

Omega Flex, Inc.  
Form 10-Q  
November 04, 2016

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **September 30, 2016**

**o 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)

<b>Pennsylvania</b>	<b>23-1948942</b>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
<b>451 Creamery Way, Exton, PA</b>	<b>19341</b>
(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark 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.

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The number of shares of the registrant's common stock outstanding as of September 30, 2016 was 10,091,822.

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**OMEGA FLEX, INC.**

**QUARTERLY REPORT ON FORM 10-Q  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

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**SIGNATURE**

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

	<b>September 30, 2016 (unaudited)</b>	<b>December 31, 2015</b>
	<b>(Dollars in thousands)</b>	
<b>ASSETS</b>		
Current Assets:	\$	\$
Cash and Cash Equivalents	28,165	30,152
Accounts Receivable - less allowances of \$819 and \$882, respectively	15,263	16,605
Inventories-Net	6,770	8,287
Other Current Assets	3,171	1,647
Total Current Assets	53,369	56,691
Property and Equipment-Net	4,479	4,638
Goodwill-Net	3,526	3,526
Deferred Taxes	100	114
Other Long Term Assets	2,925	1,305
	\$	\$
Total Assets	64,399	66,274
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:	\$	\$
Accounts Payable	2,031	2,489
Accrued Compensation	3,125	4,669
Accrued Commissions and Sales Incentives	3,239	4,333
Dividends Payable	-	8,578
Taxes Payable	129	433
Other Liabilities	3,286	3,050

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Total Current Liabilities	11,810	23,552
Deferred Taxes	532	368
Other Long Term Liabilities	1,266	1,200
Total Liabilities	13,608	25,120
Commitments and Contingencies (Note 5)		
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 September 30, 2016 and December 31, 2015, respectively	102	102
Treasury Stock	(1)	(1)
Paid-in Capital	10,808	10,808
Retained Earnings	40,900	30,656
Accumulated Other Comprehensive Loss	(1,367)	(683)
Total Omega Flex, Inc. Shareholders' Equity	50,442	40,882
Noncontrolling Interest	349	272
Total Shareholders' Equity	50,791	41,154
	\$	\$
Total Liabilities and Shareholders' Equity	64,399	66,274

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**OMEGA FLEX, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(unaudited)**

	<b>For the three-months ended</b>		<b>For the nine-months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	(Amounts in Thousands, except earnings per Common Share)			
	\$	\$	\$	\$
Net Sales	23,942	24,556	68,408	67,165
Cost of Goods Sold	9,165	9,270	26,450	26,151
Gross Profit	14,777	15,286	41,958	41,014
Selling Expense	3,913	4,009	11,666	11,599
General and Administrative Expense	4,209	4,210	12,432	10,906
Engineering Expense	808	690	2,299	2,041
Operating Profit	5,847	6,377	15,561	16,468
Interest Income	28	19	68	50
Other Income (Expense)	(110)	(9)	(288)	(8)
Income Before Income Taxes	5,765	6,387	15,341	16,510
Income Tax Expense	1,848	2,114	4,980	5,338
Net Income	3,917	4,273	10,361	11,172
Less: Net Income attributable to the Noncontrolling Interest	(29)	(41)	(117)	(128)
	\$	\$	\$	\$
Net Income attributable to Omega Flex, Inc.	3,888	4,232	10,244	11,044
	\$	\$	\$	\$
Basic and Diluted Earnings per Common Share	0.39	0.42	1.02	1.09



Basic and Diluted Weighted-Average Shares Outstanding	10,092	10,092	10,092	10,092
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See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**OMEGA FLEX, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(unaudited)**

	<b>For the three-months ended September 30,</b>		<b>For the nine-months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(Amounts in Thousands)</b>		<b>(Amounts in Thousands)</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Net Income	3,917	4,273	10,361	11,172
Other Comprehensive Income, Net of Tax:				
Foreign Currency Translation Adjustment, Net of Tax	(110)	(134)	(724)	(84)
Other Comprehensive Income, Net of Tax	(110)	(134)	(724)	(84)
Comprehensive Income	3,807	4,139	9,637	11,088
Less: Comprehensive Income Attributable to the Noncontrolling Interest	(23)	(33)	(77)	(122)
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Total Comprehensive Income	3,784	4,106	9,560	10,966

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.



**OMEGA FLEX, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

	<b>For the nine-months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(Dollars in thousands)</b>	
Cash Flows from Operating Activities:	\$	\$
Net Income	10,361	11,172
Adjustments to Reconcile Net Income to		
Net Cash Provided By Operating Activities:		
Non-Cash Compensation Expense	409	104
Depreciation and Amortization	342	320
Provision for Losses on Accounts Receivable	(63)	67
Provision for Inventory Reserves	33	(22)
Deferred Taxes	164	(452)
Changes in Assets and Liabilities:		
Accounts Receivable	1,129	(1,642)
Inventories	1,373	(1,113)
Other Assets	(3,155)	(288)
Accounts Payable	(410)	(769)
Accrued Compensation	(1,479)	(732)
Accrued Commissions and Sales Incentives	(1,076)	523
Other Liabilities	(303)	(118)
Net Cash Provided by Operating Activities	7,325	7,050
Cash Flows from Investing Activities:		
Capital Expenditures	(191)	(456)
Net Cash Used in Investing Activities	(191)	(456)
Cash Flows from Financing Activities:		
Dividends Paid	(8,578)	(4,945)
Net Cash Used in Financing Activities	(8,578)	(4,945)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,444)	1,649
Translation effect on cash	(543)	(35)
Cash and Cash Equivalents    Beginning of Period	30,152	22,585
Cash and Cash Equivalents    End of Period	\$	\$

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28,165

24,199

Supplemental Disclosure of Cash Flow Information:

	\$	\$
Cash paid for Income Taxes	5,025	6,018
	\$	\$
Cash paid for Interest	---	---

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 September 30, 2016 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. Certain amounts from prior years have been reclassified to conform to current year presentation. 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, and is currently engaged in a number of different markets, including construction, manufacturing, petrochemical transfer, pharmaceutical and other industries.



The Company's business is managed 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, with a comprehensive portfolio of intellectual property and patents issued in various countries around the world. The Company's primary product, flexible gas piping, is used for gas piping within residential and commercial buildings. Through its flexibility and ease of use, the Company's TracPipe® and TracPipe® CounterStrike® flexible gas piping, along with its fittings distributed under the trademarks AutoSnap® and AutoFlare®, allows users to substantially cut the time required to install gas piping, as compared to traditional methods. The Company's products are manufactured at its Exton, Pennsylvania facilities in the United States, and in Banbury, Oxfordshire in the United Kingdom. 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.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles (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 allowances, inventory valuations, goodwill valuation, product liability reserve, stock-based compensation valuations 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:

.

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 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 are accounted for as a sales expense.

### **Cash Equivalents**

The Company considers all highly liquid investments with an original maturity of 90 days or less at the time of purchase to be cash equivalents. Cash equivalents include investments in an institutional money market fund, which invests in U.S. Treasury bills, notes and bonds, and/or repurchase agreements, backed by such obligations. Carrying value approximates fair value. Cash and cash equivalents are deposited at various area banks, which at times may exceed federally insured limits. The Company monitors the viability of the banking institutions carrying its assets on a regular basis, and has the ability to transfer cash to various institutions during times of risk. The Company has not experienced any losses related to these cash balances, and believes its credit risk to be minimal.

### **Accounts Receivable and Provision for Doubtful Accounts**

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.

The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balance. The Company determines the allowance based on any known collection issues, historical experience, and other currently available evidence. The reserve for future credits, discounts, and doubtful accounts was \$819,000 and \$882,000 as of September 30, 2016 and December 31, 2015, respectively. In regards to identifying uncollectible accounts, the Company reviews an aging report on a consistent basis to determine past due accounts, and utilizes a well established credit rating agency. The Company charges off those accounts that are deemed uncollectible once all collection efforts have been exhausted.

### **Inventories**

Inventories are valued at the lower of cost or market. The 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 carrying value of inventory accordingly.



### **Property and Equipment**

Property and equipment are carried at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or, for leasehold improvements, the life of the lease, if shorter. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in other income or expense for the period. The cost of maintenance and repairs is expensed as incurred; significant improvements are capitalized.

### **Goodwill**

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350, Intangibles—Goodwill and Other, the Company performed an annual impairment test in accordance with this guidance as of December 31, 2015. This analysis did not indicate any impairment of goodwill. There were no circumstances that indicate that Goodwill might be impaired at September 30, 2016.

### **Stock-Based Compensation Plans**

In 2006, the Company adopted a Phantom Stock Plan (the Plan), which allows the Company to grant phantom stock units (Units) to certain key employees, officers or directors. The Units each represent a contractual right to payment of compensation in the future based upon the market value of the Company's common stock. The Units follow a vesting schedule of three years from the grant date, and are then paid upon maturity. In accordance with FASB ASC Topic 718, Stock Compensation, the Company uses the Black-Scholes option pricing model as its method for determining the fair value of the Units. Further details of the Plan are provided in Note 6.

### **Product Liability Reserves**

Product liability reserves represent the estimated unpaid amounts under the Company's insurance policies with respect to existing claims. The Company uses the most current available data to estimate claims. As explained more fully under Note 5, Commitments and 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 \$1,000,000 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, most of which relate to our United Kingdom subsidiary whose functional currency is British pound sterling, 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 the statements of income (other expense) in the period in which they occur.

### **Income Taxes**

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



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.

The FASB ASC Topic 740, Income Taxes, clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. This guidance prescribes a recognition threshold of more-likely than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements.

The Company follows the provisions of ASC 740-10 relative to accounting for uncertainties in tax positions. These provisions provide guidance on the recognition, de-recognition and measurement of potential tax benefits associated with tax positions. The Company elected to recognize interest and penalties related to income tax matters as a component of the income tax provision in the consolidated statements of income. For additional information regarding ASC 740-10, see Note 8 of the Company's December 31, 2015 Form 10-K.

The FASB Accounting Standards Update (ASU) 2015-17 eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments of ASU 2015-17 apply to all organizations that present a classified balance sheet. For public companies, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted and the Company adopted this ASU prospectively in the calendar year ended December 31, 2015. As a result, the Company has presented all deferred tax assets and liabilities as noncurrent on its consolidated balance sheet starting with the year ended December 31, 2015. There was no impact on operations as a result of adoption of the FASB ASU 2015-17.

### **Other Comprehensive Income**

For the three and nine months ended September 30, 2016 and 2015, respectively, the components of other comprehensive income consisted solely of foreign currency translation adjustments.





### **Significant Concentration**

The Company has one significant customer who represents more than 10% of the Company's Net Sales for the three and nine months ended September 30, 2016 and 2015, and more than 10% of the Company's Accounts Receivable balance at September 30, 2016 and December 31, 2015. Geographically, the Company has a significant amount of sales in the United States versus internationally. These concentrations are discussed in detail in the Company's December 31, 2015 Form 10-K, and there has been no significant change as of this quarterly report.

### **Subsequent Events**

The Company evaluates all events or transactions through the date of the related filing that may have a material impact on its condensed consolidated financial statements. Refer to Note 9 of the condensed consolidated financial statements.

### **Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard becomes effective for the Company in the first quarter of fiscal year 2018. Early adoption is permitted beginning in the first quarter of the Company's 2017 fiscal year. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory (Topic 330)*. Under this ASU, inventory will be measured at the lower of cost and net realizable value and options that currently exist for market value will be eliminated. The ASU defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. No other changes were made to the current guidance on inventory measurement. ASU 2015-11 is effective for interim and annual periods beginning after December 15, 2016. Early application is permitted and should be applied prospectively. The Company is evaluating the provisions of this statement, including which period to adopt, but currently anticipates that the adoption of ASU 2015-11 will not have a significant impact on the Company's financial position or results of operations.



In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this ASU, lessees are required to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. By definition, a short-term lease is one in which: (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect an accounting policy by class of underlying asset under which right-of-use assets and lease liabilities are not recognized and lease payments are generally recognized as expense over the lease term on a straight-line basis. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under the legacy lease accounting guidance. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company is evaluating the provisions of this statement, including which period to adopt, and has not determined what impact the adoption of ASU 2016-02 will have on the Company's financial position or results of operations.

### 3. INVENTORIES

Inventories, net of reserves, consisted of the following:

	September 30, 2016	December 31, 2015
	(dollars in thousands)	
Finished Goods	\$	\$
	4,710	6,082
Raw Materials	2,060	2,205
Inventories-Net	\$	\$
	6,770	8,287

### 4. LINE OF CREDIT

On December 29, 2014, the Company entered into an Amended and Restated Committed Revolving Line of Credit Note (the Line) and a Second Amendment to the Loan Agreement with Santander Bank, N.A. (Santander). The Line facility in the maximum amount of \$15,000,000, has a five year term maturing on December 31, 2019, with funds available for working capital purposes and to fund dividends, and is unsecured. The Line provides for the payment of any borrowings at an interest rate of either LIBOR plus 1.00% to plus 1.35% (for borrowings with a fixed term of 30, 60, or 90 days), or Prime from 0.00% to plus 0.10%, depending upon the Company's then existing financial ratios. At September 30, 2016, the Company's financial ratios would allow for the most favorable rate under the agreement's range, which would be a rate of 1.85%. Under the terms of the agreement, the Company is required to pay on a quarterly basis an unused facility fee equal to 10 basis points of the average unused balance of the total Line commitment.

As of September 30, 2016 and December 31, 2015, the Company had no outstanding borrowings on its line of credit, and was in compliance with all debt covenants.

## 5. COMMITMENTS AND CONTINGENCIES

### Commitments:

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 obtained directors' and officers' insurance policies to fund certain obligations under the indemnity agreements.

The Company has salary continuation agreements with one current employee, and one former employee who retired at the end of 2010. These agreements provide for monthly payments to each of the employees or their designated beneficiary upon the employee's retirement or death. The payment benefits range from \$1,000 per month to \$3,000 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 associated with these agreements is \$537,000 at September 30, 2016, of which \$498,000 is included in Other Long Term Liabilities, and the remaining current portion of \$39,000 is included in Other Liabilities, associated with each of the individuals as our current employee is expected to meet retirement age by the end of the year. The December 31, 2015 liability of \$508,000, had \$496,000 reported in Other Long Term Liabilities, and a current portion of \$12,000 in Other Liabilities.

The Company has obtained and is the beneficiary of three whole life insurance policies with respect to the two employees discussed above, and one other employee. The cash surrender value of such policies (included in Other Long Term Assets) amounts to \$1,146,000 at September 30, 2016 and \$1,091,000 at December 31, 2015.

As disclosed in detail in Note 9 of the Company's December 31, 2015 Form 10-K, under the caption "Leases", the Company has several lease obligations in place that will be paid out over time. Most notably, the Company leases facilities in Banbury, England, and Exton, Pennsylvania in the United States that both serve the manufacturing, warehousing and distribution functions.



**Contingencies:**

In the ordinary and normal conduct of the Company's business, it is subject to periodic lawsuits, investigations and claims (collectively, the Claims). Several years ago, the Company experienced an increase in the number of Claims related to lightning subrogation, which increased legal and product liability related expenses. The Company did not believe the Claims had legal merit, and therefore commenced a vigorous defense in response to the Claims. Due to the Company's success over the years in defending itself, and success in several cases that went to trial, the pace of new Claims has trended lower over the last couple of years. Although the pace of new Claims has decreased, expenses during the first nine months of 2016 have increased over comparable periods due to the Company's heightened and vigorous defense of certain cases. It is possible that the increased level of spending may continue through the remainder of 2016, and future years. To reiterate, the Company does not believe that the Claims have legal merit, and is therefore vigorously defending against those Claims. In 2010, the Company took its first Claim to trial in Pennsylvania, and the jury returned a verdict that the Company was not negligent in designing and selling the TracPipe product, but also returned a verdict for plaintiff on strict liability. The Company appealed that portion of the verdict, and in December 2014, the Supreme Court of Pennsylvania ruled in favor of the Company, and returned the case to the trial court for further hearings. The Company is currently appealing the trial court's decision not to grant a new trial in this matter in spite of the Supreme Court decision. As a result of this new appeal, the Company was required during the second quarter of 2016 to post approximately \$1,600,000 as security to proceed with the current appeal, and that collateral security is included in Other Long Term Assets as of September 30, 2016. In 2013, the Company won two of the Claims at two separate trials, both of which were held in U.S. District Court; one in St. Louis, Missouri and the other in Bridgeport, Connecticut. In both cases, the jury unanimously found that the Company was not negligent in designing its TracPipe® product, and that the TracPipe® product was not defective or unreasonably dangerous. Finally, a putative class action case has been filed against the Company and other parties in U.S. District Court in the Western District of Missouri, titled George v Powercet Corporation, et. al., alleging that the plaintiffs have been damaged by defendants conduct in selling first generation CSST (made and sold with a yellow polyethylene jacket). The Company has filed a motion to dismiss the case, as several prior attempted class actions against the Company were dismissed by the federal courts. Until the motion is determined by the trial court, the Company is defending itself in the litigation.



The Company has in place commercial general liability insurance policies that cover the Claims, which are subject to deductibles or retentions, ranging primarily from \$25,000 to \$1,000,000 per claim (depending on the terms of the policy and the applicable policy year), up to an aggregate amount. Litigation is subject to many uncertainties and management is unable to predict the outcome of the pending suits and claims. The potential liability for a given claim could range from zero to a maximum of \$1,000,000, depending upon the circumstances, and insurance deductible or retention in place for the respective claim year. The aggregate maximum exposure for all current open Claims is estimated to not exceed approximately \$4,100,000, which represents the potential costs that may be incurred over time for the Claims within the applicable insurance policy deductibles or retentions. From time to time, depending upon the nature of a particular case, the Company may decide to spend in excess of a deductible or retention to enable more discretion regarding the defense, although this is not common. It is possible that the results of operations or liquidity of the Company, as well as the Company's ability to procure reasonably priced insurance, could be adversely affected by the pending litigation, potentially materially. The Company is currently unable to estimate the ultimate liability, if any, that may result from the pending litigation, or potential litigation from future claims or claims that have not yet come to our attention, and accordingly, the liability in the consolidated financial statements primarily represents an accrual for legal costs for services previously rendered and outstanding settlements for existing claims. The liabilities recorded on the Company's books at September 30, 2016 and December 31, 2015 were \$277,000 and \$249,000, respectively, and are included in Other Liabilities.

Finally, in February of 2012, the Company was made aware of a fraud perpetrated by an outside party involving insurance related premiums that the Company had prepaid for umbrella coverage. The Company replaced the aforementioned insurance coverage upon becoming aware of the fraud. The assets were secured by a governmental agency which investigated the case, and held in a custodial account. In June of 2015, utilizing the secured funds, the court approved restitution to all victims including the Company. During the second quarter of 2016, the Company received \$282,000 from the United States Department of Justice in restitution. Of the amount received, \$213,000 relieved the value of the assets on the books and the remaining \$69,000 was recorded as a reduction of operating expenses. At December 31, 2015, the value of the assets on the books amounted to \$213,000 and were included in Other Long Term Assets.

## 6. STOCK BASED PLANS

### 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 1 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

§

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, at an amount equal to the closing price of the Company's common stock on the grant date, but are recorded at fair value using the Black-Sholes method as described below. The Units follow a vesting schedule, with a maximum vesting of three years after the grant date. Upon vesting, the Units represent a contractual right of payment for the value of the Unit. The Units will be paid on their maturity date, one year after all of the Units granted in a particular award have fully vested, unless an acceptable event occurs under the terms of the Plan prior to one year, which would allow for earlier payment. The amount to be paid to the participant on the maturity date is dependent 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.

On December 9, 2009, the Board of Directors authorized an amendment to the Plan to pay an amount equal to the value of any cash or stock dividend declared by the Company on its common stock to be accrued to the phantom stock

units outstanding as of the record date of the common stock dividend. The dividend equivalent will be paid at the same time the underlying phantom stock units are paid to the participant.

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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 termination.

**Grants of Phantom Stock Units.** As of December 31, 2015, the Company had 20,335 unvested units outstanding, all of which were granted at *Full Value*. On February 16, 2016, the Company granted an additional 10,460 *Full Value* Units with a fair value of \$30.57 per unit on grant date, using historical volatility. In February 2016, the Company paid \$311,000 for the 8,690 fully vested and matured units that were granted on February 16, 2012, including their respective earned dividend values. As of September 30, 2016, the Company had 20,921 unvested units outstanding.

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 vesting period of each grant or award.

The FASB ASC Topic 718, Stock Compensation, 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. 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 as of September 30, 2016.

The total Phantom Stock related liability as of September 30, 2016 was \$1,003,000, with \$348,000 in Other Liabilities, and \$655,000 included in Other Long Term Liabilities. At December 31, 2015, the total Phantom Stock liability was \$905,000, with \$310,000 in Other Liabilities, and \$595,000 included in Other Long Term Liabilities.

In accordance with FASB ASC Topic 718, Stock Compensation, the Company recorded compensation expense of approximately \$409,000 and \$104,000 for the nine months ended September 30, 2016, and 2015, respectively.



The following table summarizes information about the Company's nonvested phantom stock Units at September 30, 2016:

	Units	Weighted Average Grant Date Fair Value
Number of Phantom Stock Unit Awards:		\$
Nonvested at December 31, 2015	20,335	22.74
		\$
Granted	10,460	30.57
		\$
Vested	(9,874)	20.16
Forfeited	---	---
Canceled	---	---
		\$
Nonvested at September 30, 2016	20,921	27.87
		\$
Phantom Stock Unit Awards Expected to Vest	20,921	27.87

The total unrecognized compensation costs calculated at September 30, 2016 are \$532,000 which will be recognized through February of 2019. The Company will recognize the related expense over the weighted average period of 1.3 years.

## 7. NONCONTROLLING INTERESTS

The Company owns 100% of all subsidiaries, except for a small portion of one, which is owned by a Noncontrolling Interest. At December 31, 2015, total Shareholders' Equity was \$41,154,000, and the Noncontrolling Interest was \$272,000. For the nine month period ended September 30, 2016, the Noncontrolling Interest's portion of Net Income was approximately \$117,000, and their portion of Other Comprehensive Income was a loss of \$40,000. At September 30, 2016, total Shareholders' Equity was \$50,791,000, of which the Noncontrolling Interest held a value of \$349,000.

During the second quarter of 2016, the Company loaned the Noncontrolling Interest £100,000 British Pounds. The loan is non-interest bearing and repayment terms include application of any subsequent cash dividends and distributions in kind to the loan balance. At September 30, 2016, the loan is included in Other Long Term Assets.

## 8. SHAREHOLDERS' EQUITY

As of September 30, 2016 and December 31, 2015, the Company had authorized 20,000,000 common stock shares with par value of \$0.01 per share. At both dates, the number of shares issued was 10,153,633, and the total number of outstanding shares was 10,091,822, with the 61,811 remainder representing shares held in Treasury.

On December 10, 2015, the Board declared a special dividend of \$0.85 per share to all Shareholders of record as of December 21, 2015, and payable on or before January 6, 2016. The Company paid its transfer agent \$8,578,000 on January 5, 2016, and the transfer agent paid the shareholders on January 6, 2016.

On December 10, 2014, the Board declared a special dividend of \$0.49 per share to all Shareholders of record as of December 22, 2014, which was paid on January 5, 2015, in the amount of \$4,945,000.

On April 4, 2014, the Company's Board of Directors authorized an extension of its stock repurchase program without expiration, up to a maximum amount of \$1,000,000. The original program established in December of 2007 authorized the purchase of up to \$5,000,000 of its common stock. The purchases may be made from time-to-time in the open market or in privately negotiated transactions, depending on market and business conditions. The Board retained the right to cancel, extend, or expand the share buyback program, at any time and from time-to-time. Since inception, the Company has purchased a total of 61,811 shares for approximately \$932,000, or approximately \$15 per share. The Company did not make any stock repurchases during 2016, or for the full year ended December 31, 2015.

**9.**

#### **SUBSEQUENT EVENTS**

The Company evaluated all events or transactions that occurred through the date of this filing. During this period, the Company did not have any material subsequent events that impacted its condensed consolidated financial statements.



**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, petrochemical transfer, pharmaceutical and other industries.

The Company's business is managed 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, with a comprehensive portfolio of intellectual property and patents issued in various countries around the world. The Company's primary product, flexible gas piping, is used for gas piping within residential and commercial buildings. Through its flexibility and ease of use, the Company's TracPipe® and TracPipe® CounterStrike® flexible gas piping, along with its fittings distributed under the trademarks AutoSnap® and AutoFlare®, allows users to substantially cut the time required to install gas piping, as compared to traditional methods. The Company's products are manufactured at its Exton, Pennsylvania facilities in the United States, and in Banbury, Oxfordshire in the United Kingdom. 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

The Company's cash balance of \$28,165,000 at September 30, 2016, decreased \$1,987,000 (6.6%) from the \$30,152,000 balance at December 31, 2015. The Company paid a dividend of \$8,578,000 during the first quarter of 2016 which was accrued at December 31, 2015, and consistent with prior years, the Company paid a significant amount of cash during the first quarter for items that were accrued as of the end of the preceding year, such as sales incentive programs and incentive compensation. Also, as disclosed in Note 5, Commitments and Contingencies, during the second quarter of 2016, a trial court required the Company to post approximately \$1,600,000 as security to proceed with further hearings related to the Company's 2010 Pennsylvania Claim, which is under appeal. During the third quarter, the Company paid \$2,143,000 for its annual insurance premiums. Those cash outflows were partially offset by income generated from operations during 2016, and other cash generating components such as a reduction to Inventories, and also Accounts Receivable as mentioned below.

The Accounts Receivable balance was \$15,263,000 at September 30, 2016, compared to \$16,605,000 at December 31, 2015, decreasing \$1,342,000 (8.1%) during the nine months. Due to the slight seasonal nature of the business, sales for the last two months of the recent quarter were lower than the last two months of 2015, which therefore was the dominant factor creating the reduction in the Accounts Receivable balance.

Inventories ended the quarter at \$6,770,000, which was \$1,517,000 (18.3%) lower than the balance at December 31, 2015 of \$8,287,000. The Company implemented a plan to bring down inventories during the year to lessen carrying costs, and to increase cash. The inventory levels are currently sufficient to satisfy sales demand.



Other Current Assets were \$3,171,000 at September 30, 2016 versus a balance of \$1,647,000 at December 31, 2015. The \$1,524,000 (92.5%) increase was mostly related to annual insurance premiums paid in September. The timing of such payments was consistent with prior years, but the payments were more significant due to the status of Claims, as discussed in Note 5, Commitments and Contingencies.

Other Long Term Assets were \$2,925,000 at September 30, 2016 compared to \$1,305,000 at December 31, 2015, increasing \$1,620,000 (124.1%) between periods. As disclosed in Note 5, Commitments and Contingencies, during the second quarter of 2016, a trial court required the Company to post approximately \$1,600,000, as security to proceed with further hearings related to the Company's 2010 Pennsylvania Claim, which is under appeal.

Accrued Compensation was \$3,125,000 at September 30, 2016, compared to \$4,669,000 at December 31, 2015, decreasing \$1,544,000 (33.1%). A significant portion of the liability that existed at year end related to incentive compensation earned in 2015. As is customary, the liability was then paid during the first quarter of the following year, or 2016, thus diminishing the balance. The liability now represents amounts earned during the current year.

Dividends Payable was \$8,578,000 at the end of 2015, reflecting the \$0.85 dividend declared by the board in December 2015. This dividend was then paid to shareholders in January of 2016, thus reducing the balance to zero. This also reduced the Company's cash balance, as described above.

## RESULTS OF OPERATIONS

### Three-months ended September 30, 2016 vs. September 30, 2015

The Company reported comparative results from operations for the three-months ended September 30, 2016 and 2015 as follows:

	<b><u>Three-months ended September 30,</u></b>			
	(in thousands)			
	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
	(\$000)		(\$000)	
Net Sales	\$	100.0%	\$	100.0%
Gross Profit	23,942	61.7%	24,556	62.2%
Operating Profit	\$ 14,777	24.4%	\$ 15,286	26.0%

5,847

6,377

Net Sales. The Company's 2016 third quarter sales decreased \$614,000 (2.5%) over the same period in 2015, ending at \$23,942,000 for the three months ended September 30, 2016, compared to \$24,556,000 for the same three months in 2015. The decrease in sales was primarily related to lower unit volume.

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**Gross Profit.** The Company's gross profit margins are very similar between the two periods, being 61.7% and 62.2% for the three-months ended September 30, 2016 and 2015, respectively, as overall material costs were fairly stable.

**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 \$3,913,000 and \$4,009,000 for the three-months ended September 30, 2016 and 2015, respectively, representing a decrease of \$96,000 (2.4%). Selling expense was 16.3% as a percent of net sales for both the three-months ended September 30, 2016 and 2015.

**General and Administrative Expenses.** General and administrative expenses consist primarily of employee salaries, benefits for administrative, executive and finance personnel, legal and accounting, insurance, and corporate general and administrative services. General and administrative expenses were essentially identical, at \$4,209,000 and \$4,210,000 for the three-months ended September 30, 2016 and 2015, respectively. As a percentage of sales, general and administrative expenses were 17.6% and 17.1% for the three months ended September 30, 2016 and 2015, respectively.

**Engineering Expense.** Engineering expenses consist of development expenses associated with the development of new products, and costs related to enhancements of existing products and manufacturing processes. Engineering expenses increased \$118,000 (17.1%) for the quarter, being \$808,000 and \$690,000 for the three months ended September 30, 2016 and 2015, respectively. Engineering expenses as a percentage of sales were 3.4% and 2.8% for the three months ended September 30, 2016, and 2015, respectively.

**Operating Profit.** Reflecting all of the factors mentioned above, Operating Profits decreased by \$530,000, or 8.3% compared to last year. The Company had a profit of \$5,847,000 in the three-month period ended September 30, 2016, versus a profit of \$6,377,000 in the three-months ended September 30, 2015.

**Interest Income (Expense).** Interest income is recorded on cash investments, and interest expense is recorded at times when the Company has debt amounts outstanding on its line of credit. The Company recognized a modest amount of interest income for the third quarter of 2016 and 2015.

**Other Income (Expense).** Other Income (Expense) primarily consists of foreign currency exchange gains (losses) on transactions with our United Kingdom (UK) subsidiaries. During June of 2016, the British Pound weakened, largely as a result of the UK's vote to exit the European Union, and has remained weak through the third quarter. As a result, the Company recognized currency related losses of \$110,000 for the third quarter of 2016. For the third quarter of 2015, the Company recognized \$9,000 of Other Expense.



**Income Tax Expense.** Income Tax Expense was \$1,848,000 for the third quarter of 2016, compared to \$2,114,000 for the same period in 2015. The \$266,000 (12.6%) decrease was primarily due to lower income before taxes. The Company's effective tax rate in 2016 approximates the 2015 rate and does not differ materially from expected statutory rates.

**Nine-months ended September 30, 2016 vs. September 30, 2015**

The Company reported comparative results from operations for the nine-months ended September 30, 2016 and 2015 as follows:

<b><u>Nine-months ended September 30,</u></b>				
(in thousands)				
	<b>2016</b>		<b>2015</b>	
	<b>(\$000)</b>		<b>(\$000)</b>	
	\$		\$	
Net Sales	68,408	100.0%	67,165	100.0%
	\$		\$	
Gross Profit	41,958	61.3%	41,014	61.1%
	\$		\$	
Operating Profit	15,561	22.8%	16,468	24.5%

**Net Sales.** The Company's sales for the first nine months of 2016 increased \$1,243,000, or 1.9% over the same period in 2015, ending at \$68,408,000 and \$67,165,000 in 2016 and 2015, respectively. The majority of the sales growth is the result of an increase in unit volume. The Company believes that some customers purchased ahead during the fourth quarter of 2015, which eroded sales from the first quarter of 2016, most notably January 2016. The Company has been able to make up that shortfall during subsequent months.

**Gross Profit.** The Company's gross profit margins have increased between the two periods, being 61.3% and 61.1% for the nine-months ended September 30, 2016 and 2015, respectively.

**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 very similar between periods, being \$11,666,000 and \$11,599,000 for the nine-months ended September 30, 2016 and 2015, respectively, representing an increase of \$67,000 or 0.6%. Selling expense as a percent of Net Sales was 17.1% for the nine-months ended September 30, 2016, and 17.3% for the



nine-months ended September 30, 2015.

**General and Administrative Expenses.** General and administrative expenses consist primarily of employee salaries, benefits for administrative, executive and finance personnel, legal and accounting, insurance, and corporate general and administrative services. General and administrative expenses were \$12,432,000 and \$10,906,000 for the nine-months ended September 30, 2016 and 2015, respectively, increasing \$1,526,000 (14.0%) between periods. The most significant change for the nine months pertained to legal and insurance related expenses primarily associated with product liability claims and coverage, which increased \$938,000 over last year. As a percentage of sales, general and administrative expenses increased to 18.2% for the nine-months ended September 30, 2016 from 16.2% for the nine months ended September 30, 2015.

**Engineering Expense.** Engineering expenses consist of development expenses associated with the development of new products, and costs related to enhancements of existing products and manufacturing processes. Engineering expenses increased \$258,000 or 12.6% between periods, as they were \$2,299,000 and \$2,041,000 for the nine months ended September 30, 2016 and 2015, respectively. Engineering expenses as a percentage of sales were 3.4% for the nine months ended September 30, 2016 and 3.0% for the nine months ended September 30, 2015.

**Operating Profit.** Reflecting all of the factors mentioned above, Operating Profits were down \$907,000 or 5.5%, ending with a profit of \$15,561,000 through the first nine months of 2016, compared to \$16,468,000 in 2015.

**Interest Income (Expense).** Interest income is recorded on cash investments, and interest expense is recorded at times when the Company has debt amounts outstanding on its line of credit. There was a nominal amount of interest income recorded during the first nine months of 2016 and 2015.

**Other Income (Expense).** Other Income (Expense) primarily consists of foreign currency exchange gains (losses) on transactions with our United Kingdom subsidiaries. During June of 2016, the British Pound weakened, largely as a result of the UK's vote to exit the European Union, also known as "Brexit", and has remained weak through the third quarter. As a result, the Company recognized currency related losses of \$288,000 for the nine months ended September 30, 2016. For the first nine months of 2015, the Company recognized Other Expense of \$8,000.

**Income Tax Expense.** Income Tax Expense was \$4,980,000 for the first nine months of 2016, compared to \$5,338,000 for the same period in 2015, decreasing by \$358,000 (6.7%), largely in correlation with the change in income before taxes. The Company's effective tax rate in 2016 approximates the 2015 rate and does not differ materially from expected statutory rates.



**CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES**

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 Condensed Consolidated Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our condensed 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 (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 allowances, inventory valuations, goodwill valuation, product liability reserve, stock-based compensation valuations 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 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:

.

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 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 are accounted for as a sales expense.

### **Cash Equivalents**

The Company considers all highly liquid investments with an original maturity of 90 days or less at the time of purchase to be cash equivalents. Cash equivalents include investments in an institutional money market fund, which invests in U.S. Treasury bills, notes and bonds, and/or repurchase agreements, backed by such obligations. Carrying value approximates fair value. Cash and cash equivalents are deposited at various area banks, which at times may exceed federally insured limits. The Company monitors the viability of the banking institutions carrying its assets on a regular basis, and has the ability to transfer cash to various institutions during times of risk. The Company has not experienced any losses related to these cash balances, and believes its credit risk to be minimal.

### **Accounts Receivable and Provision for Doubtful Accounts**

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.

The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balance. The Company determines the allowance based on any known collection issues, historical experience, and other currently available evidence. The reserve for future credits, discounts, and doubtful accounts was \$819,000 and \$882,000 as of September 30, 2016 and December 31, 2015, respectively. In regards to identifying uncollectible accounts, the Company reviews an aging report on a consistent basis to determine past due accounts, and utilizes a well established credit rating agency. The Company charges off those accounts that are deemed uncollectible once all collection efforts have been exhausted.

### **Inventories**

Inventories are valued at the lower of cost or market. The 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 carrying value of inventory accordingly.

### **Property and Equipment**

Property and equipment are carried at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or, for leasehold improvements, the life of the lease, if shorter. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in other income or expense for the period. The cost of maintenance and repairs is expensed as incurred; significant improvements are capitalized.

## **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, 2015. This analysis did not indicate any impairment of goodwill. There were no circumstances that indicate that Goodwill might be impaired at September 30, 2016.

## **Stock-Based Compensation Plans**

In 2006, the Company adopted a Phantom Stock Plan (the Plan), which allows the Company to grant phantom stock units (Units) to certain key employees, officers or directors. The Units each represent a contractual right to payment of compensation in the future based upon the market value of the Company's common stock. The Units follow a vesting schedule of three years from the grant date, and are then paid upon maturity. In accordance with FASB ASC Topic 718, Stock Compensation, the Company uses the Black-Scholes option pricing model as its method for determining the fair value of the Units. Further details of the Plan are provided in Note 6.

## **Product Liability Reserves**

Product liability reserves represent the estimated unpaid amounts under the Company's insurance policies with respect to existing claims. The Company uses the most current available data to estimate claims. As explained more fully under Note 5, Commitments and 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 \$1,000,000 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 as 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, most of which relate to our United Kingdom subsidiary whose functional currency is British pound sterling, 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 the statements of income (other expense) in the period in which they occur.

### **Income Taxes**

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



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.

The FASB ASC Topic 740, Income Taxes, clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. This guidance prescribes a recognition threshold of more-likely than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements.

The Company follows the provisions of ASC 740-10 relative to accounting for uncertainties in tax positions. These provisions provide guidance on the recognition, de-recognition and measurement of potential tax benefits associated with tax positions. The Company elected to recognize interest and penalties related to income tax matters as a component of the income tax provision in the consolidated statements of income. For additional information regarding ASC 740-10, see Note 8 of the Company's December 31, 2015 Form 10-K.

The FASB ASU 2015-17 eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments of ASU 2015-17 apply to all organizations that present a classified balance sheet. For public companies, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted and the Company adopted this ASU prospectively in the calendar year ended December 31, 2015. As a result, the Company has presented all deferred tax assets and liabilities as noncurrent on its consolidated balance sheet as of December 31, 2015, but the Company has not reclassified deferred tax assets and liabilities on its consolidated balance sheet as of December 31, 2014. There was no impact on operations as a result of adoption of the FASB ASU 2015-17.

### **Other Comprehensive Income**

For the three and nine months ended September 30, 2016 and 2015, respectively, the components of other comprehensive income consisted solely of foreign currency translation adjustments.



### **Significant Concentration**

The Company has one significant customer who represents more than 10% of the Company's Net Sales for the three and nine months ended September 30, 2016 and 2015, and more than 10% of the Company's Accounts Receivable balance at September 30, 2016 and December 31, 2015. Geographically, the Company has a significant amount of sales in the United States versus internationally. These concentrations are discussed in detail in the Company's December 31, 2015 Form 10-K, and there has been no significant change as of this quarterly report.

### **Subsequent Events**

The Company evaluates all events or transactions through the date of the related filing that may have a material impact on its condensed consolidated financial statements. Refer to Note 9 of the condensed consolidated financial statements.

### **Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard becomes effective for the Company in the first quarter of fiscal year 2018. Early adoption is permitted beginning in the first quarter of the Company's 2017 fiscal year. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory (Topic 330)*. Under this ASU, inventory will be measured at the lower of cost and net realizable value and options that currently exist for market value will be eliminated. The ASU defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. No other changes were made to the current guidance on inventory measurement. ASU 2015-11 is effective for interim and annual periods beginning after December 15, 2016. Early application is permitted and should be applied prospectively. The Company is evaluating the provisions of this statement, including which period to adopt, but currently anticipates that the adoption of ASU 2015-11 will not have a significant impact on the Company's financial position or results of operations.



In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this ASU, lessees are required to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. By definition, a short-term lease is one in which: (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect an accounting policy by class of underlying asset under which right-of-use assets and lease liabilities are not recognized and lease payments are generally recognized as expense over the lease term on a straight-line basis. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under the legacy lease accounting guidance. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company is evaluating the provisions of this statement, including which period to adopt, and has not determined what impact the adoption of ASU 2016-02 will have on the Company's financial position or results of operations.

## **LIQUIDITY AND CAPITAL RESOURCES**

Historically, the Company's primary cash needs have been related to working capital items, which the Company has largely funded through cash generated from operations.

As of September 30, 2016, the Company had a cash balance of \$28,165,000. Additionally, the Company has a \$15,000,000 line of credit available with Santander, as discussed in detail in Note 4, which had no borrowings outstanding upon it at September 30, 2016. At December 31, 2015, the Company had cash of \$30,152,000, and also had no borrowings against the line of credit at that time.

### **Operating Activities**

Cash provided by operating activities is net income adjusted for certain non-cash items and changes in certain assets and liabilities, such as those included in working capital.

For the first nine months of 2016, the Company's cash provided from operating activities was \$7,325,000, compared to \$7,050,000 of cash provided during the first nine months of 2015, thus increasing by \$275,000 between periods. The most significant factor related to stronger cash collections from accounts receivable in conjunction with higher sales during the latter half of 2015, and standard customer payment terms. Also, during 2016 the Company had a lower level of inventory purchases compared to the prior year, which resulted in more cash. These increases were however partially offset by higher payments for promotional incentives, since the rate of sales growth was higher in 2015 than it was in 2014, which impacted growth tiers and payouts, including annual programs which are paid during the following year. Also, as disclosed in Note 5, Commitments and Contingencies, during the second quarter of 2016, a trial court required the Company to post \$1,600,000 as security to proceed with further hearings related to the Company's 2010 Pennsylvania Claim, which is under appeal.





### **Investing Activities**

Cash used in investing activities for the first nine months of 2016 and 2015 was \$191,000 and \$456,000, respectively, all related to capital expenditures for both periods. During 2015, the Company added machinery and leasehold improvements to the facility in Exton which required a greater outlay of cash than in the current year.

We believe our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next twelve months. Our future capital requirements will depend upon many factors including our rate of revenue growth, the timing and extent of any expansion efforts, and the potential for investments in, or the acquisition of any complementary products, businesses or supplementary facilities for additional capacity. There are currently no known material commitments for capital expenditures.

### **Financing Activities**

A dividend was declared in both December of 2015 and 2014, amounting to \$8,578,000 and \$4,945,000, respectively, with payment due and paid during January of the following year. This reflects all of the financing activities for those respective years.

The Company did not borrow any funds from its line of credit during the first nine months of 2016 or 2015, and had no outstanding borrowings on its line of credit as of September 30, 2016, or as of December 31, 2015.

### **CONTINGENT LIABILITIES AND GUARANTEES**

See Note 5 to the Company's condensed consolidated financial statements.

### **OFF-BALANCE SHEET ARRANGEMENTS**

Refer to Item 7 of the Company's 2015 Form 10-K under the caption "Off-Balance Sheet Obligations or 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 third quarter of 2016, 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 three-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 completed their evaluation.

## **PART II - OTHER INFORMATION**

### **Item 1 Legal Proceedings**

In the ordinary and normal conduct of the Company's business, it is subject to periodic lawsuits, investigations and claims (collectively, the Claims). Several years ago, the Company experienced an increase in the number of Claims related to lightning subrogation, which increased legal and product liability related expenses. The Company did not believe the Claims had legal merit, and therefore commenced a vigorous defense in response to the Claims. Due to the Company's success over the years in defending itself, and success in several cases that went to trial, the pace of new Claims has trended lower over the last couple of years. Although the pace of new Claims has decreased, expenses during the first nine months of 2016 have increased over comparable periods due to the Company's heightened and vigorous defense of certain cases. It is possible that the increased level of spending may continue through the remainder of 2016, and future years. To reiterate, the Company does not believe that the Claims have legal merit, and is therefore vigorously defending against those Claims. In 2010, the Company took its first Claim to trial in Pennsylvania, and the jury returned a verdict that the Company was not negligent in designing and selling the TracPipe product, but also returned a verdict for plaintiff on strict liability. The Company appealed that portion of the verdict, and in December 2014, the Supreme Court of Pennsylvania ruled in favor of the Company, and returned the case to the trial court for further hearings. The Company is currently appealing the trial court's decision not to grant a new trial in this matter in spite of the Supreme Court decision. As a result of this new appeal, the Company was required during the second quarter of 2016 to post approximately \$1,600,000 as security to proceed with the current appeal, and that collateral security is included in Other Long Term Assets as of September 30, 2016. In 2013, the Company won two of the Claims at two separate trials, both of which were held in U.S. District Court; one in St. Louis, Missouri and the other in Bridgeport, Connecticut. In both cases, the jury unanimously found that the Company was not negligent in designing its TracPipe® product, and that the TracPipe® product was not defective or unreasonably dangerous. Finally, a putative class action case has been filed against the Company and other parties in U.S. District Court in the Western District of Missouri, titled George v Powercet Corporation, et. al., alleging that the plaintiffs have been damaged by defendants conduct in selling first generation CSST (made and sold with a yellow polyethylene jacket). The Company has filed a motion to dismiss the case, as several prior attempted class actions against the Company were dismissed by the federal courts. Until the motion is determined by the trial court, the Company is defending itself in the litigation.

The Company has in place commercial general liability insurance policies that cover the Claims, which are subject to deductibles or retentions, ranging primarily from \$25,000 to \$1,000,000 per claim (depending on the terms of the policy and the applicable policy year), up to an aggregate amount. Litigation is subject to many uncertainties and management is unable to predict the outcome of the pending suits and claims. The potential liability for a given claim could range from zero to a maximum of \$1,000,000, depending upon the circumstances, and insurance deductible or retention in place for the respective claim year. The aggregate maximum exposure for all current open Claims is estimated to not exceed approximately \$4,100,000, which represents the potential costs that may be incurred over time for the Claims within the applicable insurance policy deductibles or retentions. From time to time, depending upon the nature of a particular case, the Company may decide to spend in excess of a deductible or retention to enable more discretion regarding the defense, although this is not common. It is possible that the results of operations or liquidity of the Company, as well as the Company's ability to procure reasonably priced insurance, could be adversely affected by the pending litigation, potentially materially. The Company is currently unable to estimate the ultimate liability, if any, that may result from the pending litigation, or potential litigation from future claims or claims that have not yet come to our attention, and accordingly, the liability in the consolidated financial statements primarily represents an accrual for legal costs for services previously rendered and outstanding settlements for existing claims. The liabilities recorded on the Company's books at September 30, 2016 and December 31, 2015 were \$277,000 and \$249,000, respectively, and are included in Other Liabilities.

Finally, in February of 2012, the Company was made aware of a fraud perpetrated by an outside party involving insurance related premiums that the Company had prepaid for umbrella coverage. The Company replaced the aforementioned insurance coverage upon becoming aware of the fraud. The assets were secured by a governmental agency which investigated the case, and held in a custodial account. In June of 2015, utilizing the secured funds, the court approved restitution to all victims including the Company. During the second quarter of 2016, the Company received \$282,000 from the United States Department of Justice in restitution. Of the amount received, \$213,000 relieved the value of the assets on the books and the remaining \$69,000 was recorded as a reduction of operating expenses. At December 31, 2015, the value of the assets on the books amounted to \$213,000 and were included in Other Long Term Assets.

#### **Item 4 Submission of Matter to a Vote of the Security Holders**

No matters were submitted to the security holders of the Company for a vote during the third quarter of 2016.

**Item 6 - Exhibits**

**Exhibit**

**No.**

**Description**

21.1

List of Subsidiaries.

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.



**SIGNATURE**

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: November 4, 2016

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