

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2007**

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

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

Commission File Number **000-51372**

**Omega Flex, Inc.**

(Exact name of registrant as specified in its charter)

**Pennsylvania**

**23-1948942**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**451 Creamery Way, Exton, PA**

**19341**

(Address of principal executive offices)

(Zip Code)

**(610) 524-7272**

Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS.**

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

The number of shares of the registrant's common stock issued and outstanding as of November 10, 2007 was 10,153,633.

**OMEGA FLEX, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE NINE-MONTHS ENDED SEPTEMBER 30, 2007**

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**PART I - FINANCIAL INFORMATION**

**Item 1 - Financial Statements**

**OMEGA FLEX, INC.  
CONSOLIDATED BALANCE SHEETS**

|  | <b>September 30,<br/><u>2007</u><br/>(unaudited)</b> | <b>December 31<br/><u>2006</u></b> |
|--|--|------------------------------------|
|  | <b>(Dollars in thousands)</b>                        |                                    |
| <b>ASSETS</b>  |  |                                    |
| Current Assets   |  |                                    |
| Cash and Cash Equivalents  | \$ 8,790   | \$17,424                           |
| Accounts Receivable - less allowances of<br>\$143 and \$79, respectively   | 11,036   | 9,745                              |
| Inventories  | 9,615  | 8,149                              |
| Other Current Assets   | <u>3,339</u>   | <u>3,376</u>                       |
| Total Current Assets   | <u>32,780</u>  | <u>38,694</u>                      |
| Property and Equipment - net   | 6,655  | 6,705                              |
| Goodwill   | 3,526  | 3,526                              |
| Note Receivable from Mestek  | 3,250  | 3,250                              |
| Other Long Term Assets   | <u>484</u>   | <u>448</u>                         |
| Total Assets   | <u>\$46,695</u>                                      | <u>\$52,623</u>                    |
|  | =====  | =====                              |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |  |                                    |
| Current Liabilities:   |  |                                    |
| Accounts Payable   | \$1,399  | \$1,236                            |
| Accrued Compensation   | 1,560  | 2,362                              |
| Accrued Commissions & Sales Incentives   | 3,668  | 4,859                              |
| Accrued Legal Settlement and Related Costs   | 1,537  | 6,456                              |
| Dividends Payable  | ---  | 4,061                              |
| Taxes Payable  | 1,357  | 1,967                              |
| Other Accrued Liabilities  | <u>1,858</u>   | <u>1,517</u>                       |
| Total Current Liabilities  | 11,379   | 22,458                             |
| Deferred Taxes   | 334  | 146                                |
| Long-Term portion of Accrued Legal Settlement  | 1,000  | 2,000                              |
| Other Long-Term Liabilities  | <u>788</u>   | <u>318</u>                         |
| Total Liabilities  | <u>13,501</u>  | <u>24,922</u>                      |
| Minority Interests   | <u>98</u>  | <u>55</u>                          |
| Shareholders' Equity:  |  |                                    |
| Common Stock – par value \$0.01 Share: authorized 20,000,000 Shares:<br>10,153,633 shares issued and outstanding | 102  | 102                                |
| Paid in Capital  | 11,739   | 11,739                             |
| Retained Earnings  | 20,483   | 14,976                             |
| Accumulated Other Comprehensive Income   | <u>772</u>   | <u>829</u>                         |
| Total Shareholders' Equity   | <u>33,096</u>  | <u>27,646</u>                      |
| Total Liabilities and Shareholders' Equity   | <u>\$46,695</u>                                      | <u>\$52,623</u>                    |
|  | =====  | =====                              |

See Accompanying Notes to Consolidated Financial Statements.

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

|   | For the three-months ended<br>September 30,              |                  | For the nine-months ended<br>September 30, |                |
|---|--|------------------|--|----------------|
|   | <u>2007</u>  | <u>2006</u>      | <u>2007</u>                                | <u>2006</u>    |
|   | (Dollars in thousands, except earnings per Common Share) |                  |  |                |
| Net Sales                                   | \$18,266   | \$19,283         | \$54,799                                   | \$54,506       |
| Cost of Goods Sold                          | <u>10,485</u>  | <u>9,349</u>     | <u>30,402</u>                              | <u>26,221</u>  |
| Gross Profit                                | 7,781  | 9,934            | 24,397                                     | 28,285         |
| Selling Expense                             | 2,846  | 3,040            | 8,937                                      | 8,472          |
| General and Administrative Expense          | 1,682  | 1,239            | 5,437                                      | 4,950          |
| Engineering Expense                         | 729  | 467              | 1,947                                      | 1,410          |
| Legal Settlement and Related Costs          | <u>155</u>   | <u>9,008</u>     | <u>485</u>                                 | <u>10,324</u>  |
| Operating Profit (Loss)                     | 2,369  | (3,820)          | 7,591                                      | 3,129          |
| Interest Income, Net                        | 106  | 147              | 382  | 334            |
| Other Income, Net                           | <u>381</u>   | <u>91</u>        | <u>745</u>                                 | <u>306</u>     |
| Income (Loss) Before Income Taxes           | 2,856  | (3,582)          | 8,718                                      | 3,769          |
| Income Tax Expense                          | <u>1,029</u>   | <u>(1,263)</u>   | <u>3,211</u>                               | <u>1,545</u>   |
| Net Income (Loss)                           | <u>\$1,827</u>   | <u>(\$2,319)</u> | <u>\$5,507</u>                             | <u>\$2,224</u> |
|   | =====  | =====            | =====                                      | =====          |
| Basic Earnings (Loss) per Common Share:     |  |                  |  |                |
| Net Income (Loss)                           | \$0.18   | (\$0.23)         | \$0.54                                     | \$0.22         |
| Basic Weighted Average Shares Outstanding   | 10,154   | 10,154           | 10,154                                     | 10,154         |
| Diluted Earnings (Loss) per Common Share:   |  |                  |  |                |
| Net Income (Loss)                           | \$0.18   | (\$0.23)         | \$0.54                                     | \$0.22         |
| Diluted Weighted Average Shares Outstanding | 10,154   | 10,154           | 10,154                                     | 10,154         |

See Accompanying Notes to Consolidated Financial Statements.

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

|   | <b>For the nine-months ended</b> |                 |
|---|----------------------------------|-----------------|
|   | <b>September 30,</b>             |                 |
|   | <b>2007</b>                      | <b>2006</b>     |
|   | <b>(Dollars in thousands)</b>    |                 |
| <b>Cash Flows from Operating Activities:</b>                                  |                                  |                 |
| Net Income  | \$5,507                          | \$2,224         |
| Adjustments to Reconcile Net Income to  |                                  |                 |
| Net Cash Provided by Operating Activities:                                    |                                  |                 |
| Depreciation and Amortization   | 338                              | 301             |
| Provision for Losses on Accounts Receivable, net of write-offs and recoveries | 64                               | 30              |
| Change in Minority Interests  | 43                               | 19              |
| Changes in Assets and Liabilities:  |                                  |                 |
| Accounts Receivable   | (1,355)                          | 462             |
| Inventory   | (1,466)                          | (1,442)         |
| Accounts Payable  | 163                              | (591)           |
| Accrued Compensation  | (802)                            | (1,162)         |
| Accrued Legal Settlement and Related Costs                                    | (5,919)                          | 8,434           |
| Other Liabilities   | (802)                            | (184)           |
| Other Assets  | <u>1</u>                         | <u>(2,494)</u>  |
| Net Cash (Used In) Provided by Operating Activities                           | <u>(4,228)</u>                   | <u>5,597</u>    |
| <b>Cash Flows from Investing Activities:</b>                                  |                                  |                 |
| Capital Expenditures  | <u>(288)</u>                     | <u>(1,158)</u>  |
| Net Cash Used in Investing Activities   | <u>(288)</u>                     | <u>(1,158)</u>  |
| <b>Cash Flows from Financing Activities:</b>                                  |                                  |                 |
| Principal Payments Under Long Term Debt Obligations                           | ---                              | (3,411)         |
| Dividends Paid  | <u>(4,061)</u>                   | <u>---</u>      |
| Net Cash Used in Financing Activities   | <u>(4,061)</u>                   | <u>(3,411)</u>  |
| Net Increase (Decrease) in Cash and Cash Equivalents                          | (8,577)                          | 1,028           |
| Translation effect on cash  | (57)                             | 406             |
| Cash and Cash Equivalents – Beginning of Period                               | <u>17,424</u>                    | <u>9,882</u>    |
| Cash and Cash Equivalents – End of Period                                     | <u>\$8,790</u>                   | <u>\$11,316</u> |

See Accompanying Notes to Consolidated Financial Statements.

## OMEGA FLEX, INC.

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (All dollars in thousands except per share amounts)

(Unaudited)

#### 1. BASIS OF PRESENTATION

##### Description of Business

The accompanying condensed consolidated financial statements include the accounts of Omega Flex, Inc. (Omega) and its subsidiaries (collectively the “Company”). The Company’s unaudited consolidated financial statements for the quarter ended September 30, 2007 have been prepared in accordance with generally accepted accounting principles for interim financial information, and with the instructions of Form 10-Q and Article 10 of Regulation S-X. Operations at Omega Flex Limited, our United Kingdom subsidiary, are consolidated on a one month lag. All material inter-company accounts and transactions have been eliminated in consolidation. It is Management’s opinion that all adjustments necessary for a fair statement of the results for the interim periods have been made, and that all adjustments are of a normal recurring nature or a description is provided for any adjustments that are not of a normal recurring nature.

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

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

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates

of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates and assumptions relate to revenue recognition, accounts receivable valuations, inventory valuations, goodwill valuation, and accounting for income taxes. Actual amounts could differ significantly from these estimates.

### **Revenue Recognition**

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

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

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

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

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

### **Earnings per Common Share**

Basic earnings per share have been computed using the weighted average number of common shares outstanding.

### **Stock Based Compensation**

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), *Share-Based Payment*, ("SFAS 123R"), using the statement's modified prospective application method. Prior to January 1, 2006, the Company followed SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock based Compensation Transition and Disclosure, an amendment to FASB Statement No. 123*, which required entities to recognize as expense over the vesting period the fair value of stock-based awards on the date of grant or measurement date.

On November 10, 2005, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position SFAS 123R-3 “Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards”. The Company has elected to adopt the alternative transition method provided by the FASB Staff Position for calculating the tax effects (if any) of stock-based compensation expense pursuant to SFAS 123R. The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool related to the tax effects of employee stock-based compensation, and to determine the subsequent impact to the additional paid-in capital pool and the consolidated statements of operations and cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123R.

Under the provisions of SFAS 123R, the Company recognizes the estimated fair value of stock based compensation in the consolidated statement of operations over the requisite service period of each option granted. Under the modified prospective application method of SFAS 123R, the Company applies the provisions of SFAS 123R to all awards granted or modified after January 1, 2006, as well as any unvested awards outstanding on January 1, 2006. The Company had no stock options outstanding at December 31, 2006 and made no option grants during the nine months ended September 30, 2007 and 2006.

During 2006, the Company established the Omega Flex, Inc. 2006 Phantom Stock Plan as described in detail in Note 7 under the caption “Stock Based Plans”. In accordance with SFAS 123R, the Company recorded compensation expense of approximately \$24 in the first nine months of 2007 related to the Phantom Stock Plan.

### **Currency Translation**

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates prevailing on the balance sheet date. The Statement of Operations is translated at average exchange rates. Net foreign currency transactions are reported in the results of operations in 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.

### **Income Taxes**

The Company elected in prior years and up to the date of the Spin-Off as described in Note 3 below to file its federal income tax return as part of the Mestek, Inc. consolidated return. Mestek and the Company account for the Company’s federal tax liabilities on the “separate company basis” method in accordance with SFAS No. 109, “Accounting for Income Taxes”. Under this method the Company recorded tax expense and related deferred taxes and tax benefits in a manner comparable to that which it would have recorded if it were then not affiliated with Mestek.

The Company filed a separate Federal income tax return for the five months of 2005 in which it was a separate company. The Company has also filed a separate Federal income tax return for 2006 and expects to file separately for 2007.



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 quarters ended September 30, 2007, and 2006 respectively, the components of Other Comprehensive (Loss) Income consisted solely of foreign currency translation adjustments.

### **New Accounting Pronouncements**

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115". SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. This Statement applies to all entities, including not-for-profit organizations. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending December 31, 2008. The Company is currently evaluating the impact of SFAS 159 on its consolidated financial statements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 will be applied prospectively and will be effective for periods beginning after November 15, 2007. The Company is currently evaluating the effect, if any, of SFAS 157 on the Company's consolidated financial statements.

In June, 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109" ("FIN 48"). This statement 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. FIN 48 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.

Effective January 1, 2007, the Company has adopted the provisions of FIN 48. No adjustment was required to retained earnings as a result of the adoption of this standard.

As of January 1, 2007, the Company has provided a liability of \$546 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, is \$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 \$46. The reserve has increased by \$6 in the nine months ended September 30, 2007.

The Company does not expect that the amounts of unrecognized tax benefits will change significantly within the next 12 months.

The Company is currently subject to audit by the Internal Revenue Service for the calendar years ended 2005 and 2006. The Company and its Subsidiaries state income tax returns are subject to audit for the calendar years ended 2003 through 2006.

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

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

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

At the effective date of the Spin-Off, Mestek was indebted to the Company in the amount of \$3,250 which was converted on the effective date of the Spin-Off to a 3-year note receivable from Mestek bearing interest at 100 basis points above the then prevailing 3-year US Treasury note yield at approximately 5%. The principal balance of the Note at September 30, 2007 and December 31, 2006 remained \$3,250. The interest income recorded on the note was approximately \$122 for the first nine months of both 2007, and 2006.

In connection with the Mestek Note, on October 19, 2007 the Company entered into a Subordination Agreement with Bank of America, N.A. Under the Agreement, Mestek shall be permitted to repay any regularly scheduled payment of the subordinated debt to the Company provided that at the time of repayment there exists no event of default under the terms of Mestek's loan agreement with Bank of America, or an instance of insolvency or bankruptcy. If Mestek were to default under its loan agreement with Bank of America, or if it became insolvent, then the Company's rights to collect the amounts due under the Mestek Note would subordinate the rights of Bank of America under its loan agreement with Mestek.

#### 4. INVENTORIES

|                 | September 30,<br><u>2007</u><br>(unaudited)<br>(dollars in thousands) | December 31,<br><u>2006</u> |
|-----------------|---|-----------------------------|
| Finished Goods  | \$6,862   | \$5,940                     |
| Raw Materials   | <u>2,753</u>  | <u>2,209</u>                |
| Total Inventory | \$9,615<br>=====  | \$8,149<br>=====            |

#### 5. SHAREHOLDERS' EQUITY

As of December 31, 2006 and September 30, 2007, the Company had authorized 20,000,000 common stock shares with par value of \$0.01 per share, and had 10,153,633 shares issued and outstanding.

On December 11, 2006, the Board of Directors authorized a special dividend of \$0.40 per share to all shareholders of record as of January 2, 2007, and payable as soon as practicable. The payment in the amount of \$4,061 was subsequently paid on January 16, 2007. No dividends were paid during 2006.

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

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

#### 6. COMMITMENTS AND CONTINGENCIES

##### Commitments:

On September 5, 2006 the Company entered into a Stipulation and Settlement Agreement with the Class Representatives and Class Counsel, to settle and resolve the allegations brought forth in the lawsuit titled *Lovelis, et al. v. Titeflex Corp., Inc., et al.* in the Arkansas Circuit Court, Clark County. All of the other defendants in the case also signed the Settlement Agreement. The lawsuit related to allegations that the Company's CSST products posed an unreasonable risk of fire due to lightning strikes. Both the Company and the other defendants denied these allegations, and denied any wrongdoing or legal liability, but agreed to settle this matter to avoid further cost and the uncertainty and risk of the outcome of further litigation.

The court gave final approval to the Settlement Agreement on February 1, 2007 and

dismissed the case. The remedial program provided under the Settlement Agreement is currently processing claims from class members. The deadline for submitting any claims was September 5, 2007.

Under the Settlement Agreement, the Company has agreed to pay the value of each payment voucher redeemed by a class member for the installation of a lightning protection system or bonding and grounding of the Company's CSST product. The amount of the voucher is dependent on the geographical area in the United States where the building is located and the size of the heated or air-conditioned area of the building, as set forth in the Settlement Agreement. The Company also agreed to pay a fixed amount of administrative expenses in providing notice to the class, and establishing and operating a claim system under which class members may obtain information, submit claims, and have claims processed. Finally, the Company agreed to pay attorneys' fees to the Class Counsel to resolve this matter.

The Company cannot determine the exact amount for which it may be liable for the costs of the payment vouchers tendered under the claim program because of the number of unknown variables associated with this liability, including; the number of buildings in the United States that contain the Company's CSST product; the number of payment vouchers that are properly and timely submitted by claimants; the extent to which vouchers are for lightning protection systems or for bonding and grounding; the geographical location of the building within the United States; and the size of the building in which the CSST is located. However, the Company estimated that the total amount of the liability relating to the settlement of the litigation would fall within a range of approximately \$8,810 and \$10,200. Thus far the Company has paid approximately \$6,475 related to the Settlement with a remaining liability of \$1,335 allocated as a Short-Term Liability and \$1,000 recorded as Long-Term. This amount is based on currently available information and certain estimates and judgments, and is subject to revision as actual claims are received, and a claim history is established. In addition, there is a \$202 current liability for legal services related to the Settlement. As of September 30, 2007, the third party administrator of the settlement program has received 663 claims relating to the Company's products in connection with the Settlement.

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

The Company has entered into salary continuation agreements with two employees which provide for monthly payments to each of the employee or his designated beneficiary upon the employee's retirement or death. The payment benefits range from \$1 per month to \$3 per month with the term of such payments limited to 15 years after the employee's retirement at age 65. The agreements also provide for survivorship benefits if the employee dies before attaining age 65; and severance payments if the employee is terminated without cause, the amount of which is dependent on the length of company service at the date of termination. The net present value of the retirement payments is included in Other Long-Term Liabilities, which amounts to \$277 for

September 30, 2007 and \$268 for December 31, 2006, 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 \$484 at September 30, 2007 and \$448 at December 31, 2006, respectively. These amounts are typically reviewed and updated annually when new data is available, pending any significant changes.

The Company entered into a Separation Agreement and General Release with Duane E. Shooltz, formerly the general manager of the Company's TracPipe<sup>®</sup> business. The agreement became effective on October 8, 2007. Under the agreement, Mr. Shooltz will receive \$172, to be paid in 39 equal weekly payments beginning on October 8, 2007. The Company expects to record a charge for the full \$172 in the fourth quarter of 2007, relating to the Separation Agreement.

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

### **Contingencies:**

The Company retains significant obligations under its commercial insurance policies for losses occurring in the policy years in which it was a subsidiary of Mestek, Inc. For the policy year ending October 1, 2004, the Company retained liability for the first \$2,000 per occurrence of commercial general liability claims (including product liability claims), subject to an agreed aggregate. In addition, for 2004 the Company retained liability for the first \$250 per occurrence of workers compensation coverage, subject to an agreed aggregate. However, for policy years beginning on July 22, 2005 (the effective date of the Spin-Off), the Company retained liability for the first \$25 per occurrence of commercial liability claims (including products liability claims), subject to an agreed aggregate, and the Company is insured on a 'first dollar' basis for workers' compensation subject to statutory limits.

Prior to the Spin-Off, the Company self-insured a substantial portion of the health benefits provided for its employees and maintained reserves in this regard and relied upon a recognized actuarial consulting firm to help it set and maintain these reserves. After the Spin-Off, the Company's liability is limited to \$30 per case and an aggregate of \$600 annually.

### **Warranty Commitments:**

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

## 7. STOCK BASED PLANS

### Phantom Stock Plan

**Plan Description.** On April 1, 2006, the Company adopted the Omega Flex, Inc. 2006 Phantom Stock Plan (the "Plan"). The Plan authorizes the grant of up to 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 equal to the closing price of the Company's common stock at the maturity date *minus* the closing price of the Company's common stock at the grant date.

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

**Grants of Phantom Stock Units.** On December 11, 2006, the Company granted 2,420 *Full Value* Units with a face value of \$50 (fair value at the grant date of approximately \$46) to an executive officer. On March 5, 2007, the Company granted an additional 3,178 *Full Value* Units with a face value of \$70 (fair value at the grant date of approximately \$65), of which 1,589 Units related to officers of the Company. In both cases, the grant price was equal to the closing price of the Company's common stock at the grant date. Since the Plan came into existence in 2006, there are no outstanding Units relating to periods prior to 2006.

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 from the Units is recognized over the service or vesting period of each grant or award.

Statement 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates in order to derive the Company's best estimate of awards ultimately to vest. Forfeitures represent only the unvested portion of a surrendered Unit and are typically estimated based on historical experience. Based on an analysis of the Company's historical data, which through the third quarter of 2007 has never experienced forfeitures related to any stock based plan, the Company applied a 0% forfeiture rate to Plan Units outstanding in determining its Plan Unit compensation expense for September 30, 2007. As of October 8, 2007, in connection with an officer's resignation, a total of 2,874 unvested units were forfeited.

The fair value of the Units granted through the third quarter September 30, 2007 using the Black-Scholes option-pricing model uses the following assumptions:

| <u>Year Ended<br/>December 31,</u> | <u>Expected Term</u> | <u>Expected Volatility<br/>Factor</u> | <u>Expected Dividend<br/>Amount</u> | <u>Risk-Free<br/>Interest Rate</u> |
|------------------------------------|----------------------|---------------------------------------|-------------------------------------|------------------------------------|
| 2006                               | 4.5                  | 96.46%                                | 1.93%                               | 4.50%                              |
| 2007                               | 4.0                  | 111.00%                               | 1.93%                               | 4.46%                              |

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

The following table summarizes information about phantom stock the Units outstanding at September 30, 2007:

|  | <u>Units</u> | <u>Weighted<br/>Average Grant<br/>Date Fair<br/>Value</u> |
|--|--------------|---|
| Number of Phantom Stock Unit Awards:       |              |   |
| Outstanding at December 31, 2006           | 2,420        | \$18.94   |
| Granted                                    | 3,178        | \$20.38   |
| Vested                                     | (---)        | (\$---)   |
| Forfeited                                  | (---)        | (\$---)   |
| Canceled                                   | (---)        | (\$---)   |
| Outstanding at September 30, 2007          | 5,598        | \$19.78   |
| Phantom Stock Unit Awards Expected to Vest | 5,598        | \$19.78   |

At September 30, 2007 none of the Units have vested. The Units granted are expected to vest in three year intervals, subject to earlier termination or forfeiture.

As of September 30, 2007, the unrecognized compensation costs related to Plan Units vesting will be primarily recognized over a period of approximately 3 years.

| <u>Fiscal year ending</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>Total</u> |
|---------------------------|-------------|-------------|-------------|-------------|--------------|
| Compensation Expense      | \$9         | \$37        | \$36        | \$4         | \$86         |

The Units outstanding and exercisable at September 30, 2007 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 |
|------|-------------------------|-----------------------------|---|---------------------------------|---------------------------|
| 2006 | \$20.66                 | 2,420                       | 2.17  | \$18.94                         | ---                       |
| 2007 | \$22.02                 | 3,178                       | 2.42  | \$20.38                         | ---                       |

#### Units Exercisable

| Year | Range of Exercise Price | Number of Units Exercisable | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Aggregate Intrinsic Value |
|------|-------------------------|-----------------------------|---|---------------------------------|---------------------------|
| 2006 | \$20.66                 | ---                         | 2.17  | \$18.94                         | ---                       |
| 2007 | \$22.02                 | ---                         | 2.42  | \$20.38                         | ---                       |

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

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

*Certain statements in this Quarterly Report on Form 10-Q that are not historical facts, but rather reflect the Company’s current expectations concerning future results and events, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words “believes”, “expects”, “intends”, “plans”, “anticipates”, “hopes”, “likely”, “will”, and similar expressions identify such forward-looking statements.*



*Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from future results, performance or achievements expressed or implied by such forward-looking statements.*

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

## OVERVIEW

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

The Company's business is controlled as a single operating segment that consists of the manufacture and sale of flexible metal hose and accessories. The Company's products are concentrated in residential and commercial construction, and general industrial markets. The Company's primary product line, TracPipe<sup>®</sup> 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<sup>®</sup>, the TracPipe<sup>®</sup> 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)

During the first nine months of 2007 the Company's cash balance has decreased \$8,634 from \$17,424 at December 31, 2006 to \$8,790 at September 30, 2007. As noted in the year-end Form 10-K there was a \$4,061 special dividend payment made on January 16, 2007, and in accordance with the Settlement Agreement outlined in Note 11 of the year-end Form 10-K, the Company paid \$6,000 on March 7, 2007. This was partially offset by cash generated from earnings for the year.

Accrued Legal Settlement and Related Costs have decreased \$4,919 with a detailed description provided in Note 6, Commitments and Contingencies.

As discussed in Note 5, Shareholders' Equity, the Company paid a \$4,061 dividend on January 16, 2007 therefore reducing the balance of the dividend payable to zero.

**RESULTS OF OPERATIONS**  
(All dollars in thousands)

**Three-months ended September 30, 2007 vs. September 30, 2006**

The Company reported comparative results from continuing operations for the three-month period ended September 30, 2007 and 2006 as follows:

|                   | <b><u>Three-months ended September 30,</u></b> |                    |                       |                    |
|-------------------|--|--------------------|-----------------------|--------------------|
|                   | (in thousands)                                 |                    |                       |                    |
|                   | <b><u>2007</u></b>                             | <b><u>2007</u></b> | <b><u>2006</u></b>    | <b><u>2006</u></b> |
|                   | <b><u>(\$000)</u></b>                          | <b><u>%</u></b>    | <b><u>(\$000)</u></b> | <b><u>%</u></b>    |
| Net Sales         | \$18,266                                       | 100.0%             | \$19,283              | 100.0%             |
| Gross Profit      | 7,781  | 42.6%              | 9,934                 | 51.5%              |
| Operating Profits | 2,369  | 13.0%              | (3,820)               | (19.8%)            |

The Company's sales decreased \$1,017 (5.3%) from \$19,283 in the three-month period ended September 30, 2006 as compared to \$18,266 in the three-month period September 30, 2007. Despite growth in the non-residential construction and international markets, and strategic price increases, a decrease resulted from the continued weakness in the U.S. residential construction industry. Overall volume for the quarter was down 13.5%.

The Company's gross profit margins decreased from 51.5% in the three-month period ended September 30, 2006 to 42.6% in the three-month period ended September 30, 2007 indicative of increases to the cost of the Company's primary raw materials, in particular stainless steel.

**Selling Expenses.** Selling expenses consist primarily of employee salaries and associated overhead costs, commissions, and the cost of marketing programs such as advertising, trade shows and related communication costs, and freight. Selling expense was \$3,040 and \$2,846 for the three months ended September 30, 2006 and 2007, respectively. The \$194 decrease in selling expenses is principally due to decreases in marketing programs and freight. Sales expense as a percentage of sales decreased from 15.8% for the three-months ended September 30, 2006 to 15.6% for the three-months ended September 30, 2007.

**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 \$1,239 and \$1,682 for the three months ended September 30, 2006 and 2007, respectively. The \$443 increase in expenses is mostly attributable to an increase in incentive compensation, and to a lesser extent, consulting fees. For the preceding reasons, general and administrative expense, as a percentage of sales, increased from 6.4% for the three months ended September 30, 2006 to 9.2% for the three months ended September 30, 2007.

Legal Settlement and Related Costs. Legal charges related to the Arkansas litigation in the three months of 2006 and 2007, were \$9,008 and \$155, respectively. Further details are provided in Note 6, Commitments and Contingencies. We believe the majority of the costs associated with this litigation are behind us.

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 \$467 and \$729 for the three months ended September 30, 2006 and 2007 respectively. The \$262 increase in engineering expenses is due to an increase in new product development costs and engineering staffing. Accordingly, engineering expenses as a percentage of sales grew to 4.0% for the three months ended September 30, 2007 from 2.4% for the three months ended September 30, 2006.

Reflecting all of the factors mentioned above, Operating Profit margins increased \$6,189 from a loss of (\$3,820) in the three-month period ended September 30, 2006 to a profit of \$2,369 in the three-month period ended September 30, 2007. The increase in Operating Profit was primarily as a result of the negative effect of the legal settlement of the class action litigation on the third quarter 2006 operating results.

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

Other Income-Net. Other Income-net primarily consists of realized foreign currency exchange gains (losses) on Omega Flex Limited payments for accounts payable, interest and management fee to Omega Flex, Inc., its parent corporation.

Income Tax Expense. The Company's effective tax rate in 2007 approximates the 2006 rate and does not differ materially from expected statutory rates.

### **Nine-months ended September 30, 2007 vs. September 30, 2006**

The Company reported comparative results from continuing operations for the nine-months period ended September 30, 2007 and 2006 as follows:

|                   | <b><u>Nine-months ended September 30,</u></b> |                    |                       |                    |
|-------------------|---|--------------------|-----------------------|--------------------|
|                   | <b>(in thousands)</b>                         |                    |                       |                    |
|                   | <b><u>2007</u></b>                            | <b><u>2007</u></b> | <b><u>2006</u></b>    | <b><u>2006</u></b> |
|                   | <b><u>(\$000)</u></b>                         | <b><u>%</u></b>    | <b><u>(\$000)</u></b> | <b><u>%</u></b>    |
| Net Sales         | \$54,799                                      | 100.0%             | \$54,506              | 100.0%             |
| Gross Profit      | 24,397  | 44.5%              | \$28,285              | 51.9%              |
| Operating Profits | 7,591   | 13.9%              | \$3,129               | 5.7%               |

The Company's sales increased slightly from \$54,506 in the nine-month period ended September 30, 2006 as compared to \$54,799 in the nine-month period ended September 30, 2007. Sales reflect growth in the non-residential construction and international markets coupled with strategic price increases. These increases were, however, dampened by a decrease in sales in the residential construction industry. Overall volume for the nine months was down 7.2%.

The Company's gross profit margins have decreased from 51.9% in the nine-month period ended September 30, 2006 to 44.5% in the nine-month period ended September 30, 2007, indicative of increases to the cost of the Company's primary raw materials, particularly stainless steel.

Selling Expenses. Selling expense was \$8,472 and \$8,937 for the nine-months ended September 30, 2006 and 2007, respectively. The \$465 increase in selling expenses is mostly due to increases in various marketing programs and increased staffing and related costs. Sales expense as a percentage of sales had increased to 16.3% for the nine-months ended September 30, 2007 as compared to 15.5% for the nine-months ended September 30, 2006.

General and Administrative Expenses. General and administrative expenses increased to \$5,437 and \$4,950 for the nine-months ended September 30, 2007 and 2006, respectively. The \$487 increase was mostly attributable to consulting, and to a lesser extent, incentive compensation. As a percentage of sales, general and administrative costs increased from 9.1% for the nine-months ended September 30, 2006 to 9.9% for the nine-months ended September 30, 2007.

Legal Settlement and Related Costs. Legal charges related to the Arkansas litigation in the first nine months of 2006 and 2007, were \$10,324 and \$485, respectively. Further details are provided in Note 6, Commitments and Contingencies. We believe the majority of the litigation costs associated with this case are behind us.

Engineering Expense. Engineering expenses were \$1,947 and \$1,410 for the nine-months ended September 30, 2007 and 2006 respectively. The \$537 increase in engineering expenses is largely due to expenditures associated with the certification and qualification of new products and to a lesser extent increased staffing and related costs. Engineering expenses as a percentage of sales were 3.6% for the nine-months ended September 30, 2007 and 2.6% for the nine-months ended September 30, 2006.

Reflecting all of the factors mentioned above, Operating Profit margins increased \$4,462 from \$3,129 in the nine-month period ended September 30, 2006 to \$7,591 in the nine-month period ended September 30, 2007. The increase in Operating Profit was primarily as a result of the negative effect of the legal settlement of the class action litigation on the third quarter 2006 operating results.

Interest Income-Net. Interest income-net includes interest income on the note receivable from Mestek and interest income on our interest-bearing investments. In the first quarter of 2006 the Company paid interest associated with the mortgage on our manufacturing facility; however, as disclosed in the December 31, 2006 10-K, that mortgage was paid off on April 27, 2006.

Other Income-Net. Other Income-net primarily consists of realized foreign currency exchange gains (losses) on Omega Flex Limited payments for accounts payable, interest and management fee to Omega Flex, Inc., its parent corporation.

Income Tax Expense. The Company's effective tax rate in 2007 approximates the 2006

rate and does not differ materially from expected statutory rates.

## **CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES**

**(All dollars are in thousands)**

Financial Reporting Release No. 60, released by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 2 of the Notes to the Consolidated Financial Statements, 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 valuation, product liability costs, workers compensation claims reserves, health care claims reserves, and accounting for income taxes. Actual amounts could differ significantly from these estimates.

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

### **Revenue Recognition**

The Company's revenue recognition activities relate almost entirely to the manufacture and sale of its flexible metal hose and related products. 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. With respect to sales of the Company's products, the following criteria represent preconditions to the recognition of revenue:

- \* persuasive evidence of an arrangement must exist;
- \* delivery has occurred or services rendered;
- \* the sales price to the customer is fixed or determinable; and
- \* 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 amount of certain incentives is 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 impairment of their ability to make payments, additional allowances may be required.

### **Inventory**

The Company values its inventory at the lower of cost to purchase and/or manufacture the inventory, determined on the first-in, first-out ("FIFO") method, or the current estimated market value of the inventory. The Company periodically reviews inventory quantities on hand and records a provision for excess and/or obsolete inventory based primarily on its historical usage, as well as estimated forecast of product demand. A significant decrease in demand for the Company's products or technological changes in the industries in which the Company operates could result in an increase of excess or obsolete inventory quantities on hand, requiring adjustments to the value of the Company's inventories.

Excess inventory charges for the nine-months ended September 30, 2007 were \$165, compared to \$97 for the same period last year.

### **Goodwill**

In accordance with FAS 142, the Company ceased recording amortization of goodwill effective January 1, 2002. The Company performed its annual valuation exercises in accordance with FAS 142 as of December 31, 2006 which indicated no impairment of goodwill.

Goodwill is considered impaired when the net book value exceeds its estimated fair value. Fair value is primarily determined using a discounted cash flow methodology, determined based on the Company's strategic plans and future forecasts.

### **Product Liability Reserves**

As explained more fully under Contingencies, the Company currently retains liability for the first \$25 of product liability claims. 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 relied 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 remaining potential liability is minimal, and the Company maintains a reserve

for these amounts.

After the Spin-Off, the Company is insured on a 'first dollar' basis.

### **Health Care Claim Reserves**

Prior to the Spin-Off, the Company self-insured a substantial portion of the health benefits provided for its employees and maintained reserves in this regard and relied upon a recognized actuarial consulting firm to help it set and maintain these reserves. After the Spin-Off, the Company's liability is limited to \$30 per case and an aggregate of \$600 annually.

### **Accounting for Income Taxes**

Up to the date of the Spin-Off, the Company elected to file its federal income tax return as part of the Mestek, Inc. parent company, consolidated return. Mestek and Omega accounted for Omega's federal tax liabilities on the "separate company basis" method in accordance with FAS 109, Accounting for Income Taxes. Under this method Omega recorded tax expense and related deferred taxes and tax benefits in a manner comparable to that which it would record if it were not affiliated with Mestek.

The Company filed a separate Federal income tax return for the five months of 2005 in which it was a separate company. The Company has also filed a separate Federal income tax return for 2006 and expects to file separately for 2007.

By agreement, the Company will be responsible for and hold Mestek harmless from, any liability for its income taxes for all taxable periods, whether before or after the Spin-Off.

The preparation of the Company's Consolidated Financial Statements requires it to estimate its income taxes in each of the jurisdictions in which it operates, including those outside the United States which may be subject to certain risks that ordinarily would not be expected in the United States. The income tax accounting process involves estimating its actual current exposure together with assessing temporary differences resulting from differing treatment of items such as depreciation, stock based compensation, and legal settlements for tax and accounting purposes. These differences result in the recognition of deferred tax assets and liabilities. The Company must then record a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. Significant management judgment is required in determining the Company's provision for income taxes, its deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. In the event that actual results differ from these estimates or the Company adjusts these estimates in future periods, it could materially impact its financial position and results of operations. See also Note 2, which discusses the adoption of FIN 48.

### **Related Party Service Fees**

In connection with the Spin-Off described in Note 3 to the Company's financial statements, the Company entered into a transitional services agreement with its former parent, Mestek, Inc., for various services including legal, treasury, tax, employee benefits, insurance, executive oversight and other services. The Company paid Mestek an annual fee for the



services provided, and the charges from Mestek for the above noted services were approximately \$47 and \$22 for the first nine-months ended September 30, 2006 and 2007, respectively. The transitional services agreement with Mestek was terminated effective July of 2007.

### **IMPACT OF INFLATION**

Stainless steel and other related commodities represent a significant portion of the Company's prime costs. As such, the Company's margins are subject to the cost of these metals in the commodity markets and any inflationary or deflationary volatility. In the first nine months of 2007 the Company's margins were unfavorably impacted by inflation by 7.4 percentage points compared to the first nine months of 2006. In addition, the demand for our primary product is dependant on market interest rates in the residential housing industry. If the rate of inflation continues to climb in 2007, with concurrent interest rate increases, the Company expects that the construction markets and the commodity markets in which it operates could be adversely impacted, thus potentially impacting the Company's results of operations.

### **LIQUIDITY AND CAPITAL RESOURCES**

(All dollars in thousands)

#### **Nine Months ended September 30, 2007**

As of September 30, 2007, we had \$8,790 in consolidated cash, cash equivalents and short-term investments, which is \$8,634 less than at December 31, 2006 mostly resulting from cash payments during the first quarter of 2007 of \$4,061 for a special dividend, and \$6,000 related to the Legal Settlement discussed in Note 6. The decrease was partially offset by cash generated from earnings for the year.

#### **Operating Activities**

Cash used in operations for the first nine months of 2007 was \$4,228 compared with \$5,597 provided by the first nine months of 2006, a \$9,825 decrease. The most significant component was the \$6,000 payment related to the Legal Settlement.

Accounts receivable provided \$462 for the nine-months ending September 30, 2006 compared to \$1,355 used during the first nine months of 2007. The decrease is predominately due to Company applying approximately \$2,800 of credits to customer's accounts in the first half of the 2006 for promotional rebates earned in lieu of receiving a cash payment.

#### **Investing Activities**

Capital spending for the nine-months ended September 30, 2007 was \$288. Capital spending in the nine-months ended September 30, 2006 was \$1,158.

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

## **Financing**

Cash used in financing activities during the first nine months of 2007 was \$4,061 related to the special dividend. This is compared to \$3,411 in 2006 when the Company paid off the entire outstanding principal balance remaining on the Company's main operating facility in Exton, Pennsylvania, as discussed in detail in Note 6 to the Company's December 31, 2006 year-end 10-K.

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

The Company believes its liquidity position as of September 30, 2007 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.

## **CONTINGENT LIABILITIES AND GUARANTEES**

See Note 6 to the Company's financial statements.

## **OFF-BALANCE SHEET ARRANGEMENTS**

As noted in Item 7 of the Company's 2006 year-end Form 10-K under the caption "Tabular Disclosure of Contractual Obligations and Off-Balance Sheet Arrangements", the Company has no off-balance sheet arrangements.

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

The Company does not engage in the purchase or trading of market risk sensitive instruments. The Company does not presently have any positions with respect to hedge transactions such as forward contracts relating to currency fluctuations. No market risk sensitive instruments are held for speculative or trading purposes. For a discussion of the risk factors facing the Company, and the shareholders' investment in the Company, please refer to the Risk Factors set forth in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 2, 2007.

## **Item 4 – Controls And Procedures**

- (a) Evaluation of Disclosure Controls and Procedures.

At the end of the fiscal third quarter of 2007, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures. The Company's disclosure

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

(b) Changes in Internal Controls.

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

## **PART II - OTHER INFORMATION**

### **Item 1 – Legal Proceedings**

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

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

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

No matters were submitted to the security holders of the Company for a vote during the third quarter of 2007.

On June 5, 2007, the Company held its 2007 annual meeting of shareholders. The shareholders voted on the following proposals:

1. To elect three Class 2 directors for a three year term expiring at the 2010 annual meeting of shareholders.
2. To approve the Omega Flex, Inc. Executive Compensation Plan
3. To ratify the appointment by the audit committee of the board of directors of Vitale Caturano & Co., Ltd. as the independent auditors for the Company for the fiscal year ending December 31, 2007.

The results of the voting are as follows:

1. Election of Directors

|                       | <u>For</u> | <u>Withheld</u> |
|-----------------------|------------|-----------------|
| Lawrence J. Cianciolo | 9,851,440  | 12,880          |
| Bruce C. Klink        | 9,851,575  | 12,745          |
| Edward J. Trainor     | 9,851,540  | 12,780          |

All three directors were elected.

2. To approve the Omega Flex, Inc. Executive Compensation Plan.

|           |           |
|-----------|-----------|
| For       | 9,152,683 |
| Against   | 39,181    |
| Abstain   | 9,081     |
| Non-votes | 663,375   |

The proposal was approved.

3. To ratify the appointment of Vitale Caturano & Co., Ltd. as the independent auditors for the Company for the fiscal year ending December 31, 2007:

|         |           |
|---------|-----------|
| For     | 9,858,632 |
| Against | 2,099     |
| Abstain | 3,589     |

The proposal was approved.

## **Item 6 - Exhibits**

### **Exhibit**

#### **No.**

#### **Description**

- |      |  |
|------|--|
| 10.1 | Termination of a Material Definitive Agreement with an Executive Officer of the Company, dated October 8, 2007.  |
| 10.2 | Loan Agreement made as of September 4, 2007 between Omega Flex, Inc. and Sovereign Bank.   |
| 10.3 | Revolving Line of Credit Note made as of September 4, 2007 between Omega Flex, Inc. and Sovereign Bank.  |
| 31.1 | Certification of Chief Executive Officer of Omega Flex, Inc. pursuant to Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.   |
| 31.2 | Certification of Chief Financial Officer of Omega Flex, Inc. pursuant to 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.  |
| 31.3 | Certification of Principal Accounting Officer of Omega Flex, Inc. pursuant to 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.   |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer of Omega Flex, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OMEGA FLEX, INC.  
(Registrant)

Date: November 13, 2007

By: /S/ E. Lynn Wilkinson  
E. Lynn Wilkinson  
Vice President – Finance  
and Chief Financial Officer

## SEPARATION AGREEMENT AND RELEASE

This Separation Agreement and Release (the "Agreement") is entered into between Duane E. Shooltz ("Shooltz") and Omega Flex, Inc., a Pennsylvania corporation ("Omega Flex" or the "Company") on October 1, 2007.

WHEREAS, Omega Flex and Shooltz entered into the Employment Agreement dated March 27, 2006 ("Employment Agreement"), whereby Shooltz was employed by Omega Flex; and

WHEREAS, Shooltz has voluntarily resigned from his position as Senior Vice President and General Manager of the Company's TracPipe® business, and

WHEREAS, Omega Flex and Shooltz wish to provide for a mutually amicable ending to Shooltz's employment with Omega Flex, and to agree with certainty on their respective rights and responsibilities as to one another,

NOW THEREFORE, in consideration of the payments and benefits to Shooltz set forth below and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

Voluntary Resignation. Shooltz has voluntarily resigned from his position and office with Omega Flex on the date of this Agreement (the "Resignation Date"). Shooltz acknowledges and agrees that as of the Resignation Date, he has been paid all wages, salary, accrued vacation, incentive pay, bonuses, commissions, and any and all other forms of payment, compensation or benefits owed to him, whether under the Employment Agreement, the Company's employee benefit plans, or under any other plan or program.

Separation Pay. The Company shall pay Shooltz \$172,425.00 ("Separation Pay"), which is equivalent to nine months of his base salary in effect on the Resignation Date. The Separation Pay shall be paid in 39 equal weekly installments of \$4,421.15 each, less applicable tax and withholdings, commencing on the first Friday immediately following the Effective Date (as defined below) of this Agreement. In addition, if Shooltz elects to continue health insurance coverage with the Company after the Effective Date) under COBRA, Omega Flex agrees to pay the premiums for the COBRA coverage for the twelve month period beginning on the Effective Date ("COBRA Continuation Payments"). In the event Shooltz obtains employment after the Effective Date and becomes eligible for health insurance coverage, Shooltz shall promptly notify the Company, and his right to receive any remaining COBRA continuation payments shall terminate immediately. Shooltz acknowledges and agrees that in the event of a material breach of the terms of this Agreement, he shall forfeit all remaining but unpaid Separation Pay and COBRA Continuation Payments owed under this Agreement, in addition to any other available damages and equitable relief.

Return of Omega Flex Property. Shooltz agrees that on or before the Resignation Date,

he has returned all confidential and proprietary information and other Company property, including laptop computer, cell phone, office keys and keycard. In the event Shooltz later discovers any Omega Flex Property in his possession, he shall return it promptly to the Company. In the event that Shooltz maintains any confidential or proprietary information belonging to Omega Flex in electronic form on any personal or home computer systems, he agrees to make prompt arrangements with the Company to return or destroy that confidential or proprietary information.

Cooperation and Support. Shooltz agrees to cooperate with and assist Omega Flex in minimizing any disruption to Omega Flex's business caused by or related to Shooltz's departure from Omega Flex, including without limitation communicating mutually agreed upon messages to Omega Flex's employees, customers, vendors, and investors. In addition, Shooltz agrees to make himself reasonably available to assist the Company, if necessary, in any pending or future litigation. Omega Flex will provide to Shooltz a general letter for use in obtaining subsequent employment, the contents of which shall be mutually agreed upon by the parties.

Phantom Stock Plan. The Omega Flex, Inc. 2006 Phantom Stock Plan (the "Phantom Stock Plan") and any agreement(s) issued in connection therewith will govern all issues regarding any phantom stock units that were awarded to Shooltz under the Phantom Stock Plan, or the status and disposition of any rights Shooltz may have thereunder. Without limitation of the foregoing, Shooltz acknowledges and agrees that (a) as of the Resignation Date, he has no vested phantom stock units under the Phantom Stock Plan, (b) that after the Resignation Date, all awards of phantom stock units granted to him will be forfeited, and (c) after the Resignation Date he will have no rights or interests under the Phantom Stock Plan.

General Release of All Claims. Shooltz hereby waives, releases and forever discharges Omega Flex, and the parents, subsidiaries, divisions, affiliates, successors and assigns of Omega Flex (collectively, the "Omega Flex Companies") together with the current and former officers, directors, trustees, employees, attorneys, or agents of any of the Omega Flex Companies (collectively, the "Omega Flex Releasees"), from any and all claims, causes of action or suits Shooltz may have, now has or may have in the future against the Omega Flex Releasees upon or by reason of any matter, cause or thing whatsoever from the beginning of the world to the Effective Date, including without limitation any claims arising from or related, directly or indirectly, to Shooltz's employment with the Omega Flex Companies and the separation of employment with Omega Flex. These claims include without limitation claims for wages, salary, incentive compensation, bonuses or any other compensation or benefits, defamation, breach of fiduciary duties, and any and all claims arising under federal, state and local statutory or common law, including, without limitation, Title VII of the Civil Rights Act of 1964, The Americans With Disabilities Act ("ADA"), the 1991 Civil Rights Act, the Employee Retirement Income Security Act ("ERISA"), The Age Discrimination in Employment Act ("ADEA"), any claims under the Employment Agreement between Shooltz and Omega Flex dated March 27, 2006, any claims under the Omega Flex, Inc. 2006 Phantom Stock Plan, and the law of contract and tort.

Shooltz acknowledges that:

- he was given a period of at least twenty-one (21) days within which to consider



whether or not to sign the Agreement and release claims pursuant to the ADEA

- he has a period of at least seven (7) days following his execution of this Agreement in which he may revoke it, in writing.
- Shooltz further acknowledges that he has been advised in writing by the terms of this Agreement to consult with an attorney prior to executing this Agreement and that he voluntarily and knowingly consents to its terms.
- This Agreement shall not become effective or enforceable until seven (7) days after the date of this Agreement (the “Effective Date”).

Initials: /s/ DES

Post-Employment Restrictive Covenants. Shooltz hereby affirms the existence and continued validity and enforceability of his post-employment restrictive covenants of the Employment Agreement concerning confidential information, non-competition and non-solicitation, contained in Sections 6, 7 and 8 thereof. Shooltz agrees and affirms that (a) Sections 6, 7 and 8 of the Employment Agreement will continue in full force and effect for 1 year after the Effective Date, (b) he will abide by the terms of such restrictions, and (c) any future breach of such covenants shall constitute a material breach of this Agreement.

Confidentiality of Agreement. Shooltz agrees that he will not disclose, directly or by implication, any of the terms or provisions of this Agreement, except (i) to members of his immediate family on condition that they be advised that they cannot further disclose any of the same to others or (ii) as may be necessary to obtain professional, legal and/or tax advice regarding this Agreement or (iii) as required by law. This Agreement, and each of the terms thereof, shall be confidential and are not to be disclosed to third parties unless the Company determines in good faith that disclosure of the Agreement, or any of its terms, is required by federal or state law, rule or regulation, or the rules of any national stock exchange on which Omega Flex is listed. In the event the Company makes such disclosure, Shooltz may discuss only those terms that the Company has disclosed. Otherwise, the parties agree that they, their representatives and agents shall maintain strict confidentiality concerning the terms of this Agreement except that its contents may be shared with legal and tax advisors provided that such providers agree to maintain the confidentiality of such information.

Non-Disparagement. Shooltz and Omega Flex agree that neither party will disparage the other, including the Omega Flex Companies or any of their respective officers or employees, in any written or oral communication to a third party. This Section 9 will not apply (a) if after the Effective Date Shooltz or Omega Flex initiate litigation against the other party to this Agreement, to any communications made to the court or other fact finder in that litigation, or (b) if the Company determines in good faith that disclosure of information regarding Shooltz is required by federal or state law, rule or regulation, or the rules of any national stock exchange on which Omega Flex is listed, to any written communication made pursuant to those laws, rule or regulations.

Entire Agreement. Except as provided in Section 5 and this Section 10, this Agreement

sets forth the entire agreement between Omega Flex and Shooltz on the subject matter hereof, and fully supersedes any and all prior agreements or understandings between them on that subject matter. The Employment Agreement between Omega Flex and Shooltz, and any other agreement, oral or written, express or implied, are superseded by this Agreement and are hereby rendered null and void and without further effect; provided, however, that pursuant to Section 7 of this Agreement, Sections 6, 7 and 8 of the Employment Agreement relating to post-employment restrictive covenants shall survive the termination of the Employment Agreement, and shall continue to be in full force and effect for 1 year after the Effective Date.

Enforcement. In the event that Shooltz breaches the provisions in Section 7 of this Agreement, Shooltz agrees and acknowledges that Omega Flex and the Omega Flex Companies will suffer irreparable injury and damage and cannot be reasonably or adequately compensated in monetary damages alone. Accordingly, Omega Flex and the Omega Flex Companies shall be entitled, in addition to all other remedies which may be available to them (including monetary damages), to injunctive and other available equitable relief in any court of competent jurisdiction to prevent or otherwise restrain or terminate any actual or threatened breach, default or violation by Shooltz of any provision of this Agreement or to enforce any such provision.

Binding Effect. All rights and obligations and agreements of the parties under this Agreement shall be binding upon and enforceable against, and inure to the benefit of the parties and their personal representatives, heirs, legatees, devisees, and any Person succeeding by operation of law to their rights under this Agreement. The Company may assign this Agreement to a person, corporation, partnership, joint venture, trust, firm or other entity which succeeds to the Company's rights and liabilities by merger, sale of assets or consolidation with the Company.

Representations. Shooltz represents to the Company that he has had an opportunity to have this Agreement reviewed by an attorney of his own choosing, that he has read this Agreement and understands the meaning and consequences of each provision of this Agreement. Shooltz and the Company each represent and warrant to each other that there are no restrictions, agreements or limitations on their respective rights or ability to enter into and perform the terms of this Agreement.

Further Assurances. Shooltz and the Company, as the case may be, shall execute and deliver such further instruments and do such further acts and things as may be required to carry out the terms or conditions of this Agreement or as may be consistent with the intent and purpose of this Agreement.

Rights of Third Parties. Nothing in this Agreement, express or implied, is intended to confer upon any person other than the parties hereto any rights or remedies under or reason of this Agreement.

Effect of Waiver. A waiver of, or failure to exercise, any rights provided for in this Agreement, in any respect, shall not be deemed a waiver of any further or future rights hereunder. Except for rights which must be exercised within a specified time period under this Agreement, no rights herein shall be considered waived, whether intentionally or not, unless waived in a writing signed by the party to be charged with the waiver.

Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the Commonwealth of Massachusetts applicable to contracts made and performed in that jurisdiction, without regard to the principles of conflicts of laws.

Amendments. This Agreement may not be changed or amended except in writing signed by all parties hereto.

Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original, and such counterparts shall together constitute but one and the same instrument.

Notice. All notices and other communications required to be given under the terms of this Agreement or which any of the parties may desire to give hereunder shall be in writing and delivered personally or sent by express delivery, or by registered or certified mail, with proof of receipt, postage and expenses prepaid, return receipt requested, addressed as follows:

Omega Flex:

Kevin R. Hoben, President  
Omega Flex, Inc.  
213 Court Street,  
Middletown, CT 06457

Shooltz:

Duane E. Shooltz  
6 Crestview Road  
East Longmeadow, MA 01028

or to such other address or addresses and to the attention of such other person or persons as the parties may from time to time designate in writing. Any notice given in accordance with this Section 20 shall be deemed to have been given when delivered personally, or when received if sent via express delivery, or registered or certified mail, return receipt requested.

Severability. If a court of competent jurisdiction declares that any term or provision of this Agreement is invalid or unenforceable, then:

the remaining terms and provisions hereof shall be unimpaired, and

the invalid or unenforceable term or provision shall be deemed replaced by a term of provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision.

[Signature page immediately follows.]

IN WITNESS WHEREOF, the parties have executed this Separation Agreement and Release effective as of the Effective Date.

WITNESS: \_\_\_\_\_

/s/ Donna M. Myslinski \_\_\_\_\_ /s/ Duane E. Shooltz \_\_\_\_\_  
DUANE E. SHOOLTZ

Date: 10/01/07 \_\_\_\_\_ Date: 10/01/07 \_\_\_\_\_

\_\_\_\_\_  
WITNESS: \_\_\_\_\_ OMEGA FLEX, INC.,  
A Pennsylvania corporation

/s/ Donna M. Myslinski \_\_\_\_\_ By: /s/ Kevin R. Hoben \_\_\_\_\_  
Kevin R. Hoben,  
President and Chief Executive Officer

Date: 10/01/07 \_\_\_\_\_ Date: 10/01/07 \_\_\_\_\_



## LOAN AGREEMENT

THIS LOAN AGREEMENT is made as of September 4, 2007 by and between **SOVEREIGN BANK, a federal savings bank** with an usual office at 1350 Main Street, Springfield, Massachusetts (hereinafter referred to as the “**Lender**”), and **OMEGA FLEX, INC.**, a Pennsylvania corporation with an usual place of business and mailing address at 213 Court Street, Suite 701, Middletown, Connecticut (hereinafter referred to as the “**Borrower**”).

### SECTION 1. LOANS TO BORROWER

**1.1 Loans.** Lender shall make the loan or loans and other credit accommodations more particularly described on **Schedule A** attached hereto and made a part hereof (hereinafter called the “**Loan**”). Said Loan may be evidenced by the Note (as that term is defined in **Schedule A**), and shall be payable as set forth therein.

**1.2 Automatic Payment; Method of Payment.** The Borrower hereby authorizes the Lender to automatically deduct from Borrower’s account numbered \_\_\_\_\_ any amount due under this Loan Agreement (“Automatic Payments”). The Lender shall immediately notify the Borrower of each deduction, including information on the amount of the deduction, the nature of the deduction, and the outstanding principal balance of the Loan after the deduction. All amounts deducted by the Lender pursuant to this §1.3 shall be applied: first, to any interest outstanding on a Loan, second, to any bank charges or expenses due under this Agreement or the Note, third, to the principal amount of any Base Rate Loan in order of their maturity, and lastly, to the principal amount of any LIBOR Rate Loan in order of their maturity; provided, however, that if the application of those amounts would cause a prepayment of a LIBOR Rate Loan prior to the last day of the applicable Interest Period, then the deducted amounts shall be applied to the next LIBOR Rate Loan in order of maturity. If the funds in said account are insufficient to advance funds to cover any payment, Lender shall not be obligated to advance funds to cover the payment. At any time and for any reason, Borrower or Lender 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.

## **SECTION 2. REPRESENTATIONS, WARRANTIES AND GENERAL COVENANTS**

The Borrower hereby represents and warrants to the Lender (which representations and warranties will survive the delivery of the Note and this Agreement and the making of any advances and shall be deemed to be continuing until the foregoing Note are fully paid and this Agreement is terminated) that, except as set forth on **Schedule B**:

**2.1 Organization and Qualification.** The Borrower, if a legal entity, (i) is and will continue to be duly organized and validly existing and in good standing under the laws of its state of organization; (ii) has filed annual corporate reports in all locations required under the laws of each jurisdiction in which it does business; (iii) is qualified and in good standing to do business in all other jurisdictions in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification necessary; (iv) has the power to execute and deliver this Agreement, the Note, and all other documents, instruments and agreements related hereto (the "Related Agreements") and to borrow the total amount of the Note.. Borrower has all requisite permits, authorizations, franchise agreements and licenses, without unusual restrictions or limitations, to own, operate and lease its properties and to conduct the business in which it is presently engaged, all of which are in full force and effect.

**2.2 No Legal Bar.** The execution and delivery of this Loan Agreement and the Loan Documents, and compliance by the Borrower with any of the terms and provisions hereof or thereof, will not, on the Effective Date, violate any provision of any existing law or regulation applicable to the Borrower, or any writ or decree of any court or governmental instrumentality issued with respect to the Borrower, or any agreement or instrument to which the Borrower is a party or which is binding upon it or its assets, and will not result in the creation or imposition of any lien, security interest, charge or encumbrance of any nature whatsoever upon or in any of the Borrower's assets, except as contemplated by this Loan Agreement; and no consent of any third party, and no consent, license approval or authorization of or registration or declaration with any governmental bureau or agency under which the Borrower is supervised or regulated, is required in connection with the execution, delivery, performance, validity and enforceability of this Loan Agreement.

**2.3 Title, Liens and Encumbrances.** The Borrower has good and marketable title to all of its Assets, and none of the Assets are subject to any pledge, lease, trust, bailment, lien, security interest, encumbrance, charge or title retention or other security agreement or arrangement of any character whatsoever other than as permitted in the Related Agreements.

**2.4 No Material Litigation.** The Borrower represents that there is no material litigation, and that there is no administrative proceeding brought by or before any non-judicial or judicial governmental body, that is presently pending or, to the knowledge of the Borrower, threatened against the Borrower or any of its property.

**2.5 No Default.** The Borrower is not, on the date hereof, in default with respect to the payment or performance of any of its material obligations or in the performance of any covenants or conditions to be performed by it pursuant to the terms and provisions of those material obligations evidenced by an Indenture, agreement or instrument to which it is a party or

by which it may be bound, and the Borrower has received no notice of default thereunder.

**2.6 Compliance with Laws.** The Borrower has materially complied with and will continue to materially comply with the federal, state and local statutes and regulations of the United States of America applicable to the Borrower with respect to (a) any restrictions, specifications or other requirements pertaining to products which the Borrower manufactures and sells, or to the services it performs; (b) the conduct of its business operations; and (c) the use, maintenance and operation of the real and personal properties owned or leased by it in the operation of its business.

The Borrower shall indemnify the Lender and hold the Lender harmless from and against all loss, liability, damage and expense, including reasonable attorney's fees, suffered or incurred, by the Lender, (i) under or on account of any applicable local, state or federal laws or regulations for the protection of the environment or the regulation of the treatment, movement or disposal of any hazardous substances, materials or wastes, including the assertion of any liens thereunder (the "Environmental Laws") with respect to any discharge, spillage, uncontrolled loss, seepage or filtration of oil or petroleum or chemical, liquids or solid, liquid or gaseous products or hazardous waste which, if contained or removed or mitigated by any applicable local, state or federal agency or entity, would give rights to a lien (a "**Spill**") affecting any real or personal property owned or leased by the Borrower, including any loss of value of any such property as a result of such Spill; or (ii) with respect to any other matter affecting the real or personal property owned or leased by the Borrower and governed by the provisions of the Environmental Laws.

**2.7 No Secondary Liabilities.** There are no outstanding contracts or agreements of guaranty or suretyship made by the Borrower, or to which it is a party, or to which any of its assets are subject.

**2.8 Taxes.** The Borrower has filed or caused to be filed or obtained extensions for the filing of, and will continue to file and cause to be filed, all federal, state and local tax returns required by law to be filed, and has paid and will continue to pay all taxes shown to be due and payable on said returns or on any assessment made against it, except if being contested in good faith and adequate provision has been made therefor on its books of account. No claims are being asserted with respect to such taxes which are not reflected in the financial statements which have been furnished by the Borrower to the Lender.

**2.9 Financial Condition.** The Borrower has submitted to the Lender the Borrower's audited financial statements for the year ended December 31, 2006, and the unaudited financial statements for the periods ended March 31, 2007 and June 30, 2007 ("Borrower's Financial Statements"). Borrower represents that the Borrower's Financial Statements are true and correct to the best of the knowledge and belief of the Borrower; that such financial information fairly presents the financial condition and results of the operations of the Borrower as of the respective dates thereof and for the period indicated therein; that such financial statements have been prepared in accordance with generally accepted accounting principles and practices consistently maintained throughout the period involved; and that except as disclosed in Borrower's filings under the Securities and Exchange Act of 1934, there has been no material adverse change in the business or assets or in the condition, financial or otherwise, of the Borrower from that set forth

in said financial statements other than normal seasonal changes which occur in the normal course and operation of the Borrower's business.

**2.10 Representation Accuracy.** No representation or warranty by the Borrower contained in any certificate or other document furnished or to be furnished by the Borrower pursuant hereto or in connection with the transactions contemplated hereunder, contains, or at the time of deliver will contain, any untrue statement of material fact or omits or will omit to state a material fact necessary to make it not misleading.

**2.11 No Collective Bargaining Agreements.** The Borrower is not a party to any collective bargaining agreements.

**2.12 No Pension Plans.** The Borrower does not maintain any qualified defined benefit plans.

### **SECTION 3. AFFIRMATIVE COVENANTS**

The Borrower covenants and agrees that, so long as any of the Obligations shall remain outstanding, the Borrower will perform and observe each and all of the covenants and agreements herein set forth.

**3.1 Payments Under this Loan Agreement, Etc.** The Borrower will make punctual payment of all monies due under this Agreement, and will faithfully and fully keep and perform all of the terms, conditions, covenants and agreements contained herein on the Borrower's part to be paid, kept or performed hereunder, and will be bound in all respects as debtor under this Loan Agreement; and will make punctual payment of all monies and will faithfully and fully keep and perform all of the terms, conditions, covenants and agreements on its part to be paid, kept or performed under the terms of any lease or mortgage of the premises where Borrower operates, and will promptly notify the Lender in the event of any default on the part of the Borrower or receipt by the Borrower of any notice of alleged default under any such lease or mortgage. The Borrower will pay and discharge at or before their maturity all taxes, assessments, rents, claims, debts and charges.

**3.2 Information, Access to Books and Inspection.** The Borrower will furnish to the Lender such information regarding the business affairs and financial condition of the Borrower as the Lender may reasonably request, and give any representative of the Lender access during normal business hours to, and permit him to examine and copy, and make extracts from, any and all books, records and documents in the possession of the Borrower relating to its affairs and to inspect any of the properties of the Borrower.

**3.3 Existence, Properties and Insurance.** The Borrower will do or cause to be done all things necessary to preserve and keep in full force and effect the legal existence of Borrower and its rights and franchises, and comply with all laws applicable thereto; at all times maintain, preserve and protect all franchises, patents, and trade names and preserve all the remainder of its property used or useful in the conduct of its business and keep the same in good condition and



repair (normal wear and tear and obsolescence excepted), and from time to time make, or cause to be made, all needful and proper repairs, renewals, replacements, betterments and improvements thereto, and will pay or cause to be paid, except when the same may be contested in good faith, all rent due on premises where any property is held or may be held, so that the business carried on in connection therewith may be continuously conducted. The Borrower will have and maintain insurance at all times with respect to its properties against risks of fire (including so-called extended coverage), theft and such risks as the Lender may require containing such terms, in such form, and for such periods, and written by such companies as may be satisfactory to the Lender. The Borrower will furnish the Lender with certificates or other evidence satisfactory to the Lender of compliance with the foregoing insurance provisions. The Borrower will also at all times maintain necessary workmen's compensation insurance and such other insurance as may be required by law or as may be reasonably required by the Lender.

**3.4 Notices of Default and Governmental Orders.** The Borrower will promptly give notice in writing to the Lender of the occurrence of any event which constitutes or which with notice or lapse of time, or both, would constitute an Event of Default; of any material court or governmental orders, notices, claims, investigations, litigation and proceedings affecting the Borrower, and of any dispute which may exist between the Borrower, and any governmental regulatory body or any other party, which, if decided adversely against the Borrower, would have a material adverse effect on the Borrower's financial and operating conditions and would prevent the Borrower to operate its business as presently operated.

**3.5 Financial Statements.**

***The Borrower agrees to furnish to the Lender the financial information set forth on Schedule C attached hereto.***

**3.6 Solvency.** The Borrower hereby represents to the Lender that it is solvent and is generally paying its debts as such debts become due.

**3.7 F.I.C.A. and Withholding Taxes.** Upon request of the Lender, the Borrower will furnish the Lender with proof satisfactory to the Lender of the payment or deposit of F.I.C.A. and withholding taxes required of the Borrower by applicable law. Should the Borrower fail to make any such payment or deposit or furnish such proof within a reasonable time, the Lender may, in the Lender's sole and absolute discretion, and without notice to the Borrower: (a) make payment of the same or any part thereof; or (b) set up such reserves in the Borrower's account as the Lender may deem necessary to satisfy the liability therefor. Each amount so deposited or paid by the Lender shall constitute an advance. Nothing herein contained shall obligate the Lender to make such deposit or payment or set up such reserve, nor shall the making of one or more such deposits or payments or the setting up of any such reserve constitute: (i) an agreement on the Lender's part to take any further or similar action; or (ii) a waiver of any default by the Borrower under the terms hereof or of any other agreements between the Borrower and the Lender.

## **SECTION 4. NEGATIVE COVENANTS**

So long as any Obligations of the Borrower to the Lender remain outstanding and unpaid, the Borrower covenants and agrees as follows, except as set forth on **Schedule B**:

**4.1 Limitation on Liens.** The Borrower shall not create, assume or suffer to exist, any mortgage, pledge, encumbrance, lien, security interest or charges of any kind upon any of its assets, whether now owned or hereafter acquired.

**4.2 Limitation on Other Borrowing.** The Borrower shall not incur, create, or assume any indebtedness or liability outside of the ordinary course of the Borrower's business on account of deposits or advances, or any indebtedness or liability for borrowed money, or any other indebtedness or liability evidenced by notes, bonds, debentures or similar obligations, (which would have a materially adverse effect on the Borrower) except as referred to in or permitted by this Loan Agreement.

**4.3 Limitation on Fundamental Changes.** The Borrower shall not (i) convey, sell, lease or otherwise dispose of all or substantially all of its property, assets or business (which would have a materially adverse effect on the Borrower); (ii) 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, or (iii) merge or consolidate with or into any other firm or corporation or change its name; provided, however, that the Borrower may merge with a subsidiary entity.

**4.4 Limitation on Contingent Liabilities.** The Borrower shall not become liable as guarantor, surety, or endorser, or agree to purchase, repurchase or assume, any obligation of any Person, except for indemnity of its officers and directors, indemnity of purchasers, sellers or distributors of the Borrower's product against potential product liability claims, or endorsement of commercial paper for deposit, collection, or discount in the ordinary course of business.

**4.5 Financial Covenants.** The Borrower shall comply with the financial covenants set forth on **Schedule B**.

## **SECTION 5. DEFAULT**

**5.1 Events of Default.** The occurrence of an Event of Default as enumerated in the Note shall constitute an "**Event of Default**" under this Loan Agreement:

**5.2 Acceleration.** Upon and after an Event of Default, the entire unpaid balance owed under this Loan Agreement, or any note or other documents evidencing the same, plus any other Obligations, shall, at the option of the Lender, immediately become due and payable without presentment, demand, protest, notice of protest, or other notice of dishonor of any kind, all of which are hereby expressly waived by the Borrower.

## **SECTION 6. MISCELLANEOUS PROVISIONS**

**6.1 Confidentiality.** The Lender agrees to hold in confidence and not disclose any written information that it receives from the Borrower that is marked as “Confidential” or “Proprietary.” Any confidential or proprietary information disclosed by the Borrower to the Bank may be designated as such at the time of disclosure and confirmed in writing within 30 days of the disclosure. The Lender’s confidentiality obligation will survive the expiration or termination of this Agreement; provided however, that this section shall not apply to any information that is or becomes publicly known from sources other than the Lender, has been disclosed by the Borrower to a third party without restriction, is otherwise required to be disclosed by operation of law, or is independently developed or discovered by the Lender from a third party source that is not under a separate confidentiality obligation with the Borrower.

**6.2 Waiver of Right to Prejudgment Remedy Notice and Hearing.** Borrower hereby waives such rights as it may have to notice and/or hearing under any applicable federal or state laws pertaining to the exercise by Lender of such rights as the Lender may have regarding the right to seek prejudgment remedies and/or deprive Borrower of or affect the use of or possession or enjoyment of Borrower’s property prior to the rendition of a final judgment against the Borrower. The Borrower further waives any right it may have to require Lender to provide a bond or other security as a precondition to or in connection with any prejudgment remedy sought by Lender, and waives any objection to the issuance of such prejudgment remedy based on any offsets, claims, defenses or counterclaims to any action brought by the Lender.

**6.3 Waiver of Right to Trial by Jury and Consent to Jurisdiction.** BORROWER AND LENDER MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER DOCUMENTS CONTEMPLATED TO BE EXECUTED IN CONNECTION HEREWITH OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR LENDER TO MAKE THE LOAN AND ACCEPT THIS AGREEMENT.

Borrower hereby agrees that the following courts:

State Court - Any state or local court of the State/Commonwealth of Lender’s address in the first paragraph of this Agreement (the “Governing State”); or

Federal Court - United States District Court for the District of the Governing State.

The court in which Lender shall initiate legal or equitable proceedings and which has subject matter jurisdiction over the matter in controversy, shall have exclusive jurisdiction to hear and determine any claims or disputes between Borrower and Lender pertaining directly or indirectly to this Agreement or to any matter arising in connection with this Agreement. Borrower expressly submits and consents in advance to such jurisdiction in any action or proceeding commenced in such courts, hereby waiving personal service of the summons and complaint, or

other process or papers issued therein, and agreeing that service of such summons and complaint, or other process or papers, may be made by registered or certified mail addressed to Borrower at the address set forth herein. Should Borrower fail to appear or answer any summons, complaint, process or papers so served within thirty (30) days after the mailing thereof, it shall be deemed in default and an order and/or judgment may be entered against it as demanded or prayed for in such summons, complaint, process or papers. The exclusive choice of forum set forth herein shall not be deemed to preclude the enforcement of any judgment obtained in such forum or the taking of any action under this Agreement to enforce the same in any appropriate jurisdiction.

**6.4 No Waiver.** No course of dealing between the Borrower and the Lender and no failure to exercise or delay in exercising on the part of the Lender any right, power or privilege under the terms of this Loan Agreement or under the terms of any other agreements, instruments or other documents between the Lender and the Borrower shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or thereunder preclude any other or further privilege. The rights and remedies provided herein or in any other agreement are cumulative and not exclusive or in derogation of any rights or remedies provided in and thereof, by law or otherwise.

**6.5 Survival of Agreements.** All agreements, representations and warranties made pursuant to the Loan Documents, shall survive the making of the loans and advances hereunder and will continue until the Obligations are fully performed.

**6.6 Rights of Assignee.** All rights of the Lender in, to and under this Loan Agreement shall pass to and may be exercised by any assignee thereof. The Borrower agrees that, in the event of an assignment of this Loan Agreement and notice of such assignment to the Borrower, the liability of the Borrower to a holder for value of this Loan Agreement shall be immediate and absolute and not affected by any actions of the Lender; and that the Borrower will not set up any claim against the Lender as a defense, counterclaim or setoff to any action for the unpaid balance owed under this Loan Agreement or for possession, brought by said holder.

**6.7 Binding Effect.** All rights and obligations of the Lender hereunder shall inure to the benefit of and be binding upon its successors and assigns, and all the obligations of the Borrower contained in this Loan Agreement shall bind the successors and assigns of the Borrower. If the Borrower consists of one or more parties, all of the obligations, covenants, representations and warranties of the Borrower contained in this Loan Agreement shall be the joint and several obligations of the parties constituting the "**Borrower**".

**6.8 Entire Agreement.** This Agreement and the Loan Documents constitute the entire agreement of the parties and may not be amended orally.

**6.9 Governing Law.** This Loan Agreement shall be governed and construed in accordance with the laws of Massachusetts, including its conflict of laws principles.

**6.10 Payments.** Acceptance of any check, draft or money order tendered in payment of any of the Obligations is conditioned upon and subject to receipt of final payment in cash of the amounts tendered by any of those checks, drafts or money orders.

**6.11 Schedules.** All schedules referred to herein and annexed hereto are hereby incorporated into this Loan Agreement and made a part hereof.

**6.12 Counsel Fees and Expenses.** The Borrower agrees to pay up to \$5,000 for all counsel fees and expenses, including recording and filing fees, incurred by the Lender in connection with this Agreement; or negotiations regarding and consultation concerning this Loan Agreement or any Related Agreement, or preparation therefor, or the financing extended there under. This limitation does not affect the Borrower's obligation to pay all reasonable counsel fees and expenses relating to the defense of any proceedings involving any claims made or threatened against or arising out of this Loan Agreement or any Related Agreement, or which the Lender may hereafter incur in protecting, enforcing, increasing or releasing any security held by the Lender or any Obligation or any provision of this Loan Agreement or any Related Agreement, and the obligation to pay such counsel fees and expenses of the Lender shall exist whether or not proceedings are instituted or legal appearances made in any court on behalf of the Lender.

**6.13 Lender Advances.** The Lender may, 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 Lender. Nothing herein contained shall obligate the Lender to make such payments nor shall the making of one or more such payments constitute (i) an agreement on the Lender's part to take any further or similar action; or (ii) a waiver of any Event of Default under this Loan Agreement.

**6.14 Descriptive Headings.** The descriptive headings of the several sections of this Loan Agreement are inserted for convenience only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

**6.15 Notices.** Except as otherwise specified herein, any written notice required or permitted by this Loan Agreement may be delivered by depositing it in the U.S. mail, certified, return receipt requested, and will be deemed delivered 3 days after mailing, or by Federal Express or other overnight courier, charges prepaid, and will be deemed delivered the next Business Day. Every notice must be addressed to the Borrower or the Lender at the addresses set forth at the beginning of this Loan Agreement.

**6.16 Severability.** If any provision of this Loan Agreement or application thereof to any person or circumstance shall to any extent be invalid, the remainder of this Loan Agreement or the application of such provision to persons, entities or circumstances other than those as to which it is held invalid, shall not be affected thereby and each provision of this Loan Agreement shall be valid and enforceable to the fullest extent permitted by law.

**6.17 Third Party Purchaser.** Lender shall have the unrestricted right at any time or from time to time, and without Borrower'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 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 Lender shall deem necessary to effect the foregoing. In addition, at the request of Lender and any such Assignee, Borrower shall issue one or more new promissory notes, as applicable, to any such Assignee and, if Lender has retained any of its rights and obligations hereunder following such assignment, to Lender, which new promissory notes shall be issued in replacement of, but not in discharge of, the liability evidenced by the note held by Lender prior to such assignment and shall reflect the amount of the respective commitments and loans held by such Assignee and Lender after giving effect to such assignment. The Lender will return to Borrower the original Note issued in connection with this Agreement at the same time when the new notes are issued. Upon the execution and delivery of appropriate assignment documentation, amendments and any other documentation required by Lender in connection with such assignment, and the payment by Assignee of the purchase price agreed to by Lender and such Assignee, such Assignee shall be a party to this Agreement and shall have all of the rights and obligations of Lender 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 Lender pursuant to the assignment documentation between Lender and Assignee, and Lender shall be released from its obligation hereunder and thereunder to a corresponding extent.

**6.18 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 institutions or other persons (each a "Participant") participating interests in Lender's obligations to lend hereunder and/or any or all of the loans held by Lender hereunder. In the event of any such grant by Bank of a participating interest to a Participant, whether or not upon notice to Borrower, Lender shall remain responsible for the performance of its obligations hereunder and Borrower shall continue to deal solely and directly with Bank in connection with Lender's rights and obligations hereunder. Lender shall furnish any information concerning Borrower in its possession from time to time to any prospective assignees and Participants, provided that Lender shall require any such prospective assignee or Participant to maintain the confidentiality of such information.

**6.19 Replacement Documents.** Upon receipt of an affidavit of an officer of Lender 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.

**6.20 Federal Reserve.** Lender 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 Lender from its obligations under any of the Loan Documents.

**6.21 Other Terms and Conditions.** See **Schedule B** attached hereto and made a part hereof.

## **SECTION 7. DEFINITIONS AND ACCOUNTING TERMS**

**7.1 Definitions.** For purposes of this Loan Agreement and each of the schedules annexed hereto, the following terms which are used in this Loan Agreement and such schedules shall have the meanings specified herein and shall include in the singular number the plural and in the plural number the singular:

**Affiliates** - means any Person: (1) which directly or indirectly Controls, or is Controlled by, or is under common Control with, the Borrower or any subsidiary.

**Banking Day** - means with respect to any date that is specified in this Agreement, to be subject to adjustment in accordance with the applicable Business Day Convention, (i) a day on which commercial lenders settle payments in New York or London if the payment obligation is calculated by reference to any LIBOR rate, or (ii) in any other case, any day on which the Lender is open for business.

**Modified Following Business Day Convention** - means the convention for adjusting any relevant date if it would otherwise fall on a day that is not a Banking Day. The date a payment is due, 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 Banking Day so that the date will be the first following day that is a Banking Day.

**Control** - means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

**Obligations** - means all loans, advances, debts, liabilities, obligations, covenants and duties owing by the Borrower to the Lender of every kind and description under this Agreement or the Loan Documents (whether or not evidenced by any note or other instrument and whether or not for the payment of money), direct or indirect, joint or several, absolute or contingent, due or to become due, now existing or hereafter arising, including without limitation, all interest, fees, charges, expenses and attorneys fees chargeable to the Borrower or incurred by the Lender in connection with the Borrower's account whether provided for in this Loan Agreement or in any Related Agreement.

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

**Loan Documents** – means this Loan Agreement, that certain Revolving Line of Credit Note, and that certain Automatic Debit Agreement, all dated as of the date hereof.

**7.2 Accounting Terms.** All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles in the United States and all financial data submitted pursuant to this Loan Agreement shall be prepared in accordance with such principles.

**This agreement intentionally ends here except for the signature page and Schedules.**



**IN WITNESS WHEREOF**, the parties have caused this Loan Agreement to be duly executed and delivered by the proper and duly authorized officers as of the date and year first above written.

|                              |                                 |
|------------------------------|---------------------------------|
| WITNESS:                     |                                 |
|                              | SOVEREIGN BANK                  |
|                              |                                 |
|                              |                                 |
| _____                        | By: /s/ Thomas Creed _____      |
|                              | Its                             |
|                              | Duly Authorized                 |
|                              |                                 |
|                              |                                 |
|                              | BORROWER:                       |
|                              | OMEGA FLEX, INC.                |
|                              |                                 |
| /s/ Timothy P. Scanlan _____ | By: /s/ E. Lynn Wilkinson _____ |
|                              | Its Vice President - Finance    |
|                              | Duly Authorized                 |

## Schedule A

### The Line of Credit.

a. So long as no Event of Default (as defined in the Note) has occurred, and subject to all the terms and conditions of this Loan Agreement the Lender in its sole and absolute discretion will loan to Borrower, and Borrower may borrow from the Lender, from time to time, up **Seven Million Five Hundred Thousand (\$7,500,000.00) Dollars** (the “**Line of Credit**”). During the period from the date hereof until **September 4, 2008** (as such date may be extended in writing from time to time in the Lender's sole and absolute discretion, the “**Termination Date**”), unless an Event of Default occurs, Borrower may borrow, repay and re-borrow; and provided, further, that all outstanding principal plus accrued and unpaid interest shall be paid in full if not sooner demanded on the Termination Date. Lender shall review the Line of Credit on an annual basis and, in Lender's sole discretion, may extend the Termination Date. Lender's election to extend the Termination Date shall be based, among other things, on Borrower's current credit situation and its compliance with this Agreement.

b. The Line of Credit shall be evidenced by a Committed Revolving Line of Credit Note, dated of even date herewith, (the “**Note**”). Requests for advances may be made by telephonic communication by a person or persons designated by Borrower and followed, on the same day, by a written authorization sent to the Lender confirming the date, amount of advance and the account to which the advance is to be deposited. Borrower shall open and maintain a deposit account with the Lender. All advances shall be deposited into said account as instructed by Borrower. Each advance shall be recorded in said account in which shall also be recorded accrued interest on advances, payments on such advances, and other appropriate debits and credits as herein provided, and the Borrower authorizes the Lender to maintain such records or make such notations and agrees that the amount shown on the books and records as outstanding from time to time shall constitute the amount owing to the Lender pursuant to this Note, absent manifest error.

c. Principal and interest on the Line of Credit shall be payable as set forth in the Note.

(d) **Use of Proceeds.** The Loan shall be used for general working capital.

(e) **Conditions Precedent to Advances.** The obligation of the Lender to make initial advances to the Borrower is subject to the conditions precedent that the events or documents required take place or be executed and delivered to the Lender as provided in this Agreement in form and substance satisfactory to the Lender and its counsel. The obligation of the Lender to make any subsequent advances is subject to the conditions precedent that: (a) No event has occurred which would constitute an Event of Default; (b) no event would constitute an Event of Default; (c) the Lender 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 Lender has received such other approvals, opinions, or documents as the Lender 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 Lender.

## Schedule B

### **Financial Covenants of Omega Flex, Inc (the “Borrower”)**

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.

2. Maximum Debt to Tangible Net Worth Ratio. The ratio of Borrower's (i) total liabilities to its (ii) tangible net worth shall not exceed a ratio of 1.0 to 1.0 as determined in accordance with GAAP consistently applied.

These covenants are to be tested quarterly at the end of each fiscal quarter of Borrower.

### **Exceptions to Borrower’s Representations, Warranties and General Covenants**

As of the date of this Agreement, Borrower has the following exceptions to the representations, warranties and general covenants set forth in Section 2 of this Loan Agreement:

2.4 Borrower is a defendant in five 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 \$600,000. 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.

2.7 (a) Borrower is a guarantor for its subsidiary, Omega Flex Limited ("Subsidiary"), relating to the payment by the Subsidiary of rent under its real property lease for manufacturing premises located in Banbury, England.

(b) The Borrower was the plaintiff in a trade secrets case that was tried before a judge in Pennsylvania state court, and which was decided in favor of the Borrower, and that decision has become final. There is currently outstanding an injunction bond relating to a preliminary injunction issued in that case, and Borrower is in the process of closing out that bond.

(c) Borrower issues limited product warranties relating to its products sold in the ordinary course of business.

**Schedule C**

**Financial reporting Requirements of Omega Flex, Inc (the “Borrower”)**

1. Annual Financial Statements. The Borrower shall furnish to Bank on an annual basis and in any event, within one hundred twenty (120) days of its fiscal year end, copies of its updated 10K 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.

2. Quarterly Reporting. On a quarterly basis beginning with the quarter ending June 30, 2007, the Borrower shall provide the Bank, within forty-five (45) days from the end of each quarter, with a copy of its 10Q financial statement and compliance certificate.

## EXHIBIT 10.3

### REVOLVING LINE OF CREDIT NOTE

up to \$7,500,000.00

Springfield, MA  
September 4, 2007

- 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 Seven Million Five Hundred Thousand and 00/100 United States (\$7,500,000.00) Dollars.
- 1.4 **Interest Rate:** See Paragraphs 2 and 6.1 below.
- 1.5 **First Payment Date:** October 4, 2007
- 1.6 **Maturity Date:** September 4, 2008, unless renewed by the Bank, in its sole discretion, at which time the 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.

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

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

“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 Base 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, 90, 180 or 360 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 Base 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 Page “LIBO” (or such other page as may replace the LIBO 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. A “Banking Date” shall mean, in respect of any city, any date on which commercial banks are open for business in that city. 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 the 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 the Bank is unable to obtain any such quotation as provided above, it will be deemed that the LIBOR cannot be determined, and the

Variable 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 one hundred (100) basis points (for the 30, 60, 90 or 360 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 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.

“Treasury Rate” means, as of the date of any calculation or determination, the latest published rate on United States Government Securities (Bills issued on a discounted basis shall be converted to a bond equivalent) as published weekly in the Federal Reserve Statistical Release H.15(519) of Selected Interest Rates in an amount which approximates (as determined by Bank) the amount of any LIBOR Advance, or part thereof, which is prepaid and with a maturity closest to the end of the Interest Period of the LIBOR Advance which is prepaid in whole or in part.

#### 1.8 **Purpose:**

This line of credit is available for general working capital purposes (and not for margin stock purchases) 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 Base Rate, less one (1.00%) percent, as such rate changes from time to time; or

(ii) the Libor Rate plus one (1.00%) percent, for successive Interest Periods of 30, 60, 90, 180 or 360 days each, as selected by the Borrower.

**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, 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 August \_\_\_\_, 2008. All advances pursuant to this Note shall be limited to the aggregate amount of not more than \$7,500,000.00.
- 4.2 Any advance by the 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 the Borrower hereunder are subject to cancellation by the 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 Base Rate shall simultaneously change the interest rate payable under this Note during any period when a Base 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, the Borrower shall make to the Bank payments of interest only on the outstanding principal balance. THE ENTIRE OUTSTANDING PRINCIPAL BALANCE (INCLUDING ANY BALLOON PAYMENT) AND ALL ACCRUED AND UNPAID INTEREST SHALL BE DUE AND PAYABLE, IN FULL, ON SEPTEMBER 4, 2008.
- 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 the 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 the Borrower from the obligation to make full payment of all Borrower' payment obligations when due.
- 5.5 **Default Rate.** Upon the declaration by the Bank of an Event of Default pursuant to Section 11, below the 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"): (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 therefore, 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 the 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) the conversion, for any reason whatsoever, whether voluntary or involuntary, of any LIBOR Advance to a Base

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 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 from time to time outstanding at Borrower's election of either:

- a. the LIBOR Rate plus one (1.00%) percent; or
- b. the Bank's Base Rate less one (1.00%) percent.

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, the 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 Base 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 Base 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 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 Base 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:** 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, 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: (i) 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 the Bank the right to accelerate the Loan.
8. **COSTS AND EXPENSES UPON DEFAULT:** After default, in addition to principal, interest and delinquency charges, Bank shall be entitled to collect all reasonable 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:** Unless an Event of Default has occurred, 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 interest which is due and payable under this Note and the

remainder, if any, to principal due and payable under this Note. If an Event of Default has occurred, such payments may be applied to sums due under this Note or under the other Loan Documents in any order and combination that Bank may, in its sole and absolute discretion, determine. 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 Base 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, or if payment of a LIBOR Advance is required by the 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 Fixed 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 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 11.1 above for which no notice is required), or if Borrower does commence to cure its breach of this Note, the Borrower thereafter fails to diligently prosecute that cure during the 30 day notice period, or does not cure that breach within 60 days of the date of that written notice;

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

11.4 Any default on the part of 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;

11.5 Except as provided herein, dissolution, merger or consolidation of the Borrower;

11.6 [Intentionally omitted];

11.7 Failure by the Borrower (a) to pay any indebtedness for borrowed money (other than as evidenced by the Note) 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 material 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 thereof;

11.8 The Borrower shall become insolvent;

11.9 One or more judgments, decrees, or orders for the payment of money in excess of

\$1,000,000 in the aggregate shall be rendered against the Borrower in any fiscal year, and such judgments, decrees, or orders shall continue unsatisfied and in effect for a period of twenty (20) consecutive days without being vacated, discharged, satisfied, or stayed or bonded pending appeal;

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

11.11 This Agreement shall at any time after its execution and delivery and for any reason cease 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;

then, and in any such event, the 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, the 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. **COSTS; ILLEGALITY OF LOAN:** In addition to principal, interest and delinquency charges, Borrower shall pay after an Event of Default has occurred all reasonable costs and expenses, including, without limitation, reasonable attorneys' fees and all reasonable expenses and disbursements of counsel, in connection with the protection, realization or enforcement of any of Bank's rights against Borrower (whether or not suit or foreclosure is instituted by or against Bank).

Borrower hereby agrees to pay to Bank on demand after default (i) all reasonable costs, expenses and charges (including filing fees) incurred by Bank in connection with, and any stamp or other taxes (not including income taxes) payable with respect to, this Note and the enforcement hereof; and (ii) any reasonable amount necessary to compensate it for (a) any losses or costs (including funding costs) sustained by it as a consequence of any default by Borrower hereunder.

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. **RIGHT OF SETOFF:** Borrower hereby grants to Bank a lien, security interest and right of setoff as security for all liabilities and obligations to Bank, whether now existing or hereafter arising, upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Bank. At any time, without demand or notice, Bank may set off the same or any part thereof and apply the same to any liability or obligation of Borrower. ANY AND ALL RIGHTS TO REQUIRE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL (IF ANY) WHICH SECURES THE LOAN, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF THE BORROWER, ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.
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. **NO SECURITY:** Except as provided in Section 16, above, this Note is unsecured.
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 the 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 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 the Bank to said parties of the original hereof, or any guaranty, endorsement, or the like.

23. **REMEDIES CUMULATIVE:** The rights and remedies of the 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 the 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 the 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 the 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 the Bank as holder, and the 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 4<sup>th</sup> day of SEPTEMBER, 2007.

|                               |                                  |
|-------------------------------|----------------------------------|
| Witness:                      | THE BORROWER                     |
|                               | OMEGA FLEX, INC.                 |
|                               |                                  |
|                               |                                  |
| <u>/s/ Timothy P. Scanlan</u> | By: <u>/s/ E. Lynn Wilkinson</u> |
|                               | Its Vice President - Finance     |

I, Kevin R. Hoben,, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for fiscal quarter ended September 30, 2007, 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)) 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) 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
  - (c) 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: September 30, 2007

/s/ Kevin R. Hoben

Kevin R. Hoben  
Chief Executive Officer

I, E. Lynn Wilkinson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2007, 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)) 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) 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

(c) 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: September 30, 2007

/s/ E. Lynn Wilkinson

E. Lynn Wilkinson  
Chief Financial Officer

I, Paul J. Kane, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2007, 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)) 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) 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

(c) 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: September 30, 2007

/s/ Paul J. Kane

Paul J. Kane  
Principal Accounting 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 Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 30, 2007, 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: September 30, 2007

/s/ Kevin R. Hoben

Kevin R. Hoben  
Chief Executive Officer

/s/ E. Lynn Wilkinson

E. Lynn Wilkinson  
Chief Financial Officer

/s/ Paul J. Kane

Paul J. Kane  
Principal Accounting 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.