Omega Flex, Inc.
Form 10-Q
May 10, 2013

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 **March 31, 2013**

( )

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	**23-1948942**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

451 Creamery Way, Exton, PA	**19341**
(Address of principal executive offices)	(Zip Code)

(610) 524-7272

Registrant s telephone number, including area code

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 [**x**] 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 [**x**] 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 [**x**]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of The Exchange Act).

Yes [ ] No [**x**]

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 March 31, 2013 was 10,091,822.

OMEGA FLEX, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE THREE MONTHS ENDED MARCH 31, 2013

INDEX

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

OMEGA FLEX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2013	December 31, 2012
	(unaudited) (Dollars in thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 658	$ 939
Accounts Receivable - less allowances of $568 and $653, respectively	10,204	12,134
Inventories-Net	7,578	7,128
Deferred Taxes	783	750
Other Current Assets	1,315	1,503
Total Current Assets	20,538	22,454
Property and Equipment - Net	4,765	4,824
Goodwill-Net	3,526	3,526
Other Long Term Assets	1,821	1,865
Total Assets	$ 30,650	$ 32,669
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 2,052	$ 2,737
Line of Credit	-	324
Accrued Compensation	603	349
Accrued Commissions and Sales Incentives	1,903	3,671
Taxes Payable	715	235
Other Liabilities	2,729	4,214

Total Current Liabilities	8,002	11,530
Deferred Taxes	631	614
Other Long Term Liabilities	748	783
Total Liabilities	9,381	12,927
Shareholders Equity:		
Omega Flex, Inc. Shareholders Equity:		
Common Stock par value $0.01 Share: authorized 20,000,000 Shares: 10,153,633 shares issued and 10,091,822 outstanding at March 31, 2013 and December 31, 2012, respectively	102	102
Treasury Stock	(1)	(1)
Paid-in Capital	10,808	10,808
Retained Earnings	10,763	9,181
Accumulated Other Comprehensive Loss	(463)	(410)
Total Omega Flex, Inc. Shareholders Equity	21,209	19,680
Noncontrolling Interest	60	62
Total Shareholders Equity	21,269	19,742
Total Liabilities and Shareholders Equity	$ 30,650	$ 32,669

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

OMEGA FLEX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	For the three-months ended March 31, 2013	2012
	(Amounts in Thousands)	
	$	$
Net Sales	16,382	14,548
Cost of Goods Sold	7,782	7,093
Gross Profit	8,600	7,455
Selling Expense	3,048	2,956
General and Administrative Expense	2,371	2,566
Insurance Legal Recovery	-	(4,700)
Engineering Expense	718	635
Operating Profit	2,463	5,998
Interest (Expense) Income	(1)	3
Other (Expense) Income	(84)	59
Income Before Income Taxes	2,378	6,060
Income Tax Expense	794	2,137
Net Income	1,584	3,923
Less: Net Income attributable to the Noncontrolling Interest, Net of Tax	(2)	(3)
	$	$
Net Income attributable to Omega Flex, Inc.	1,582	3,920
Basic and Diluted Earnings per Common Share	$	$

	0.16	0.39
Basic and Diluted Weighted-Average Shares Outstanding	10,092	10,092

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

OMEGA FLEX, INC.

CONSOLIDATED CONDENSDED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	For the three-months ended March 31,	
	2013	**2012**
	(Amounts in Thousands)	
Net Income	$ 1,584	$ 3,923
Other Comprehensive Income, Net of Tax:		
Foreign Currency Translation Adjustment, net of Taxes	(57)	70
Other Comprehensive Income (Loss)	(57)	70
Comprehensive Income	1,527	3,993
Less: Comprehensive Income (Loss) Attributable to the Noncontrolling Interest	2	(7)
Total Other Comprehensive Income	$ 1,529	$ 3,986

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

OMEGA FLEX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the three-months ended March 31, 2013	2012
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
	$	$
Net Income	1,584	3,923
Adjustments to Reconcile Net Income to		
Net Cash Provided By Operating Activities:		
Non-Cash Compensation Expense	126	2
Depreciation and Amortization	132	164
Provision for Losses on Accounts Receivable, net of write-offs and recoveries	(80)	4
Changes in Assets and Liabilities:		
Accounts Receivable	1,910	3
Inventory	(514)	(369)
Other Assets	277	234
Accounts Payable	(653)	353
Accrued Compensation	254	(140)
Accrued Commissions and Sales Incentives	(1,764)	(499)
Other Liabilities	(1,086)	1,343
Net Cash Provided by Operating Activities	186	5,018
Cash Flows from Investing Activities:		
Capital Expenditures	(92)	(38)
Net Cash Used in Investing Activities	(92)	(38)
Cash Flows from Financing Activities:		
Principal Payments on Line of Credit	(324)	-
Net Cash Used in Financing Activities	(324)	-
Net Increase (Decrease) in Cash and Cash Equivalents	(230)	4,980
Translation effect on cash	(51)	64
Cash and Cash Equivalents Beginning of Period	939	3,476
Cash and Cash Equivalents End of Period	$	$

	658	8,520
Supplemental Disclosure of Cash Flow Information:		
Cash paid for Income Taxes	$ 364	$ 47
Cash paid for Interest	$ 1	$ -

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

OMEGA FLEX, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Omega Flex, Inc. (Omega) and its subsidiaries (collectively the Company). The Company s unaudited condensed consolidated financial statements for the quarter ended March 31, 2013 have been prepared in accordance with accounting principles generally accepted in the United States (GAAP), and with the instructions of Form 10-Q and Article 10 of Regulation S-X. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although the company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company s latest shareholders annual report (Form 10-K). All material inter-company accounts and transactions have been eliminated in consolidation. It is Management s opinion that all adjustments necessary for a fair statement 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. In addition, our flexible metal piping is used to carry other types of gases or fluids in a number of industrial applications where the customer requires a degree of flexibility, an ability to carry corrosive compounds or mixtures, a double containment system, or piping to carry gases or fluids at very high or very low (cryogenic) temperatures.

The Company manufactures flexible metal hose at its facility in Exton, Pennsylvania, with a minor amount of manufacturing performed in the United Kingdom. The Company 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 GAAP 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, product liability reserve 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 GAAP, 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:

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

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Delivery has occurred or services rendered.

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The sales price to the customer is fixed or determinable.

.

Collection is reasonably assured.

The Company 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, which includes various programs including year-end rebates and discounts. The amounts of certain incentives are known with reasonable certainty at the time of sale, while others are projected based upon the most reliable information available at the reporting date.

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

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 their inability to make payments,

additional allowances may be required.

Inventory

Inventories are valued at the lower of cost or market. Cost of inventories is 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

In accordance with Financial Accounting Standards Board (FASB) ASC Topic 350, Intangibles Goodwill and Other, the Company performed an annual impairment test in accordance with this guidance as of December 31, 2012. This analysis did not indicate any impairment of goodwill. There are no circumstances that indicate that Goodwill might be impaired at March 31, 2013.

Product Liability Reserves

Product liability reserves represent the unpaid amounts under the Company s insurance policies with respect to claims that have been resolved. The Company uses the most current available data to estimate claims. As explained more fully under Contingencies, for various product liability claims covered under the Company s general liability insurance policies, the Company must pay certain defense costs within its deductible or self-insured retention limits, ranging primarily from $25,000 to $250,000 per claim, depending on the terms of the policy in the applicable policy year, up to an aggregate amount. The Company is vigorously defending against all known claims.

Fair Value of Financial and Nonfinancial Instruments

The Company measures financial instruments in accordance with FASB ASC Topic 820, Fair Value Measurements and Disclosures. The accounting standard defines fair value, establishes a framework for measuring fair value under GAAP, and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard creates a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs that reflect the Company s own assumptions about the assumptions market participants would use in pricing the asset or liability. The Company relies on its actively traded share value a level 1 input in determining the fair value of the reporting unit in its annual impairment test as described in the FASB ASC Topic 350, Intangibles -

Goodwill and Other.

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 dates. The Statements of Income are translated into U.S. dollars at average exchange rates for the period. 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

The Company accounts for taxes in accordance with the FASB ASC Topic 740, Income Taxes. Under this method the Company records income tax expense and the related deferred taxes and tax benefits.

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 in which the rate is enacted. 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. No valuation reserve was deemed necessary at March 31, 2013 or at December 31, 2012. Also, in accordance with FASB ASC Topic 740 (formerly FIN 48), the Company had reserves on the books for uncertainties in tax positions of $121,000 at March 31, 2013, and $119,000 at December 31, 2012. These reserves are reviewed each quarter.

Other Comprehensive Income (Loss)

For the quarter ended March 31, 2013 and 2012, respectively, the sole component of Other Comprehensive Income (Loss) was a foreign currency translation adjustment.

New Accounting Pronouncements

ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities.* This ASU requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet, and instruments and transactions subject to an agreement similar to a master netting arrangement. The requirements are effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. ASU 2011-11 currently has no impact on the Company s financial conditions, results of operations or cash flows.

ASU 2011-12, *Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, issued in December 2011 amends ASU 2011-05 to reflect only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments. The amendments are being made to allow FASB time to re-deliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments; entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. Public entities should begin applying these requirements for fiscal years ending after December 15, 2011. Adoption of ASU 2011-12 had no material impact on the financial statements.

3. INVENTORIES

Inventories, net of reserves consisted of the following:

	March 31, 2013	December 31, 2012
	(dollars in thousands)	
Finished Goods	$	