u>
Total minimum lease payments	<u>\$3,119,080</u>

Total rent expense of the Company for the years ended December 31, 2009 and December 31, 2008 was \$358,678 and \$341,217, respectively.

INCOME TAXES

At December 31, 2009, 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, 2006 and forward. The Company's major taxing jurisdictions include the United States and Ohio.

There was an income tax benefit for 2009 of \$124,994 and income tax expense of \$6,075 for 2008.

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 year ended December 31, 2009.

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

INCOME TAXES (Continued)

	2009	2008
Income tax expense/benefit based on US statutory rate	\$ 238,739	\$(558,054)
Current period change in the valuation allowance	\$(363,733)	\$ 564,129
Provision for Income Taxes	\$(124,994)	\$ 6,075

The Company

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

	December 31,	
	2009	2008
Deferred tax assets:		
Net operating loss carry forward	\$ 503,104	\$ 741,467
Valuation allowances	\$(377,734)	\$(741,467)
Net deferred tax assets	\$ 125,370	\$ -0-

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's valuation allowance increased by approximately \$564,000 for the year ended December 31, 2008 which represents the effect of the net operating loss. The Company has recorded a valuation allowance in 2009 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." For the year ended 12-31-08 the Company recorded a valuation allowance equal to its deferred tax assets due to the uncertainty of realization of these assets through future taxable income.

The Company has available at December 31, 2009, unused operating loss carryforwards that may be applied against future taxable income and that expire as follows:

Year Of Loss	Amount of Unused Operating Loss Carryforwards	Expiration During Year Ending
2008	\$ 1,479,718	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 us 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, we 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.

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

LITIGATION (Continued)

On October 12, 2007, Applica Consumer Products, Inc. ("Applica") filed an action in the U.S. District Court, Eastern District of Texas, against the Company alleging patent infringement of certain of its patents. Applica has alleged that the Company's SmartScoop™ self-scooping cat litter box infringes upon patents Applica controls for self-cleaning litter boxes. Applica is seeking damages and a permanent injunction prohibiting the Company from further infringement of Applica's patents. The case is currently partially stayed in view of the U.S. International Trade Commission ("ITC") investigation discussed below. Certain activity regarding the patent suit is continuing and is in the discovery stage.

On or about December 2, 2007, Applica filed a complaint with the ITC in Washington D.C. whereby Applica sought an order that permanently excludes the Company from importing products that allegedly infringe on Applica's patents. The ITC held a hearing on the matter in August and the Initial Determination was issued in December by the Administrative Law Judge with the ITC on the action filed against us by Applica and found in our favor on all but one claim. On April 7, 2009 the ITC issued a ruling upholding the Initial Determination by the ITC Administrative Law Judge. On April 21, 2009 we certified to the U.S. Customs that our new revised products are non-infringing so that we could continue to import the products and on May 28, 2009 U.S. Customs ruled in our favor that the new model SmartScoop® can be freely imported into the United States. Applica appealed the ITC's April 7, 2009 ruling in our favor and the appeal is currently pending in the Court of Appeals for the Federal Circuit. We separately appealed the ITC decision finding infringement under the one claim because we believe it was decided on incorrect facts. A ruling on our and Applica's appeals is expected in April.

Applica also sought a restraining order against a retailer carrying OurPet's SmartScoop™ litterbox. Pursuant to our agreement with the retailer we will indemnify a portion of the costs of its defense against Applica. We believe that Applica's lawsuit against us and its legal actions against a retailer are without merit and aimed at discouraging competition, a belief we feel is supported by our recent success in obtaining a U.S. patent for the SmartScoop™ litter box in December 2009.

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.

OURPET'S COMPANY AND SUBSIDIARIES
STATEMENT OF COMPUTATION OF NET INCOME (LOSS) PER SHARE

For the years ended December 31, 2009 and December 31, 2008

	<u>2009</u>	<u>2008</u>
Net income (loss)	\$ 775,767	\$ (1,728,198)
Preferred Stock dividend requirements	<u>(38,940)</u>	<u>(27,720)</u>
Net income (loss) attributable to common stockholders	<u>\$ 736,827</u>	<u>\$ (1,755,918)</u>
Weighted average number of common and dilutive common equivalent shares outstanding	<u>15,523,288</u>	<u>15,257,050</u>
Net income (loss) per common share	<u>\$ 0.05</u>	<u>\$ (0.12)</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, 2010

/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, 2010

/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, 2009 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, 2009 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, 2010

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, 2009 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, 2009 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, 2010

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.



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

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