

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

Or

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

For the transition period from _____ to _____

Commission File Number **000-51372**

Omega Flex, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-1948942
(I.R.S. Employer
Identification No.)

451 Creamery Way, Exton, PA
(Address of principal executive offices)

19341
(Zip Code)

Registrant's telephone number, including area code **610-524-7272**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common	NASDAQ Global Market

Securities registered pursuant to section 12(g) of the Act:

Not applicable
(Title of class)

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

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

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of voting and non-voting common shares held by non-affiliates of the registrant as of June 30, 2009, the last business day of the most recently completed second quarter of 2009 was \$47,649,351.

**APPLICABLE ONLY TO REGISTRANTS 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 Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [] No []

The number of shares of the registrant's common stock issued and outstanding as of December 31, 2009, was 10,093,808 and 10,091,822, respectively.

Portions of the registrant's definitive proxy statement relating to the registrant's 2010 Annual Meeting of Shareholders to be filed hereafter are incorporated by reference into Part III (Items 10-14) of this Report on Form 10-K and certain Exhibits to previous filings with the Securities and Exchange Commission are incorporated by reference into Part IV, Item 15 of this Report on Form 10-K.

PART I

Item 1 - BUSINESS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K that are not historical facts -- but rather reflect our current expectations concerning future results and events -- constitute forward-looking statements. The words “believes,” “expects,” “intends,” “plans,” “anticipates,” “intend,” “estimate,” “potential,” “continue,” “hopes,” “likely,” “will,” and similar expressions, or the negative of these terms, identify such forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements of Omega Flex, 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 annual report statement. We undertake 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.

GENERAL

DESCRIPTION OF OUR BUSINESS

Overview of the Company

We are a leader in the manufacture and sale of flexible metal hose for applications in conveying various liquids and gases within a number of diverse industries, including construction, transportation, steel, pharmaceutical, and petrochemical. The various product lines include corrugated metal hoses in a broad range of sizes and alloys, including three grades of stainless steel, bronze, Inconel and Hastelloy. We also manufacture a wide range of pressure reinforcing braids for our hoses in both metallic and synthetic constructions. These products are used in a wide variety of applications primarily for the processing industries, transportation industry, medical and semiconductor markets, and for instrumentation, as well as the construction industry.

Industry Overview

The flexible metal hose industry is highly fragmented and diverse, with over 10 companies producing flexible metal hose in the United States, and at least that many in Europe and Asia. Because of its simple and ubiquitous nature, flexible metal hose can be applied and has been applied to a number of different applications across a broad range of industries.

The major market categories for flexible metallic hose include automotive, aerospace, residential and commercial construction, and general industrial. Omega Flex participates in the latter two, which in the aggregate represent about 50% of the total market opportunity for flexible metallic hose. The major use of corrugated stainless steel tubing in the residential and commercial construction markets is primarily for flexible gas piping and gas appliance connectors and secondarily as pump connectors and seismic loops to isolate vibration in mechanical piping systems in commercial buildings. With the growth of green building technologies, there is an increased interest and the use of corrugated stainless steel tubing for use in solar heated domestic hot water systems. The general industrial market includes all of the processing industries,

the most important of which include primary steel, petrochemical, pharmaceutical, and specialty applications for transfer of fluids at both extremely low and high temperatures, (such as the conveying of cryogenic liquids) and a highly fragmented OEM market, as well as the maintenance and repair market.

None of our competitors is dominant in more than one market. We are a leading supplier of flexible metal hose in each of the two broad markets in which we participate. Our assessment of our overall competitive position is based on several factors. The flexible gas piping market in the U.S. is currently concentrated in the residential housing market. Based on the reports issued by the national trade groups on housing construction, the level of acceptance of flexible gas piping in the construction market, and the average usage of flexible gas piping in a residential building, we are able to estimate with a high level of accuracy the size of the total gas piping market. Based on our sales and the statistics described above, the Company can estimate its position within that market. For other applications, industry trade groups collect and report on the size of the relevant market, and we can estimate our percentage of the relevant market based on our sales as compared to the market as a whole.

Furthermore, the customer base for the products that we sell is widely known, as is the identity of the manufacturers aligned with those customers. Independent manufacturers' sales representatives have good estimates and in many cases, factual information on the volume of purchases of customers in their territories. Because there are gross differences in the market shares of many of the competing manufacturers, it is possible to reasonably assess shared positions. Large national accounts also have a sense as to shared positions as well, because they have relationships with most of the competing manufacturers and will share opinions. Lastly, the term "leading" implies a host of factors other than sales volume and market share position. This includes the range and capability of the product line, history of product development and new product launches, all of which information is in the public domain. Based on this alone, we are without question the undisputed leader in at least one of the two major market segments in which we participate.

Development of Business

We were incorporated in 1976 under the name of Tofle America, Inc. as the subsidiary of a Japanese manufacturer of flexible metal hose. For a number of years, we were a manufacturer of flexible metal hose that was sold primarily to customers using the hose for incorporation into finished assemblies for industrial applications. We later changed our name to Omega Flex, Inc., and in 1996, we were acquired by Mestek, Inc. In 1997, we introduced our first new product – TracPipe[®] corrugated stainless steel tubing for use in carrying fuel gas within residential, commercial and industrial buildings. Our growth since 1997 has been primarily as a result of the growth in the use and acceptance of corrugated stainless steel tubing as an alternative to the traditional black iron pipe throughout the construction industry, and through the development of our AutoFlare[®] patented fittings and accessories to the corrugated stainless steel tubing that differentiate our systems from those of our competitors. In 2004, we introduced a brand of corrugated stainless steel tubing under the registered trademark CounterStrike[®] that is designed to be more resistant to damage caused by transient arcing of electrical energy. In 2007, we introduced a new version of CounterStrike[®] CSST that is 6 times more effective than the original version. In January 2005, Mestek announced its intention to distribute its equity ownership in our common stock to the Mestek shareholders. A registration statement for the Omega Flex common stock was filed with the Securities and Exchange Commission and the registration statement was declared effective on July 22, 2005. We also listed our common stock on NASDAQ National Market (now the NASDAQ Global Market) under the stock symbol "OFLX", and began public trading of our common stock on August 1, 2005. All Mestek shareholders as of the record date for the distribution received one share of Omega Flex common stock for each share of Mestek common stock owned as of the record date. We are now a totally separate company from Mestek, and we do not use or share any material assets or services of Mestek in conducting our business.

Overview of Current Business

Products

We have had the most success within the residential construction industry where our TracPipe[®] and CounterStrike[®] flexible gas piping have enjoyed wide acceptance due to their reliability and durability. Within that industry, the flexible gas piping products that we offer and similar products offered by our competitors have sought to overcome the use of black iron pipe that has traditionally been used by the construction industry in the United States and Canada for the piping of fuel gases within a building. Prior to the introduction of the first corrugated stainless steel piping system in 1989, nearly all construction in the United States and Canada used traditional black iron pipe for gas piping. However, the advantages of corrugated stainless steel tubing in areas subject to high incidence and likelihood of seismic events had been first demonstrated in Japan. In a seismic event, the corrugated stainless steel tubing was shown to withstand the stresses on a piping system created by the shifting and movement of a seismic event better than rigid pipe. However, the advantages of corrugated stainless steel tubing over the traditional black iron pipe also include lower overall installation costs because the corrugated stainless steel tubing can be installed in long uninterrupted lines within the building.

The flexibility of the tube allows it to be bent by hand without any tools when a change in direction in the line is required. In contrast, black iron pipe requires that each bend in the pipe have a separate fitting attached. This requires the installer to thread the ends of the black iron pipe, apply an adhesive to the threads, and then screw on the fitting, all of which is labor intensive and costly, including testing and rework if the work is not done properly. As a result of these advantages, corrugated stainless steel tubing now commands slightly over one-half of the market for fuel gas piping in new and remodeled residential construction in the United States, and the use of rigid iron pipe and to a lesser degree copper tube, accounts for the remainder of the market.

From its introduction in 1997, TracPipe[®] flexible gas piping has grown to be our primary product line, with other applications representing a minor portion of our business. While we remain firmly committed to maintaining a presence in the other applications and markets for flexible metal hose (both because of the opportunities in those applications and because they suggest new markets and new applications), we have increasingly become an organization oriented to the manufacture and distribution of flexible gas piping products. The growth in the flexible gas piping application domestically has superseded the prior technologies represented by traditional black iron pipe or copper tube. We plan to continue our growth through continued inroads against older technologies, in both the residential and commercial markets, in the United States and overseas in geographic areas that have access to natural gas distribution systems.

In 2004, we introduced a new brand of flexible gas piping sold under the registered trademark “CounterStrike[®]”. CounterStrike[®] is designed to be more resistant to damage from transient electrical arcing. This feature is particularly desirable in areas that are subject to high levels of lightning strikes, such as the Southeast, and the Ohio Valley. In a lightning strike, the electrical energy of the lightning can energize all metal systems and components in a building. This electrical energy in attempting to reach ground may arc between metal systems that have different electrical resistance, and arcing can cause damage to the metal systems. In standard CSST systems, an electrical bond between the CSST and the building’s grounding electrode would address this issue, but lightning is an extremely powerful and unpredictable force. CounterStrike[®] CSST is designed to be electrically conductive to disperse the energy of any electrical charge over the entire surface of the CounterStrike[®] line. In 2007, we introduced a new version of CounterStrike[®] CSST that was tested to be 6 times more resistant to damage from electrical arcing than the original version, and between 50 to 400 times more effective than standard CSST products. As a result of its robust performance, the new version of CounterStrike[®] has been warmly received in the market, and is a validation of our market leadership in the industry.

As noted below, our flexible metal hose is used in a wide variety of applications besides flexible gas piping. Our involvement in these markets is important because just as the flexible gas piping applications have sprung from our expertise in manufacturing annular metal hose, so other applications may also evolve from our participation in the industry. For example, we currently have several development projects underway in various stages for several new applications, including transportation and high purity gases. Our transportation products require some additional development and testing for the product to begin to reach its potential and begin full commercialization. Our high purity gas application is still in development.

Flexible metal hose is also used in a wide variety of industrial and processing applications where the unique characteristics of the flexible hose in terms of its flexibility, and its ability to absorb vibration and thermal expansion and contraction, has unique benefits over rigid piping. For example, in certain pharmaceutical processing applications, the process of developing the specific pharmaceutical may require rapid freezing of various compounds through the use of liquefied gases, such as liquefied nitrogen, helium or Freon. The use of flexible metal tubing is particularly appropriate in these types of applications. Flexible metal hose can accommodate the thermal expansion caused by the liquefied gases carried by it through the hose, and the total length of the hose will not significantly vary. In contrast, fixed or rigid metal pipe would expand and contract along its length as the liquid gases passed through it, causing stresses on the pipe junctions that would over time fatigue and fail. Alternatively, within certain industrial or commercial applications using steam, either as a heat source or in the industrial process itself, the pumps used to transfer the liquid or steam within the system are subject to varying degrees of vibration. Flexible metal hoses can be used as connections between the pump and the intake of the fluids being transferred to eliminate the vibration effects of the pumps on the piping transfer system. In 2008, after several years of development and testing, we unveiled one of our newest products DoubleTrac[®] double containment piping, which is used in a variety of applications, that require a double containment piping system to protect the environment. DoubleTrac[®] received certification from Underwriters Laboratory, the testing and approval agency, that our product is fully compliant with UL971A, which is the product standard in the United States for metallic underground fuel piping, as well as approvals from other relevant state agencies that have more stringent testing procedures for the product.

Manufacturing

In each instance, whether the application is for corrugated stainless steel tubing for fuel gases, flexible metal hose for handling specialty chemicals or gases, flexible double containment piping, flexible piping for solar heated hot water systems, or unique industrial applications requiring ability to withstand wide variations in temperature and vibration, all of our success rests on the metal hose made by Omega Flex, Inc. Most of our flexible metal hoses range in diameter from 1/4" to 2" while certain applications require diameters of up to 14". All of our smaller diameter pipe (2" inner diameter and smaller) is made by a proprietary process that is known as the rotary process. The proprietary process that we use to manufacture our annular hose is the result of a long-term development effort begun in 1995. Through continuous improvement, we have over the years developed and fine-tuned the process so that we can manufacture annular flexible metal hose on a high speed, continuous process. We believe that our own rotary process for manufacturing annular corrugated metal hose is the most cost efficient method in the industry, and that our rotary process provides us with a unique advantage in many of the industries in which we participate. As a result, we are able to provide our product on a demand basis. In 2009, we achieved a delivery performance to the scheduled ship date of approximately 94%. The quick inventory turnover reduces our costs for in-process inventory, and further contributes to our gross margin levels. We have also improved our productivity on a historical basis.

Raw Materials

We use various materials in the manufacture of our products, primarily stainless steel for our flexible metal hose and plastics for our jacketing material on TracPipe[®] and CounterStrike[®] flexible gas piping. We also purchase all of our proprietary AutoFlare[®] brass fittings for use with the TracPipe[®] and CounterStrike[®] flexible gas piping. Although we have multiple sources qualified for all of our major raw materials and components, we have historically used one or two sources of supply for such raw materials and components. Our current orders for stainless steel and fittings are each placed with one or two suppliers. If any one of these sources of supply were interrupted for any reason, then we would have to devote additional time and expense in obtaining the same volume of supply from our other qualified sources. This potential transition, if it were to occur, could affect our operations and financial results during the period of such transition. Commodities markets in general and stainless steel in particular experienced downward price movement in 2009, resulting in a reduction of costs to manufacture products. The supply of our main raw materials appears to be stable with ample volume. We believe that with our purchase commitments for stainless steel, polyethylene and for our proprietary fittings, that we have adequate sources of supply for these raw materials and components for 2010. We have not had difficulty in obtaining the raw materials, component parts or finished goods from our suppliers in prior years. We believe that an ample supply of stainless steel will continue until there is a reduction in global capacity, such as mine closures, which would then cause a constriction. Continued volatility in the commodities marketplace and competitive conditions in the sale of our products may not allow us to pass along raw materials or component part price increases to our customers if that was the case.

Business Seasonality

The demand for our flexible piping products that are related to construction activity including TracPipe[®], Counterstrike[®], DoubleTrac[®] and SolarTrac[®], may be affected by the construction industry's demand, which generally may slacken in the winter months of each year due to cold and inclement weather. Accordingly, sales growth is usually higher in the spring, summer and fall, while sales in the winter may be static or rise only modestly.

Customers

We sell our products to customers scattered across a wide and diverse set of industries from construction to pharmaceutical with approximately 5,300 customers on record. These sales channels include sales through independent sales representatives, distributors, original equipment manufacturers, direct sales, and sales through our website on the internet. We utilize various distribution companies in the sale of our TracPipe[®] flexible gas piping, and these distribution customers in the aggregate represent a material portion of our business. In particular, our customer, Ferguson Enterprises, and its various branches, represents 19% of our sales and 21% of our accounts receivable balance at December 31, 2009. All of this business is done on a purchase order basis for immediate resale commitments or stocking, and there are no long-term purchase commitments. In the event we were to lose an account, we would not expect any long-term reduction in our sales due to the broad end-user acceptance of our products. We would anticipate that in the event of a loss of any one or more distributors, that after an initial transition period, the sale of our products would resume at or near their historical levels. Furthermore, in the case of certain national distribution chains like Ferguson and other distributors, it is possible that there would continue to be purchasing activity from one or more regional or branch distribution customers. We sell our products within North America, primarily in the United States and Canada, and we also sell our products internationally, primarily in Europe through our facility located in Banbury, England. Our sales outside of North America represent approximately 10% of our total net sales, with most of the sales occurring in the United Kingdom and

elsewhere in Europe. We do not have a material portion of our long-lived assets located outside of the United States, and due to its small size, the foreign operations do not carry any additional risk from being located outside of the United States.

Distribution of Sales

As mentioned previously, we sell our products primarily through independent outside sales organizations, including independent sales representatives, distributors, fabricating distributors, wholesalers, and OEMs. We have a limited internal sales function that sells our products to key accounts, including OEMs and distributors of bulk hose. We believe that within each geographic market in which the independent sales representative, distributor or wholesaler is located that our outside sales organizations are the first or second most successful outside sales organization for the particular product line within that geographic area.

Competition

There are approximately ten manufacturers of flexible metal hose in the United States, and approximately that number in Europe and Asia. The U. S. manufacturers include Titeflex Corporation, Ward Manufacturing, Truflex, Microflex, U. S. Hose, Hose Master, and several smaller privately held companies. No one manufacturer, as a general rule, participates in more than two of the major market categories outlined above, with most concentrating in just one. We estimate that we hold a number one or number two share position in the two major market categories in which we participate. In the flexible gas piping market, the U.S. market is currently concentrated in the residential housing market, and based on the reports issued by the national trade groups on housing construction, the level of acceptance of flexible gas piping in the construction market, and the average usage of flexible gas piping in a residential building, we are able to estimate with a high level of accuracy the size of the total gas piping market, and based on our sales position within that market. For other applications, industry trade groups collect and report on the size of the relevant market, and we can estimate our percentage of the relevant market based on our sales as compared to the market as a whole. The larger of our two markets, the construction industry, has seen a reduction in the number of housing starts in 2009 and decreased activity in commercial construction. As discussed elsewhere, black iron pipe or copper tube was historically used by all builders of commercial and residential buildings until the advent of flexible gas piping and changes in the relevant building codes. Since that time, flexible gas piping has taken an increasing share of the total amount of fuel gas piping used in construction. At present, we estimate that flexible gas piping is slightly more than one-half of the market for the residential component, but significantly less for commercial. Within the flexible gas piping market, we compete against five other manufacturers of flexible metal hose, including Titeflex, and Wardflex.

In the industrial market, due to the number of applications in which flexible metal hose may be used, and the number of companies engaged in the manufacture and sale of flexible metal hose, the market is very fragmented, and we estimate that no one company has a predominant market share of the business over other competitors. In the market for double containment piping, we compete primarily against rigid pipe systems that are more costly to install than DoubleTrac[®] double containment piping. The general industrial markets within Europe are very mature and tend to offer opportunities, which are interesting to us in niche markets or during periods in which a weak dollar increases the demand for our products on a competitive basis. Such has been the case for several years and has created new relationships for us. Currently, we are not heavily engaged in the manufacture of flexible metal hose for the aerospace or automotive markets, but we continue to review opportunities in all markets for our products to determine appropriate applications that will provide growth potential and high margins. In some cases, where the product offering is considered a commodity, price is the overriding competing factor. In other cases, a proprietary product offering or superior performance will be the major factors with pricing being secondary and in some cases, a non-factor. The

majority of our sales are to distributors and wholesalers, and our relationships with these customers are on an arms-length basis in that neither we, nor the customers are so dependent on the other to yield any significant business advantage. From our perspective, we are able to maintain a steady demand for our products due to the broad acceptance of our products by end users, regardless of which distributor or wholesaler sells the product.

Backlog

Management does not believe that backlog figures are material to an understanding of our business because most products are shipped promptly after the receipt of orders.

Intellectual Property

We have a comprehensive portfolio of intellectual property, including approximately 158 patents issued in 43 countries around the world. The patents cover (a) the fittings used by the flexible gas piping to join the piping to a junction or assembly, (b) pre-sleeved corrugated stainless steel tubing for use in underground applications, (c) an electrically conductive jacket for flexible gas piping that we sell under the trademark CounterStrike[®], and (d) a tubing containment system for our DoubleTrac[®] double containment piping. Our AutoFlare[®] fitting is the leading fitting for use with flexible gas piping because it offers a metal-to-metal seal between the fitting and the tubing, and because of its robustness and ease of use. The metal-to-metal contact provides for a longer lasting and more reliable seal than fittings which use gaskets or sealing compounds that can deteriorate over time. In applications involving fuel gases in a building, the ability to maintain the seal and prevent the leaking of such gases over long periods of time is valued by our customers. We also have received a patent for the composition of the polyethylene jacket used in our CounterStrike[®] flexible gas piping product, which has increased ability to dissipate electrical energy in the event of a nearby lightning strike. The tubing containment system of our DoubleTrac[®] double containment piping, which is also patented in the U.S. and in other countries, allows for the monitoring and collection of any liquids that may leak from the stainless steel containment layer. The expiration dates for the several patents covering our AutoFlare[®] fittings will expire between 2016 and 2020 and the Counterstrike[®] patent will expire 2025. We currently have several patent applications pending in the United States and internationally covering improvements to our AutoFlare[®] fittings and our CounterStrike[®] polyethylene jacket. Finally, and as mentioned above, our unique rotary process for manufacturing flexible metal hose has been developed over the last ten years, and constitutes a valuable trade secret. In 2007, a Pennsylvania court has issued a ruling that confirms our proprietary rotary manufacturing process does constitute a “trade secret” under Pennsylvania law, and is entitled to protection against unauthorized disclosure or misappropriation.

In 2008, we prevailed in a case in the U.S. District Court in Massachusetts, against a competitor in the CSST industry that had infringed on one or more of our U.S. patents covering our AutoFlare[®] fittings. The case was subsequently settled. See “Item 3 – Legal Proceedings” for a more detailed description of the litigation.

Employees

As of December 31, 2009, we had 106 employees. Most of our employees are located in our main facility in Exton, Pennsylvania, which is currently our main manufacturing facility, and which contains our engineering, finance, human resources and most sales personnel. Our factory workforce in Exton, Pennsylvania is not represented by a collective bargaining agent. We also maintain an office in Middletown, Connecticut where management and certain sales personnel are assigned. A number of individual sales personnel are also scattered across the United States. We also maintain a facility in Banbury, England,

which contains employees of similar functions to those in the U.S., but on a much smaller scale. The sales personnel in England handle all sales and service for our products in Europe and select accounts in Asia and the Middle East.

Environmental

Our manufacturing processes do not require the use of significant quantities of hazardous substances or materials, and therefore we are able to operate our Exton facility as a “small quantity generator” under the Resource Conservation and Recovery Act, 42 U.S.C. §§ 321 *et seq.* As a result, compliance with federal, state and local environmental laws do not pose a material burden on our business, and we are not required to expend any material amounts on capital expenditures for environmental control facilities for our manufacturing facility.

Internet Website

You may learn more about our company by visiting our website at www.omegaflex.com. Among other things, you can access our filings with the Securities and Exchange Commission. These filings include proxy statements, annual reports (Form 10-K), quarterly reports (Form 10-Q), and current reports (Form 8-K), as well as Section 16 reports filed by our officers and directors (Forms 3, 4 and 5). All of these reports will be available on the website as soon as reasonably practicable after we file the reports with the SEC. You may also view on our website the following important corporate governance documents:

- Code of Business Ethics
- Corporate Governance Guidelines
- Charters for each of the Board committees
- Policy on receiving complaints regarding account or internal control issues

Item 1B – UNRESOLVED STAFF COMMENTS

We do not have any unresolved comments from the staff of the Securities and Exchange Commission.

Item 2 - PROPERTIES

Our main facility is located in Exton, Pennsylvania about one hour west of Philadelphia and contains about 83,000 square feet of manufacturing and office space. We lease our Exton facility from Exton Ranch, LLC., our wholly-owned subsidiary. We leased additional non-manufacturing space in Downingtown, Pennsylvania approximately 5 miles from the main plant through the first quarter of 2009, and then ceased operations at that facility. The majority of manufacturing of our flexible metal hose is done at the Exton facility. The corporate office of Omega Flex, Inc. in Middletown, Connecticut is leased. In the United Kingdom, we rent a facility in Banbury, which manufactures products and serves sales, warehousing and operational functions as well.

Item 3 - LEGAL PROCEEDINGS

The Company is not presently involved in any litigation that it believes could materially and adversely affect its financial condition or results of operations.

In 2008, we prevailed in a patent infringement case against Parker Hannifin Corporation, a flexible gas pipe competitor, for infringement on one or more of our U.S. patents covering our AutoFlare[®] fittings. In 2006, the trial court has ruled that the competitor did infringe on one or more of our AutoFlare[®] patents,

and in a subsequent jury trial in 2008, the jury returned a verdict that the AutoFlare[®] patents are valid. The case was subsequently settled by an agreement between the parties dated January 28, 2009. The settlement agreement provided that Parker Hannifin would (1) transfer information relating to its flexible gas piping customers to us, (2) work cooperatively with us to transition those customers to TracPipe or CounterStrike products, (3) agree not to make, sell or distribute competitive products for a five year period after the end of a transition period concluding on June 30, 2009, and (4) pay to us the balance of the damages awarded in patent infringement case. The amount was not material to us. Each of the parties also agreed to dismiss the patent infringement case with prejudice, and release the other from any claims that arose out of that litigation.

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 fourth quarter of 2009.

PART II

Item 5 - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(All dollars in thousands except per share amounts)

Common Stock

Our common stock is listed on the NASDAQ Global Market, under the symbol OFLX. The number of shareholders of record as of December 31, 2009, based on inquiries of the registrant's transfer agent, was 759. For this purpose, shareholders whose shares are held by brokers on behalf of such shareholders (shares held in "street name") are not separately counted or included in that total.

The following table sets forth, for the periods indicated, the high and low closing sale prices for our common stock as reported by the NASDAQ Global Market.

	<u>PRICE RANGE</u>			
	<u>2009</u>		<u>2008</u>	
	<u>high</u>	<u>low</u>	<u>high</u>	<u>low</u>
First Quarter	\$22.56	\$11.00	\$17.89	\$14.27
Second Quarter	\$19.08	\$13.59	\$21.97	\$14.40
Third Quarter	\$18.47	\$14.37	\$31.21	\$12.06
Fourth Quarter	\$18.30	\$14.00	\$25.97	\$16.04

We do not have any other securities, other than common stock, listed on a stock exchange or are publicly traded.

Dividends

We have declared two dividends on our common stock between the period of 2008 and 2009.

On December 11, 2008, the Board declared a dividend of \$0.50 per share to all Shareholders of record as of December 16, 2008, and payable on December 23, 2008. The payment was made on schedule in the amount of \$5,047.

On December 9, 2009, the Board of Directors declared a dividend of \$2.00 per share, payable on December 24, 2009 to shareholders of record on December 21, 2009, amounting to \$20,183. The amount and timing of the dividend was intended to secure for the shareholders the benefits of the current dividend tax treatment.

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

Item 7 - 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 Annual Report on Form 10-K 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-K. The Company undertakes no obligation to update the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, conditions or circumstances.

OVERVIEW

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

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

CHANGES IN FINANCIAL CONDITION (All dollars in thousands)

The Company's cash balance at December 31, 2009 was \$1,881, compared to \$9,773 at December 31, 2008, which represents a decrease of \$7,892 between periods. The decrease in cash is primarily attributed to the cash dividend declared on 12/9/09, amounting to \$20,183, as well as a \$3,250 loan to a related party, Mestek, Inc., which is disclosed as a Note Receivable in the consolidated financial statements, and which is to be paid back to the Company no later than October 2, 2010. Offsetting to those outflows, the Company borrowed \$7,500 in December 2009. Operations also generated cash, with net income for the year of \$4,381. Another main contributor was cash savings during the year due to reduced inventory purchases, as demonstrated by the \$4,054 decrease in inventory between years. All of these components along with other immaterial variables contributed to the Company's ability to generate cash.

During 2009, the Company's inventory balance has decreased \$4,054 from \$10,242 at December 31, 2008 to \$6,188 at December 31, 2009. The decrease is largely due to a focus on inventory management and purchasing reductions, coinciding with the lag in sales, along with the favorable raw materials pricing reductions compared to previous years.

Accounts Payable at December 31, 2009 was \$863, a decrease of \$699 compared to \$1,562 at December 31, 2008. The most significant factor was the 2009 1st quarter payment of \$490 related to a 2008 raw material purchase liability. No other item was uniquely significant.

A line of credit in the amount of \$15,000 was established with Sovereign Bank, NA on December 17, 2009. The Company borrowed \$7,500 of the line in December 2009, which was still outstanding at December 31, 2009.

Retained earnings decreased \$15,802 during 2009, to end at \$3,184. This was due to the dividend payment described in Note 6, Shareholders' Equity, offset partially by the year's net income of \$4,381.

RESULTS OF OPERATIONS
(All dollars in thousands)

Three-months ended December 31, 2009 vs. December 31, 2008

The Company reported comparative results from continuing operations for the three-month period ended December 31, 2009 and 2008 as follows:

	<u>Three-months ended December 31,</u>			
	(in thousands)			
	<u>2009</u>	<u>2009</u>	<u>2008</u>	<u>2008</u>
	<u>(\$000)</u>	<u>%</u>	<u>(\$000)</u>	<u>%</u>
Net Sales	\$12,595	100.0%	\$12,984	100.0%
Gross Profit	\$7,011	55.7%	\$5,963	45.9%
Operating Profits	\$2,514	20.0%	\$1,232	9.5%

The Company's sales decreased \$389 (3.0%) from \$12,984 in the three-month period ended December 31, 2008 as compared to \$12,595 in the three-month period December 31, 2009.

Revenue for the three-months ended December 31, 2009 reflects continued weakness in the residential and commercial construction industry. In an effort to outperform this general trend, the Company continues to focus on the expansion of its proprietary products into the market. Overall, volume for the quarter was down approximately 4.0% compared to the prior year quarter.

The Company's gross profit improved from 45.9% to 55.7% for the three-month period ended December 31, 2008 and December 31, 2009, respectively, primarily due to lower production costs, including lower raw material costs. In the 4th quarter of 2008, the Company absorbed unusual inventory charges of approximately \$400.

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 \$2,359 and \$1,927 for the three months ended December 31, 2008 and 2009, respectively. While no individual component was significant, the \$432 reduction was partially due to a decrease in commissions and freight related to sales volume, and also a decrease in advertising. Sales expense as a percentage of sales decreased from 18.2% for the three-months ended December 31, 2008 to 15.3% for the three-months ended December 31, 2009.

General and Administrative Expenses. General and administrative expenses consist primarily of employee salaries, benefits for administrative, executive and finance personnel, legal and accounting, and corporate general and administrative services. General and administrative expenses were \$1,777 and \$1,964 for the three months ended December 31, 2008 and 2009, respectively, an increase of \$187. Compensation related expenses increased \$344 compared to last year, since net income improved between the periods. This increase was partially cancelled by a decrease in legal expenses and other less meaningful components totaling \$157. As a percentage of sales, general and administrative expenses increased from 13.7% for the three months ended December 31, 2008 to 15.6% for the three months ended December 31, 2009.

Engineering Expense. Engineering expenses consist of development expenses associated with the development of new products and enhancements to existing products, and manufacturing engineering costs. Engineering expenses were \$595 and \$606 for the three months ended December 31, 2008 and 2009,

respectively. Engineering expenses as a percentage of sales were 4.6% for the three months ended December 31, 2008 and 4.8% for the three months ended December 31, 2009.

Reflecting all of the factors mentioned above, Operating Profit margins increased \$1,282 (104.1%), from a profit of \$1,232 in the three-month period ended December 31, 2008, to a profit of \$2,514 in the three-month period ended December 31, 2009. As a percentage of sales, profit margins increased 10.5 percentage points, moving to 20% for 2009 from 9.5% in 2008.

Interest Income-Net. Interest income-net includes interest income on our interest-bearing investments and interest income on the note receivable from Mestek for the applicable months. The income is diminished by interest expense recognized on our outstanding borrowings.

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

Income Tax Expense. The Company's effective tax rate in 2009 is higher than the 2008 rate primarily as a result of federal rate adjustments and benefits made in 2008. The rate in both years does not differ materially from expected statutory rates.

Twelve months ended December 31, 2009 vs. December 31, 2008

The Company reported comparative results from continuing operations for the twelve-month period ended December 31, 2009 and 2008 as follows:

	<u>Twelve-months ended December 31,</u>			
	(in thousands)			
	<u>2009</u>	<u>2009</u>	<u>2008</u>	<u>2008</u>
	<u>(\$000)</u>	<u>%</u>	<u>(\$000)</u>	<u>%</u>
Net Sales	\$44,140	100.0%	\$63,484	100.0%
Gross Profit	\$22,633	51.3%	\$31,219	49.2%
Operating Profits	\$ 6,244	14.1%	\$11,100	17.5%

The Company's sales decreased \$19,344 (30.5%) from \$63,484 in the twelve-month period ended December 31, 2008 as compared to \$44,140 in the twelve-month period December 31, 2009.

Revenue for the twelve months ended December 31, 2009 was reasonably consistent with the contraction in the construction industry. In an effort to outperform this general trend, the Company continues to focus on the expansion of its proprietary products into the market. Overall volume for the twelve months was down approximately 36% compared to the prior year.

The Company's gross profit margins improved over the twelve months, being at 49.2% in the twelve-month period ended December 31, 2008, and 51.3% in the twelve-month period ended December 31, 2009.

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 \$10,413 and \$7,872 for the twelve months ended December 31, 2008 and 2009, respectively. The \$2,541 reduction was strongly impacted by a \$1,355 decrease in commissions, related to sales volume. The remaining \$1,186 represents a decrease in freight, and to a lesser extent various other insignificant components. Sales expense as a percentage of sales

increased from 16.4% for the twelve months ended December 31, 2008 to 17.8% for the twelve months ended December 31, 2009.

General and Administrative Expenses. General and administrative expenses consist primarily of employee salaries, benefits for administrative, executive and finance personnel, legal and accounting, and corporate general and administrative services. General and administrative expenses were \$7,484 and \$6,267 for the twelve months ended December 31, 2008 and 2009, respectively. The \$1,217 decrease is partially attributable to a decrease in executive incentive compensation. A decrease in legal costs, which was impacted by the cash settlement of the Parker Hannifin case, as outlined in the Company's 1st quarter 2009 Form 10-Q, was also a factor. General and administrative expense, as a percentage of sales, increased from 11.8% for the twelve months ended December 31, 2008 to 14.2% for the twelve months ended December 31, 2009.

Engineering Expense. Engineering expenses consist of development expenses associated with the development of new products and enhancements to existing products, and manufacturing engineering costs. Engineering expenses were largely in line for the twelve months ended December 31, 2008 and 2009 being \$2,222 and \$2,250, respectively. Engineering expenses as a percentage of sales were 3.5% for the twelve months ended December 31, 2008, and 5.1% for the twelve months ended December 31, 2009.

Reflecting all of the factors mentioned above, Operating Profit margins decreased \$4,856 (43.7%) from a profit of \$11,100 in the twelve-month period ended December 31, 2008, to a profit of \$6,244 in the twelve-month period ended December 31, 2009.

Interest Income-Net. Interest income-net includes interest income on our interest-bearing investments and interest income on the note receivable from Mestek for the applicable months. The income is diminished by interest expense recognized on our outstanding borrowings.

Other (Expense) Income-Net. Other Income-net primarily consists of foreign currency exchange gains (losses) on transactions with Omega Flex, Limited, our U.K. subsidiary.

Income Tax Expense. The Company's effective tax rate in 2009 approximates the 2008 rate and does not differ materially from expected statutory rates. However, a reversal of a portion of the Accounting Standards Codification (ASC) 740 liability described in Note 7, due to the expiration of the statute of limitations, lowered tax expense in the twelve months ending December 31, 2009.

COMMITMENTS AND CONTINGENCIES

(All dollars in thousands)

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 entered into salary continuation agreements with two employees, which provide for monthly payments to each of the employees or his designated beneficiary upon the employee's retirement or death. The payment benefits range from \$1 per month to \$3 per month with the term of such payments limited to 15 years after the employee's retirement at age 65. The agreements also provide for survivorship benefits if the employee dies before attaining age 65, and severance payments if the employee is terminated without cause, the amount of which is dependent on the length of company service at the date of termination. The net present value of the retirement payments is included in Other Long-Term Liabilities, and amounted to \$388 at December 31, 2009 and \$350 at December 31, 2008, respectively. The Company has obtained and is the beneficiary of three whole life insurance policies in respect of the two employees discussed above, and one other policy. The cash surrender value of such policies (included in Other Assets) amounts to \$622 at December 31, 2009 and \$534 at December 31, 2008, respectively.

Contingencies:

The Company's general liability insurance policies are subject to deductibles or retentions and amounts ranging from \$25 to \$50, subject to an agreed aggregate. The Company is insured on a 'first dollar' basis for workers' compensation subject to statutory limits.

The Company is not presently involved in any litigation that it believes could materially and adversely affect its financial condition or results of operations.

Warranty Commitments:

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

FUTURE IMPACT OF KNOWN TRENDS OR UNCERTAINTIES

The Company's operations are sensitive to a number of market factors, any one of which could materially adversely affect its results of operations in any given year:

Construction Activity—The Company is directly impacted by the level of single family and multi-family residential housing starts and, to a lesser extent, commercial construction starts. Historically low interest rates and easy availability of credit, contributed to construction activity in recent years. There are a number of factors in the current economy that are reducing the demand for residential, commercial and institutional construction. These factors include:

- the crisis in the financial markets has reduced the availability of financing for new construction,
- foreclosures have increased the inventory of available residential housing, thereby decreasing the demand for new construction, and
- consumer demand has declined as a result of reduced economic activity.

Initiatives by the federal government to stabilize the residential housing markets and stimulate the economy, and lower interest rates, may act to increase residential construction activity, but it is possible that those initiatives will take some time to have an appreciable effect, or they may not be effective in stabilizing

or stimulating the economy, or may be rescinded altogether. The reductions in residential construction activity may materially adversely affect the Company's revenues.

Technological Changes—Although the HVAC industry has historically been impacted by technology changes in a relatively incremental manner, it cannot be discounted that radical changes—such as might be suggested by fuel cell technology, burner technology and/or other developing technologies which might impact the use of natural gas—could materially adversely affect the Company's results of operations and/or financial position in the future.

Weather Conditions—The Company's flagship TracPipe[®] and CounterStrike[®] products are used in residential and commercial heating applications. As such, the demand for its products is impacted by weather as it affects the level of construction. Furthermore, severe climatic changes, such as those suggested by the "global warming" phenomenon, could over time adversely affect the demand for heating products and adversely affect the Company's results of operations and financial position.

Purchasing Practices—It has been the Company's policy in recent years to aggregate purchase volumes for high value commodities with fewer vendors to achieve maximum cost reductions while maintaining quality and service. This policy has been effective in reducing costs, but has introduced additional risk which could potentially result in short-term supply disruptions or cost increases from time to time in the future.

Supply Disruptions and Commodity Risks—The Company uses a variety of materials in the manufacture of its products, including stainless steel, polyethylene and brass for its AutoFlare[®] connectors. In connection with the purchase of commodities, principally stainless steel for manufacturing requirements, the Company occasionally enters into one-year purchase commitments which include a designated fixed price or range of prices. These agreements require the Company to accept delivery of the commodity in the quantities committed, at the agreed upon prices. Transactions required for these commodities in excess of the one year commitments are conducted at current market prices at the Company's discretion. In addition to the raw material cost strategy described above, the Company enters into fixed pricing agreements for the fabrication charges necessary to convert these commodities into useable product. It is possible that prices may decrease below the fixed prices agreed upon and therefore require the Company to pay more than market price, potentially materially. Management believes at present that it has adequate sources of supply for its raw materials and components (subject to the risks described above under Purchasing Practices) and has historically not had significant difficulty in obtaining the raw materials, component parts or finished goods from its suppliers. The Company is not dependent for any commodity on a single supplier, the loss of which would have a material adverse effect on its business.

Interest Rate Sensitivity - The Company currently has a \$15,000 line of credit outstanding with Sovereign Bank, NA with a 4% interest rate floor. Interest rates are also significant to the Company as a participant in the residential construction industry, since interest rates can be a determinant factor on whether or not borrowing funds for building will be affordable to our customers. (See Construction Activity, above.). Any dramatic change to interest rates could therefore have a detrimental effect.

Retention of Qualified Personnel – The Company does not operate with multiple levels of management. It is relatively "flat" organizationally, which does subject the Company to the risks associated with the loss of critical managers. From time to time, there may be a shortage of skilled labor, which may make it more difficult and expensive for the Company to attract and retain qualified employees. The Company is dependent upon the relatively unique talents and managerial skills of a small number of key executives.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES **(All Amounts in Thousands)**

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

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

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

Revenue Recognition

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

- Persuasive evidence of an arrangement for the sale of product or services must exist.
- Delivery has occurred or services rendered.
- The sales price to the customer is fixed or determinable.
- Collection is reasonably assured.

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

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

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

Accounts Receivable

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. The estimated allowance for uncollectible amounts is based primarily on specific analysis of accounts

in the receivable portfolio and historical write-off experience. While management believes the allowance to be adequate, if the financial condition of the Company's customers were to deteriorate, resulting in their inability to make payments, additional allowances may be required.

Inventory

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

Goodwill and Intangible Assets

In accordance with the Intangibles – Goodwill and Other Topic 350 of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the Company ceased recording amortization of goodwill and intangible assets with indefinite lives effective January 1, 2002. The Company performed annual impairment tests in accordance with this guidance as of December 31, 2009 and December 31, 2008. These analyses did not indicate any impairment of Goodwill.

Product Liability Reserves

As explained more fully under Contingencies, the Company retains some liability for various product liability claims on a per occurrence basis under its general liability insurance policies, ranging from \$25 to \$75, depending on the policy year. To date, the Company has not experienced a meaningful product failure rate.

Workers Compensation Claims Reserves

Prior to the Spin-Off, the Company provided workers compensation coverage principally through commercial insurance carriers using "high deductible" programs, which required the Company to reserve for and pay a high proportion of its workers compensation claims payable and to rely upon the expertise of its insurance carriers and its own historical experience in setting the reserves related to these claims. One such workers compensation claim is still outstanding from the pre-Spin-Off period for which the company remains liable for amounts up to the deductible. The Company maintains a reserve for these amounts. The remaining potential liability is minimal, as this case is reaching the maximum deductible.

The Company is insured on a 'first dollar' basis.

Accounting for Income Taxes

The Company accounts for federal tax liabilities in accordance with ASC Topic 740. Under this method the Company recorded tax expense and related deferred taxes and tax benefits.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize the benefit, or that future deductibility is uncertain.

LIQUIDITY AND CAPITAL RESOURCES

(All dollars in thousands)

Twelve Months ended December 31, 2009

The Company's cash balance at December 31, 2009 was \$1,881, compared to \$9,773 at December 31, 2008, which represents a decrease of \$7,892 between periods. The decrease in cash is primarily attributed to a two dollar per share dividend, amounting to \$20,183, as well as a \$3,250 loan to a related party Mestek, Inc., which is disclosed as a Note Receivable in the consolidated financial statements, and is to be paid back to the Company no later than October 2010. Offsetting to those outflows, the Company borrowed \$7,500 in December 2009 from Sovereign Bank under a \$15,000 line of credit facility. Operations also generated cash, with net income for the year of \$4,378. Another main contributor was cash savings during the year due to reduced inventory purchases, as demonstrated by the \$4,054 decrease in inventory between years. All of these components along with other non-material variables contributed to the Company's ability to generate cash.

Operating Activities

Cash provided by operating activities was \$692 higher in 2009, than in 2008, going from \$7,651 to \$8,343.

The Company was able to purchase less inventory during the current year, which reduced cash requirements by \$4,443. Inventory turned 2.6 times in 2009, and 3.1 times in 2008, with the lag being caused primarily by the 30.5% reduction in sales between 2008 and 2009, partially offset by the reduction in inventory purchases previously mentioned. The Company also saved \$3,100 related to other liabilities, since the prior year included the final payments of \$2,232 related to the legal settlement described in detail in the 2008 Form 10-K, under Note 11, "Commitments and Contingencies", and a good portion of the remainder due to the diminished requirement for incentive compensation in 2009.

In contrast, the operations of the Company earned net income of \$4,378 in 2009 versus \$7,446 in 2008, a decrease of \$3,068, which had a negative impact on cash. Further, a decrease in sales during the year also carried through to receivables, which shows a depletion in cash receipts of \$2,465, when comparing 2009 to 2008. Cash provided for accounts payable was also unfavorable, as it was higher by \$1,181 in 2009, with about \$490 of that amount due to a raw material settlement payment in 2009, which had been accrued in 2008.

Investing Activities

Cash used in investing activities for 2009 was \$3,688, which includes a \$3,250 loan to our former parent company Mestek, Inc., detailed in Note 12, compared with \$2,717 provided in 2008. The Company expects the collection of the \$3,250 Mestek Note in October of 2010. There are currently no other known trends, demands, commitments or uncertainties that the Company anticipates will significantly increase or decrease liquidity. Capital spending was \$438 and \$533 for 2009 and 2008, respectively.

Financing

Cash used in financing activities during 2009 was \$12,708, compared with \$12,679 used in 2008. Each year had significant dividend payments. In 2009, the Company paid \$20,183 in dividends, while also borrowing \$7,500 from its line of credit to fund a portion of that payment. In 2008, the Company paid two dividends amounting to \$12,139.

On September 11, 2009, the Company's Board of Directors authorized an extension of the stock repurchase program for an additional 24 months. The original program established in September of 2007 authorized the purchase of up to \$5,000 of its common stock. The purchases may be made from time-to-time in open market or in privately negotiated transactions, depending on market and business conditions. The Board retained the right to cancel, extend, or expand the share buyback program at any time and from time-to-time. During 2009, the Company had purchased 1,986 shares of treasury stock for \$24.

On December 17, 2009, the Company agreed to a Revolving Line of Credit Note and a Loan Agreement with Sovereign Bank, NA ("Sovereign"). The Company thereby established a line of credit facility in the maximum amount of \$15,000, maturing on December 31, 2010, with funds available for working capital purposes and to fund dividends. This supersedes the existing \$7,500 line of credit the Company previously had in place with Sovereign. The loan is collateralized by all of the Company's tangible and intangible assets. The loan agreement provides for the payment of any loan under the agreement at a rate that is either prime rate plus 0.75% or LIBOR rate plus 3%, with a 4% floor. The Company is also required to pay a commitment fee equal to \$19 for the additional \$7,500 of available funds, and is delegated to pay a "Line Fee" equal to 17.5 basis points of the average unused balance on a quarterly basis. The Company has no other loans or loan balances outstanding.

The Company believes its liquidity position as of December 31, 2009 is fully adequate to meet foreseeable future needs and that the Company will possess adequate cash reserves to meet its day-to-day needs including any acquisitions or capital expenditures or stock repurchases it can reasonably foresee at this time.

RECENT ACCOUNTING PRONOUNCEMENTS

The Generally Accepted Accounting Principles (GAAP) FASB ASC Topic 740 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. As a result of the new codification structure, the FASB will not issue new standards in the forms of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Company adopted this guidance in the quarter ended September 30, 2009 and it did not have a material effect on the Company's consolidated statements of operations, financial position or cash flows.

The Consolidation Topic 805 of the FASB ASC establishes and provides accounting and reporting standards for the noncontrolling interest in a consolidated subsidiary and for the deconsolidation of a subsidiary. The Company adopted this guidance beginning in January 1, 2009 via retrospective application of the presentation and disclosure requirements.

The Business Combination Topic of the FASB ASC establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. Guidance is also provided for guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after

December 15, 2008. An entity may not apply it before that date. The Company believes that this new pronouncement will have an impact on our accounting for future business combinations, but the effect is dependent upon the acquisitions that are made in the future.

Off-Balance Sheet Obligations or Arrangements

The Company has off-balance sheet obligations or arrangements at December 31, 2009 that relate to purchase commitments and operating lease obligations totaling \$10,765. The total amount of these obligations at December 31, 2008 was \$9,730.

Item 7A - QUANTITATIVE AND QUALITATIVE 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Omega Flex, Inc.:

We have audited the consolidated balance sheets of Omega Flex, Inc. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

/s/ Caturano and Company, P.C.

Boston, Massachusetts
March 16, 2010

OMEGA FLEX, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

**As of December 31,
(Dollars in thousands)**

	<u>2009</u>	<u>2008</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$1,881	\$9,773
Accounts Receivable - less allowances of \$92 and \$42, respectively	6,515	6,986
Inventories - Net	6,188	10,242
Deferred Taxes	712	922
Note Receivable from former Parent Company	3,250	---
Other Current Assets	<u>542</u>	<u>603</u>
Total Current Assets	19,088	28,526
Property and Equipment – Net	6,296	6,407
Goodwill	3,526	3,526
Other Long Term Assets	<u>622</u>	<u>534</u>
Total Assets	<u>\$29,532</u> =====	<u>\$38,993</u> =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$863	\$1,562
Line of Credit	7,500	---
Accrued Compensation	1,552	2,169
Accrued Commissions and Sales Incentives	1,680	2,028
Taxes Payable	226	---
Other Accrued Liabilities	<u>1,546</u>	<u>1,657</u>
Total Current Liabilities	13,367	7,416
Deferred Taxes	1,372	1,168
Other Liabilities	<u>987</u>	<u>1,025</u>
Total Liabilities	<u>\$15,726</u>	<u>\$9,609</u>
Shareholders' Equity:		
Controlling Interest:		
Common Stock – par value \$0.01 share: authorized 20,000,000 shares: 10,091,822 and 10,093,808 shares outstanding, and 10,093,808 and 10,128,156 issued at December 31, 2009 and 2008, respectively	102	102
Treasury Stock	(1)	---
Paid in Capital	10,808	10,832
Retained Earnings	3,184	18,986
Accumulated Other Comprehensive (Loss)	<u>(434)</u>	<u>(674)</u>
Total Omega Flex, Inc. Shareholders' Equity	13,659	29,246
Noncontrolling Interest	<u>147</u>	<u>138</u>
Total Equity	<u>\$13,806</u>	<u>\$29,384</u>
Total Liabilities and Equity	<u>\$29,532</u> =====	<u>\$38,993</u> =====

See Accompanying Notes to Consolidated Financial Statements.

OMEGA FLEX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31,

	<u>2009</u>	<u>2008</u>
	(Amounts in thousands, except earnings per Common Share)	
Net Sales	\$44,140	\$63,484
Cost of Goods Sold	<u>21,507</u>	<u>32,265</u>
Gross Profit	22,633	31,219
Selling Expense	7,872	10,413
General and Administrative Expense	6,267	7,484
Engineering Expense	<u>2,250</u>	<u>2,222</u>
Operating Profit	6,244	11,100
Interest Income - Net	174	291
Other Income (Loss) - Net	<u>132</u>	<u>(27)</u>
Income Before Income Taxes	6,550	11,364
Income Tax Expense	<u>2,172</u>	<u>3,918</u>
Net Income	4,378	7,446
Less: Net Income (Loss) – Noncontrolling Interest	<u>(3)</u>	<u>64</u>
Net Income attributable to Omega Flex, Inc.	<u>\$4,381</u>	<u>\$7,382</u>
Basic Earnings per Common Share	\$0.43	\$0.73
Basic Weighted Average Shares Outstanding	10,092	10,100
Diluted Earnings per Common Share	\$0.43	\$0.73
Diluted Weighted Average Shares Outstanding	10,092	10,100

See Accompanying Notes to Consolidated Financial Statements.

OMEGA FLEX, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
For the years ended December 31, 2009 and 2008**

	<u>Common Stock Outstanding</u>	<u>Treasury Stock</u>	<u>Common Stock</u>	<u>Paid In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Noncontrolling Interest</u>	<u>Total</u>
(Dollars in Thousands)								
Balance -December 31, 2007	10,128,516		\$102	\$11,372	\$16,651	\$414	\$129	\$28,668
Net Income					7,382		64	7,446
Cumulative Translation Adjustment Comprehensive Income						(1,088)	(55)	<u>(1,143)</u>
Purchase of Shares for Treasury	(34,708)			(540)				(540)
Dividends Paid					(5,047)			<u>(5,047)</u>
Balance - December 31, 2008	10,093,808		\$102	\$10,832	\$18,986	(\$674)	\$138	\$29,384
Net Income (Loss)					4,381		(3)	4,378
Cumulative Translation Adjustment Comprehensive Income						240	12	<u>252</u>
Purchase of Shares for Treasury	(1,986)	(1)		(24)				(25)
Dividends Paid					(20,183)			<u>(20,183)</u>
Balance - December 31, 2009	<u>10,091,822</u>	<u>(\$1)</u>	<u>\$102</u>	<u>\$10,808</u>	<u>\$3,184</u>	<u>(\$434)</u>	<u>\$147</u>	<u>\$13,806</u>

See Accompanying Notes to Consolidated Financial Statements

OMEGA FLEX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,

	<u>2009</u>	<u>2008</u>
	(Dollars in Thousands)	
Cash Flows from Operating Activities:		
Net Income	\$4,378	\$7,446
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Non-Cash Compensation Expense	102	49
Depreciation and Amortization	623	599
Provision for Losses on Accounts Receivable, net of write-offs and recoveries	57	(78)
Changes in Assets and Liabilities:		
Accounts Receivable	477	2,942
Inventory	4,199	(244)
Accounts Payable	(801)	380
Accrued Compensation	(772)	(523)
Other Liabilities	(395)	(3,495)
Other Assets	475	575
Net Cash Provided by Operating Activities	<u>8,343</u>	<u>7,651</u>
Cash Flows from Investing Activities:		
Note Receivable from former Parent Company	(3,250)	3,250
Capital Expenditures	<u>(438)</u>	<u>(533)</u>
Net Cash (Used In) Provided by Investing Activities	<u>(3,688)</u>	<u>2,717</u>
Cash Flows from Financing Activities:		
Principal Borrowings on Line of Credit	7,500	---
Treasury Stock Purchases	(25)	(540)
Dividends Paid	<u>(20,183)</u>	<u>(12,139)</u>
Net Cash Used In Financing Activities	<u>(12,708)</u>	<u>(12,679)</u>
Net Decrease in Cash and Cash Equivalents	(8,053)	(2,311)
Translation effect on cash	161	(1,059)
Cash and Cash Equivalents - Beginning of Year	<u>9,773</u>	<u>13,143</u>
Cash and Cash Equivalents - End of Year	\$1,881	\$9,773
	=====	=====
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid for Income Taxes	\$1,707	\$4,415
	=====	=====
Cash paid for Interest	\$13	\$---
	===	===

See Accompanying Notes to Consolidated Financial Statements.

OMEGA FLEX, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All dollars in thousands except per share amounts)

1. BASIS OF PRESENTATION AND CONSOLIDATION

Description of Business

The accompanying consolidated financial statements include the accounts of Omega Flex, Inc. (Omega) and its subsidiaries (collectively the “Company”). The Company’s audited consolidated financial statements for the year ended December 31, 2009 and 2008 have been prepared in accordance with generally accepted accounting principles, and with the instructions of Form 10-K and Article 10 of Regulation S-X. All material inter-company accounts and transactions have been eliminated in consolidation.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Revenue Recognition

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

- Persuasive evidence of an arrangement for the sale of product or services must exist.
- Delivery has occurred or services rendered.
- The sales price to the customer is fixed or determinable.
- Collection is reasonably assured.

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

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 has not experienced any losses related to these balances, and management believes its credit risk to be minimal.

Inventories

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

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 income for the period. The cost of maintenance and repairs is expensed as incurred; significant improvements are capitalized.

Excess of Cost Over Net Assets of Acquired Companies (Goodwill)

The Company follows FASB ASC Topic 350 with respect to Goodwill and Intangibles. The Company performs annual impairment tests using the stock price as of the last day of the year, where the fair value of the reporting unit was compared to the carrying amount. The fair value of the reporting unit exceeded the carrying amounts therefore as of December 31, 2008 and December 31, 2009 the Company concluded that goodwill was not impaired.

Fair Value of Financial and Nonfinancial Instruments

The Company measures both financial and nonfinancial 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 generally accepted accounting principles 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 Goodwill and Intangibles.

Advertising Expense

Advertising costs are charged to operations as incurred. Such charges aggregated \$528 and \$699, for the years ended December 31, 2009, and 2008, respectively.

Research and Development Expense

Research and development expenses are charged to operations as incurred. Such charges aggregated \$727, and \$729, for the years ended December 31, 2009 and 2008, respectively and are included in Engineering expense in the accompanying financial statements.

Shipping Costs

Shipping costs are included in selling expense on the Statement of Operations. The expense relating to shipping was \$1,114 in 2009 and \$1,701 in 2008.

Provision for Doubtful Accounts

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. Due to a viable customer base and strong credit policies the Company recognized only nominal expenses with regard to uncollectible accounts for the years ended December 31, 2009 and 2008. In regards to identifying uncollectible accounts, the Company reviews an Aging report on a consistent basis to determine past due accounts and charges off those accounts that are deemed uncollectible once all collection efforts have been exhausted.

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 relates to our UK subsidiary whose functional currency is British pounds sterling, are translated into U.S. dollars at exchange rates prevailing on the balance sheet date. The Statement of Operations is translated into U.S. dollars at average exchange rates. Adjustments resulting from the translation of financial statements are excluded from the determination of income and are accumulated in a separate component of shareholders' equity. For the years

ended December 31, 2009 and 2008 exchange gains and losses resulting from foreign currency transactions were not significant and are included in the statement of operations (other income (expense)) in the period in which they occur.

Income Taxes

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

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize the benefit, or that future deductibility is uncertain.

Other Comprehensive (Loss) Income

For the years ended December 31, 2009 and 2008, respectively, the components of Other Comprehensive (Loss) Income consisted solely of foreign currency translation adjustments.

Significant Concentration

One customer accounted for approximately 19% of Sales in 2009 and 21% of Accounts Receivable at December 31, 2009. One customer represented 18% of Sales in 2008 and 23% of Accounts Receivable at December 31, 2008. Also, approximately 90% of sales occur in North America, with the remaining 10% portion scattered among other countries, but mostly pertaining to the United Kingdom.

New Accounting Pronouncements

The Generally Accepted Accounting Principles of the FASB ASC identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. As a result of the new codification structure, the FASB will not issue new standards in the forms of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Company adopted this guidance in the quarter ended September 30, 2009 and it did not have a material effect on the Company's consolidated statements of operations, financial position or cash flows.

The FASB ASC Topic 810 Consolidation establishes and provides accounting and reporting standards for the noncontrolling interest in a consolidated subsidiary and for the deconsolidation of a subsidiary. As required by the provisions, the Company has presented the noncontrolling interest in the consolidated financial statements within equity, but separately from the parent's equity. Prior to the adoption, the Company presented its noncontrolling interest as a separate item on the balance sheet, not included in equity. The Company adopted this guidance beginning in January 1, 2009 via retrospective application of the presentation and disclosure requirements.

The FASB ASC Topic 805 Business Combination establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. Guidance is also provided for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company adopted this new standard January 1, 2009 and believes that this new pronouncement will have an impact on our accounting for future business combinations, but the effect is dependent upon the acquisitions that are made in the future.

On February 24, 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*. The amendments in the ASU remove the requirement for a Securities and Exchange Commission (SEC) filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. The FASB also clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. The FASB believes these amendments remove potential conflicts with the SEC’s literature. The Company’s disclosures are within the parameters of Topic 855.

Reclassifications

Certain reclassifications have been made to prior years’ financial statements to conform to the 2009 presentation, including those required under the FASB ASC Topic 810 Consolidation that includes accounting guidance for a noncontrolling interest in a consolidated subsidiary, as discussed above, and legal settlement and related costs as disclosed in the December 31, 2008 Form 10-K, Note 11, “Commitments and Contingencies”.

3. INVENTORIES

Inventories consisted of the following at December 31:

	<u>2009</u>	<u>2008</u>
	(in thousands)	
Finished Goods	\$4,447	\$7,673
Raw Materials	<u>1,741</u>	<u>2,569</u>
Total Inventory, Net	<u>\$6,188</u>	<u>\$10,242</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2009</u>	<u>2008</u>	<u>Depreciation and Amortization Est.</u>
	(in thousands)		<u>Useful Lives</u>
Land	\$538	\$538	
Buildings	4,141	4,141	39 Years
Leasehold Improvements	207	192	3-10 Years (Lesser of Life or Lease)
Equipment	<u>8,384</u>	<u>8,059</u>	3-10 Years
	13,270	12,930	
Accumulated Depreciation	<u>(6,974)</u>	<u>(6,523)</u>	
	\$6,296	\$6,407	

The above amounts include approximately \$154 at December 31, 2009 and \$452 at December 31, 2008 in assets that had not yet been placed in service by the Company. No depreciation was recorded in the related periods for these assets.

Depreciation and amortization expense was approximately \$623 and \$599 for the years ended December 31, 2009 and 2008, respectively.

5. LINE OF CREDIT

On December 17, 2009, the Company agreed to a Revolving Line of Credit Note and a Loan Agreement with Sovereign Bank, NA (“Sovereign”). The Company thereby established a line of credit facility in the maximum amount of \$15,000, maturing on December 31, 2010, with funds available for working capital purposes and to fund dividends. This supersedes the existing \$7,500 line of credit the Company previously had in place with Sovereign. The loan is collateralized by all of the Company’s tangible and intangible assets. The loan agreement provides for the payment of any loan under the agreement at a rate that is either prime rate plus 0.75% or LIBOR rate plus 3%, with a 4% floor. The Company is also required to pay a commitment fee equal to \$19 for the additional \$7,500 of available funds, and is delegated to pay a “Line Fee” equal to 17.5 basis points of the average unused balance on a quarterly basis. The Company has no other loans or loan balances outstanding.

On September 4, 2009, the Company had extended its revolving line of credit note and loan agreement with Sovereign Bank, N.A. with terms considerably similar to those in place with its successor agreement, excluding any collateralization of assets. The note and agreement were to be in place until September 1, 2010, however new arrangements were made for the \$15,000 Revolver noted above. There were no borrowings under the September 4, 2009 agreement.

On September 18, 2008, the Company extended its original September 2007 revolving line of credit note and loan agreement with Sovereign Bank, N.A. whereby the Company established a line of credit facility for a one-year duration ending September 4, 2009, and in the maximum amount of \$7,500. The loan

agreement provided for the payment of any loan under the agreement at a rate that is either prime rate less 1%, or LIBOR rate plus 1%. Under the terms of the agreement, the Company was required to pay a nominal commitment fee, and is also delegated to pay a "Line Fee" equal to one-tenth (0.10%) of the average unused balance on a quarterly basis. As of December 31, 2008, the Company did not have any loans or loan balances outstanding under the loan agreement.

As of December 31, 2009, the Company was in compliance with all debt covenants.

6. SHAREHOLDERS' EQUITY

As of December 31, 2009 and December 31, 2008, the Company had authorized 20,000,000 common stock shares with par value of \$0.01 per share. Shares outstanding for the same periods were 10,091,822 and 10,093,808, respectively. Shares issued for 2009 and 2008, were 10,093,808 and 10,128,516, respectively.

On December 11, 2008, the Board declared a dividend of \$0.50 per share to all Shareholders of record as of December 16, 2008, and payable on December 23, 2008. The payment was made on schedule in the amount of \$5,047. Additionally, on January 16, 2008, the Company paid a dividend of \$7,092, which was declared on December 7, 2007.

On December 9, 2009, the Board of Directors declared a dividend of \$2.00 per share, payable on December 24, 2009 to shareholders of record on December 21, 2009, amounting to \$20,183.

On September 11, 2009, the Company's Board of Directors authorized an extension of the stock repurchase program for an additional 24 months. The original program established in September of 2007 authorized the purchase of up to \$5,000 of its common stock. The purchases may be made from time-to-time in open market or in privately negotiated transactions, depending on market and business conditions. The Board retained the right to cancel, extend, or expand the share buyback program, at any time and from time-to-time. During 2009, the Company purchased 1,986 shares for \$25, including commissions. Since inception, the Company has purchased a total of 61,811 shares for approximately \$932, or \$15 per share.

In connection with the aforementioned share buyback program, on September 15, 2009 the Company entered into an amendment of the Rule 10b5-1 Repurchase Plan (the "Plan") dated September 15, 2008 with Hunter Associates, Inc. ("Hunter"), by which Hunter will continue to implement the share buyback program by purchasing shares of the Company's common stock in accordance with the terms of the Plan and within the safe harbor afforded by Rule 10b5-1.

7. INCOME TAXES

Income tax expense consisted of the following:

	<u>2009</u>	<u>2008</u>
	(in thousands)	
Federal Income Tax:		
Current	\$1,613	\$2,736
Deferred	354	188
State Income Tax:		
Current	177	440
Deferred	47	34
Foreign Income Tax:		
Current	(6)	533
Deferred	<u>(13)</u>	<u>(13)</u>
Income Tax Expense	<u>\$2,172</u>	<u>\$3,918</u>

Pre-tax income included foreign income (loss) of (\$84) and \$1,789 in 2009 and 2008, respectively.

Total income tax expense differed from “statutory” income tax expense, computed by applying the U.S. federal income tax rate of 35% to earnings before income tax, as follows:

	<u>2009</u>	<u>2008</u>
	(in thousands)	
Computed “Statutory” Income Tax Expense	\$2,290	\$3,955
State Income Tax, Net of Federal Tax Benefit	184	307
Foreign Tax Rate Differential	6	(116)
Tax Reserves - Net	(181)	29
Other - Net	<u>(127)</u>	<u>(257)</u>
Income Tax Expense	<u>\$2,172</u>	<u>\$3,918</u>

A deferred income tax (expense) benefit results from temporary timing differences in the recognition of income and expense for income tax and financial reporting purposes. The components of and changes in the net deferred tax assets (liabilities) which give rise to this deferred income tax (expense) benefit for the years ended December 31, 2009 and 2008 are as follows:

	December 31,	
	<u>2009</u>	<u>2008</u>
	(in thousands)	
<u>Current Deferred Taxes:</u>		
Compensation Assets	\$160	\$436
Inventory Valuation	548	504
Accounts Receivable Valuation	17	13
Legal Reserves	---	9
Other	177	171
Prepaid Expenses	<u>(190)</u>	<u>(211)</u>
Total Current	\$712	\$922
	=====	=====
<u>Long Term Deferred Taxes:</u>		
Compensation Liabilities	\$146	\$134
Tax Reserves	37	53
Other	16	---
Depreciation and Amortization	<u>(1,571)</u>	<u>(1,355)</u>
Total Long Term	<u>(\$1,372)</u>	<u>(\$1,168)</u>
	=====	=====
Total Deferred Tax Liability	(\$660)	(\$246)
	=====	=====

Management believes it is more likely than not that the Company will have sufficient taxable income when these timing differences reverse and that the deferred tax asset will be realized and, accordingly, no valuation allowance is deemed necessary.

Cash paid for taxes amounted to \$1,707 for 2009 and \$4,415 for 2008.

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.

As of January 1, 2009, the Company had provided a liability of \$612 for unrecognized tax benefits related to various federal and state income tax matters. Of this amount, the amount that would impact the Company's effective tax rate, if recognized, was \$500. The difference between the total amount of unrecognized tax benefits and the amount that would impact the effective tax rate consists of items that are offset by the federal tax benefit of state income tax items of \$112. The reserve has decreased by \$181 in the twelve-months ended December 31, 2009.

The Company is currently subject to audit by the Internal Revenue Service for the calendar years ended 2006, 2007 and 2008. The Company and its Subsidiaries state income tax returns are subject to audit for the calendar years ended 2005 through 2008.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits for the year:

Beginning Unrecognized Tax Benefits – 12/31/09	\$612
Current Year – Increases	---
Current Year – Decreases	---
Current Year – Interest/Penalties	\$25
Settlements	---
Expire Statutes	<u>(206)</u>
Ending Unrecognized Tax Benefits – 12/31/09	<u>\$431</u>

8. LEASES

In the United Kingdom the Company leases a facility in Banbury, which serves sales, warehousing and operational functions. The lease in Banbury was effective April 1, 2006 and has a 15-year term ending in March of 2021. There is an option to terminate in September of 2012, and again in September of 2017. If the Company elects to terminate in 2012, a penalty of 7.5 months must be paid, or approximately \$90. Termination in 2017 compels a penalty of 2 months, or approximately \$24. The Company's current intention is to utilize the facility for the 15 years.

In 2008 and 2009, the Company leased office space in Middletown, CT for approximately \$8 a month. The Company also leased warehouse space in Downingtown, PA on a month-to-month basis in 2008 and also through March of 2009, which at that time the arrangement was terminated.

Rent expense for operating leases was approximately \$289 and \$320 for the years ended December 31, 2009, and 2008, respectively.

Future minimum lease payments under non-cancelable leases as of December 31, 2009 are as follows:

Year Ending December 31,	Operating Leases (in thousands)
2010	\$328
2011	320
2012	275
2013	230
2014	230
Thereafter	<u>1,437</u>
Total Minimum Lease Payments	<u>\$2,820</u>

9. EMPLOYEE BENEFIT PLANS

Defined Contribution and 401-K Plans

The Company maintains a qualified non-contributory profit-sharing plan covering all eligible employees. Contributions to the plan charged to expense were approximately \$218 and \$224, for the years ended December 31, 2009 and 2008, respectively.

Contributions to the Plan are defined as three percent (3%) of gross wages up to the current Old Age, Survivors, and Disability (OASDI) limit and six percent (6%) of the excess over the OASDI limit, subject to the maximum allowed under the Employee Retirement Income Security Act (ERISA). The plan's vesting terms fully vest participants over six years.

The Company also maintains a savings & retirement plan qualified under Internal Revenue Code Section 401(k) for all employees. Employees are eligible to participate in the Plan the first day of the month following date of hire. Participants may elect to have up to fifty percent (50%) of their compensation withheld, up to the maximum allowed by the Internal Revenue Code. After completing (1) year of service, the Company contributes an additional amount equal to 25% of all employee contributions, up to a maximum of 6% of an employee's gross wages. Contributions are funded on a current basis. Contributions to the Plan charged to expense for the years ended December 31, 2009 and 2008 were approximately \$49 and \$76, respectively. The Company contribution vesting terms fully vest participants over six years.

10. 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 entered into salary continuation agreements with two employees, which provide for monthly payments to each of the employees or his designated beneficiary upon the employee's retirement or death. The payment benefits range from \$1 per month to \$3 per month with the term of such payments limited to 15 years after the employee's retirement at age 65. The agreements also provide for survivorship benefits if the employee dies before attaining age 65, and severance payments if the employee is terminated without cause, the amount of which is dependent on the length of company service at the date of termination. The net present value of the retirement payments is included in Other Long-Term Liabilities, and amounted to \$388 at December 31, 2009 and \$350 at December 31, 2008, respectively. The Company has obtained and is the beneficiary of three whole life insurance policies in respect of the two employees discussed above, and one other policy. The cash surrender value of such policies (included in Other Assets) amounts to \$622 at December 31, 2009 and \$534 at December 31, 2008, respectively.

Contingencies:

The Company's general liability insurance policies are subject to deductibles or retentions and amounts ranging from \$50 to \$75, subject to an agreed aggregate. The Company is insured on a 'first dollar' basis for workers' compensation subject to statutory limits.

The Company is not presently involved in any litigation that it believes could materially and adversely affect its financial condition or results of operations.

Warranty Commitments:

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

11. STOCK – BASED COMPENSATION PLANS **(Amounts in thousands, except units)**

Phantom Stock Plan

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

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

The Units are granted to participants upon the recommendation of the Company's CEO, and the approval of the compensation committee. Each of the Units that are granted to a participant will be initially valued by the compensation committee, and at a minimum, the Unit's value will be in an amount equal to the closing price of the Company's common stock on the grant date. The Units have a vesting schedule, with a maximum vesting schedule of 3 years after the grant date. Upon vesting, the Units represent a contractual right to the payment of the value of the Unit. The Units will be paid on their maturity date, which is a maximum of one year after all of the Units granted in a particular award have fully vested. The amount to be paid to the participant on the maturity date is dependant on the type of Unit granted to the participant.

The Units may be *Full Value*, in which the value of each Unit at the maturity date, will equal the closing price of the Company's common stock as of the maturity date; or *Appreciation Only*, in which the value of each Unit at the maturity date will be equal to the closing price of the Company's common stock at the maturity date *minus* the closing price of the Company's common stock at the grant date.

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.

In certain circumstances, the Units may be immediately vested upon the participant's death or disability. All Units granted to a participant are forfeited if the participant is terminated from his relationship with the Company or its subsidiary for "cause," which is defined under the Plan. If a participant's employment or relationship with the Company is terminated for reasons other than for "cause," then any vested Units will be paid to the participant upon termination. However, Units granted to certain "specified employees" as defined in Section 409A of the Internal Revenue Code will be paid approximately 181 days after that termination.

Grants of Phantom Stock Units. As of December 31, 2008, the Company had 6,892 unvested units outstanding, all of which were granted at *Full Value*. On February 20, 2009, the Company granted an additional 8,645 *Full Value* Units with a fair value at grant date of \$14.54 per unit. In all cases, the grant price was equal to the closing price of the Company's common stock at the grant date.

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

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 for December 31, 2009.

In accordance with the FASB ASC Topic 718 Stock Compensation, the Company recorded compensation expense of approximately \$102 in 2009 and \$49 in 2008 related to the Phantom Stock Plan. The expense recorded in 2009 consisted of two components, \$69 related to the existing Phantom Stock Units, and \$33 representing the equivalent of a two-dollar dividend per unit, as approved by the Board of Directors in December of 2009. The related liability was \$167 and \$64 at December 31, 2009 and 2008, respectively.

The fair value of the Units granted through the year ended December 31, 2009 using the Black-Scholes option-pricing model, uses the following assumptions:

<u>Year Ended December 31,</u>	<u>Expected Term</u>	<u>Expected Volatility Factor</u>	<u>Expected Dividend Amount</u>	<u>Risk-Free Interest Rate</u>
2007	3.0	111.00%	1.93%	4.46%
2008	3.0	87.95%	4.27%	1.77%
2009	3.0	69.56%	2.39%	1.30%

The Company has elected to use the “Simplified” method for calculating the Expected Term in accordance with Staff Accounting Bulletin (SAB) 110, Share Based Payments and has opted to use the Expected Dividend Amount rather than an Expected Dividend Yield.

The following table summarizes information about Phantom Stock Units at December 31, 2009:

	<u>Units</u>	<u>Weighted Average Grant Date Fair Value</u>
Number of Phantom Stock Unit Awards:		
Nonvested at December 31, 2008	6,892	\$15.58
Granted	8,645	\$14.54
Vested	(2,600)	(\$16.14)
Forfeited	(---)	(\$---)
Canceled	(---)	(\$---)
Nonvested at December 31, 2009	12,937	\$14.77
	=====	=====
Phantom Stock Unit Awards Expected to Vest	12,937	\$14.77
	=====	=====

At December 31, 2009, a total of 3,508 Units have vested including 2,600, which vested during 2009. The Units granted are expected to vest in one year intervals over three years, subject to earlier termination or forfeiture.

As of December 31, 2009, the unrecognized compensation costs related to Plan Units vesting will be primarily recognized at various times through 2012.

<u>Fiscal year ending</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Compensation Expense	\$68	\$46	\$3	\$117

The Units outstanding and exercisable at December 31, 2009 were in the following exercise price ranges:

Units Outstanding					
Year	Range of Exercise Price	Number of Units Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
2007	\$22.02	2,724	0.17	\$22.02	---
2008	\$15.76	5,076	1.17	\$15.76	---
2009	\$15.62	8,645	2.09	\$15.62	---

Units Exercisable					
Year	Range of Exercise Price	Number of Units Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Aggregate Intrinsic Value
2007	\$22.02	---	0.17	\$22.02	---
2008	\$15.76	---	1.17	\$15.76	---
2009	\$15.62	---	2.09	\$15.62	---

12. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Mestek, Inc.

On June 10, 2009, the Company agreed to loan Mestek, Inc. (Mestek), its former parent, \$3,250, in exchange for a promissory note (the "Note"). The Note requires monthly interest payments at a rate of 6% per annum on all unpaid principal, and payment in full to be received no later than October 20, 2010. Payment of the Note is however subject to the terms and conditions of a subordination agreement that exists between Omega Flex and Bank of America, N.A. The Company has received an unconditional and continuing guaranty of the loan from Sterling Realty Trust, of which J.E. Reed is the trustee. Mr. J. E. Reed, the Company's chairman of the board, and Mr. S. B. Reed, one of the Company's directors, are also directors, executive officers, and greater than 10% owners of Mestek.

13. SUBSEQUENT EVENTS

During the second quarter of 2009, the Company adopted a new accounting standard, which established general standards of evaluation and disclosure of events, which occur after the balance sheet date. The Company evaluated all events or transactions that occurred through the date on which the Company issued these financial statements. During this period, the Company did not have any material subsequent events that impacted its consolidated financial statements.

Item 9 – CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING FINANCIAL DISCLOSURE

None

Item 9A(T) – CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

We evaluated, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (“Exchange Act”), as amended as of December 31, 2009, the end of the period covered by this report on Form 10K. Based on this evaluation, our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) have concluded that our disclosure controls and procedures were effective as of December 31, 2009. Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) is accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures.

(b) Management’s Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act and is a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2009. In making this assessment, the company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*.

Based on its evaluation, our management has concluded that, as of December 31, 2009, our internal control over financial reporting was effective.

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

(d) Changes in Internal Control over Financial Reporting.

There were no changes on our internal control over financial reporting during the most recent quarter ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B – OTHER INFORMATION

All matters required to be disclosed on Form 8-K during our fiscal 2009 fourth quarter have been previously disclosed on a Form 8-K filed with the Securities and Exchange Commission.

PART III

With respect to items 10 through 14, the Company will file with the Securities and Exchange Commission, within 120 days of the close of its fiscal year, a definitive proxy statement pursuant to Regulation 14A.

Item 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors of the Company will be set forth in the Company's proxy statement relating to the annual meeting of shareholders to be held June 8, 2010, under the caption "Current Directors and Nominees for Election – Background Information", and to the extent required and except as set forth therein, is incorporated herein by reference.

Information regarding executive officers of the Company will be set forth under the caption "Executive Officers" in the Company's proxy statement, and to the extent required and except as set forth therein, incorporated herein by reference.

Information regarding the Company's Audit Committee and its "Audit Committee Financial Expert" will be set forth in the Company's proxy statement also, under the caption "Board Committees", incorporated herein by reference. Information concerning section 16(a) Beneficial Ownership Reporting Compliance will be set forth in the Company's proxy statement also, under the Caption "Compliance with Section 16(a) of the Securities Exchange Act" incorporated herein by reference.

The Company has adopted a Code Of Business Ethics ("Code") applicable to its principal executive officer and principal financial officer, its directors and all other employees generally. A copy of the Code will be set forth as an appendix in the Company's Proxy Statement and also may be found at the Company's website www.omegaflex.com. Any changes to or waivers from this Code will be disclosed on the Company's website as well as in appropriate filings with the Securities and Exchange Commission.

Item 11 - EXECUTIVE COMPENSATION

Information regarding executive compensation will be set forth in the Company's proxy statement relating to the annual meeting of shareholders to be held June 8, 2010, and under the caption "Executive Compensation" to the extent required and except as set forth therein, is incorporated herein by reference.

The report of the Compensation Committee of the Board of Directors of the Company shall not be deemed incorporated by reference by any general statement incorporating by reference the proxy statement into any filing under the Securities Exchange Act of 1934, and shall not otherwise be deemed filed under such Act.

Item 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management as well as information regarding equity compensation plans and individual equity contracts or arrangements will be set forth in the Company's proxy statement relating to the annual meeting of shareholders to be held June 8, 2010, under the caption "Security Ownership of Certain Beneficial Owners and Management", and to the extent required and except as set forth therein, is incorporated herein by reference.

Item 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions will be set forth in the Company's proxy statement relating to the annual meeting of shareholders to be held June 8, 2010, under the caption "Certain Relationships and Related Transactions" and to the extent required and except as set forth therein, is incorporated herein by reference.

Item 14 – PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding financial accounting fees and services will be set forth in the Company's proxy statement relating to the annual meeting of shareholders to be held June 8, 2010, under the caption "Principal Accounting Fees and Services", and to the extent required, and except as set forth therein, is incorporated herein by reference.

PART IV

Item 15 - EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES, AND REPORTS ON FORM 8-K

- (a) The following documents are filed as part of this Form 10-K:
1. All financial statements. See Index to Consolidated Financial Statements on page 52 of this Form 10-K.
 2. None Required – Smaller Reporting Company
 3. Exhibits. See Index to Exhibits.

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	<u>Pages of this report</u>
Reports of Independent Registered Public Accounting Firms	Page 25
Financial Statements:	
(a)(1) Consolidated Balance Sheets as of December 31, 2009 and 2008	Page 26
Consolidated Statements of Operations for the Years Ended December 31, 2009, and 2008	Page 27
Consolidated Statements of Shareholders' Equity and Comprehensive Loss for the Years Ended December 31, 2009 and 2008	Page 28
Consolidated Statements of Cash Flows for the Years Ended December 31, 2009 and 2008	Page 29
Notes to the Consolidated Financial Statements	Pages 30 through 44
(a)(2) Financial Statement Schedules	

All other financial statement schedules required by Item 14(a)(2) have been omitted because they are inapplicable or because the required information has been included in the Consolidated Financial Statements or notes thereto.

(a)(3) Exhibits

The Exhibit Index is set forth on Pages 52 and 53. No annual report to security holders as of December 31, 2009 has been sent to security holders and no proxy statement, form of proxy or other proxy soliciting material has been sent by the registrant to more than ten of the registrant's security holders with respect to any annual or other meeting of security holders held or to be held in 2010. Such annual report to security holders, proxy statement or form of proxy will be furnished to security holders subsequent to the filing of this Annual Report on Form 10-K.

EXHIBIT INDEX

Those documents followed by a parenthetical notation are incorporated herein by reference to previous filings with the Securities and Exchange Commission as set forth below.

Exhibit No. *****	Description *****	Reference Key *****
3.1	Articles of Incorporation of Omega Flex, Inc., as amended	(A)
3.2	Amended and Restated By-laws of Omega Flex, Inc.	(A)
10.1	Indemnity and Insurance Matters Agreement dated July 29, 2005 between Omega Flex, Inc. and Mestek, Inc.	(A)
10.2	Form of Indemnification Agreements entered into between Omega Flex, Inc. and its Directors and Officers and the Directors of its wholly-owned subsidiaries.	(A)
10.3	Schedule of Directors/Officers with Indemnification Agreement	(A)
10.4	Employment Agreement dated December 15, 2008 between Omega Flex, Inc. and Kevin R. Hoben	(D)
10.5	Employment Agreement dated December 15, 2008 between Omega Flex, Inc. and Mark F. Albino	(D)
10.6	Revolving Line of Credit Note dated December 2009 by Omega Flex, Inc. to Sovereign Bank, N.A. in the principal amount of \$15,000,000.	
10.7	Loan and Security Agreement dated December 17, 2009 between Omega Flex, Inc. and Sovereign Bank, N.A.	
10.8	Promissory Note dated June 10, 2009 by Mestek, Inc. payable to Omega Flex, Inc. in the principal amount of \$3,249,615.00.	(B)
10.9	Subordination Agreement dated June 10, 2009 by Omega Flex, Inc. and Bank of American, N.A.	(B)
10.10	Executive Salary Continuation Agreement	(C)
10.11	Phantom Stock Plan dated December 11, 2006.	(E)
10.12	First Amendment to the Omega Flex, Inc. 2006 Phantom Stock Plan	
10.13	Form of Phantom Stock Agreement entered into between Omega Flex, Inc. and its directors, officers and employees, except as set forth in the attached schedule.	(E)

10.14	Schedule of Phantom Stock Agreements between Omega Flex, Inc. and its directors and executive officers.	
10.15	Rule 10b5-1 Agreement between Omega Flex, Inc. and Hunter Associates dated September 15, 2008.	(D)
10.16	Amendment 1 to the Rule 10b5-1 Repurchase Plan dated September 15, 2009	(F)
14.1	Code of Business Ethics	(A)
21.1	List of Subsidiaries	(A)
23.1	Consent of Caturano and Company, P.C.	
31.1	CEO Certification	
31.2	CFO Certification	
32.1	906 CEO and CFO Certifications	
99.1	Information Statement	(A)
99.2	Corporate Governance Guidelines	(A)

Reference Key

- (A) Filed as an Exhibit to the Registration Statement on Form 10-12G filed on June 22, 2005.
- (B) Filed as an Exhibit to the Quarterly Report on Form 10-Q filed August 7, 2009.
- (C) Filed as an Exhibit to the Annual Report on Form 10-K filed March 31, 2006.
- (D) Filed as an Exhibit to the Annual Report on Form 10-K filed March 18, 2009.
- (E) Filed as an Exhibit to the Annual Report on Form 10-K filed April 2, 2007.
- (F) Filed as an Exhibit to the Quarterly Report on Form 10-Q filed November 5, 2009.

Each management contract or compensatory plan or arrangement to be filed as an exhibit to this report pursuant to item 15 is listed in Exhibit numbers 10.1, 10.2 and 10.5.

SIGNATURES

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

OMEGA FLEX, INC.

Date: March 17, 2010 By: /S/ Kevin R. Hoben
Kevin R. Hoben, President and
Chief Executive Officer

Date: March 17, 2010 By: /S/ Paul J. Kane
Paul J. Kane, Vice President Finance,
Chief Financial Officer

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

Date: March 17, 2010 By: /S/ Mark F. Albino
Mark F. Albino, Director

Date: March 17, 2010 By: /S/ David K. Evans
David K. Evans, Director

Date: March 17, 2010 By: /S/ J. Nicholas Filler
J. Nicholas Filler, Director

Date: March 17, 2010 By: /S/ David W. Hunter
David W. Hunter, Director

Date: March 17, 2010 By: /S/ Bruce C. Klink
Bruce C. Klink, Director

Date: March 17, 2010 By: /S/ John E. Reed
John E. Reed, Director

Date: March 17, 2010 By: /S/ Stewart B. Reed
Stewart B. Reed, Director

Date: March 17, 2010 By: /S/ Edward J. Trainor
Edward J. Trainor, Director

REVOLVING LINE OF CREDIT NOTE

up to \$15,000,000.00

Springfield, MA
December 17, 2009

- 1.1 **Borrower:** OMEGA FLEX, INC., a Pennsylvania corporation with a usual address of 213 Court Street, Suite 701, Middletown, Connecticut.
- 1.2 **Bank:** SOVEREIGN BANK, a federal savings bank, and its successors and assigns, with a usual address of 1350 Main Street, Springfield, Massachusetts.
- 1.3 **Principal Sum or Loan:** up to Fifteen Million and 00/100 United States (\$15,000,000.00) Dollars.
- 1.4 **Interest Rate:** See Paragraphs 2 and 6.1 below.
- 1.5 **First Payment Date:** January __, 2010
- 1.6 **Maturity Date:** December 31, 2010, unless renewed by the Bank, in its sole discretion, at which time Bank may renew, terminate or extend this Note.
- 1.7 **Definitions:**

“Adjusted LIBOR Rate” means for each Interest Period the rate per annum obtained by dividing (i) LIBOR for such Interest Period, by (ii) a percentage equal to one hundred (100%) percent minus the maximum reserve percentage applicable during such Interest Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System for determining the maximum reserve requirements (including, without limitation, any basic, supplemental, marginal and emergency reserve requirements) for Bank (or of any subsequent holder of the Note which is subject to such reserve requirements) in respect of liabilities or assets consisting of or including Eurocurrency liabilities (as such term is defined in Regulation D of the Board of Governors of the Federal Reserve System) having a term equal to the Interest Period.

“Banking Date” shall mean, in respect of any city, any date on which commercial banks are open for business in that city.

“Business Day” means, in respect of any date that is specified in this Note to be subject to adjustment in accordance with applicable Business Day Convention, a day on which commercial banks settle payments in New York or London if the payment obligation is calculated by reference to any (i) LIBOR Rate or (ii) New York, if the payment obligation is calculated by reference to any Prime Rate.

“Default” means any of the events specified in Section 11, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

“Dollars” or “\$” means lawful money of the United States.

“Event of Default” means any of the events specified in Section 11, provided that any requirement for the giving of notice, the lapse of time or both, or any other condition, has been satisfied.

“Interest Period” means, with respect to each LIBOR Advance, a period of 30, 60, or 90 consecutive days. If the last day of an Interest Period would otherwise occur on a day which is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day; but if such extension would otherwise cause such last day of the Interest Period to occur in a new calendar month, then such last day of the Interest Period shall occur on the next preceding Business Day. The term “Interest Period” shall mean with respect to each Prime Rate Advance consecutive periods of one (1) day each.

“LIBOR” means, with respect to each Interest Period, the rate per annum (rounded upward, if necessary, to the nearest 1/32 of one percent) as determined on the basis of the offered rates for deposits in U.S. Dollars, for a period of time comparable to such Interest Period, which appears on the Telerate Page 3750 as of 11:00 a.m. London time on the date that is two (2) London Banking Days preceding the first day of such Interest Period; provided, however, that if the rate described above does not appear on the Telerate System on any applicable interest determination date, the LIBOR shall be the rate (rounded upwards as described above, if necessary) for deposits in dollars for a period substantially equal to the Interest Period on the Reuters Screen LIBOR01 Page (or such other page as may replace the LIBOR Page on that service for the purpose of displaying such rates), as of 11:00 a.m. (London time), on the date that is two (2) London Banking Days prior to the beginning of such Interest Period. If both the Telerate and Reuters Systems are unavailable, then the rate for that date will be determined on the basis of the offered rates for deposits in U.S. Dollars for a period of time comparable to the Interest Period which are offered by four (4) major banks in the London Interbank Market at approximately 11:00 a.m. London time, on the day that is two (2) London Banking Days preceding the first day of such Interest Period as selected by Bank. The principal London office of each of the four (4) major London banks will be requested to provide a quotation of its U.S. Dollar deposit offered rate. If at least two (2) such quotations are provided, the rate for that date will be the arithmetic mean of the quotations. If fewer than two (2) quotations are provided as requested, the rate for that day will be determined on the basis of the rates quoted for loans in U.S. Dollars to leading European banks for a period of time comparable to such Interest Period offered by major banks in New York City at approximately 11:00 a.m. New York City time, on the day that is two (2) London Banking Days preceding the first day of such Interest Period. In the event that Bank is unable to obtain any such quotation as provided above, it will be deemed that the LIBOR cannot be determined, and the Prime Rate shall be substituted for the LIBOR for any such Interest Period.

“LIBOR Advance” or “Libor Rate Advance” or “Libor Rate Loan” shall mean any principal outstanding under this Note which, pursuant to this Note, bears interest at the LIBOR Rate.

“LIBOR Rate” means the per annum rate equal to the Adjusted LIBOR Rate plus three hundred (300) basis points (for the 30, 60 or 90 day period selected by the Borrower).

“Loan Advance” means that portion of the Principal Sum that is outstanding at any time during the term of this Note.

“Loan Agreement” shall mean the Loan and Security Agreement, of even date, by and between Bank and the Borrower.

“Loan Documents” means this Note and other documents related to the transactions discussed in this Agreement as the same may be amended, modified or supplemented from time to time.

“London Banking Day” means any day on which dealings in deposits in Dollars are transacted in the London Interbank market.

“Modified Following Business Day Convention” shall mean the convention for adjusting any relevant date if it would otherwise fall on a day that is not a Business Day. The following terms, when used in conjunction with the term “Modified Following Business Day Convention”, and a date, shall mean that an adjustment will be made if that date would otherwise fall on a day that is not a Business Day so that the date will be the first following day that is a Business Day.

“Prime Rate” means the Bank’s Prime Rate as designated from time to time by the Bank. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate being charged to any customer.

“Prime Rate Advance” or “Prime Rate Loan(s)” shall mean any principal outstanding under this Note which, pursuant to this Note, bears interest at the Prime Rate.

1.8 Purpose:

This line of credit is available for general working capital purposes (and not for margin stock purchases) and payment of dividends by the Borrower.

2. INTEREST RATE: The interest rate payable with respect to the outstanding principal balance hereunder shall be, at the Borrower’s election, either:

(i) the Bank’s Prime Rate plus three quarters (.75%) of one percent per annum, as such rate changes from time to time, for all Prime Rate Advances; or

(ii) the Libor Rate plus three (3.00%) percent per annum, for successive Interest Periods of 30, 60 or 90 days each, as selected by Borrower for all LIBOR Advances.

Notwithstanding the foregoing, there will be an interest rate floor of four (4.00%) percent.

3. DEBT: For value received, Borrower hereby promises to pay to the order of Bank the Principal Sum, or so much thereof as Bank advances to Borrower, together with interest on all unpaid balances from the date of any principal advance hereunder, at the Interest Rates set forth in this Note, together with all other amounts due hereunder or under the Loan Documents.

4. PRINCIPAL ADVANCES; BORROWING AVAILABILITY:

4.1 So long as no prior Event of Default has occurred and is continuing, the Bank, shall, upon Borrower’s request, make advances to Borrower from time to time during the period commencing as of the date of this Note and until December 31, 2010. All advances pursuant to this Note shall be limited to the aggregate amount of not more than \$15,000,000.00.

4.2 Any advance by Bank hereunder shall be within the reasonable discretion of the Bank. The making of an advance at any time shall not be deemed a waiver of the foregoing, or a consent, agreement or advance to the Borrower. This Note and the Bank’s willingness to receive requests for advances from Borrower hereunder are subject to cancellation by Bank in its

reasonable discretion at any time without prior notice.

- 4.3 Bank is authorized to make any advance hereunder upon the request of any person that has been authorized by Borrower in writing (with a copy to Bank) to request that advance, and that person will have authority to act on Borrower's behalf to request such advance until that authorization is revoked in writing and provided to Bank. Bank may deliver any advance to Borrower by direct deposit to any demand deposit account of Borrower with Bank.

5. **PAYMENT OF INTEREST AND PRINCIPAL:**

- 5.1 **Calculation of Interest.** All computation of interest under this Note shall be made on the basis of a three hundred sixty (360) day year and the actual number of days elapsed. Each change in the Prime Rate shall simultaneously change the interest rate payable under this Note with respect to any Prime Rate Advance from the date of such change and during any period when a Prime Rate Advance is outstanding.
- 5.2 **Payment of Principal and Interest.** Beginning on the day which is thirty (30) days from the date hereof and continuing on the same day of each month, Borrower shall make to Bank payments of interest only on the outstanding principal balance of all Loan Advances from the day that an advance is made. **THE ENTIRE OUTSTANDING PRINCIPAL BALANCE (INCLUDING ANY BALLOON PAYMENT) AND ALL ACCRUED AND UNPAID INTEREST SHALL BE DUE AND PAYABLE, IN FULL, ON DECEMBER 31, 2010.**
- 5.3 **Method of Payment; Date of Credit.** All payments of interest, principal and fees shall be made in lawful money of the United States immediately available funds: (a) by direct charge to an account of Borrower maintained with Bank (or the then holder of the Loan), or (b) to such other bank or address as the holder of the Loan may designate in a written notice to Borrower. Payments shall be credited on the Business Day on which immediately available funds are received prior to one o'clock, P.M. Eastern Time; payments received after one o'clock P.M. Eastern Time shall be credited to the Loan on the next Business Day. Payments which are by check, which Bank may at its option accept or reject, or which are not in the form of immediately available funds shall not be credited to the Loan until such funds become immediately available to the Bank, and, with respect to payments by check, such credit shall be provisional until the item is finally paid by the payor bank. The date of payment of all payments of principal, interest and other charges shall be subject to the Modified Following Business Day Convention.
- 5.4 **Billings.** Bank may submit monthly billings reflecting payments due; however, any changes in the interest rate which occur between the date of billing and the due date may be reflected in the billing for a subsequent month. Neither the failure of Bank to submit a billing nor any error in any such billing shall excuse Borrower from the obligation to make full payment of all Borrower's payment obligations when due.
- 5.5 **Default Rate.** Upon the declaration by Bank of an Event of Default pursuant to Section 11, below, Borrower shall pay upon billing therefor, an interest rate which is five (5%) percent per annum above the rate in effect for any Loan Advance ("Default Rate") outstanding as of the date when Bank declares an Event of Default: (a) during the period of any delinquency, which shall mean if any payment of principal, interest or other monetary obligation due with respect to the Loan is not paid when due, that period between the date that is 15 days after the

due date and the date of payment; (b) during the period any Event of Default exists and remains uncured; (c) after the Maturity Date; and (d) after judgment has been rendered on this Note.

5.6 **Late Charges.** The Borrower shall pay, upon billing therefor, a “Late Fee” equal to five (5%) percent of the entire amount of any payment of principal, interest, or both, which is not paid in full within fifteen (15) days of the due date thereof. Late fees are: (a) payable in addition to, and not in limitation of, the Default Rate, (b) intended to compensate Bank for administrative and processing costs incident to late payments, (c) are not interest, and (d) shall not be subject to refund or rebate or credited against any other amount due.

5.7 **Make Whole Provision.** Borrower shall pay to Bank, immediately upon request and notwithstanding contrary provisions contained in any of the Loan Documents, such amounts as shall, in the reasonable judgment of Bank, compensate Bank for the loss, cost or expense which it may reasonably incur as a result of (i) any prepayment, under any circumstances whatsoever, whether voluntary or involuntary, of all or any portion of a LIBOR Advance on a date other than the last day of the applicable Interest Period, or (ii) except in circumstances as set forth in Section 6.3, below, the conversion, for any reason, whether voluntary or involuntary, of any LIBOR Advance to a Prime Rate Advance on a date other than the last day of the applicable Interest Period. Such amounts payable by Borrower shall be equal to any administrative costs actually incurred, plus any amounts required to compensate Bank for any out-of-pocket loss, cost or expense incurred by reason of the liquidation or re-employment of deposits or other funds acquired by Bank to fund or maintain a LIBOR Advance and in any event, but without duplication, a Yield Maintenance Fee, as defined below, in the event of the prepayment of all or any portion of a LIBOR Advance on a date other than the last day of the applicable Interest Period. Both the provisions of this Paragraph 5.7 and the provisions of Paragraph 10 relating to the payment of a Yield Maintenance Fee shall not apply either to monthly principal payments due pursuant to this Note which are not prepaid or principal payments made on the last day of an applicable Interest Period that constitute a prepayment of the Principal Sum.

6. ADDITIONAL PROVISIONS RELATED TO INTEREST RATE SELECTION.

6.1 **Election of Interest Rate.** Interest shall accrue on the unpaid principal balance of a Loan Advance from time to time outstanding at Borrower’s election of either:

- a. the LIBOR Rate plus three (3.00%) percent per annum; or
- b. the Bank’s Prime Rate plus three quarters (.75%) percent per annum.

Provided however, which either selection is made above, the interest rate shall have a minimum rate of Four (4.00%) per cent per annum.

The Borrower shall have the same continuing right of election as between the above rates upon the conclusion of any Interest Period.

6.2 **Method of Selection.** At least two (2) Business Days prior to the last day of any Interest Period, Borrower may select by 11:00 a.m. of a Boston Banking Day both the Interest Period from the alternatives available in Paragraphs 2(i) or 2(ii), and the corresponding interest rate as of the same day as a request may be made, by giving irrevocable written notice to Bank, by

electronic mail, telecopy (with authorized signature) or telephone, but if not written, such notice shall be immediately confirmed by written notice, specifying the Interest Period. If no such selection is made, then the Prime Rate shall be deemed selected.

6.3 **Illegality.** Notwithstanding any other provision of this Note, if the introduction of or change in or in the interpretation of any law, treaty, statute, regulation or interpretation thereof shall make it unlawful for Bank to make or maintain LIBOR Advances or to continue to fund or maintain LIBOR Advances then, on written notice thereof and demand by Bank to Borrower, (a) the obligation of Bank to make LIBOR Advances and to convert or continue any Loan Advances as LIBOR Advances shall terminate and (b) Borrower shall convert all principal outstanding under this Note into Prime Rate Advances

6.4 **Additional LIBOR Rate Conditions.** The availability of the LIBOR Rate and the maintenance of Loan Advances at such rate shall be subject to the following additional terms and conditions:

(i) **Availability.** If Bank notifies Borrower (and notice will be given as soon as the Bank has knowledge of the same) that:

(a) dollar deposits in the amount and for the maturity requested are not available to Bank in the London interbank market at the rate specified in the definition of LIBOR, or

(b) reasonable means do not exist for Bank to determine the LIBOR for the amounts and maturity requested, then the principal which would have been a LIBOR Advance shall be or be converted to a Prime Rate Advance.

(ii) **Payments Net of Taxes.** All payments and prepayments of principal and interest due under this Note shall be made net of any taxes and costs resulting from having principal outstanding at or computed with reference to a LIBOR. Without limiting the generality of the preceding obligation, illustrations of such taxes and costs are taxes, or the withholding of amounts for taxes, of any nature whatsoever including excise (other than income taxes) as well as all levies, imposts, duties or fees whether now in existence or hereafter arising as the result of a change in or promulgation of any treaty, statute, regulation, or interpretation thereof or any directive, guideline or otherwise by a central bank or fiscal authority (whether or not having the force of law) or a change in the basis of, or the time of payment of, such taxes and other amounts resulting therefrom.

7. **ACCELERATION; EVENT OF DEFAULT:** Upon the occurrence at any time of any one or more of the following events, each of which shall be an “Event of Default” hereunder and the other Loan Documents, at the option of the Bank, this Note and the indebtedness evidenced hereby shall become immediately due and payable without further notice or demand, and notwithstanding any prior waiver of any breach or default, or other indulgence: (i) a Default continuing uncured beyond the applicable grace or cure period, if any, in making any payment of interest, principal, other charges or payments due hereunder; (ii) an Event of Default as defined herein or any other Loan Document, each as the same may from time to time hereafter be amended; or (iii) an event which pursuant to any express provision of any other Loan Document, gives Bank the right to accelerate the Loan.

8. **COSTS AND EXPENSES UPON DEFAULT:** After a Default, in addition to principal, interest and

delinquency charges, Bank shall be entitled to collect all reasonable out-of-pocket costs of collection, including, but not limited to, reasonable attorneys' fees and expenses, incurred in connection with the protection or realization of collateral or in connection with any of Bank's collection efforts, whether or not suit on this Note is filed, and all such costs and expenses shall be payable on demand.

9. **APPLICATION OF PAYMENTS:** All payments hereunder shall be applied first to delinquency charges, costs of collection and enforcement and other similar amounts due, if any, under this Note and under the other Loan Documents, then to late charges, then to interest which is due and payable under this Note and the remainder, if any, to principal due and payable under this Note. Bank is authorized, but not required, to charge scheduled monthly principal and interest payments due under this Note to any account of Borrower when and as such interest and principal and such other amounts become due, provided that such charge shall be made as of the due date of the applicable payment and not in advance thereof.

10. **PERMITTED PREPAYMENT:**

10.1 Any Prime Rate Loan(s) may be prepaid at any time in whole or in part without charge.

10.2 If no Event of Default exists, Borrower shall have the right at any time and from time to time to prepay any LIBOR Advance on a date other than the last Banking Day of the then current Interest Period in whole (but not in part). If Borrower elects to prepay a LIBOR Advance, of if payment of a LIBOR Advance is required by Bank on a date other than the last Banking Day of the then current Interest Period pursuant to Section 10.3, below, Borrower shall pay to Lender a yield maintenance fee (the "Yield Maintenance Fee") in an amount computed as follows: The current rate for United States Treasury securities (bills on a discounted basis shall be converted to a bond equivalent) with a maturity date closest to the maturity date of the term chosen pursuant to the Interest Period as to which the prepayment is made, shall be subtracted from the "cost of funds" component of the fixed rate in effect at the time of prepayment. If the result is zero or a negative number, there shall be no Yield Maintenance Fee. If the result is a positive number, then the resulting percentage shall be multiplied by the amount of the principal balance being prepaid. The resulting amount shall be divided by 360 and multiplied by the number of days remaining in the term chosen pursuant to the Interest Period as to which the prepayment is made. Said amount shall be reduced to present value calculated by using the number of days remaining in the designated term and using the above referenced United States Treasury security rate and the number of days remaining in the designated term chosen pursuant to the Interest Period as to which the prepayment is made. The resulting amount shall be the Yield Maintenance Fee due to Lender upon prepayment of the fixed rate loan.

10.3 If by reason of any Event of Default Lender elects to declare the Loan to be immediately due and payable, then any Yield Maintenance Fee with respect to the Loan shall become due and payable in the same manner as though Borrower had exercised such right of prepayment. Borrower recognizes that Lender will incur substantial additional costs and expenses including loss of yield and anticipated profitability in the event of a prepayment of the Loan and that the Yield Maintenance Fee compensates Lender for such costs and expenses. Borrower acknowledges that the Yield Maintenance Fee is bargained for consideration and not a penalty.

10.4 All such prepayments of LIBOR Advances or Prime Rate Advances shall be applied first to

fees and expenses then due hereunder, then to interest on the unpaid principal balance accrued to the date of prepayment and last to the principal balance then due hereunder.

11. **EVENTS OF DEFAULT.** If any of the following events shall occur:

11.1 The Borrower shall fail to pay the principal of, or interest on, the Obligations (as defined in the Loan Agreement), or any other amount due under this Note, within fifteen (15) days from when due and payable;

11.2 The occurrence and continuance of any Event of Default as set forth in the Loan Agreement;

then, and in any such event, Bank may, notwithstanding any time or credit allowed by any instrument evidencing a liability, without notice or demand declare the outstanding principal balance of the Note, all interest thereon, and all other amounts payable under this Agreement to be forthwith DUE AND PAYABLE, whereupon this Note, all such interest, and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest, or further notice of any kind, all of which are hereby expressly waived by the Borrower. Upon the occurrence and during the continuance of any Event of Default, Bank is hereby authorized at any time and from time to time, without notice, to exercise any or all of its rights and remedies.

12. Intentionally omitted.

13. **WAIVERS:** The Borrower irrevocably waives presentment for payment, notice of intention to accelerate the maturity of this Note, diligence in collection, commencement of suit against any obligor, notice of protest, and protest of this Note in connection with the delivery, acceptance, performance, default or enforcement of the payment of this Note, other than any notices required under the Loan Documents, before or after the maturity of this Note, with or without notice to Borrower, and agrees that its liability shall not be in any manner affected by any indulgence, extension of time, renewal, waiver or modification granted or consented to by Bank prior to the Event of Default. Borrower consents to any and all extensions of time, renewals, waivers or modifications that may be granted by Bank with respect to the payment or other provisions of this Note, and agrees to the addition or release of any obligor, with or without notice to Borrower, and without affecting its liability under this Note. Any delay on the part of Bank in exercising any right under this Note shall not operate as a waiver of any such right, and any waiver granted or consented to on one occasion shall not operate as a waiver in the event of any subsequent default.

BORROWER AND BANK MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH (THIS NOTE) OR ANY OTHER LOAN DOCUMENTS CONTEMPLATED TO BE EXECUTED IN CONNECTION HERewith OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR BANK TO ACCEPT THIS NOTE AND MAKE THE LOAN.

14. **DELAY NOT A BAR:** No delay or omission on the part of the holder in exercising any right hereunder or any right under any instrument or agreement now or hereafter executed in connection herewith, or any agreement or instrument which is given or may be given to secure the indebtedness evidenced hereby, or any other agreement now or hereafter executed in connection herewith or therewith shall operate as a waiver of any such right or of any other right of such holder, nor shall any

delay, omission or waiver on any one occasion be deemed to be a bar to or waiver of the same or of any other right on any future occasion.

15. **NO USURY:** All agreements between Borrower and Bank are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of maturity of the indebtedness evidenced hereby or otherwise, shall the amount paid or agreed to be paid to Bank for the use or the forbearance of the indebtedness evidenced hereby exceed the maximum permissible under applicable law. As used herein, the term “applicable law” shall mean the law in effect as of the date hereof provided, however that in the event there is a change in the law which results in a higher permissible rate of interest, then this Note shall be governed by such new law as of its effective date. In this regard, it is expressly agreed that it is the intent of Borrower and Bank in the execution, delivery and acceptance of this Note to contract in strict compliance with the laws of the Commonwealth of Massachusetts from time to time in effect. If, under or from any circumstances whatsoever, fulfillment of any provision hereof or of any of the Loan Documents at the time of performance of such provision shall be due, shall involve transcending the limit of such validity prescribed by applicable law, then the obligation to be fulfilled shall automatically be reduced to the limits of such validity, and if under or from circumstances whatsoever Bank should ever receive as interest an amount which would exceed the highest lawful rate, such amount which would be excessive interest shall be applied to the reduction of the principal balance evidenced hereby and not to the payment of interest. This provision shall control every other provision of all agreements between Borrower and Bank.
16. Intentionally omitted.
17. **SUCCESSORS AND ASSIGNS:** This Note shall be binding upon Borrower and upon its respective heirs, successors, assigns and representatives, and shall inure to the benefit of Bank and its successors, endorsees, and assigns.
18. **SECURITY:** This Note is secured pursuant to the Loan and Security Agreement of even date between Bank and Borrower.
19. **COLLECTION:** Any check, draft, money order or other instrument given in payment of all or any portion hereof may be accepted by Bank and handled by collection in the customary manner, but the same shall not constitute payment hereunder or diminish any rights of Bank except to the extent that actual cash proceeds of such instrument are unconditionally received by Bank and applied to this indebtedness in the manner elsewhere herein provided.
20. **AMENDMENTS:** This Note may be changed or amended only by an agreement in writing signed by the party against whom enforcement is sought.
21. **GOVERNING LAW; SUBMISSION TO JURISDICTION:** This Note is given to evidence debt for business or commercial purposes, is being negotiated and executed in the Commonwealth of Massachusetts and delivered to Bank at one of its offices in The Commonwealth of Massachusetts and shall be governed by and construed under the laws of said Commonwealth. Borrower, each partner, or any partner of such partner, officer, director and employee of Borrower, hereby submit to personal jurisdiction in said Commonwealth for the enforcement of Borrower’s obligations hereunder, under the other Loan Documents, and waive any and all personal rights under the law of any other state to object to jurisdiction within such Commonwealth for the purposes of litigation to enforce such obligations of Borrower. In the event such litigation is commenced, Borrower agrees

that service of process may be made, and personal jurisdiction over Borrower obtained, by service of a copy of the summons, complaint and other pleadings required to commence such litigation upon Borrower at 213 Court Street, Suite 701, Middletown, Connecticut or such other address as Borrower may designate.

22. **RECOVERY OF PREFERENCE PAYMENTS:** In the event any payment of principal or interest received upon this Note and paid by the Borrower, or by any guarantor, surety, co-maker or endorser, shall be deemed by final order of a court of competent jurisdiction to have been a voidable preference or fraudulent conveyance under the bankruptcy or insolvency laws of the United States, or otherwise due to any party other than the Bank, then in any such event, the obligation with respect to that payment or payments of the Borrower, or any guarantor, surety, co-maker or endorser shall, jointly and severally, survive as an obligation due hereunder and shall not be discharged or satisfied by said payment or payments, notwithstanding the return by Bank to said parties of the original hereof, or any guaranty, endorsement, or the like.
23. **REMEDIES CUMULATIVE:** The rights and remedies of Bank as provided in this Note and in the Loan Documents shall be cumulative and concurrent, and may be pursued singly, successively, or together against Borrower, or any one of them, the real and personal property described in the Loan Documents, any guarantor hereof, any of the parties and any other funds, property or security held by Bank for the payment hereof or otherwise at the sole discretion of the Bank. The failure to exercise any such right or remedy shall in no event be construed as a waiver or release of said rights or remedies or of the right to exercise them at any later time. The acceptance by Bank of the payment of any sum payable hereunder after the due date of such payment shall not be a waiver of Bank's right to either require prompt payment when due of all other sums payable hereunder or to declare a default for failure to make prompt payment.
24. **NO ORAL CHANGE:** This Note and other Loan Documents may only be amended, terminated, extended or otherwise modified by a writing signed by the party against which enforcement is sought. In no event shall any oral agreements, promises, actions, inactions, knowledge, course of conduct, course of dealing, or the like be effective to amend, terminate, extend or otherwise modify this Note or any of the other Loan Documents.
25. **RIGHTS OF HOLDER:** This Note and the rights and remedies provided for herein may be enforced by Bank or any subsequent holder hereof. Wherever the context permits each reference to the term "holder" herein shall mean and refer to Bank or the then subsequent holder of this Note.
26. **SUCCESSORS AND ASSIGNS:** This Note shall be binding upon Borrower and upon its respective heirs, successors, assigns and representatives, and shall inure to the benefit of the Bank, its successors, endorsees and assigns.
27. **FEDERAL RESERVE PLEDGE:** Bank may at any time pledge all or any portion of its rights under the Loan Documents including any portion of this Note to any of the twelve (12) Federal Reserve Banks organized under Section 4 of the Federal Reserve Act, 12 U.S.C. Section 341. No such pledge or enforcement thereof shall release Bank from its obligations under any of the Loan Documents.
28. **LOAN PARTICIPATION:** Bank shall have the unrestricted right at any time and from time to time, and without the consent of or notice to Borrower, to grant to one or more banks or other financial institutions (each, a "Participant") participating interests in Bank's obligation to lend hereunder

and/or any or all of the loans held by Bank hereunder. In the event of any such grant by Bank of a participating interest to a Participant, whether or not upon notice to Borrower, Bank shall remain responsible for the performance of its obligations hereunder and Borrower shall continue to deal solely and directly with Bank in connection with Bank's rights and obligations hereunder.

Bank may furnish any information concerning Borrower in its possession from time to time to prospective Assignees and Participants, provided that Bank shall require any such prospective Assignee or Participant to agree in writing to maintain the confidentiality of such information.

29. **REPLACEMENT OF NOTE:** Upon receipt of an affidavit of an officer of Bank as to the loss, theft, destruction or mutilation of the Note or any other security document which is not of public record, and, in the case of any such loss, theft, destruction or mutilation, upon surrender and cancellation of such Note or other security document, Borrower will issue, in lieu thereof, a replacement Note or other security document in the same principal amount thereof and otherwise of like tenor.
30. **ASSIGNABILITY OF NOTE:** The Bank may assign and transfer this Note to any person(s), firm or corporation who shall thereupon become vested with all of the rights and powers herein given to Bank as holder, and Bank shall thereafter be forever relieved and discharged from any responsibility or liability in respect herein.
31. **CAPTIONS:** All paragraph and subparagraph captions are for convenience of reference only and shall not affect the construction of any provision herein.

THIS DOCUMENT INTENTIONALLY ENDS HERE EXCEPT FOR SIGNATURE PAGE

IN WITNESS WHEREOF, this Note has been executed and delivered as a sealed instrument this 17th day of DECEMBER, 2009.

Witness:

THE BORROWER:
OMEGA FLEX, INC.

By: /s/ Paul J. Kane
Its Vice President–Finance and Chief
Financial Officer

LOAN AND SECURITY AGREEMENT

LOAN AND SECURITY AGREEMENT made this 17th day of December 2009 by and between OMEGA FLEX, INC., a Pennsylvania corporation with a usual address of 213 Court Street, Suite 701, Middletown, Connecticut (the "Borrower") and SOVEREIGN BANK, a federal savings bank with a usual address of 1350 Main Street, Springfield, Massachusetts (hereinafter referred to as the "Bank").

In consideration of the mutual covenants herein contained, it is agreed as follows:

1. **DEFINITIONS AND ACCOUNTING TERMS.**

1.1. **Defined Terms.** As used in this Agreement, the following terms have the following meanings. Capitalized terms not defined in this Agreement shall have the meaning ascribed to those terms in the Note. Terms defined in the singular to have the same meaning when used in the plural and vice versa:

"Agreement" means this Loan and Security Agreement, as amended, supplemented, or modified from time to time.

"Business Day" means any day other than a Saturday, Sunday, or other day on which commercial banks in Massachusetts are authorized or required to close under the laws of the Commonwealth of Massachusetts.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, the regulations promulgated thereunder and the published interpretations thereof.

"Collateral" shall mean the all of the Borrower's property that is subject to the grant of a security interest as provided in this Agreement to the Bank, and as such meaning is assigned to such term as shown in the same form as Schedule A attached.

"Debt" means (1) indebtedness or liability for borrowed money (including all amounts owed to the Bank); (2) obligations evidenced by bonds, debentures, notes, or other similar instruments; (3) obligations for the deferred purchase price of property or services (including trade obligations); (4) obligations as lessee under Capital Leases; (5) current liabilities in respect of unfunded vested benefits under Plans covered by ERISA; (6) obligations under letters of credit; (7) obligations under acceptance facilities; (8) all guaranties, endorsements (other than for collection or deposit in the ordinary course of business), and other contingent obligations to purchase, to provide funds for payment, to supply funds to any Person or entity, or otherwise to assure a creditor against loss; and (9) obligations secured by any Liens, whether or not the obligations have been assumed.

"Default" means any of the events specified in Section 12, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Event of Default" means any of the events specified in Section 12, provided that any requirement for the giving of notice, the lapse of time or both, or any other condition has been satisfied.

"GAAP" means generally accepted accounting principles consistently applied, in accordance with financial reporting standards from time to time defined by the United States Financial Accounting Standards Board and in effect among nationally recognized certified public accounting firms in the United States.

"Insolvent" The Borrower shall be considered to be "Insolvent" when any of the following events shall have occurred whereby the Borrower (a) shall generally not pay within ninety (90) days from when due (excepting, however, bonafide contests related thereto or unless consented to, in writing, by the Bank), or shall be unable to pay, or shall admit in writing its inability to pay its debts as such debts become due; or (b) shall make an assignment for the benefit of creditors, or petition or apply to any tribunal for the appointment of a custodian, receiver, or trustee for it or a substantial part of its assets; or (c) shall commence any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution, or liquidation law or statute of any jurisdiction, whether now or hereafter in effect; or (d) shall have had any such petition or application filed or any such proceeding commenced against it in which an order for relief is entered or an adjudication or appointment is made, and which remains undismissed for a period of ninety (90) days or more; or (e) shall take any corporate action indicating its consent to, approval of, or acquiescence in any such petition, application, proceeding, or order for relief or the appointment of a custodian, receiver, or trustee for all or any substantial part of its properties; or (f) shall suffer any such custodianship, receivership, or trusteeship to continue undischarged for a period of ninety (90) days or more.

"Lien" means any mortgage, deed of trust, pledge, security interest, hypothecation, assignment, encumbrance, lien (statutory or other), or preference, priority, or other security agreement or preferential arrangement, charge, or encumbrance of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction to evidence any of the foregoing).

"Loan" or "Loans" shall collectively mean the Revolving Loan and any future loan as made by the Bank to Borrower, as either or all may be further amended, modified, substituted or otherwise affected from time to time and shall include any additional credit facilities provided to the Borrower by the Bank from time to time.

"Loan Account" means the account upon the books of the Bank in which will be recorded all Loans made by the Bank to the Borrower pursuant to this Agreement, all payments made on such Loans and other appropriate debits and credits.

"Loan Document(s)" means this Agreement, the Note and/or other documents related to the transactions discussed in this Agreement as the same may be amended, modified or supplemented from time to time.

"Maturity Date" means December 31, 2010, and as that date may be extended, renewed or modified.

"Notes" shall collectively mean the Revolving Note executed by the Borrower in favor of the Bank and all other notes executed and delivered by the Borrower to the Bank presently and in the future from time to time, all as the same may be amended, modified or supplemented from time to time.

"Obligation" and "Obligations" shall mean any and all liabilities and obligations of the Borrower to the Bank of every kind and description, direct or indirect, absolute or contingent, primary or secondary, due or to become due, arising hereunder or hereafter arising, regardless of how they arise or by what agreement or instrument they may be evidenced, and includes obligations to perform acts and refrain from taking action as well as obligations to pay money, including, without limitation, the Note and the Loan Documents, as defined herein.

"Permitted Liens" shall have such meaning as defined in paragraph 10.1 below.

"Person" means an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority, or- other entity of whatever nature.

"Prime Rate" means the rate of interest as announced from time to time by the Bank as its Prime Rate, it being understood that such rate is a reference rate and not necessarily the lowest rate of interest charged by the Bank.

"Principal Office" means the Bank's office at 1350 Main Street, Springfield, Massachusetts 01608.

"Revolving Business Credit Note" or "Revolving Note" or "Note" shall mean the Revolving Line of Credit Note dated the same date as this Agreement in the original principal amount of up to Fifteen Million (\$15,000,000.00) Dollars, as executed by Borrower in favor of the Bank and as more particularly described in Section 2.1, and as such Note may be further amended, supplemented or modified from time to time.

"Revolving Loan" or "Line of Credit Loan" shall have the same meaning as defined in Section 2.1.

1.2 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP consistent with those applied in the preparation of the financial statements referred to in Section 11.2, and all financial data submitted pursuant to this Agreement shall be prepared in accordance with such principles.

1.3 Loan Accounts; Monthly Statements. The Bank shall keep a record (either in the Loan Accounts or elsewhere, as the Bank may from time to time elect) of all interest, services charges, costs, expenses, and other debits owed the Bank on account of the loan arrangements contemplated hereby and of all credits against such amounts so owed. The outstanding amount of all Loans shall be evidenced each month by the Bank's records of disbursements and balances in the form of a written statement.

2. TERMS OF REVOLVING LOAN.

2.1 Revolving Loan; Availability; Purpose. From time to time the Bank shall, unless the Borrower shall be then in Default, make revolving loan(s) (the "Revolving Loan") to the Borrower of such amounts as the Borrower may request and the Bank may approve in its reasonable discretion; *provided, however,* that the aggregate principal amount of the Revolving Loan at any time outstanding shall not exceed Fifteen Million (\$15,000,000.00) Dollars. The Revolving Loan shall be evidenced by the Revolving Note to be executed and delivered by the Borrower to the Bank upon the execution of this Agreement.

2.2 Interest Rate. The annual interest rate of the Revolving Loan shall be the Bank's Prime Rate plus three quarters (.75%) percent, or the LIBOR Rate plus three (3.0%), as more particularly described in the Note and as selected by the Borrower from time to time.

2.3 Advances. Advances will be made in the Bank's reasonable discretion and so long as the Borrower is not in Default. The Revolving Loan will be due and payable on December 31, 2010 despite the enumeration of an Event of Default, set forth herein and despite the use of any express or implied term. The obligation of the Bank to make initial advances to the Borrower is subject to the conditions precedent in Section 4, below. The obligation of the Bank to make any subsequent advances is subject to the conditions precedent that: (a) no event has occurred and is continuing which would constitute an Event of Default; (b) no event would constitute an Event of Default; (c) the Bank has, upon request, received a certificate signed by a duly authorized officer of the Borrower stating that all representations and warranties contained in this Loan Agreement are correct as though made on and as of the date of such certificate; (d) the Bank has received such other approvals, opinions, or documents as the Bank may reasonably request; and (e) there has been no material adverse change in the financial condition of the Borrower since the date of the latest financial statement delivered to the Bank.

The Borrower agrees that the Bank may, in its reasonable discretion and provided that the Borrower is not in Default, and only through the undersigned officer of the Bank (or in the undersigned officer's absence another officer of the Bank), make loan advances of the principal amount of the Revolving Note to the Borrower upon written authority only of any officer executing the Borrower's Banking Resolutions on behalf of the Borrower. The Bank may deliver the Revolving Loan proceeds by direct deposit to any demand deposit account of the Borrower with the Bank or otherwise, as so authorized, and all such Revolving Loan advances as evidenced by the Revolving Note and any amendment thereto shall represent binding obligations of the Borrower and any endorser(s) thereunder.

Interest shall be calculated on the basis of a 360 day year over the actual number of elapsed days. All payments made hereunder shall be applied first to the payment of fees and expenses, second to late charges hereunder, third to the payment of interest, and then the balance, if any, shall be applied to the payment of principal.

The Bank agrees to review the Revolving Loan for renewal and modification on December 31 of each year, at which time the Revolving Loan may be extended, modified or terminated by the Bank.

2.4 Repayment. Beginning on the date which is thirty (30) days from the date of the Note and continuing on the same day of each month thereafter until the Maturity Date, the Borrower shall make to Bank payments of interest only on the outstanding principal balance of all Loan Advances from the day that an advance is made. The periodic interest payments due under this Section 2.4 shall be the sum of the daily interest amounts accruing during the relevant monthly interest period, calculated as (a) the total aggregate amount of all outstanding Loan Advances determined daily as of 1 p.m. Eastern Time during that monthly interest period, (b) multiplied by the interest rate applicable to those Loan Advances, (c) divided by 360. THE ENTIRE OUTSTANDING PRINCIPAL BALANCE (INCLUDING ANY BALLOON PAYMENT) AND ALL ACCRUED AND UNPAID INTEREST SHALL BE DUE AND PAYABLE IN FULL ON DECEMBER 31, 2010.

2.5 Use of Proceeds. The proceeds of the Revolving Loan hereunder shall be used by the Borrower to provide working capital and to fund dividends. The Borrower will not, directly or indirectly, use any part of such proceeds for the purpose of purchasing or carrying any margin stock within the meaning

of Regulation U of the Board of Governors of the Federal Reserve System, or to extend credit to any Person for the purpose of purchasing or carrying any such margin stock, or for any purpose which violates, or is inconsistent with, Regulation X of such Board of Governors.

2.6 Late Payment. The Borrower shall pay, upon billing therefor, a "Late Fee" equal to five (5%) percent of the entire amount of any payment of principal, interest, or both, which is not paid in full within fifteen (15) days of the due date thereof. Late fees are: (a) payable in addition to, and not in limitation of, the Default Rate, (b) intended to compensate Bank for administrative and processing costs incident to late payments, (c) are not interest, and (d) shall not be subject to refund or rebate or credited against any other amount due.

2.7 Interest at Maturity or Default. Upon the occurrence and during the continuance of an Event of Default with respect to the outstanding principal balance of the Revolving Loan, interest shall be payable with respect to the outstanding principal balance of the Revolving Loan and any unpaid interest at a rate equal to five (5.00%) percent per annum above the rate otherwise in effect under the Note (the "Default Rate").

2.8 Unused Fees. In connection with the Revolving Loan, the Borrower agrees to pay a fee on any difference between the total amount of principal available under the Revolving Note (the "Commitment") and the total aggregate amount of all outstanding Loan Advances, determined daily as of 1 p.m. Eastern Time, during the specified period. Such amount (the "Unused Fee") will be sum for each day during the calendar quarter of (a) the difference of the Commitment and the total aggregate amount of all Loan Advances outstanding each day as of 1 p.m. Eastern Time, (b) multiplied by 0.175%, (c) divided by 360. This fee is due on December 31, 2009 for the then current calendar quarter, and on the same day of each following quarter until the Maturity Date.

2.9. Automatic Payment; Method of Payment. The Borrower hereby authorizes the Bank to automatically deduct from Borrower's account numbered 75860017955 any amount due under this Loan Agreement ("Automatic Payments"). If the funds in said account are insufficient to advance funds to cover any payment, Bank shall not be obligated to advance funds to cover the payment. At any time and for any reason, Borrower or Bank may voluntarily terminate such Automatic Payments. Whenever any payment to be made under this Loan Agreement shall be stated to be due on a day other than a Banking Day, such charge shall be subject to the Modified Following Business Day Convention and any such extension of time shall in such case be included in the computation of the payment of accrued interest.

3. RESERVED.

4. CONDITIONS PRECEDENT.

The obligation of the Bank to make the Loans shall be subject to the condition precedent that the Bank shall have received on or before the day of the first advance under such Loans each of the following, in form and substance satisfactory to the Bank and its counsel:

4.1 Execution of Note. The Note duly executed by the Borrower.

4.2 Evidence of Authority and Incumbency of Representatives. Certified (as of the date of this Agreement) copies of all action taken by the Borrower, including resolutions of and of its directors, authorizing the execution, delivery, and performance of the Loan Documents to which it is a party and each other document to be delivered pursuant to this Agreement together with a certificate (dated as of the date of

this Agreement) of its corporate secretary certifying the names and true signatures who may act on behalf of the Borrower and who are authorized to sign the Loan Documents to which the Borrower is a party and the other documents to be delivered by the Borrower under this Agreement.

4.3 Other Related Documents. The Bank shall have received such other approvals, opinions, certificates, conditions or documents as the Bank may reasonably request, including:

4.3.1 Evidence of the Borrower's legal existence and good standing in the jurisdiction of its incorporation and its usual address stated above, together with evidence from the jurisdiction of its incorporation that all taxes due and payable have been paid. The Certificates of Insurance for the Borrower's policies of casualty, property, and liability insurance required by the provisions of Section 9.5 herein.

4.3.2 All documents necessary to perfect a first security interest in the Collateral pledged by the Borrower pursuant to Section 6 below.

4.3.3 The payment of a commitment fee to the Bank in the amount of 25 basis points (\$18,750) on the \$7,500,000 incremental increase over the existing \$7,500,000 line of credit.

4.3.4 Certified copies of the Borrower's Articles of Incorporation and By-laws.

4.3.5 An opinion of the Borrower's counsel in a form satisfactory to the Bank's counsel.

4.3.6 All other documents which are required in reasonable discretion of the Bank and its counsel.

4.4 Subordination. All debt owed by the Borrower to any Person, excluding all trade payables, including, but not limited to, any officer, director and/or shareholder shall be fully subordinated to the Bank's Loans.

4.5 Additional Documents. All instruments relating to each advance shall be satisfactory to the Bank, and the Bank shall have been furnished with any such additional documents, reports, certificates, affidavits or other information in a form and substance satisfactory to the Bank as Bank may reasonably require to evidence compliance by the Borrower with all the provisions of this Agreement.

5. PROMISE TO PAY. The Borrower promises to pay:

5.1 Obligations. All Obligations of the Borrower to the Bank, including, but not limited to, the Obligations evidenced by the Revolving Note with interest at the rate set forth or in the manner determined in accordance with the aforesaid Revolving Note.

5.2 Taxes. Any and all taxes, charges and expenses of every kind or description which are the obligations of the Borrower, paid or incurred by the Bank with respect to the loans or financial accommodations made or any Collateral therefor, or the collection or realization upon the same, together with interest thereon at the highest rate permitted by law.

6. SECURITY INTEREST GRANTED; COLLATERAL.

6.1 Grant of First Security Interest; Collateral of Borrower. In consideration of the Revolving Loan and other financial accommodations made to the Borrower by the Bank, the Borrower hereby grants to

the Bank a security interest in all of its tangible and intangible assets, as more particularly described in Schedule A attached hereto, in the products and proceeds thereof, in all accessions and additions thereto, and in all replacement and substitutions therefore, whether now owned or hereafter acquired (collectively referred to as "Collateral"). The security interest is hereby granted in order to secure payment and performance of all of the Borrower's Obligations including, without limitation, the Revolving Loan as well as all future debts, liabilities, advances and other Obligations of the Borrower to the Bank.

6.2 The Borrower hereby irrevocably authorizes the Bank at any time and from time to time to file in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto that (a) indicate the Collateral (i) as all assets of the Borrower or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the Uniform Commercial Code of the Commonwealth of Massachusetts or such jurisdiction, or (ii) as being of an equal or lesser scope or with greater detail, and (b) contain any other information required by part 5 of Article 9 of the Uniform Commercial Code of the Commonwealths of Massachusetts for the sufficiency or filing office acceptance of any financing statement or amendment, including (i) whether the Borrower is an organization, the type of organization and any organization identification number issued to the respective Obligor and, (ii) in the case of a financing statement filed as a fixture filing, a sufficient description of the real property to which the Collateral relates. The Borrower agrees to furnish any such information to the Bank promptly upon request.

7. Intentionally omitted.

8. REPRESENTATIONS AND WARRANTIES OF THE BORROWER.

The Borrower represents and warrants to the best of their knowledge and as of the date of this Agreement, that:

8.1. Legal Existence; Authority; Standing of Borrower. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of Pennsylvania. The Borrower has full power to own its properties and conduct its business as now conducted, and to enter into and perform this Agreement. The Borrower is in good standing in each jurisdiction in which the present conduct of its business requires that it be qualified to do business. The execution and delivery of this Agreement, the Note and all related documents has been duly authorized and evidence valid and binding obligations of the Borrower, except as limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally or by general equitable principles.

8.2 Legally Enforceable Agreement. This Agreement is, and each of the other Loan Documents when delivered under this Agreement will be, legal, valid and binding obligations of the Borrower in accordance with their respective terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency and other similar laws affecting creditors' rights generally or by general equitable principles.

8.3 Title of Assets and Collateral; Priority of Security. The Borrower has good and marketable title to, or valid leasehold interests in, all material properties and assets used in its business, real and personal, and, specifically, to all of the Collateral and the Borrower will defend the title to the Collateral against all persons and against all claims and demands whatsoever, and the Borrower shall keep the Collateral free of any lien, encumbrance or charge except for the Permitted Liens.

8.4 Labor Disputes and Acts of God. As of the date of this Agreement, neither the business nor the properties of the Borrower are affected by any fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy, or other casualty (whether or not covered by insurance), materially and adversely affecting such business or properties or the operation of the Borrower.

8.5 Other Agreements. Except as disclosed in Schedule 8.5, the Borrower is not a party to any indenture, loan or credit agreement, or to any lease or other agreement or instrument, or subject to any charter or corporate restriction which could have a material adverse effect upon its business, properties or financial condition of the Borrower, or the ability of the Borrower to carry out its obligations under the Loan Documents to which it is a party. The Borrower is not in default in any material respect in the performance, observance, or fulfillment of any of the material obligations, covenants, or conditions contained in any agreement or instrument material to its business to which it is a party.

8.6 Litigation. Except as disclosed in Schedule 8.6 attached hereto, there is no pending or threatened action, suit, proceeding or investigation, to its knowledge, threatened against or affecting it or any of its assets before or by any court or other governmental authority which, if determined adversely to it, would have a material adverse effect on its financial condition, business or prospects or the value of any Collateral.

8.7 No Defaults. The Borrower has satisfied all judgments, and is not in default with respect to any judgment, writ, injunction, decree, rule or regulation of any court, arbitrator, or Federal, state, municipal, or other governmental authority, commission, board, bureau, agency or instrumentality, domestic or foreign, which would have a material adverse effect on the Borrower's financial condition, properties or business.

8.8 Operation of Business. The Borrower possesses all licenses, permits, franchises, patents, copyrights, trademarks, and trade names, or rights thereto, necessary to conduct business substantially as now conducted and as presently proposed to be conducted, and to the best of its knowledge and belief, the Borrower is not in violation of any valid rights of others with respect to any of the foregoing.

8.9 Environment. To the best of its knowledge and belief, the Borrower has duly complied with, and its businesses, operations, assets, equipment, property, leaseholds, or other facilities are in compliance with, the provisions of all applicable Federal, state, and local environmental, health, and safety laws, codes and ordinances, and all rules and regulations promulgated thereunder, except for such failures to comply as do not and will not have a materially adverse effect on their business. The Borrower has not received notice of, nor know of, facts which might constitute any material violations of any Federal, state, or local environmental, health, or safety laws, codes or ordinances, and any rules or regulations promulgated thereunder with respect to its businesses, operations, assets, equipment, property, leaseholds, or other facilities.

8.10 The Borrower has filed all tax returns (Federal, state, and local) or necessary extensions required to be filed and paid all taxes, assessments, and governmental charges and levies thereon to be due, including interest and penalties.

9. AFFIRMATIVE COVENANTS.

So long as any Obligation shall remain unpaid or unperformed, the Borrower will:

9.1 Maintenance of Existence. Preserve and maintain its existence and good standing in

jurisdiction of its incorporation, and qualify and remain qualified as a foreign corporation in each jurisdiction in which the present conduct of its business requires that it be qualified to do business.

9.2 Maintenance of Records. Keep adequate records and books of account, in which complete entries will be made in accordance with GAAP consistently applied, reflecting all financial transactions of the Borrower required to be reflected herein by GAAP.

9.3 Maintenance of Properties. Maintain, keep, and preserve all of its material properties (tangible and intangible) necessary or useful in the lawful and ordinary conduct of its business in good working order and condition, ordinary wear and tear excepted.

9.4 Conduct of Business. Continue to engage in a business of the same general type as conducted by it on the date of this Agreement, unless otherwise consented to by the Bank, which consent will not be unreasonably withheld.

9.5 Maintenance of Insurance. Obtain and maintain, at the Borrower's expense, as the case may be, insurance with financially sound and reputable insurance companies or associations in such amounts and covering such risks as are usually carried by companies engaged in the same or a similar business and similarly situated, which insurance shall provide so-called "all-risk" casualty and property damage as well as personal liability insurance including extended coverage, all in amounts of property and casualty insurance and with insurance carriers reasonably approved by the Bank. In no event shall the amounts of property and casualty insurance be less than (i) the appraised value of the insurable Collateral, or (ii) whatever amounts are necessary to avoid any co-insurance provision therein. Coverage included in the policy or policies insuring the Collateral shall not be less than that encompassed by fire, extended coverage, vandalism and malicious mischief, with perils broadened to include so-called "all risk of physical loss". All policies will contain a standard loss payee and additional insured endorsement and will provide that the Bank is loss payee and additional insured and will also provide for a thirty (30) day advance written notice to the Bank of any policy cancellation or material modification or change.

The Bank and the Borrower recognize, however, that the Borrower issues limited product warranties relating to its products sold in the ordinary course of business.

Upon the occurrence and continuance of an Event of Default, the Bank is and will be authorized and empowered in its sole option to collect and receive or cause to be collected and received for its account the proceeds of any insurance policy covering the Collateral. Otherwise, the Borrower shall collect and receive its insurance proceeds with checks paid jointly to the Borrower and the Bank as Loss Payee and Additional Insured.

9.6 Compliance With Laws. Comply in all material respects with all applicable laws, rules, regulations, and orders, such compliance to include, without limitations, paying before the same become delinquent all taxes, assessments, and governmental charges imposed upon it or upon its property, the failure of which would have a material adverse effect on the Borrower's properties, financial condition, or business. Notwithstanding the foregoing, the Borrower shall have the right to diligently contest such taxes, assessments and/or governmental charges as such may arise, but so long as the Borrower remains in compliance with the financial covenants enumerated in Section 11.

9.7 Environment. Except for such failures as shall not have a materially adverse effect on any of the Borrower's business, be and remain in compliance with the provisions of all applicable federal, state, and local environmental, health, and safety laws, codes and ordinances, and all rules and regulations issued

thereunder; notify the Bank immediately of any notice of an unpermitted discharge of hazardous material or environmental complaint received from any governmental agency or any other party; notify the Bank immediately of an unpermitted discharge of hazardous material from or affecting its premises reportable to any state or federal regulatory agency; immediately contain and remove the same, in compliance with all applicable laws; promptly pay any fine or penalty assessed in connection therewith, except such assessments as are being contested in good faith, against which adequate reserves have been established; permit the Bank to inspect the premises, to conduct tests thereon, and to inspect all books, correspondence, and records pertaining thereto; and at the Bank's request, and at Borrower's expense, provide a report of a qualified environmental engineer, satisfactory in scope, form, and content to the Bank, and such other and further assurances reasonably satisfactory to the Bank that the condition has been corrected.

9.8 Place of Business. Promptly notify the Bank in writing of any addition to, change in, or discontinuance of its place of business as shown in this subsection. The Borrower's usual place of business will be 213 Court Street, Suite 701, Middletown, Connecticut.

9.9 Location of Collateral. Keep all of the Collateral including all records of accounts and contract rights at its place of business referred to in Section 9.8 above or at 451 Creamery Way, Exton, PA.

9.10 Taxes and Assessments. Pay or cause to be paid all taxes, assessments and other charges of every nature which may be levied or assessed against the Collateral, or for which the Borrower is liable when due, except as it, in good faith and by appropriate proceedings, shall be contesting the validity or the amount thereof, and against which adequate reserves have been established. In the event that the Borrower fails to pay such taxes, assessments, costs and expenses which the Borrower is required to pay, or in the event that the Borrower fails to keep the Collateral free from other security interests, liens or encumbrances, the Bank may (but shall not be required to) pay any such taxes, assessments, costs and expenses, and any amounts so paid shall constitute additional indebtedness secured hereby. The Borrower agrees that during each and every fiscal year it shall accrue all current tax liabilities, required withholding of income taxes of employees, and required Social Security and unemployment contributions, and pay the same when they shall become due, except such liabilities as are being contested in good faith, against which adequate reserves have been established. The Borrower further represents and warrants that it has paid all such tax liabilities currently that the failure to pay would have a material and adverse effect on its financial condition, business and properties.

9.11 Depository Relationship. Maintain a substantial depository relationship with the Bank, which includes maintaining the Bank as its principal depository for its funds, including deposits for payroll taxes and income taxes, savings, certificates of deposit, general demand deposit account, and such other accounts as may be permitted relating to all of its operations.

9.12 Additional Payments. If the Bank incurs any additional cost arising from or relating to any requirement of any law of the United States of America, any regulation, order, interpretation, ruling or official directive or guideline (whether or not having the force of law) of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation or any other board or governmental or administrative agency of the United States of America which shall impose, increase, modify or make applicable to this Agreement or the Notes or cause to be included in, any reserve, special deposit, calculation used in the computation of regulatory capital standards, assessment or other requirement which imposes on the Bank any cost that is attributable to the maintenance of this Agreement or Notes, then the Bank shall notify the Borrower at least 30 days prior to the due date for the payment of those increased costs. The determination of the increased costs may be made by the Bank (a) as it reasonably deems those costs as applicable to this Agreement or the Notes, including, in each case, the borrowed and the

unused portion thereof, and (b) based upon the Bank's reasonable allocation of the aggregate of such costs. In the event any such additional cost is a continuing cost, a fee payable to the Bank may be imposed upon the Borrower periodically for so long as any such additional cost is deemed applicable to the Bank, in an amount determined by the Bank to be necessary to compensate the Bank for any such additional cost. The reasonable determination by any Bank of the existence and amount of any such additional cost shall, in the absence of manifest error, be conclusive. Such additional payments shall accrue and apply only from time of notice from the Bank to the Borrower.

9.13 Maintenance of Collateral; Inspection. Maintain the Collateral, or such portion of the Collateral which is tangible property, in good condition and repair, ordinary wear and tear excepted, and, other than in the ordinary course of business, will not cause the property to be wasted or destroyed in any manner, and will not to the best of the Borrower's knowledge use the Collateral in violation of any provisions of this Agreement, of any applicable statute, regulation or ordinance, or of any policy insuring the Collateral if such use would have a material and adverse effect on the Borrower's financial condition, business or properties. The Borrower shall at all reasonable times upon reasonable notice and during business hours, and from time to time, allow the Bank, by or through any of its officers, agents, attorneys, accountants or other designees, to examine, inspect or make extracts from any of such Borrower's books and records, or to examine and inspect the Collateral and other operations of such Borrower's business.

9.14 Maintenance of Ownership, Business, Operation and Management. The Borrower will at all times maintain its ownership interests, business operations and experienced and competent professional senior management in substantial similarity with those operations as they exist at time of this Agreement, with respect to its businesses and properties and no changes will be made without the Bank's written consent ,which consent shall not be unreasonably withheld or delayed.

9.15 Debt. The Borrower has provided the Bank with a complete and correct Financial Statement detailing all of its credit agreements, indentures, purchase agreements, guaranties, capital Leases, and other investments, agreements, and arrangements presently in effect providing for or relating to extensions of credit (including agreements and arrangements for the issuance of letters of credit or for acceptance financing) in respect of which the Borrower is in any manner directly or contingently obligated; and the maximum principal or face amounts of the credit in question, which are outstanding and which can be outstanding, are correctly stated, and all Liens of any nature given or agreed to be given as security therefor are correctly described or indicated in such financial statements.

9.16 Additional Appraisals. Upon an uncured and continuing Event of Default, the Bank may reasonably require additional appraisal(s) to the Collateral, including any portion thereof, the cost of such appraisal(s) shall be at the sole cost and expense of the Borrower.

10. NEGATIVE COVENANTS.

So long as the Note shall remain unpaid or any credit accommodation remains in effect hereunder, the Borrower will not after the date of this Agreement:

10.1 Liens. Create, incur, assume, or suffer to exist, any Lien upon or with respect to any of its properties, now owned or hereafter acquired, except the following "Permitted Liens":

- a) Liens in favor of the Bank;
- b) Liens for taxes or assessments or other government charges or levies if not yet due and payable or, if due and payable, if they are being contested in good faith by appropriate proceedings and for which appropriate reserves are maintained;

c) Liens imposed by law, such as mechanics', materialmen's, landlords', warehousemen's, and carriers' Liens, and other similar Liens, securing obligations incurred in the ordinary course of business which are not past due for more than thirty (30) days or which are being contested in good faith by appropriate proceedings and for which appropriate reserves have been established;

d) Liens under workers' compensation, unemployment insurance, Social Security, or similar legislation;

e) Liens, deposits, or pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of money), leases (permitted under the terms of this Agreement), public or statutory obligations, surety, stay, appeal, indemnity, performance or other similar bonds, or other similar obligations arising in the ordinary course of business; and

f) Judgment and other similar Liens arising in connection with court proceedings, provided the execution or other enforcement of such Liens is effectively stayed and the claims secured thereby are being actively contested in good faith and by appropriate proceedings.

g) Those prior security interests granted by the Borrower to others as listed in Schedule 6.1 attached hereto.

Items a) through g) are hereby known as "Permitted Liens".

10.2 Debt. Create, incur, assume, or suffer to exist, any Debt, except:

- a) Debt of the Borrower under this Agreement or the Notes, of even date;
- b) Debt of the Borrower subordinated on terms satisfactory to the Bank;
- c) Debt of the Borrower secured by purchase-money liens permitted herein; and
- d) Debt to normal and usual trade creditors.

10.3 Mergers. Merge with, become merged into, consolidate with or otherwise recapitalize with any other corporation or entity unless the Borrower is the surviving entity and such merger, consolidation or other recapitalization would not cause a default under any of the documents executed in connection with the Loans.

10.4 No Loans or Investments. Make loans to or investments in any individual or business entity, without the prior approval of the Bank, which approval will not be unreasonably withheld or delayed, other than:

a) evidences of indebtedness issued or guaranteed by the United States of America which have a maturity date of not more than one year from the date of acquisition;

b) certificates of deposit, notes, acceptances and repurchase agreements having a maturity of not more than one year from the date of acquisition by the Bank; and interest bearing accounts in the Bank; and

c) accounts in any money market mutual fund (e.g., no equities or bonds) having total assets in excess of \$250,000,000.

10.5 Guaranties, Etc. Other than for its subsidiary, Omega Flex Limited (“Subsidiary”) relating to the payment by the Subsidiary of rent under a real estate lease for manufacturing premises located in Banbury, England, assume, guaranty, endorse, or otherwise be or become directly or contingently responsible or liable, (including, but not limited to, an agreement to purchase any obligation, stock, assets, goods, or services, or to supply or advance any funds, assets, goods, or services, or an agreement to maintain or cause such Person to maintain a minimum working capital or net worth, or otherwise to assure the creditors of any Person against Loss) for obligations of any Person, except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business.

10.6 Limitation on Fundamental Changes. The Borrower shall not convey, sell, lease or otherwise dispose of all or substantially all of its property, assets or business; enter into any transaction not in the usual course of business and, if a legal entity, (i) make any change in its capital structure or in any of its business objectives, purposes and operations which might in any way adversely affect the ability of the Borrower to repay the Obligations, (ii) merge or consolidate with or into any other firm or corporation or change its name, or (iii) permit a transfer of more than 10% of its equity interests without the prior written consent of the Bank.

10.7 Limitation on Disposition of Assets. The Borrower shall not, other than the disposition of finished goods in the ordinary course of business, sell, exchange or otherwise dispose of all or any material portion of its assets, or any interest therein, without the express written authorization of the Bank.

10.8 Limitation on Acquisitions. The Borrower shall not acquire, directly or indirectly, any subsidiaries or affiliates without the prior written consent of the Bank, which consent will not be unreasonably withheld or delayed.

11. FINANCIAL REPORTING REQUIREMENTS AND FINANCIAL COVENANT.

So long as any Note shall remain unpaid or any credit accommodation remains in effect hereunder, the Borrower will furnish to the Bank:

11.1 Borrower’s Annual Financial Statements; Tax Returns. The Borrower shall furnish to Bank on an annual basis and in any event, within ninety (90) days of its fiscal year end, copies of its updated annual report on Form 10-K corporate financial statements on an audited basis and all other financial information as Bank may reasonably require, all in form and substance satisfactory to Bank.

11.2 Quarterly Reporting. On a quarterly basis, beginning with the quarter ending March 31, 2009, the Borrower shall provide the Bank, within forty five (45) days from the end of each quarter, with copies of its 10Q financial statement and compliance certificate.

11.3 Notice of Litigation. Promptly after the commencement thereof, notice of all actions, suits, and proceedings before any court or governmental department, commission, board, bureau, agency, or instrumentality, domestic or foreign, affecting the Borrower which, if determined adversely to the Borrower could have a material adverse effect on the financial condition, properties, or operations of the Borrower.

11.4 Notice of Defaults and Events of Default. As soon as possible and in any event within five (5) days after which the Borrower knows of the occurrence of each Default or Event of Default, a written notice setting forth the details of such Default or Event of Default and the action which is proposed to be taken by the Borrower with respect thereto. For purposes of this Section 11.4, Borrower’s knowledge shall

be limited to the personal knowledge of Borrower's chief executive officer, chief operational officer or chief financial officer.

11.5 General Information. Such other information respecting the condition or operations, financial or otherwise, of the Borrower or the Collateral as the Bank may from time to time reasonably request.

11.6 Financial Covenant. So long as the Revolving Loan remains available to the Borrower, the Borrower shall maintain the following financial covenants:

11.6.1 Minimum Operating Cash Flow to Total Debt Service. The ratio of the Borrower's (i) the total aggregate amount of Operating Cash Flow for the four most recently completed fiscal quarters to (ii) the total aggregate amount of its Total Debt Service ("Debt Service" shall mean scheduled principal and interest owed by the Borrower to any Person) for the four most recently completed fiscal quarters shall be at least 1.25 to 1.0.

This covenant shall be calculated and measured as follows:

EBITDA less non-financed capital expenditures less cash taxes paid, divided by interest expense plus current maturities of long term debt.

11.6.2 Funded Debt to Tangible Net Worth Ratio. The ratio of Borrower's (i) Funded Debt to its (ii) tangible net worth shall be less than 2.00 to 1.0 as determined in accordance with GAAP consistently applied. "Funded Debt" shall mean the Borrower's loans and obligations with a maturity of one year or more which bears interest including the Note.

Both of these covenants described in 11.6.1 and 11.6.2 are to be tested quarterly, based upon the Borrowers financial statements which are to be provided by the Borrower to the Bank in accordance with Sections 11.1 and 11.2, above, and tested as of the end of each fiscal quarter.

12. EVENTS OF DEFAULT.

If any of the following events shall occur:

12.1 If the Borrower shall fail to pay the principal of, or interest on, the Obligations, or any amount of the Note, within fifteen (15) days from when due and payable;

12.2 Failure to maintain insurance as required in section 9.5 of this Agreement;

12.3 Any representation or warranty made by the Borrower in this Agreement or which is contained in any certificate, document, or other written statement signed by the Borrower's chief executive officer or chief financial officer, and furnished at any time under or in connection with any Loan Document, shall prove to have been incorrect, incomplete, or misleading in any material respect on or as of the date made;

12.4 The Borrower shall fail to perform or observe any term, covenant, or agreement contained herein or in any other Loan Document within thirty (30) days after written notice of such failure (other than failure under Section 12.1, 12.2 or 12.3 above for which no notice is required);

12.5 Any default on the part of any the Borrower shall exist, and shall remain unwaived or uncured

beyond the expiration of any applicable notice and/or grace period, under any note, contract, agreement or understanding now existing or hereafter entered into with or for the benefit of the Bank in any capacity or capacities;

12.6 Except as permitted herein, dissolution, merger or consolidation of the Borrower;

12.7 Material uninsured loss or theft, uninsured substantial damage or destruction, unauthorized sale or encumbrance to or of any material amount of any of the Collateral in excess of reasonably expected recoveries under insurance policies;

12.8 Unauthorized sale, pledge or encumbrance of all or any part of the Collateral without the Bank's consent, except as otherwise permitted hereunder;

12.9 Failure by the Borrower (a) to pay any indebtedness for borrowed money (other than as evidenced by the Notes) of the Borrower in an amount or amounts in the aggregate greater than \$250,000 as the case may be, or any interest or premium thereon, when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise), or (b) to perform or observe any term, covenant, or condition on its part to be performed or observed under any agreement or instrument relating to any such indebtedness, when required to be performed or observed, if the effect of such failure to perform or observe is to accelerate; or any such indebtedness shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity ;

12.10 If the Borrower shall become Insolvent;

12.11 One or more judgments, decrees, or orders for the payment of money in excess of One Million Dollars (\$1,000,000.00) in the aggregate shall be rendered against the Borrower and such judgments, decrees, or orders shall continue unsatisfied and in effect for a period of thirty (30) consecutive days without being vacated, discharged, satisfied, or stayed or bonded pending appeal;

12.12 This Agreement shall at any time after its execution and delivery and for any reason cease (a) to create a valid and perfected security interest in and to the property purported to be subject to this Agreement; or (b) to be in full force and effect or shall be declared null and void, or the validity or enforceability thereof shall be contested by the Borrower or the Borrower shall deny it has any further liability or obligation under this Agreement;

12.13 The occurrence of any material adverse change in the existing or prospective financial condition of the Borrower;

then, and in any such event, the Bank may, notwithstanding any time or credit allowed by any instrument evidencing a liability, after notice or demand declare the Note, all interest thereon, and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Note, all such interest, and all such amounts shall become and be forthwith due and payable. Upon the occurrence and during the continuance of any Event of Default, the Bank is hereby authorized at any time and from time to time, after notice, to exercise any or all of its rights and remedies described in Section 13 below.

13. RIGHTS AND REMEDIES.

In addition to declaring immediately due and payable all amounts represented by the Borrower's Loan Accounts, together with any and all additional charges added thereto, the Bank shall, upon the

occurrence and continuance of any of the above-described Events of Default and after any applicable period of cure has expired, have the following rights and remedies:

13.1 Bank may at any time setoff against all deposits, monies, securities, credits, or property, now or hereafter in the possession, custody, safekeeping or control of Bank, and apply the same to the Obligations.

13.2 The Bank may at any time enter upon the property of the Borrower and remain upon such property for so long as is reasonably necessary without being liable, unless due to the Bank's gross negligence or willful misconduct, for any prosecution or damage therefor, and take complete peaceful possession of the Collateral and remove same at the election of the Bank.

13.3 The Bank may exercise all the rights and remedies of a secured party under the Uniform Commercial Code of The Commonwealth of Massachusetts (M.G.L. c. 106) . The Bank may at any time, in its discretion, transfer other property constituting Collateral into its own name or that of its nominee, and receive the income thereon and hold the same as security for liabilities, or apply it to principal or interest due on liabilities.

13.4 The Bank may enforce the provisions of this Agreement by legal proceedings for the specific performance of any covenant or agreement contained herein, or for the enforcement of any other appropriate, legal or equitable remedy, and may recover damages caused by any breach by the Borrower of the provisions of this Agreement, including court costs, reasonable attorneys' fees, and other costs and expenses incurred in enforcing the Obligations of this Agreement or the notes referred to above.

13.5 The Bank, to the extent Borrower could legally do so, may use all trademarks, service marks, trade names, trade styles, logos, goodwill, trade secrets, franchises, licenses and patents which the Borrower now has or may hereafter acquire, including the following rights:

- a. the rights in said marks, name, styles, logos and goodwill acquired by the common law of the United States or of any state thereof or under the law of any foreign nation, organization, or subdivision thereof;
- b. the rights acquired by registrations of said marks, names, styles and logos under the statute of any foreign country, or the United States, or any state or subdivision thereof;
- c. the rights acquired in each and every form of said mark, name, style and logo as used by the Borrower notwithstanding that less than all of such form would be registered and notwithstanding the form of said mark, name and style;
- d. the right to use or license any party to the use of all or any of said marks, names, styles, logos and goodwill in connection with the sale of goods and/or the rendering of services in the conduct of services advertising, promotion and the like anywhere in the world;
- e. the right to use said marks, names, styles, logos and goodwill either in connection with or entirely independent from the Collateral;
- f. the right to assign, transfer and convey a partial interest or the entire interest in any one or more of said marks, names, styles or logos;

- g. the right to seek registration, foreign or domestic, of any of said marks, names, styles or logos which were not registered as of the date hereof or registered subsequently;
- h. the right to prosecute pending trademark applications for foreign or domestic registration (federal or state) of any of said marks, names, styles or logos.

13.6 Upon the occurrence and continuing of an Event of Default and upon the acceleration of the Principal Sum, the Borrower hereby irrevocably appoint the Bank the true and lawful attorney of the Borrower with full power of substitution, coupled with an interest, to act in the name of the Bank but at the sole expense of the Borrower, (a) to demand, collect, receive payment of, receipt for, settle, compromise or adjust, and give discharges and releases in respect of the Borrower's accounts receivable (the "Accounts Receivable"); (b) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Accounts Receivable or any of them and to enforce any other rights in respect thereof or in respect of the goods which have given rise thereto; (c) to defend any suit, action or proceeding brought against the Borrower in respect of any Account Receivable or the goods which have given rise thereto; (d) to settle, compromise or adjust any suit, action or proceeding described in clause (b) or (c) above and, in connection therewith, to give such discharges or releases as the Bank may deem appropriate; (e) to endorse checks, notes, drafts, acceptances, money orders, bills of lading, warehouse receipts or other instruments or documents evidencing or securing the Accounts Receivable or any of them; (f) to receive, open and dispose of all business mail addressed to Borrower to such address, care of the Bank, as the bank may designate; and (g) generally to sell, assign, transfer, pledge, make any agreement in respect of or otherwise deal with an Account Receivable, the Collateral or goods which have given rise thereto as fully and completely as though the Bank were the absolute owner thereof for all purposes, until the Obligations have been paid in full. The Bank may at its option transfer at any time to itself or to its nominee any securities held as Collateral hereunder and receive the income thereon and hold the same as Collateral hereunder, and may at any time notify the Account Debtors on any Accounts Receivable or the obligor on any other Collateral of the Bank's security interest therein and instruct such Account Debtors and Borrower to make all future payments thereon to the Bank, until the Obligations are paid in full.

13.7 Any Collateral repossessed by the Bank under or pursuant to Section 13.2, and any other Collateral whether or not so repossessed by the Bank, may be sold, assigned, leased or otherwise disposed of under one or more contracts or as an entirety, and without the necessity of gathering at the place of sale the property to be sold, and in general in such manner, at such time or times, at such place or places and on such terms as the Bank may, in compliance with any mandatory requirements of applicable law, determine to be commercially reasonable. Any of the Collateral may be sold, leased or otherwise disposed of, in the condition in which the same existed when taken by the Bank or after any overhaul or repair which the Bank shall determine to be commercially reasonable. Any such disposition which shall be a private sale or other private proceeding permitted by such requirements shall be made upon not less than 10 days' written notice to the Borrower specifying the time at which such disposition is to be made and the intended sale price or other consideration therefor, and shall be subject, for the 10 days after the giving of such notice, to the right of the Borrower or any nominee of the Borrower to acquire the Collateral involved at a price or for such other consideration at least equal to the intended sale price or other consideration so specified.

13.8 Any surplus then remaining after the sale, assignment, lease or disposition of the Collateral shall be paid to the Borrower.

13.9 The powers conferred on the Bank by this Agreement are solely to protect the interest of the Bank and shall not impose any duty upon the Bank to exercise any such power, and if the Bank shall exercise

any such power, it shall be accountable only for amounts that it actually receives as a result thereof and shall not be responsible to the Borrower except for willful misconduct or gross negligence. The Bank shall be under no obligation to take steps necessary to preserve rights in any Collateral against prior parties but may do so at its option. At its option, and upon the occurrence and continuance of an Event of Default, the Bank may discharge any taxes, liens, security interest or other encumbrances to which any Collateral is at any time subject, and may, upon the failure of the Borrower so to do, purchase insurance on any Collateral and pay for the repair, maintenance or preservation thereof, and the Borrower agree to reimburse the Bank on demand for any reasonable payments made or expenses incurred by the Bank pursuant to the foregoing authorization, and authorizes the Bank to charge the Loan Account for the amount of such payments or expenses. The Bank may take control of any proceeds of Collateral to which the Bank is entitled hereunder or under applicable law. The foregoing provisions of this Section 13 shall only be applicable upon the occurrence of an uncured Event of Default.

14. WAIVERS.

The Borrower waives demand, notice, protest, notice of acceptance of this Agreement, notice of loans made, credit extended, Collateral received or delivered, or any action taken in reliance hereon, and all other demands and notice of any description. With respect to liabilities and Collateral, the Borrower assents to any extension or postponement of the time of payment or any other indulgence to any substitution, exchange or release of Collateral, to the addition or release of any party or person primarily or secondarily liable, to the acceptance of partial payments thereon and the settlement thereof, all in such manner and at such time or times as the Bank may deem advisable. The Bank shall have no duty as to the collection of Collateral beyond reasonable care and protection, or any income thereon, nor as to the preservation of rights against prior parties, or as to the preservation of any rights pertaining thereto beyond the safe custody thereof. The Bank may exercise its rights with respect to Collateral without resorting or regard to other Collateral or sources of reimbursement for liability. The Bank shall not be deemed to have waived any of its rights upon or under liabilities or Collateral, unless such waiver be in writing and signed by the Bank. No delay or omission on the part of the Bank in exercising any right shall operate as a waiver of such right or any other right. A waiver on any one occasion shall not be construed as a bar to or waiver of any right on any future occasion. All rights and remedies of the Bank on liabilities or Collateral, whether evidenced hereby or by any other instrument or papers, shall be cumulative and may be exercised singularly or concurrently.

15. MISCELLANEOUS.

15.1 Uniform Commercial Code Applicable. To the extent applicable, the Uniform Commercial Code of The Commonwealth of Massachusetts shall govern the security interest provided for herein. In connection therewith, the Borrower shall take such steps and execute and deliver such financing statements and other papers as the Bank may from time to time request. If, by reason of location of Collateral or otherwise, the creation, validity or perfection of the security interest provided for herein are governed by the law of a jurisdiction other than Massachusetts, the Borrower shall take such steps and execute and deliver such papers as the Bank may from time to time request to comply with the Uniform Commercial Code and such other laws of other states as are appropriate.

15.2 Amendments, Etc. No amendment, modification, termination, or waiver of any provision of any Loan Document to which the Borrower is a party, nor consent to any departure by the Borrower from any Loan Document to which it is a party, shall in any event be effective unless the same shall be in writing and signed by the party against whom enforcement of such amendment, modification, termination or waiver is sought. Any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

15.3 Notices, Etc. All notices and other communications provided for under this Agreement and under the other Loan Documents to which the Borrower is a party shall be in writing (including telegraphic, telex, and facsimile transmissions) and mailed or transmitted or delivered:

if to the Borrower, at its address at:

213 Court Street
Suite 701
Middletown, CT 06457
Attn: Kevin R. Hoben, Its President
and Chief Executive Officer

With a copy to:

Timothy Scanlan, Legal Counsel
Omega Flex, Inc.
213 Court Street
Suite 701
Middletown, CT 06457

And if to the Bank, at its address at:

Sovereign Bank
115 Asylum Street
Hartford, CT 06103
Attn: Helena O'Reilly, Senior Vice President

with a copy to:

Paul M. Maleck, Esq.
Doherty, Wallace, Pillsbury & Murphy, P.C.
One Monarch Place, 19th Floor
Springfield, MA 01144

or, as to each party, at such other address as shall be designated by such party in a written notice to the other party complying as to delivery with the terms of this Section. Except as is otherwise provided in this Agreement, all such notices and communications shall be effective when deposited in the mails or delivered to the telegraph company, or sent, answerback received, respectively, addressed as aforesaid.

15.4 No Waiver. No failure or delay on the part of the Bank in exercising any right, power, or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power, or remedy preclude any other or further exercise thereof or the exercise of any other right, power, or remedy hereunder. The rights and remedies provided herein are cumulative and are not exclusive of any other rights, powers, privileges, or remedies, now or hereafter existing, at law or in equity or otherwise.

15.5 Survival. All representations, warranties, covenants, and agreements contained herein shall survive the execution and delivery of this Agreement, the Note and any other agreements or documents required for this transaction and shall continue in force until the Loans are no longer outstanding.

15.6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Borrower and the Bank and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights under any Loan Document to which the Borrower is a party without the prior written consent of the Bank.

15.7 Costs, Expenses, and Taxes. The Borrower agrees to pay on demand all costs and expenses, incurred by the Bank in connection with the preparation, execution, delivery and filing of the Loan Documents, and of any amendment, modification, or supplement to the Loan Documents. The Borrower agrees to pay all such costs and expenses, including court costs, incurred in connection with enforcement of the Loan Documents, or any amendment, modification, or supplement thereto, whether by negotiation, legal proceedings, or otherwise. In addition, the Borrower shall pay any and all stamp and other taxes and fees payable or determined to be payable in connection with the execution, delivery, filing, and recording of any of the Loan Documents and the other documents to be delivered under any such Loan Documents, and agree to hold the Bank harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and fees. The Bank may also, in its sole and absolute discretion and without notice or demand, pay any amount which the Borrower has failed to pay or perform any act which the Borrower has failed to perform under this Loan Agreement. In such event the costs, disbursements, expenses and reasonable counsel fees thereof, together with interest thereon from the date the expense is paid or incurred, at the highest interest rate allowed under this Loan Agreement shall be (i) added to the Obligations, (ii) payable on demand to the Bank and (iii) secured by the Collateral. Nothing herein contained shall obligate the Bank to make such payments nor shall the making of one or more such payments constitute (i) an agreement on the Bank's part to take any further or similar action; or (ii) a waiver of any Event of Default under this Loan Agreement. This provision shall survive termination of this Agreement.

15.8 Integration. This Agreement and the Loan Documents contain the entire agreement between the parties relating to the subject matter hereof and supersede all oral statements and prior writings with respect thereto.

15.9 Indemnity. The Borrower hereby agrees to defend, indemnify, and hold the Bank harmless from and against any and all claims, damages, judgments, penalties, costs, and expenses (including reasonable attorney fees and court costs now or thereafter arising from the aforesaid enforcement of this clause) arising directly or indirectly from the activities of the Borrower, its predecessors in interest, or third parties with whom it has a contractual relationship, or arising directly or indirectly from the violation of any environmental protection, health, or safety law, whether such claims are asserted by any governmental agency or any other person except for those arising from gross negligence or intentional misconduct caused by Bank. This indemnity shall survive termination of this Agreement.

15.10 Governing Law. This Agreement and the Loan Documents shall be governed by, and construed in accordance with the laws of the Commonwealth of Massachusetts.

15.11 Severability of Provision. Any provision of any Loan Document which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of such Loan Document or affecting the validity or enforceability of such provision in any other jurisdiction.

15.12 Captions, Counterparts and Modifications. The captions of this Agreement are for convenience only and shall not affect the construction hereof. This Agreement may be executed in several counterparts, each of which shall be deemed an original, but may not be terminated or modified orally.

15.13. Third Party Purchaser. Bank shall have the unrestricted right at any time or from time to time, and without Borrower's (or any Guarantor's) consent, to sell, assign, endorse, or transfer all or any portion of its rights and obligations hereunder to one or more banks or other entities (each, an "Assignee") and, Borrower (and each Guarantor) agrees that it shall execute, or cause to be executed such documents including without limitation, amendments to this Agreement and to any other documents, instruments and agreements executed in connection herewith as Bank shall deem necessary to effect the foregoing. In addition, at the request of Bank and any such Assignee, Borrower shall issue one or more new promissory notes, as applicable, to any such Assignee and, if Bank has retained any of its rights and obligations hereunder following such assignment, to Bank, which new promissory notes shall be issued in replacement of, but not in discharge of, the liability evidenced by the note held by Bank prior to such assignment and shall reflect the amount of the respective commitments and loans held by such Assignee and Bank after giving effect to such assignment. Upon the execution and delivery of appropriate assignment documentation, amendments and any other documentation required by Bank in connection with such assignment, and the payment by Assignee of the purchase price agreed to by Bank and such Assignee, such Assignee shall be a party to this Agreement and shall have all of the rights and obligations of Bank hereunder (and under any and all other guaranties, documents, instruments and agreements executed in connection herewith) to the extent that such rights and obligations have been assigned by Bank pursuant to the assignment documentation between Bank and Assignee, and Bank shall be released from its obligation hereunder and thereunder to a corresponding extent.

15.14. Participation. Bank shall have the unrestricted right at any time and from time to time, and without the consent of or notice to Borrower (or any Guarantor), to grant to one or more institutions or other persons (each a "Participant") participating interests in Bank's obligations to lend hereunder and/or any or all of the loans held by Bank hereunder. In the event of any such grant by Bank of a participating interest to a Participant, whether or not upon notice to Borrower, Bank shall remain responsible for the performance of its obligations hereunder and Borrower shall continue to deal solely and directly with Bank in connection with Bank's rights and obligations hereunder. Bank shall furnish any information concerning Borrower in its possession from time to time to any prospective assignees and Participants, provided that Bank shall require any such prospective assignee or Participant to maintain the confidentiality of such information.

15.15. Replacement Documents. Upon receipt of an affidavit of an officer of Bank as to the loss, theft, destruction or mutilation of the Note or any other security document(s) which is not of public record and, in the case of any such loss, theft, destruction or mutilation, upon surrender and cancellation of such Note or other document(s), the Borrower will issue, in lieu thereof, a replacement Note or other document(s) in the same principal amount thereof and otherwise of like tenor.

15.17. Federal Reserve. Bank may at any time pledge, endorse, assign, or transfer all or any portion of its rights under the Loan Documents including any portion of the Note to any of the twelve (12) Federal Reserve Banks organized under Section 4 of the Federal Reserve Act, 12 U.S.C. Section 341. No such pledge or enforcement thereof shall release Bank from its obligations under any of the Loan Documents.

15.16 Jury Trial Waiver. THE BANK AND THE BORROWER HEREBY WAIVES TRIAL BY JURY IN ANY ACTION, PROCEEDING, CLAIM, OR COUNTERCLAIM, WHETHER IN CONTRACT OR TORT, AT LAW OR IN EQUITY, ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT OR THE LOAN DOCUMENTS. NO OFFICER OF THE BANK HAS AUTHORITY TO WAIVE, CONDITION, OR MODIFY THIS PROVISION.

THIS AGREEMENT INTENTIONALLY ENDS HERE

SCHEDULE A
SECURED PARTY: SOVEREIGN BANK
DEBTOR: OMEGA FLEX, INC.

a. All goods, fixtures, inventory, furnishings, equipment, machinery, chattels, accounts, accounts receivables, documents, instruments, payment rights, software, license fees, commercial deposit accounts, letter of credit rights, chattel paper and general intangibles, including payment intangibles and supporting obligations now owned or hereafter acquired by the Debtor, all renewals or replacements thereof, articles in substitution thereof and parts therefor; all accessories, proceeds and profits thereof, including insurance proceeds; and all of the estate, right, title and interest of the Debtor; wherever located, in and to all personal property of any nature whatsoever, now owned or hereafter acquired.

Nothing contained herein, however, shall obligate the Secured Party to perform any obligations of the Debtor unless it so chooses.

b. All rents, incomes, profits, revenues, royalties, bonuses, rights, accounts, contract rights, general intangibles and benefits under any and all leases or tenancies now existing or hereafter created on all of the premises where the Debtor now or hereafter conducts its business (the "Premises"), or any part thereof with the right to receive and apply the same to the obligations of the Debtor to the Secured Party, and the Secured Party may demand, sue for and recover such payments but shall not be required to do so.

c. All judgements, awards of damages and settlements hereafter made as a result of or in lieu of any taking of the Premises or any part thereof or interest therein under the power of eminent domain, or for any damage (whether caused by such taking or otherwise) to the Premises or the improvements thereon or any part thereof or interest therein, including any award for change of grade of streets.

d. All of Debtor's right, title and interest in any and all claims to rebates, refunds, and abatements of real estate taxes pertaining to the Premises, or any portion thereof, with respect to tax periods arising at any time prior to the discharge hereof even though such taxes may relate to periods before the execution hereof, which rebates, refunds and abatements shall in the case of a default hereunder be applied to the obligations.

e. All other personal property of the Debtor which constitutes equipment or other goods located at the Premises or any part thereof.

f. All proceeds of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims.

All terms used herein which are defined in Article 1 or Article 9 of the Uniform Commercial Code, as enacted in Connecticut, shall have the meaning given therein unless otherwise defined.

SCHEDULE 8.5

Other Agreements

1. Promissory Note of Mestek, Inc., in the principal amount of approximately \$3.25 million payable to Borrower on or before October 31, 2010.
2. Lease Agreement dated February 2, 1996 between Exton Properties, LLC (as assignee) and Omega Flex, Inc.
3. Sublease dated April 2, 2007 between Middlesex Mutual Assurance Company and Omega Flex, Inc.

SCHEDULE 8.6

1. Borrower is a defendant in 14 cases brought by several insurance companies as subrogees, alleging property damage proximately caused by the Borrower's products. The claims range from \$77,000 to approximately \$1,000,000. The claims are covered by Borrower's insurance policies, with deductibles ranging from \$25,000 to \$2,000,000. The Borrower has good defenses to these claims, and intends to vigorously defend against the claims.

**FIRST AMENDMENT TO THE
OMEGA FLEX, INC. 2006 PHANTOM STOCK PLAN**

WHEREAS, Omega Flex, Inc. (the “Company”) has established the Omega Flex, Inc. 2006 Phantom Stock Plan (the “Plan”); and

WHEREAS, the Compensation Committee of the Board of Directors of the Company desires to amend the Plan to provide dividend equivalents to Participants with outstanding Phantom Stock units;

NOW, THEREFORE, by virtue and in exercise of the power reserved to the Compensation Committee by Section 6.1 of the Plan and pursuant to the authority delegated to the undersigned officer of the Company by the Compensation Committee, the Plan be and is hereby amended, effective December 9, 2009, in the following particulars:

1. By adding the following definitions, where they would appear in alphabetical order, to Article 2 of the Plan as a part thereof:

“Dividend Equivalent Amount” means an amount equal to the value of any dividend (whether ordinary or extraordinary, and whether in cash, securities or other property) declared on one share of Omega Common Stock. For purposes of the preceding sentence, the per share cash value of any stock dividend declared on Omega Common Stock shall be the closing price of the Omega Common Stock on the dividend payment date, or if the closing price is not available on that date, the latest date prior to the dividend payment date for which the closing price is available.

“Dividend Equivalent Account” means a separate account established on the books of the Company for each Participant with respect to each grant of Phantom Units hereunder. A Participant’s Dividend Equivalent Accounts shall be unfunded bookkeeping accounts and shall not constitute or be treated as a trust fund of any kind. Amounts credited to a Participant’s Dividend Equivalent Accounts shall not be adjusted for earnings or losses (except as otherwise determined by the Committee in its sole discretion).”

2. By deleting the last sentence of Section 3.7 of the Plan in its entirety and replacing it with the following:

“Except as provided in Sections 3.8 and 6.7, no rights shall accrue to a Participant and no adjustments shall be made to the Participant’s outstanding Phantom Stock units on account of dividends (whether ordinary or extraordinary, and whether in cash, securities or other property) or distributions or other rights declared on, or credited in, the Omega Common Stock.”

3. By adding the following Section 3.8 to the Plan as a part thereof:

“3.8 Dividend Equivalents. If a dividend (whether ordinary or extraordinary, and whether in cash, securities or other property) is declared on Omega Common Stock on or after December 9, 2009, the Participant’s Dividend Equivalent Account shall be credited, as of the applicable record date, with an amount equal to the number of the Participant’s outstanding

Phantom Stock units attributable to such Account multiplied by the Dividend Equivalent Amount, except that no amount shall be credited if (a) the Maturity Date of the Phantom Stock units attributable to such Account is earlier than the record date of the dividend, or (b) the Phantom Stock units attributable to such Account have been forfeited.

Amounts credited to the Participant's Dividend Equivalent Account shall vest at the same time as the underlying Phantom Stock units vest. If the Participant's underlying Phantom Stock units terminate and are forfeited, amounts credited to the Participant's Dividend Equivalent Account that are attributable to such Phantom Stock units shall also be forfeited. Except as otherwise provided in Section 4.2, the Participant's Dividend Equivalent Account, to the extent vested, shall be paid in cash to the Participant at the same time as the underlying vested Phantom Stock units as set forth in Section 4.1."

IN WITNESS WHEREOF, the Compensation Committee has caused this amendment to be executed by the undersigned duly authorized officer of the Company this 13th day of January, 2010.

Omega Flex, Inc.

By: /s/ Kevin R. Hoben
Its Chief Executive Officer
Kevin R. Hoben

OMEGA FLEX, INC.
Phantom Stock Agreements
Schedule of Directors and Officers
As of March 31, 2009

Director/Officer	Type	Number	Grant Date	Grant Price	Maturity Date	Vesting Schedule
Dean Rivest	Full	1,135	03/05/2007	\$22.02	03/05/2011	3 years
	Full	1,586	03/06/2008	\$15.76	03/06/2012	3 years
	Full	1,601	02/20/2009	\$15.62	02/20/2013	3 years
	Full	1,500	03/03/2010	\$10.52	03/03/2014	3 years
Paul Kane	Full	454	03/05/2007	\$22.02	03/05/2011	3 years
	Full	1,269	03/06/2008	\$15.76	03/06/2012	3 years
	Full	1,601	02/20/2009	\$15.62	02/20/2013	3 years
	Full	1,500	03/03/2010	\$10.52	03/03/2014	3 years
Edwin Moran	Full	1,135	03/05/2007	\$22.02	03/05/2011	3 years
	Full	1,586	03/06/2008	\$15.76	03/06/2012	3 years
	Full	1,601	02/20/2009	\$15.62	02/20/2013	3 years
	Full	1,500	03/03/2010	\$10.52	03/03/2014	3 years
Steven Treichel	Full	2,241	02/20/2009	\$15.62	02/20/2013	3 years
	Full	2,100	03/03/2010	\$10.52	03/03/2014	3 years
Timothy Scanlan	Full	1,601	02/20/2009	\$15.62	02/20/2013	3 years
	Full	1,500	03/03/2010	\$10.52	03/03/2014	3 years

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

As independent registered public accountants, we hereby consent to the incorporation of our report dated March 16, 2010 relating to the consolidated financial statements of Omega Flex, Inc. and subsidiaries for the years ended December 31, 2009 and 2008, included in this Form 10-K, into the Company's previously filed Registration Statement on Form S-8 (File No 333-135515).

/s/ Caturano & Company, P.C.

CATURANO & COMPANY, P.C.

Boston, Massachusetts
March 16, 2010

I, Kevin R. Hoben, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2009, of Omega Flex, Inc. (the “registrant”);

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

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

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

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

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 17, 2010

/s/ Kevin R. Hoben

Kevin R. Hoben
Chief Executive Officer

I, Paul J. Kane, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2009, of Omega Flex, Inc. (the “registrant”);

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

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

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

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

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 17, 2010

/s/ Paul J. Kane

Paul J. Kane
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned hereby certifies, for the purposes of 18 U.S.C. Section 1350, in his capacity as an officer of Omega Flex, Inc. (the “Company”), that, to his knowledge:

(a) the Annual Report on Form 10-K of the Company for the year ended December 31, 2009, as filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 17, 2010

/s/ Kevin R. Hoben

Kevin R. Hoben
Chief Executive Officer

/s/ Paul J. Kane

Paul J. Kane
Chief Financial Officer

This certification is not deemed to be “filed” for purposes of section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. This certification is not deemed to be incorporated by reference into any filing under the Securities Act of 1933 or Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.