

Edgar Filing: Omega Flex, Inc. - Form 10-Q

Omega Flex, Inc.  
Form 10-Q  
August 13, 2008  
UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **June 30, 2008**

**( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number **000-51372**

**Omega Flex, Inc.**

(Exact name of registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of incorporation or organization)  
**451 Creamery Way, Exton, PA**  
(Address of principal executive offices)

**23-1948942**  
(I.R.S. Employer Identification No.)  
**19341**  
(Zip Code)

**(610) 524-7272**

Registrant's telephone number, including area code

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange. (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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS**

**DURING THE PRECEDING FIVE YEARS.**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 12 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the courts.

The number of shares of the registrant's common stock issued and outstanding as of August 4, 2008 was 10,093,808.

OMEGA FLEX, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE SIX MONTHS ENDED JUNE 30, 2008

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**PART I - FINANCIAL INFORMATION****Item 1 - Financial Statements****OMEGA FLEX, INC.****CONSOLIDATED BALANCE SHEETS****(unaudited)**

|                                                                                                                                  | <b><u>June 30,</u></b><br><b><u>2008</u></b> | <b><u>December 31</u></b><br><b><u>2007</u></b> |
|----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|-------------------------------------------------|
|                                                                                                                                  | <b>(Dollars in thousands)</b>                |                                                 |
| <b>ASSETS</b>                                                                                                                    |                                              |                                                 |
| Current Assets                                                                                                                   |                                              |                                                 |
| Cash and Cash Equivalents                                                                                                        | \$ 6,401                                     | \$13,143                                        |
| Accounts Receivable - less allowances of<br>\$137 and \$137, respectively                                                        | 9,464                                        | 10,132                                          |
| Inventories                                                                                                                      | 10,386                                       | 10,567                                          |
| Note Receivable from former Parent Company                                                                                       | 3,250                                        | 3,250                                           |
| Other Current Assets                                                                                                             | <u>1,670</u>                                 | <u>1,884</u>                                    |
| Total Current Assets                                                                                                             | <u>31,171</u>                                | <u>38,976</u>                                   |
| Property and Equipment - net                                                                                                     | 6,806                                        | 6,749                                           |
| Goodwill                                                                                                                         | 3,526                                        | 3,526                                           |
| Other Long Term Assets                                                                                                           | <u>533</u>                                   | <u>521</u>                                      |
| Total Assets                                                                                                                     | <u>\$42,036</u>                              | <u>\$49,772</u>                                 |
|                                                                                                                                  | =====                                        | =====                                           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                      |                                              |                                                 |
| Current Liabilities:                                                                                                             |                                              |                                                 |
| Accounts Payable                                                                                                                 | \$898                                        | \$1,486                                         |
| Accrued Compensation                                                                                                             | 1,094                                        | 2,692                                           |
| Accrued Commissions & Sales Incentives                                                                                           | 2,420                                        | 3,032                                           |
| Accrued Legal Settlement and Related Costs                                                                                       | 246                                          | 1,272                                           |
| Dividends Payable                                                                                                                | ---                                          | 7,092                                           |
| Other Liabilities                                                                                                                | <u>3,057</u>                                 | <u>2,423</u>                                    |
| Total Current Liabilities                                                                                                        | 7,715                                        | 17,997                                          |
| Long-Term Portion of Accrued Legal Settlement                                                                                    | ---                                          | 1,000                                           |
| Other Long-Term Liabilities                                                                                                      | <u>2,152</u>                                 | <u>2,107</u>                                    |
| Total Liabilities                                                                                                                | <u>9,867</u>                                 | <u>21,104</u>                                   |
| Minority Interests                                                                                                               | <u>176</u>                                   | <u>129</u>                                      |
| Shareholders' Equity:                                                                                                            |                                              |                                                 |
| Common Stock par value \$0.01 Share: authorized 20,000,000 Shares: 10,093,808<br>and 10,128,516 shares issued and outstanding at |                                              |                                                 |
| June 30, 2008 and December 31, 2007, respectively                                                                                | 102                                          | 102                                             |
| Treasury Stock, at cost 59,825 Shares                                                                                            | (1)                                          | ---                                             |
| Paid in Capital                                                                                                                  | 10,832                                       | 11,372                                          |
| Retained Earnings                                                                                                                | 20,654                                       | 16,651                                          |
| Accumulated Other Comprehensive Income                                                                                           | <u>406</u>                                   | <u>414</u>                                      |

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|                                            |                   |                   |
|--------------------------------------------|-------------------|-------------------|
| Total Shareholders' Equity                 | <u>31,993</u>     | <u>28,539</u>     |
| Total Liabilities and Shareholders' Equity | \$42,036<br>===== | \$49,772<br>===== |

See Accompanying Notes to Consolidated Financial Statements.

## OMEGA FLEX, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

|                                                                 | For the three-months ended<br>June 30,<br><u>2008</u> |                | For the six-months ended<br>June 30,<br><u>2008</u> |                |
|-----------------------------------------------------------------|-------------------------------------------------------|----------------|-----------------------------------------------------|----------------|
|                                                                 |                                                       | <u>2007</u>    | <u>2008</u>                                         | <u>2007</u>    |
| <b>(Amounts in thousands, except earnings per Common Share)</b> |                                                       |                |                                                     |                |
| Net Sales                                                       | \$16,378                                              | \$19,202       | \$32,801                                            | \$36,533       |
| Cost of Goods Sold                                              | <u>8,164</u>                                          | <u>10,542</u>  | <u>16,407</u>                                       | <u>19,597</u>  |
| Gross Profit                                                    | 8,214                                                 | 8,660          | 16,394                                              | 16,936         |
| Selling Expense                                                 | 2,810                                                 | 3,264          | 5,304                                               | 6,091          |
| General and Administrative Expense                              | 1,836                                                 | 1,892          | 3,833                                               | 3,755          |
| Legal Settlement and Related Costs                              | 65                                                    | 166            | (41)                                                | 330            |
| Engineering Expense                                             | <u>514</u>                                            | <u>612</u>     | <u>1,117</u>                                        | <u>1,218</u>   |
| Operating Profit                                                | 2,989                                                 | 2,726          | 6,181                                               | 5,542          |
| Interest Income, Net                                            | 67                                                    | 87             | 169                                                 | 276            |
| Other (Expense) Income, Net                                     | <u>(38)</u>                                           | <u>43</u>      | <u>(26)</u>                                         | <u>44</u>      |
| Income Before Income Taxes                                      | 3,018                                                 | 2,856          | 6,324                                               | 5,862          |
| Income Tax Expense                                              | <u>1,085</u>                                          | <u>1,048</u>   | <u>2,322</u>                                        | <u>2,182</u>   |
| Net Income                                                      | <u>\$1,933</u>                                        | <u>\$1,808</u> | <u>\$4,002</u>                                      | <u>\$3,680</u> |
| Basic Earnings per Common Share:                                |                                                       |                |                                                     |                |
| Net Income                                                      | \$0.19                                                | \$0.18         | \$0.40                                              | \$0.36         |
| Basic Weighted Average Shares Outstanding                       | 10,101                                                | 10,154         | 10,107                                              | 10,154         |
| Diluted Earnings per Common Share:                              |                                                       |                |                                                     |                |
| Net Income                                                      | \$0.19                                                | \$0.18         | \$0.40                                              | \$0.36         |
| Diluted Weighted Average Shares Outstanding                     | 10,101                                                | 10,154         | 10,107                                              | 10,154         |

See Accompanying Notes to Consolidated Financial Statements.

## OMEGA FLEX, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

## For the six-months ended

|                                                                               | <b>June 30,</b>               |                    |
|-------------------------------------------------------------------------------|-------------------------------|--------------------|
|                                                                               | <b><u>2008</u></b>            | <b><u>2007</u></b> |
|                                                                               | <b>(Dollars in thousands)</b> |                    |
| Cash Flows from Operating Activities:                                         |                               |                    |
| Net Income                                                                    | \$4,002                       | \$3,680            |
| Adjustments to Reconcile Net Income to                                        |                               |                    |
| Net Cash Provided by (Used in) Operating Activities:                          |                               |                    |
| Depreciation and Amortization                                                 | 325                           | 216                |
| Non-Cash Compensation Expense                                                 | 17                            | 15                 |
| Provision for Losses on Accounts Receivable, net of write-offs and recoveries | ---                           | 44                 |
| Change in Minority Interests                                                  | 47                            | 20                 |
| Changes in Operating Assets and Liabilities:                                  |                               |                    |
| Accounts Receivable                                                           | 668                           | (1,240)            |
| Inventory                                                                     | 181                           | (3,151)            |
| Accounts Payable                                                              | (588)                         | 1,519              |
| Accrued Compensation                                                          | (1,598)                       | (1,239)            |
| Accrued Legal Settlement and Related Costs                                    | (2,026)                       | (5,993)            |
| Other Liabilities                                                             | 18                            | (1,804)            |
| Other Assets                                                                  | <u>202</u>                    | <u>222</u>         |
| Net Cash Provided by (Used In) Operating Activities                           | <u>1,248</u>                  | <u>(7,711)</u>     |
| Cash Flows from Investing Activities:                                         |                               |                    |
| Capital Expenditures                                                          | <u>(382)</u>                  | <u>(215)</u>       |
| Net Cash Used in Investing Activities                                         | <u>(382)</u>                  | <u>(215)</u>       |
| Cash Flows from Financing Activities:                                         |                               |                    |
| Treasury Stock Purchase                                                       | (540)                         | ---                |
| Dividends Paid                                                                | <u>(7,092)</u>                | <u>(4,061)</u>     |
| Net Cash Used in Financing Activities                                         | <u>(7,632)</u>                | <u>(4,061)</u>     |
| Net Decrease in Cash and Cash Equivalents                                     | (6,766)                       | (11,987)           |
| Translation effect on cash                                                    | 24                            | 8                  |
| Cash and Cash Equivalents Beginning of Period                                 | <u>13,143</u>                 | <u>17,424</u>      |
| Cash and Cash Equivalents End of Period                                       | <u>\$6,401</u>                | <u>\$5,445</u>     |
|                                                                               | =====                         | =====              |

See Accompanying Notes to Consolidated Financial Statements.

OMEGA FLEX, INC.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All dollars in thousands except per share amounts)

(Unaudited)

### 1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

#### Basis of Presentation

The accompanying consolidated financial statements include the accounts of Omega Flex, Inc. (Omega) and its subsidiaries (collectively the Company). The Company's unaudited consolidated financial statements for the quarter ended June 30, 2008 have been prepared in accordance with generally accepted accounting principles, and with the instructions of Form 10-Q and Article 10 of Regulation S-X. All material inter-company accounts and transactions have been eliminated in consolidation. It is Management's opinion that all adjustments necessary for a fair presentation of the results for the interim periods have been made, and that all adjustments are of a normal recurring nature or a description is provided for any adjustments that are not of a normal recurring nature.

#### Description of Business

The Company is a leading manufacturer of flexible metal hose, which is used in a variety of applications to carry gases and liquids within their particular applications. These applications include carrying liquefied gases in certain processing applications, fuel gases within residential and commercial buildings and vibration absorbers in high vibration applications. Our industrial flexible metal piping is used to carry other types of gases and fluids in a number of industrial applications where the customer requires the piping to have both a degree of flexibility and/or an ability to carry corrosive compounds or mixtures, or to carry at both very high and very low (cryogenic) temperatures.

The Company manufactures flexible metal hose primarily at its facility in Exton, Pennsylvania, with a minor amount of manufacturing performed in the UK, and sells its product through distributors, wholesalers and to original equipment manufacturers (OEMs) throughout North America, and in certain European markets.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates and assumptions relate to revenue recognition and related sales incentives, accounts receivable valuations, inventory valuations, goodwill valuation, and accounting for income taxes. Actual amounts could differ significantly from these estimates.





### **Revenue Recognition**

The Company's revenue recognition activities relate almost entirely to the manufacture and sale of flexible metal hose and pipe. Under generally accepted accounting principles, revenues are considered to have been earned when the Company has substantially accomplished what it must do to be entitled to the benefits represented by the revenues. The following criteria represent preconditions to the recognition of revenue:

Persuasive evidence of an arrangement for the sale of product or services must exist.

Delivery has occurred or services rendered.

The sales price to the customer is fixed or determinable.

Collection is reasonably assured.

The Company generally recognizes revenue upon shipment in accordance with the above principles.

Gross sales are reduced for all consideration paid to customers for which no identifiable benefit is received by the Company. This includes promotional incentives, year end rebates, and discounts. The amounts of certain incentives are estimated at the time of sale.

Commissions, for which the Company receives an identifiable benefit, are accounted for as a sales expense.

### **Earnings per Common Share**

Basic earnings per share have been computed using the weighted average number of common shares outstanding. For the periods presented, there are no dilutive securities. Consequently, basic and dilutive earnings per share are the same.

### **Currency Translation**

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates prevailing on the balance sheet date. The Statement of Operations is translated into U.S. dollars at average exchange rates. Adjustments resulting from the translation of financial statements are excluded from the determination of income and are accumulated in a separate component of shareholders' equity. Exchange gains and losses resulting from foreign currency transactions are included in operations (other income (expense)) in the period in which they occur.

### **Income Taxes**

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The Company accounts for federal tax liabilities in accordance with SFAS No. 109, Accounting for Income Taxes . Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets

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and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize the benefit, or that future deductibility is uncertain.

### **Other Comprehensive (Loss) Income**

For the quarters ended June 30, 2008 and 2007, respectively, the components of Other Comprehensive (Loss) Income consisted solely of foreign currency translation adjustments.

### **New Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 160 Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 ( SFAS 160 ). SFAS 160 establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company believes that this new pronouncement will not have any significant impact on the Company's financial statements in future periods.

In December 2007, the FASB issued SFAS No. 141 (R) Business Combinations ( SFAS 141R ). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. SFAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company believes that this new pronouncement will have an impact on our accounting for future business combinations once adopted, but the effect is dependent upon the acquisitions that are made in the future.

In March 2008, FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 which establishes the disclosure requirements for derivative instruments and for hedging activities. This Statement amends and expands the disclosure requirements of Statement 133 with the intent to provide users of financial statements with an enhanced understanding of derivative instruments and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. We do not expect adoption of SFAS 161 to have a material impact on the Company's financial statements.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 will be effective 60 days following the SEC's approval of the Public

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Company Accounting Oversight Board amendment to AU 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect the implementation of SFAS 162 to have a material impact on its consolidated financial statements.

### **Reclassifications**

Certain reclassifications have been made to prior years' financial statements to conform to the 2008 presentation.

### **3. DISTRIBUTION FROM MESTEK, INC. (Spin-Off)**

The Company completed a Spin-Off from its former parent, Mestek, Inc. (Mestek) on July 29, 2005. The Company's common shares began trading on the NASDAQ Global Market under the trading symbol OFLX on August 1, 2005.

In connection with the Spin-Off, the Company executed certain agreements governing its relationship with Mestek subsequent to the date of the Spin-Off which are disclosed in the initial Form 10 and also discussed in detail in Note 3 of the December 31, 2006 Form 10-K filing.

At the effective date of the Spin-Off, Mestek was indebted to the Company in the amount of \$3,250 which was converted on the effective date of the Spin-Off to a 3-year note receivable from Mestek bearing interest at 100 basis points above the then prevailing 3-year US Treasury note yield at approximately 5%. The principal balance of the Note at June 30, 2008 and December 31, 2007 remained \$3,250. The interest income recorded on the note was approximately \$81 for the six months ended 2008 and 2007, respectively.

As stated in Note 8, Subsequent Event, in July of 2008 Mestek paid the entire \$3,250 principal note balance and applicable interest in accordance with the above agreement.

### **4. INVENTORIES**

Inventories consisted of the following at June 30:

|                 | <b><u>2008</u></b><br><b>(unaudited)</b><br><b>(dollars in thousands)</b> | <b><u>2007</u></b> |
|-----------------|---------------------------------------------------------------------------|--------------------|
| Finished Goods  | \$7,758                                                                   | \$7,150            |
| Raw Materials   | <u>2,628</u>                                                              | <u>3,417</u>       |
| Total Inventory | \$10,386<br>=====                                                         | \$10,567<br>=====  |

**5. SHAREHOLDERS EQUITY**

**(Amounts in thousands, except share amounts)**

As of June 30, 2008 and December 31, 2007, the Company had authorized 20,000,000 common stock shares with par value of \$0.01 per share, and had 10,093,808 and 10,128,516 shares issued and outstanding, respectively.

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On December 11, 2007, the Board authorized a special dividend of \$0.70 per share to all Shareholders of record as of January 3, 2008, which was subsequently paid on January 16, 2008 in the amount of \$7,092.

Our future decisions concerning the payment of dividends on our common stock will depend upon our results of operations, financial condition and capital expenditure plans, as well as such other factors as the Board of Directors, in its sole discretion, may consider relevant.

On September 12, 2007, the Company announced that its Board of Directors has authorized the purchase of up to \$5,000 of its common stock. The purchases may be made from time-to-time in open market or in privately negotiated transactions, depending on market and business conditions, within the next 24 months. The Board retained the right to cancel, extend, or expand the share buyback program, at any time and from time-to-time. During the first six months of 2008, the Company purchased 34,708 shares for \$540, including commissions. Since inception, the Company has purchased in total 59,825 shares for approximately \$907 or \$15 per share.

### 6. COMMITMENTS AND CONTINGENCIES

#### Commitments:

On September 5, 2006 the Company and other defendants entered into a Stipulation and Settlement Agreement with the Class Representatives and Class Counsel, to settle and resolve the allegations brought forth in the lawsuit titled *Lovelis, et al. v. Titeflex Corp., Inc., et al.* in the Arkansas Circuit Court, Clark County. Both the Company and the other defendants denied these allegations, and denied any wrongdoing or legal liability, but agreed to settle this matter to avoid further cost and the uncertainty and risk of the outcome of further litigation. Under the Settlement Agreement, the Company agreed to pay the value of each payment voucher redeemed by a class member for the installation of a lightning protection system or bonding and grounding of the Company's CSST product. The amount of the voucher is dependent on the geographical area in the United States where the building is located and the size of the heated or air-conditioned area of the building. The Company also agreed to pay a fixed amount of administrative expenses and attorneys' fees to the Class Counsel.

The Company cannot determine the exact amount for which it may be liable for the costs of the payment vouchers tendered under the claim program, because of the number of unknown variables associated with this liability. However, the Company estimated that the total amount of the liability relating to the settlement of the litigation would fall within a range of approximately \$8,810 and \$10,200. Thus far the Company has paid approximately \$8,424 related to the Settlement with a remaining liability of \$236 classified in current liabilities. This amount is based on currently available information and certain estimates and judgments, and is subject to revision as actual claims are received. In addition, there is a \$10 current liability for legal services related to the Settlement. As of June 30, 2008, the third party administrator of the settlement program has received 775 claims relating to the Company's products in connection with the Settlement.

Included in the payments noted above, and as indicated in Note 15 of the Company's December 31, 2007 Form 10-K, on February 4, 2008, the Company reached an agreement for final payment relating to the class action settlement, excluding the outstanding vouchers. This

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final payment, which was made on March 3, 2008, in the amount of \$1,850, represents the \$1,000 current portion due as previously disclosed, and the remaining \$1,000 long-term portion which was due in March of 2009, less a \$150 (15%) reduction resulting from early payment.

Under a number of indemnity agreements between the Company and each of its officers and directors, the Company has agreed to indemnify each of its officers and directors against any liability asserted against them in their capacity as an officer or director, or both. The Company's indemnity obligations under the indemnity agreements are subject to certain conditions and limitations set forth in each of the agreements. Under the terms of the Agreement, the Company is contingently liable for costs which may be incurred by the officers and directors in connection with claims arising by reason of these individuals' roles as officers and directors.

The Company has entered into salary continuation agreements with two employees, which provide for monthly payments to each of the employee or his designated beneficiary upon the employee's retirement or death. The payment benefits range from \$1 per month to \$3 per

month with the term of such payments limited to 15 years after the employee's retirement at age 65. The agreements also provide for survivorship benefits if the employee dies before attaining age 65, and severance payments if the employee is terminated without cause, the amount of which is dependent on the length of company service at the date of termination. The net present value of the retirement payments is included in Other Long-Term Liabilities, which amounts to \$340 for June 30, 2008 and \$312 at December 31, 2007. The Company has obtained and is the beneficiary of three whole life insurance policies in respect of the two employees discussed above, and one other policy. The cash surrender value of such policies (included in Other Assets) amounts to \$533 at June 30, 2008 and \$521 at December 31, 2007.

### **Contingencies:**

The Company retains significant obligations under its commercial insurance policies for losses occurring in the policy years in which it was a subsidiary of Mestek, Inc. For the policy year ending October 1, 2004, the Company retained liability for the first \$2,000 per occurrence of commercial general liability claims (including product liability claims), subject to an agreed aggregate. In addition, for 2004 the Company retained liability for the first \$250 per occurrence of workers compensation coverage, subject to an agreed aggregate. However, for policy years beginning on July 22, 2005 (the effective date of the Spin-Off), the Company retained liability for a maximum of \$50 per occurrence of commercial liability claims (including products liability claims), subject to an agreed aggregate, and the Company is insured on a first dollar basis for workers' compensation subject to statutory limits.

The Company's liability is limited to \$30 per case and an aggregate of \$620 annually for health insurance.

### **Warranty Commitments:**

Gas transmission products such as those made by the Company carry potentially serious personal injury risks in the event of failures in the field. As a result, the Company has extensive internal testing and other quality control procedures and historically the Company has not had a meaningful failure rate in the field due to the extensive nature of these quality controls. Due to the Company's quality systems, the warranty expense is *de minimis*, and accordingly, the Company does not maintain a warranty reserve beyond a nominal amount.



## 7. STOCK BASED COMPENSATION PLANS

(Amounts in thousands, except units)

### Phantom Stock Plan

**Plan Description.** On April 1, 2006, the Company adopted the Omega Flex, Inc. 2006 Phantom Stock Plan (the Plan). The Plan authorizes the grant of up to one million units of phantom stock to employees, officers or directors of the Company and of any of its subsidiaries. The phantom stock units ("Units") each represent a contractual right to payment of compensation in the future based on the market value of the Company's common stock. The Units are not shares of the Company's common stock, and a recipient of the Units does not receive any of the following:

- § ownership interest in the Company
- § shareholder voting rights
- § dividends or distributions
- § other incidents of ownership to the Company's common stock

The Units are granted to participants upon the recommendation of the Company's CEO, and the approval of the compensation committee. Each of the Units that are granted to a participant will be initially valued by the compensation committee, and at a minimum, the Unit's value will be in an amount equal to the closing price of the Company's common stock on the grant date. The Units have a vesting schedule, with a maximum vesting schedule of 3 years after

the grant date. Upon vesting, the Units represent a contractual right to the payment of the value of the Unit. The Units will be paid on their maturity date, which is a maximum of one year after all of the Units granted in a particular award have fully vested. The amount to be paid to the participant on the maturity date is dependant on the type of Unit granted to the participant. The Units may be *Full Value*, in which the value of each Unit at the maturity date, will equal the closing price of the Company's common stock as of the maturity date; or *Appreciation Only*, in which the value of each Unit at the maturity date will be equal to the closing price of the Company's common stock at the maturity date ~~minus~~ the closing price of the Company's common stock at the grant date.

In certain circumstances, the Units may be immediately vested upon the participant's death or disability. All Units granted to a participant are forfeited if the participant is terminated from his relationship with the Company or its subsidiary for ~~cause~~, which is defined under the

Plan. If a participant's employment or relationship with the Company is terminated for reasons other than for ~~cause~~, then any vested Units will be paid to the participant upon termination.

However, Units granted to certain specified employees as defined in Section 409A of the Internal Revenue Code will be paid approximately 181 days after that termination.

**Grants of Phantom Stock Units.** As of December 31, 2007, the Company had 2,724 units outstanding, all of which were granted at *Full Value*. On March 6, 2008, the Company granted an additional 5,076 *Full Value* Units with a face value of \$80 (fair value at grant date of approximately \$70). In all cases, the grant price was equal to the closing price of the Company's common stock at the grant date.

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The Company uses the Black-Scholes option pricing model as its method for determining fair value of the Units. The Company uses the straight-line method of attributing the value of the stock-based compensation expense relating to the Units. The compensation expense (including adjustment of the liability to its fair value) from the Units is recognized over the service or vesting period of each grant or award.

Statement 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates in order to derive the Company's best estimate of awards ultimately to vest. Forfeitures represent only the

unvested portion of a surrendered Unit and are typically estimated based on historical experience. As of October 8, 2007, in connection with an officer's resignation, a total of 2,874 unvested units were forfeited, however; based on an analysis of the Company's historical data, which has limited experience related to any stock-based plan forfeitures, the Company applied a 0% forfeiture rate to Plan Units outstanding in determining its Plan Unit compensation expense for June 30, 2008.

In accordance with SFAS 123R, the Company recorded compensation expense of approximately \$17 in 2008 related to the Phantom Stock Plan.

The fair value of the Units granted through the first six months June 30, 2008 using the Black-Scholes option-pricing model, uses the following assumptions:

| <u>Year Ended December</u><br><u>31,</u> | <u>Expected Term</u> | <u>Expected Volatility</u><br><u>Factor</u> | <u>Expected Dividend</u><br><u>Amount</u> | <u>Risk-Free Interest</u><br><u>Rate</u> |
|------------------------------------------|----------------------|---------------------------------------------|-------------------------------------------|------------------------------------------|
| 2007                                     | 3.0                  | 111.00%                                     | 1.93%                                     | 4.46%                                    |
| 2008                                     | 3.0                  | 87.95%                                      | 4.27%                                     | 1.77%                                    |

The Company has elected to use the Simplified method for calculating the Expected Term in accordance with SAB 107, and has opted to use the Expected Dividend Amount rather than an Expected Dividend Yield.

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The following table summarizes information about Phantom Stock Units for the six month period ending on June 30, 2008:

|                                            | <u>Units</u> | <u>Weighted Average<br/>Grant Date Fair<br/>Value</u> |
|--------------------------------------------|--------------|-------------------------------------------------------|
| Number of Phantom Stock Unit Awards:       |              |                                                       |
| Outstanding at December 31, 2007           | 2,724        | \$20.38                                               |
| Granted                                    | 5,076        | \$13.86                                               |
| Vested                                     | ---          | (\$---                                                |
| Forfeited                                  | ---          | (\$---                                                |
| Canceled                                   | ---          | (\$---                                                |
| Outstanding at June 30, 2008               | 7,800        | \$16.74                                               |
| Phantom Stock Unit Awards Expected to Vest | 7,800        | \$16.74                                               |

At June 30, 2008 none of the Units have vested. The Units granted are expected to vest in three year intervals, subject to earlier termination or forfeiture.

As of June 30, 2008, the unrecognized compensation costs related to Plan Units vesting will be primarily recognized over a period of approximately 3 years.

| <u>Fiscal year ending</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>Total</u> |
|---------------------------|-------------|-------------|-------------|-------------|--------------|
| Compensation Expense      | \$21        | \$42        | \$26        | \$4         | \$93         |

The Units outstanding and exercisable at June 30, 2008 were in the following exercise price ranges:

| <b>Units Outstanding</b> |                                |                                    |                                                    |                                        |                                  |
|--------------------------|--------------------------------|------------------------------------|----------------------------------------------------|----------------------------------------|----------------------------------|
| <b>Year</b>              | <b>Range of Exercise Price</b> | <b>Number of Units Outstanding</b> | <b>Weighted Average Remaining Contractual Life</b> | <b>Weighted Average Exercise Price</b> | <b>Aggregate Intrinsic Value</b> |
| 2007                     | \$22.02                        | 2,724                              | 1.67                                               | \$22.02                                | ---                              |
| 2008                     | \$15.76                        | 5,076                              | 2.67                                               | \$15.76                                | ---                              |

| <b>Units Exercisable</b> |                                |                                    |                                                    |                                        |                                  |
|--------------------------|--------------------------------|------------------------------------|----------------------------------------------------|----------------------------------------|----------------------------------|
| <b>Year</b>              | <b>Range of Exercise Price</b> | <b>Number of Units Exercisable</b> | <b>Weighted-Average Remaining Contractual Life</b> | <b>Weighted-Average Exercise Price</b> | <b>Aggregate Intrinsic Value</b> |
| 2007                     | \$22.02                        | ---                                | 1.67                                               | \$22.02                                | ---                              |
| 2008                     | \$15.76                        | ---                                | 2.67                                               | \$15.76                                | ---                              |



## 8. SUBSEQUENT EVENT

In July of 2008 Mestek paid the entire \$3,250 principal note balance and applicable interest in accordance with the agreement discussed in Note 3, Distribution from Mestek (Spin-Off).

### **Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This report contains forward-looking statements, which are subject to inherent uncertainties. These uncertainties include, but are not limited to, variations in weather, changes in the regulatory environment, customer preferences, general economic conditions, increased competition, the outcome of outstanding litigation, and future developments affecting environmental matters. All of these are difficult to predict, and many are beyond the ability of the Company to control.*

*Certain statements in this Quarterly Report on Form 10-Q that are not historical facts, but rather reflect the Company's current expectations concerning future results and events, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words believes, expects, intends, plans, anticipates, hopes, likely, will, and similar expressions identify such forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from future results, performance or achievements expressed or implied by such forward-looking statements.*

*Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's view only as of the date of this Form 10-Q. The Company undertakes no obligation to update the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, conditions or circumstances.*

## OVERVIEW

The Company is a leading manufacturer of flexible metal hose, and is currently engaged in a number of different markets, including construction, manufacturing, transportation, petrochemical, pharmaceutical and other industries.

The Company's business is controlled as a single operating segment that consists of the manufacture and sale of flexible metal hose and accessories. The Company's products are concentrated in residential and commercial construction, and general industrial markets. The Company's primary product line, flexible gas piping, is used for gas piping within residential and commercial buildings. Through its flexibility and ease of use with patented fittings distributed under the trademark AutoFlare®, the TracPipe® and CounterStrike® flexible gas piping systems allows users to substantially cut the time required to install the gas piping, as compared to traditional methods. Most of the Company's products are manufactured at the Company's Exton, Pennsylvania facility with a minor amount of manufacturing performed in the UK. A majority of the Company's sales across all industries are generated through independent outside sales organizations such as sales representatives, wholesalers and distributors, or a combination of both. The Company has a broad distribution network in North America and to a lesser extent in other global markets.

## CHANGES IN FINANCIAL CONDITION

(All dollars in thousands)

During 2008, the Company's cash balance has decreased \$6,742 from \$13,143 at December 31, 2007 to \$6,401 at June 30, 2008. Some of the major transactions that affected our cash balance were a \$7,092 special dividend payment made on January 16, 2008, and a payment of \$1,850 on March 3, 2008 to the Settlement Agreement as outlined in Note 15 of the year-end Form 10-K. Those payments were partially offset by cash generated from earnings for the year.

As discussed in Note 5, Shareholders' Equity, in December of 2007 the Company declared a dividend in December 2007, which amounted to \$7,092. The Company subsequently paid the dividend on January 16, 2008.

**RESULTS OF OPERATIONS**

(All dollars in thousands)

**Three-months ended June 30, 2008 vs. June 30, 2007**

The Company reported comparative results from continuing operations for the three-month period ended June 30, 2008 and 2007 as follows:

|                   | <b><u>Three-months ended June 30,</u></b><br>(in thousands) |                                       |                                             |                                       |
|-------------------|-------------------------------------------------------------|---------------------------------------|---------------------------------------------|---------------------------------------|
|                   | <b><u>2008</u></b><br><b><u>(\$000)</u></b>                 | <b><u>2008</u></b><br><b><u>%</u></b> | <b><u>2007</u></b><br><b><u>(\$000)</u></b> | <b><u>2007</u></b><br><b><u>%</u></b> |
| Net Sales         | \$16,378                                                    | 100.0%                                | \$19,202                                    | 100.0%                                |
| Gross Profit      | \$ 8,214                                                    | 50.2%                                 | \$ 8,660                                    | 45.1%                                 |
| Operating Profits | \$ 2,989                                                    | 18.3%                                 | \$ 2,726                                    | 14.2%                                 |

The Company's sales decreased \$2,824 (14.7%) from \$19,202 in the three-month period ended June 30, 2007 as compared to \$16,378 in the three-month period June 30, 2008.

Revenue for the three-months ended June 30, 2008 reflects continued weakness in the residential construction industry, which was offset somewhat by gains in market share in residential, non-residential and international construction markets. Overall, volume for the quarter was down 28.7% compared to the prior year quarter, partially offset by a favorable product mix and higher selling prices.

The Company's gross profit margins increased from 45.1% in the three-month period ended June 30, 2007 to 50.2% in the three-month period ended June 30, 2008. The increase in margin is primarily the result of the sales factors mentioned above combined with lower raw material costs, in particular stainless steel.

**Selling Expenses.** Selling expenses consist primarily of employee salaries and associated overhead costs, commissions, and the cost of marketing programs such as advertising, trade shows and related communication costs, and freight. Selling expense was \$3,264 and \$2,810 for the three months ended June 30, 2007 and 2008, respectively. The reduction was largely attributable to decreases in commissions and freight related to sales volume. Sales expense as a percentage of sales increased from 17.0% for the three-months ended June 30, 2007 to 17.2% for the three-months ended June 30, 2008.

**General and Administrative Expenses.** General and administrative expenses consist primarily of employee salaries, benefits for administrative, executive and finance personnel, legal and accounting, and corporate general and administrative services. General and administrative expenses were \$1,892 and \$1,836 for the three months ended June 30, 2007 and 2008, respectively. As a percentage of sales, general and administrative expenses increased from 9.9% for the three months ended June 30, 2007 to 11.2% for the three months ended June 30, 2008.





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**Legal Settlement and Related Costs.** Legal charges related to the Arkansas litigation in the three months ended June 30, 2007 and 2008, were \$166 and \$65, respectively. As disclosed in Note 6, Commitments and Contingencies, the majority of the costs associated with this litigation are behind the Company.

**Engineering Expense.** Engineering expenses consist of development expenses associated with the development of new products and enhancements to existing products, and manufacturing engineering costs. Engineering expenses were \$612 and \$514 for the three months ended June 30, 2007 and 2008 respectively. Accordingly, engineering expenses as a percentage of sales were largely in line with the prior year at 3.2% for the three months ended June 30, 2007 and 3.1% for the three months ended June 30, 2008.

Reflecting all of the factors mentioned above, Operating Profit margins increased \$263 from a profit of \$2,726 in the three-month period ended June 30, 2007 to a profit of \$2,989 in the three-month period ended June 30, 2008.

**Interest Income-Net.** Interest income-net includes interest income on the note receivable from Mestek and interest income on our interest-bearing investments.

**Other (Expense) Income-Net.** Other Income-net primarily consists of foreign currency exchange gains (losses) on transactions.

**Income Tax Expense.** The Company's effective tax rate in 2008 approximates the 2007 rate and does not differ materially from expected statutory rates.

### **Six-months ended June 30, 2008 vs. June 30, 2007**

The Company reported comparative results from continuing operations for the six-month period ended June 30, 2008 and 2007 as follows:

|                   | <b><u>Six-months ended June 30,</u></b> |                    |                       |                    |
|-------------------|-----------------------------------------|--------------------|-----------------------|--------------------|
|                   | <b>(in thousands)</b>                   |                    |                       |                    |
|                   | <b><u>2008</u></b>                      | <b><u>2008</u></b> | <b><u>2007</u></b>    | <b><u>2007</u></b> |
|                   | <b><u>(\$000)</u></b>                   | <b><u>%</u></b>    | <b><u>(\$000)</u></b> | <b><u>%</u></b>    |
| Net Sales         | \$32,801                                | 100.0%             | \$36,533              | 100.0%             |
| Gross Profit      | \$16,394                                | 50.0%              | \$16,936              | 46.4%              |
| Operating Profits | \$ 6,181                                | 18.8%              | \$ 5,542              | 15.2%              |

The Company's sales decreased \$3,732 (10.2%) from \$36,533 in the six-month period ended June 30, 2007 as compared to \$32,801 in the six-month period June 30, 2008.

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Revenue for the six-months ended June 30, 2008 reflects continued weakness in the residential construction industry, which was offset somewhat by gains in market share in residential, non-residential and international construction markets. Overall volume for the six months was down 23.0% compared to the prior year, partially offset by a favorable product mix and higher selling prices.

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The Company's gross profit margins increased from 46.4% in the six-month period ended June 30, 2007 to 50.0% in the six-month period ended June 30, 2008. The increase in margin is primarily the result of the sales factors mentioned above combined with lower raw material costs, in particular stainless steel. Additionally, manufacturing efficiencies contributed to improved margins.

Selling Expenses. Selling expenses consist primarily of employee salaries and associated overhead costs, commissions, and the cost of marketing programs such as advertising, trade shows and related communication costs, and freight. Selling expense was \$6,091 and \$5,304 for the six months ended June 30, 2007 and 2008, respectively. The reduction was largely attributable to decreases in commissions and freight related to sales volume. Sales expense as a percentage of sales decreased from 16.7% for the six-months ended June 30, 2007 to 16.2% for the six-months ended June 30, 2008.

General and Administrative Expenses. General and administrative expenses consist primarily of employee salaries, benefits for administrative, executive and finance personnel, legal and accounting, and corporate general and administrative services. General and administrative expenses were \$3,755 and \$3,833 for the six months ended June, 2007 and 2008, respectively. General and administrative expense, as a percentage of sales, increased from 10.3% for the six months ended June 30, 2007 to 11.7% for the six months ended June 30, 2008.

Legal Settlement and Related Costs. Legal charges related to the Arkansas litigation in the six months of 2007 and 2008, were \$330 and (\$41), respectively. The Company recognized a \$150 reduction in legal costs in 2008 due to the early class action settlement payment in March of 2008 as disclosed in Note 6, Commitments and Contingencies. The majority of the costs associated with this litigation are behind the Company.

Engineering Expense. Engineering expenses consist of development expenses associated with the development of new products and enhancements to existing products, and manufacturing engineering costs. Engineering expenses were \$1,218 and \$1,117 for the six months ended June 30, 2007 and 2008 respectively. Engineering expenses as a percentage of sales were mostly in line with the prior year at 3.3% for the six months ended June 30, 2007 and 3.4% for the six months ended June 30, 2008.

Reflecting all of the factors mentioned above, Operating Profit margins increased \$639 from a profit of \$5,542 in the six-month period ended June 30, 2007 to a profit of \$6,181 in the six-month period ended June 30, 2008.

Interest Income-Net. Interest income-net includes interest income on the note receivable from Mestek and interest income on our interest-bearing investments.

Other (Expense) Income-Net. Other Income-net primarily consists of foreign currency exchange gains (losses) on transactions.

Income Tax Expense. The Company's effective tax rate in 2008 approximates the 2007 rate and does not differ materially from expected statutory rates.

**CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES**

**(All dollars are in thousands)**

Financial Reporting Release No. 60, released by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 2 of the Notes to the Consolidated Financial Statements include a summary of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. The following is a brief discussion of the Company's more significant accounting policies.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates and assumptions relate to revenue recognition, accounts receivable valuations, inventory valuations, goodwill and intangible asset valuations, product liability costs, workers compensation claims reserves, health care claims reserves, and accounting for income taxes. Actual amounts could differ significantly from these estimates.

Our critical accounting policies and significant estimates and assumptions are described in more detail as follows:

**Revenue Recognition**

The Company's revenue recognition activities relate almost entirely to the manufacture and sale of flexible metal hose and pipe. Under generally accepted accounting principles, revenues are considered to have been earned when the Company has substantially accomplished what it must do to be entitled to the benefits represented by the revenues. The following criteria represent preconditions to the recognition of revenue:

Persuasive evidence of an arrangement for the sale of product or services must exist.

Delivery has occurred or services rendered.

The sales price to the customer is fixed or determinable.

Collection is reasonably assured.

The Company generally recognizes revenue upon shipment in accordance with the above principles.

Gross sales are reduced for all consideration paid to customers for which no identifiable benefit is received by the Company. This includes promotional incentives, year-end rebates, and discounts. The amounts of certain incentives are estimated at the time of sale.

Commissions, for which the Company receives an identifiable benefit, are accounted for as a sales expense.

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**Accounts Receivable**

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. The estimated allowance for uncollectible amounts is based primarily on specific analysis of accounts in the receivable portfolio and historical write-off experience. While management believes the allowance to be adequate, if the financial condition of the Company's customers were to deteriorate, resulting in impairment of their ability to make payments, additional allowances may be required.

**Inventory**

Inventories are valued at the lower of cost or market. Cost of inventories are determined by the first-in, first-out (FIFO) method. The Company generally considers inventory quantities beyond two-years' usage, measured on a historical usage basis, to be excess inventory and reduces the gross carrying value of inventory accordingly.

**Goodwill and Intangible Assets**

In accordance with FAS 142, the Company ceased recording amortization of goodwill and intangible assets with indefinite lives effective January 1, 2002. The Company performed its annual impairment test in accordance with FAS 142 as of December 31, 2007 which indicated no impairment of goodwill.

**Product Liability Reserves**

As explained more fully under Contingencies, the Company retains liability for the first \$50 of product liability claims. To date, the Company has not experienced a meaningful product failure rate.

**Workers Compensation Claims Reserves**

The Company is insured on a first dollar basis for workers compensation.

**Health Care Claim Reserves**

The Company's liability is limited to \$30 per case and an aggregate of \$620 annually.

**Accounting for Income Taxes**

The Company accounts for federal tax liabilities in accordance with SFAS No. 109, Accounting for Income Taxes . Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those

temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize the benefit, or that

future deductibility is uncertain.

## **LIQUIDITY AND CAPITAL RESOURCES**

**(All amounts in thousands except share amounts)**

### **Six Months ended June 30, 2008**

As of June 30, 2008, we had \$6,401 in consolidated cash, cash equivalents and short-term investments, which is \$6,742 less than at December 31, 2007, mostly resulting from cash payments of \$7,092 for a special dividend, and \$1,850 related to the Legal Settlement discussed in Note 6. The decrease was partially offset by cash generated from earnings for the year.

### **Operating Activities**

Cash provided by operations for the first six months of 2008 was \$1,248 compared with \$7,711 used in the first six months of 2007; an \$8,959 increase. The most significant component was the \$6,000 payment related to the Legal Settlement made in the first six months of 2007.

### **Investing Activities**

Capital spending was \$382 and \$215 in the first six months ended June 30, 2008 and June 30, 2007, respectively.

### **Financing**

Cash used in financing activities during the first six months of 2008 was \$7,632 compared with \$4,061 used in the first six months of 2007. The primary component for the first six months of 2008 was the \$7,092 related to the special dividend.

On September 12, 2007, the Company announced that its Board of Directors has authorized the purchase of up to \$5,000 of its common stock. The purchases may be made from time-to-time in open market or in privately negotiated transactions, depending on market and business conditions, within the next 24 months. The Board retained the right to cancel, extend, or expand the share buyback program at any time and from time-to-time. During the first six months of 2008, the Company had purchased 34,708 shares of treasury stock for \$540.

In September 2007, the Company entered into a Revolving Line of Credit Note and a Loan Agreement with Sovereign Bank, N.A., whereby the Company established a line of credit facility for a one-year duration, and in the maximum amount of \$7,500. The loan agreement provides for the payment of any loan under the agreement at a rate that is either prime rate less 1% or LIBOR rate plus 1%. As of June 30, 2008 the Company does not have any loans or loan balances, under the loan agreement.



The Company believes its liquidity position as of June 30, 2008 is fully adequate to meet foreseeable future needs and that the Company will possess adequate cash reserves to meet its day-to-day needs including any acquisitions or capital expenditures or stock repurchases it can reasonably foresee at this time.

As stated in Note 8, Subsequent Event, in July of 2008 Mestek paid the entire \$3,250 principal note balance and applicable interest in accordance with the above agreement.

**CONTINGENT LIABILITIES AND GUARANTEES**

See Note 6 to the Company's financial statements.

**OFF-BALANCE SHEET ARRANGEMENTS**

Refer to Item 7 of the Company's 2007 year-end Form 10-K under the caption "Tabular Disclosure of Contractual Obligations and Off-Balance Sheet Arrangements".

**Item 3. Quantitative And Qualitative Information About Market Risks**

The Company does not engage in the purchase or trading of market risk sensitive instruments. The Company does not presently have any positions with respect to hedge transactions such as forward contracts relating to currency fluctuations. No market risk sensitive instruments are held for speculative or trading purposes.

**Item 4 Controls And Procedures**

- (a) Evaluation of Disclosure Controls and Procedures.

At the end of the fiscal second quarter of 2008, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures. The Company's disclosure controls and procedures are designed to ensure that the Company records, processes, summarizes and reports in a timely manner the information required to be disclosed in the periodic reports filed by the Company with the Securities and Exchange Commission. The Company's management, including the chief executive officer and chief financial officer have conducted an evaluation of the effectiveness of the design and operation of the Company's Disclosure Controls and Procedures as defined in the Rule 13a-15(e) of Securities Exchange Act of 1934. Based on that evaluation, the chief executive officer and chief financial officer have concluded that, as of the date of this report, the Company's disclosure controls and procedures are effective to provide reasonable assurance of achieving the purposes described in Rule 13a-15(e), and no changes are required at this time.

- (b) Changes in Internal Controls.

There was no change in the Company's internal control over financial reporting (as defined in rule 13a-15(f) of the Securities Exchange Act of 1934) identified in connection with the evaluation required by Rule 13a-15(d) of the Securities Exchange Act of 1934 that occurred during the six-month period covered by this Report on Form 10-Q that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting subsequent to the date the chief executive officer and chief financial officer and principal accounting officer completed their evaluation.



**PART II - OTHER INFORMATION**

**Item 1 Legal Proceedings**

**(Dollars in Thousands)**

On September 4, 2006, the Company entered into the Stipulation and Settlement Agreement between the Class Representatives and Class Counsel and the Company and all of the other defendants in the lawsuit titled Lovelis, et al. v. Titeflex, Inc., et al. The Settlement Agreement was filed on September 5, 2006 in the Arkansas Circuit Court in Clark County, preliminarily settling all of the allegations set forth in the lawsuit. On September 6, 2006, the Company issued a press release and filed a Current Report on Form 8-K with the Securities and Exchange Commission regarding the settlement. On February 1, 2007, the Circuit Court gave final approval of the Settlement Agreement and dismissed the case. The remedial program provided under the Settlement Agreement, processed claims from class members during the claim period. The deadline for submitting any claims was September 5, 2007.

On May 23, 2008, the Company received a favorable verdict in its claims of patent infringement against Parker Hannifin Corporation, and specifically that the Omega Flex patents at issue in that case were valid. As a result, a judgment has been entered by the court requiring Parker Hannifin to pay the Company approximately \$1,127 in damages, interest and costs. Parker Hannifin has filed post trial motions, and payment of the damages, interest and costs have been stayed pending resolution of that appeal.

See Note 6 Contingencies of the Notes to the Condensed Consolidated Financial Statements (Part 1, Item 1) for information regarding legal proceedings in which we are involved.

**Item 4 Submission of Matters to a Vote of the Security Holders**

No matters were submitted to the security holders of the Company for a vote during the first quarter of 2008.

On June 3, 2008, the Company held its 2008 Annual Meeting of Shareholders. The shareholders voted on the following proposals:

1. To elect three Class 3 directors for a three year term expiring at the 2011 annual meeting of shareholders.
2. To ratify the appointment by the audit committee of the board of directors of Vitale Caturano & Co., Ltd. as the independent auditors for the Company for the fiscal year ending December 31, 2008.

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The results of the voting are as follows:

|    |                                                                                                                                                    |            |                 |
|----|----------------------------------------------------------------------------------------------------------------------------------------------------|------------|-----------------|
| 1. | Election of Directors                                                                                                                              | <u>For</u> | <u>Withheld</u> |
|    | John E. Reed                                                                                                                                       | 7,876,656  | 297,313         |
|    | Kevin R. Hoben                                                                                                                                     | 8,166,608  | 7,361           |
|    | Mark F. Albino                                                                                                                                     | 8,166,608  | 7,361           |
| 2. | To ratify the appointment of Vitale Caturano & Co., Ltd. as the independent auditors for the Company for the fiscal year ending December 31, 2008: |            |                 |
|    | For                                                                                                                                                |            | 8,166,254       |
|    | Against                                                                                                                                            |            | 5,933           |
|    | Abstain                                                                                                                                            |            | 1,782           |

**Item 6 - Exhibits**

**Exhibit**

| <b><u>No.</u></b> | <b><u>Description</u></b>                                                                                                                                                                          |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1              | Certification of Chief Executive Officer of Omega Flex, Inc. pursuant to Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.                                         |
| 31.2              | Certification of Chief Financial Officer of Omega Flex, Inc. pursuant to 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.                                              |
| 32.1              | Certification of Chief Executive Officer and Chief Financial Officer of Omega Flex, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

**SIGNATURES**

Pursuant to the requirements 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.

OMEGA FLEX, INC.  
(Registrant)

Date: August 13, 2008

By: /S/ Paul J. Kane  
Paul J. Kane  
Vice President Finance  
and Chief Financial Officer