Omega Flex, Inc.
Form 10-K
March 27, 2013

UNITED STATES OF AMERICA

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

Or

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

For the transition period from _________________________ to _______________________

Commission File Number

000-51372

Omega Flex, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania	**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)

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

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

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

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

Not applicable

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ]

No [**X**]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [ ]

No [**X**]

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [**X**] No [ ]

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

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

Large accelerated filer [ ]

Accelerated filer [ ]

Non-accelerated filer [ ]

Smaller reporting company [**X**]

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

Yes [ ]

No [**X**]

The aggregate market value of voting and non-voting common shares held by non-affiliates of the registrant as of June 30, 2012, the last business day of the most recently completed second quarter of 2012 was $38,145,920.

The number of shares of common stock outstanding as of March 1, 2013 was 10,091,822.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III (Items 10, 11, 12, 13, and 14) is incorporated by reference from the registrant's definitive proxy statement (to be filed pursuant to Regulation 14A) for the 2012 annual meeting of shareholders to be held on June 4, 2013.

INDEX

No other financial statement schedules are required by Regulation S-X.

(a)(3)

Exhibits

The Exhibit Index is set forth on Pages 41 and 42. No annual report to security holders as of December 31, 2012 has been sent to security holders and no proxy statement, form of proxy or other proxy soliciting material has been sent by the registrant to more than ten of the registrant s security holders with respect to any annual or other meeting of security holders held or to be held in 2013. Such annual report to security holders, proxy statement or form of proxy will be furnished to security holders subsequent to the filing of this Annual Report on Form 10-K.

PART I

Item 1 - BUSINESS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management s view only as of the date of this annual report statement. We undertake no obligation to update the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, conditions or circumstances.

GENERAL

DESCRIPTION OF OUR BUSINESS

Overview of the Company

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

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

Industry Overview

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

The major market categories for flexible metallic hose include (1) automotive, (2) aerospace, (3) residential and commercial construction, and (4) general industrial. Omega Flex participates in the latter two markets for flexible metallic hose. The major use of corrugated stainless steel tubing (CSST) in the residential and commercial construction markets is primarily for flexible gas piping and gas appliance connectors and secondarily as pump connectors and seismic loops to isolate vibration in mechanical piping systems in commercial buildings. With the growth of green building technologies, there is an increased interest in the use of corrugated stainless steel tubing for use in solar heated domestic hot water systems. The general industrial market includes all of the processing industries, the most important of which include primary steel, petrochemical, pharmaceutical, and specialty applications for transfer of fluids at both extremely low and high temperatures, (such as the conveying of cryogenic liquids) and a highly fragmented OEM market, as well as the maintenance and repair market.

None of our competitors appear to be dominant in more than one market. We are a leading supplier of flexible metal hose in each of the markets in which we participate. Our assessment of our overall competitive position is based on several factors. The flexible gas piping market in the U.S. is currently concentrated in the residential housing market. Based on the reports issued by the national trade groups on housing construction, the level of acceptance of flexible gas piping in the construction market, and the average usage of flexible gas piping in a residential building, we are able to estimate with a reasonable level of accuracy the size of the total gas piping market. In addition, the Company is a member of an industry trade group, which compiles and distributes sales statistics for its members relative to flexible gas piping. Based on our sales and the statistics described above, the Company can estimate its position within that market. For other applications, industry trade groups collect and report on the size of the relevant market, and we can estimate our percentage of the relevant market based on our sales as compared to the market as a whole. Furthermore, the customer base for the products that we sell is widely known, as is the identity of the manufacturers aligned with those customers, which again allows the Company to extract information that can reasonably estimate its market position, and that of the competition. Lastly, the term leading implies a host of factors other than sales volume and market share position. It includes the range and capability of the product line, history of product development and new product launches, all of which information is in the public domain. Based on all of this information, the Company is reasonably confident that it is indeed the leader in at least one of the major market segments in which it participates.

Development of Business

The Company was incorporated in 1976 under the name of Tofle America, Inc. as the subsidiary of a Japanese manufacturer of flexible metal hose. For a number of years, we were a manufacturer of flexible metal hose that was sold primarily to customers using the hose for incorporation into finished assemblies for industrial applications. We later changed our name to Omega Flex, Inc., and in 1996, we were acquired by Mestek, Inc. (Mestek).

In 1997, we introduced our first new product TracPipe® corrugated stainless steel tubing for use in carrying fuel gas within residential, commercial and industrial buildings. Our growth since 1997 has been primarily as a result of the growth in the use and acceptance of CSST as an alternative to the traditional black iron pipe throughout the construction industry, and through the development of our AutoFlare® patented fittings and accessories to the CSST that differentiates our systems from those of our competitors. In 2004, we introduced a brand of CSST under the registered trademark CounterStrike® that was designed to be more resistant to damage caused by transient arcing of electrical energy. This product and technology would later become our flagship.

In January 2005, Mestek announced its intention to distribute its equity ownership in our common stock to the Mestek shareholders. A registration statement for the Omega Flex common stock was filed with the Securities and Exchange Commission and the registration statement was declared effective on July 22, 2005. We also listed our common stock on the NASDAQ National Market (now the NASDAQ Global Market) under the stock symbol OFLX , and began public trading of our common stock on August 1, 2005. All Mestek shareholders as of the record date for the distribution received one share of Omega Flex common stock for each share of Mestek common stock owned as of the record date. We are now a totally separate company from Mestek, and we do not use or share any material assets or services of Mestek in conducting our business.

In 2007, we introduced a new version of the CounterStrike® CSST discussed above, that was even more effective than the original version. After years of success in the marketplace, the Company made the decision to go forward exclusively with CounterStrike® for all CSST needs within the United States in late 2011.

Overview of Current Business

Products

The Company has had the most success within the residential construction industry where the Company s flexible gas piping products, TracPipe®, which was introduced in 1997, and its more robust counterpart TracPipe® CounterStrike®, have enjoyed wide acceptance due to their reliability and durability. Within that industry, the flexible gas piping products that we offer and similar products offered by our competitors have sought to overcome the use of black iron pipe that has traditionally been used by the construction industry in the United States and Canada for the piping of fuel gases within a building. Prior to the introduction of the first CSST system in 1989, nearly all construction in the United States and Canada used traditional black iron pipe for gas piping. However, the advantages of corrugated stainless steel tubing in areas subject to high incidence and likelihood of seismic events had been first demonstrated in Japan. In seismic testing, the CSST was shown to withstand the stresses on a piping system created by the shifting and movement of an earthquake better than rigid pipe. The advantages of CSST over the traditional black iron pipe also include lower overall installation costs because it can be installed in long uninterrupted lines within the building.

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

United States, and the use of rigid iron pipe, and to a lesser degree copper tubing, accounts for the remainder of the market. The Company plans to continue its growth through continued inroads against older technologies, in both the residential and commercial markets, in both the United States and overseas in geographic areas that have access to natural gas distribution systems.

While other applications represent a more modest portion of our business, the Company remains firmly committed to maintaining a presence in the other applications and markets for flexible metal hose because of the opportunities that arise through their development, and thus the potential for increased revenues. A good example of this relates to the Company s double containment piping systems, which are discussed below, and are growing to be a more integral portion of the overall product mix.

In 2004, we introduced a new brand of flexible gas piping sold under the registered trademark CounterStrike®. CounterStrike® is designed to be more resistant to damage from transient electrical arcing. This feature is particularly desirable in areas that are subject to high levels of lightning strikes, such as the Southeast U.S., and the Ohio Valley. In a lightning strike, the electrical energy of the lightning can energize all metal systems and components in a building. This electrical energy in attempting to reach ground may arc between metal systems that have different electrical resistance, and arcing can cause damage to the metal systems. In standard CSST systems, an electrical bond between the CSST and the building s grounding electrode would address this issue, but lightning is an extremely powerful and unpredictable force. CounterStrike® CSST is designed to be electrically conductive to disperse the energy of any electrical charge over the entire surface of the CounterStrike® line. In 2007, we introduced a new version of CounterStrike® CSST that was tested to be even more resistant to damage from electrical arcing than the original version, and substantially more effective than standard CSST products. As a result of its robust performance, the new version of CounterStrike® has been warmly received in the market, and thus during 2011, the Company made the decision to sell exclusively CounterStrike® within the United States. This move demonstrated the Company s commitment to innovation and safety, and further enhanced our leadership in the marketplace.

In 2008, the Company introduced its first double containment piping product DoubleTrac. DoubleTrac double containment piping has earned stringent industry certifications for its ability to safely contain and convey automotive fuels. Similar to our flexible gas piping, DoubleTrac provides advantages over older rigid pipe technologies. DoubleTrac is made and can be installed in long continuous runs, eliminating the need for manually assembling rigid pipe junctions at the end of a pipe or at a turn in direction. In addition, DoubleTrac has superior performance in terms of ability to safely convey fuel from the storage tank to the dispenser to the extent that DoubleTrac is essentially a zero permeation piping system, far exceeding the most stringent government regulations. Originally designed for applications involving automotive fueling stations running from the storage tank to the fuel dispenser, the ability of DoubleTrac to handle a variety of installation challenges has broadened its applications to include refueling at marinas, fuel lines for back-up generators, and corrosive liquids at waste treatment plants. In short, in applications where double containment piping is required to handle potentially contaminating fluids or corrosive fluids, DoubleTrac is engineered to handle those demanding applications.

DEF-Trac, a complementary double containment product which is very similar to DoubleTrac, was brought to the marketplace in 2011. DEF-Trac piping is specifically engineered to handle the demanding requirements for diesel emissions fluid. Recent federal regulations require all diesel engines to use diesel emissions fluid to reduce the particulate contaminants from the diesel combustion process. However, diesel emissions fluid (DEF) is highly corrosive and cannot be pre-mixed with the diesel fuel. This requires that new diesel trucks and automobiles must have separate tanks built into the vehicle so that the diesel emissions fluid can be injected into the engine compartment at the point of combustion. Similarly, fueling stations carrying diesel fuel are now required to also carry and sell DEF through a separate dispenser. In addition to being highly corrosive, DEF also has a high freezing temperature, requiring a heat trace in the piping in applications in northern areas of the United States. DEF-Trac flexible piping is uniquely suited to handle all of these challenges; the stainless steel inner core is corrosion resistant, the double containment walls and fittings provide protection against potential leaks in the inner core, DEF-Trac also comes with options for heat trace that is extruded directly into the double containment wall. In summary, DEF-Trac provides a complete solution to the demanding requirements of this unique application, as such, DEF-Trac has been met with enormous acceptance from the industry that was searching for a solution to the new environmental requirement. The unique market position of DEF-Trac has leveraged the penetration of DoubleTrac into the broader market for automotive fueling applications.

As noted below, our flexible metal hose is used in a wide variety of applications besides flexible gas piping. Our involvement in these markets is important because just as the flexible gas piping applications have sprung from our expertise in manufacturing annular metal hose, other applications may also evolve from our participation in the industry. For example, we currently have several development projects underway in various stages for several new applications, including transportation and high purity gases. Our transportation products have been commercialized, and sales of these products have progressively increased. Our high purity gas application is still in development.

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

Manufacturing

In each instance, whether the application is for corrugated stainless steel tubing for fuel gases, flexible metal hose for handling specialty chemicals or gases, flexible double containment piping, flexible piping for solar heated hot water systems, or unique industrial applications requiring ability to withstand wide variations in temperature and vibration, all of our success rests on our metal hose. Most of our flexible metal hoses range in diameter from 1/4 to 2 while certain applications require diameters of up to 16 . All of our smaller diameter pipe (2 inner diameter and smaller) is made by a proprietary process that is known as the rotary process. The proprietary process that we use to manufacture our annular hose is the result of a long-term development effort begun in 1995. Through continuous improvement over the years, we have developed and fine-tuned the process so that we can manufacture annular flexible metal hose on a high speed, continuous process. We believe that our own rotary process for manufacturing annular corrugated metal hose is the most cost efficient method in the industry, and that our rotary process provides us with a unique advantage in many of the industries in which we participate. As a result, we are able to provide our product on a demand basis. Over the years, the Company has had great success in achieving on-time delivery performance to the scheduled ship date. The quick inventory turnover reduces our costs for in-process inventory, and further contributes to our gross margin levels. We have also improved our productivity on a historical basis.

Raw Materials

We use various materials in the manufacture of our products, primarily stainless steel for our flexible metal hose and plastics for our jacketing material on TracPipe® and CounterStrike® flexible gas piping. We also purchase all of our proprietary AutoFlare® brass fittings for use with the TracPipe® and CounterStrike® flexible gas piping. Although we have multiple sources qualified for all of our major raw materials and components, we have historically used one or two sources of supply for such raw materials and components. Our current orders for stainless steel and fittings are each placed with one or two suppliers. If any one of these sources of supply were interrupted for any reason, then we would have to devote additional time and expense in obtaining the same volume of supply from our other qualified sources. This potential transition, if it were to occur, could affect our operations and financial results during the period of such transition. Commodities markets in general and nickel and copper pricing in particular had tapered off slightly in 2012, resulting in a small decrease of costs to manufacture products, as nickel is a prime material in stainless steel, and copper a key component of the Company s brass fittings. The supply of our main raw materials appears to be stable with ample volume. We believe that with our purchase commitments for stainless steel, polyethylene and for our proprietary fittings, that we have adequate sources of supply for these raw materials and components. We have not had difficulty in obtaining the raw materials, component parts or finished goods from our suppliers in prior years. We believe that an ample supply of stainless steel will continue until there is a reduction in global capacity, such as mine closures, which would then cause a constriction. Continued volatility in the commodities marketplace and competitive conditions in the sale of our products may not allow us to pass along raw materials or component part price increases to our customers if that was the case.

Business Seasonality

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

Customers

We sell our products to customers scattered across a wide and diverse set of industries ranging from construction to pharmaceutical with approximately 6,300 customers on record. These sales channels include sales through independent sales representatives, distributors, original equipment manufacturers, direct sales, and sales through our website on the internet. We utilize various distribution companies in the sale of our TracPipe® and Counterstrike® flexible gas piping, and these distribution customers in the aggregate represent a material portion of our business. In particular, the Company has one significant customer, (Customer A), whereby its various branches, represented approximately 16% of our sales in 2012 and 15% in 2011, and also accounted for approximately 22% and 17% of our accounts receivable balance at December 31, 2012 and 2011, respectively. All of this business is done on a purchase order basis for immediate resale commitments or stocking, and there are no long-term purchase commitments. In the event we were to lose an account, we would not expect any long-term reduction in our sales due to the broad end-user acceptance of our products. We would anticipate that in the event of a loss of any one or more distributors, that after an initial transition period, the sale of our products would resume at or near their historical levels. Furthermore, in the case of certain national distribution chains like Customer A and other distributors, it is possible that there would continue to be purchasing activity from one or more regional or branch distribution customers. We sell our products within North America, primarily in the United States and Canada, and we also sell our products internationally, primarily in Europe through our manufacturing facility located in Banbury, England. Our sales outside of North America represent approximately 10% of our total net sales, with most of the sales occurring in the United Kingdom and elsewhere in Europe. We do not have a material portion of our long-lived assets located outside of the United States, and due to its small size, the foreign operations do not carry any additional risk from being located outside of the United States.

Distribution of Sales

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

Competition

There are approximately ten manufacturers of flexible metal hose in the United States, and approximately that number in Europe and Asia. The U. S. manufacturers include Titeflex Corporation, Ward Manufacturing, Truflex, Microflex, U. S. Hose, Hose Master, and several smaller privately held companies. No one manufacturer, as a general rule, participates in more than two of the major market categories, automotive, aerospace, residential and commercial construction, and general industrial, with most concentrating in just one. We estimate that we hold a number one or number two share position in the two major market categories in which we participate. In the flexible gas piping market, the U.S. market is currently concentrated in the residential housing market. Based on the reports issued by the national trade groups on housing construction, the level of acceptance of flexible gas piping in the construction market, and the average usage of flexible gas piping in a residential building, as well as through our sales position within that market, we are able to estimate with a high level of accuracy the size of the total gas piping market. In addition, the Company is a member of an industry trade group, which compiles and distributes sales statistics for its members relative to flexible gas piping. For other applications, industry trade groups collect and report on the size of the relevant market, and we can estimate our percentage of the relevant market based on our sales as compared to the market as a whole. The larger of our two markets, the construction industry, has seen an increase in the number of residential housing starts in 2012, as compared to the previous year. As discussed elsewhere, black iron pipe or copper tube was historically used by all builders of commercial and residential buildings until the advent of flexible gas piping and changes in the relevant building codes. Since that time, flexible gas piping has taken an increasing share of the total amount of fuel gas piping used in construction.

Due to the number of applications in which flexible metal hose may be used, and the number of companies engaged in the manufacture and sale of flexible metal hose, the general industrial market is very fragmented, and we estimate that no one company has a predominant market share of the business over other competitors. In the market for double containment piping, we compete primarily against rigid pipe systems that are more costly to install than DoubleTrac® double containment piping. The general industrial markets within Europe are very mature and tend to offer opportunities, which are interesting to us in niche markets or during periods in which a weak dollar increases the demand for our products on a competitive basis. Such has been the case for several years and has created new relationships for us. Currently, we are not heavily engaged in the manufacture of flexible metal hose for the aerospace or automotive markets, but we continue to review opportunities in all markets for our products to determine appropriate applications that will provide growth potential and high margins. In some cases, where the product offering is considered a commodity, price is the overriding competing factor. In other cases, a proprietary product offering or superior performance will be the major factors with pricing being secondary and in some cases, a non-factor. The majority of our sales are to distributors and wholesalers, and our relationships with these customers are on an arms-length basis in that neither we, nor the customers are so dependent on the other to yield any significant business advantage. From our perspective, we are able to maintain a steady demand for our products due to the broad acceptance of our products by end users, regardless of which distributor or wholesaler sells the product.

Backlog

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

Intellectual Property

We have a comprehensive portfolio of intellectual property, including approximately 234 patents issued in various countries around the world. The patents cover (a) the fittings used by the flexible gas piping to join the piping to a junction or assembly, (b) pre-sleeved corrugated stainless steel tubing for use in underground applications, (c) an electrically conductive jacket for flexible gas piping that we sell under the trademark CounterStrike®, and (d) a tubing containment system for our DoubleTrac® double containment piping. Our AutoFlare® fitting is the leading fitting for use with flexible gas piping because it offers a metal-to-metal seal between the fitting and the tubing, and because of its robustness and ease of use. The metal-to-metal contact provides for a longer lasting and more reliable seal than fittings which use gaskets or sealing compounds that can deteriorate over time. In applications involving fuel gases in a building, the ability to maintain the seal and prevent the leaking of such gases over long periods of time is valued by our customers. We also have received a patent for the composition of the polyethylene jacket used in our CounterStrike® flexible gas piping product, which has increased ability to dissipate electrical energy in the event of a nearby lightning strike. The tubing containment system of our DoubleTrac® double containment piping, which is also patented in the U.S. and in other countries, allows for the monitoring and collection of any liquids that may leak from the stainless steel containment layer. The expiration dates for the several patents covering our AutoFlare® fittings will expire between 2016 and 2020 and the Counterstrike® patent will expire in 2025. We currently have several patent applications pending in the United States and internationally covering improvements to our AutoFlare® fittings and our CounterStrike® polyethylene jacket. Finally, and as mentioned above, our unique rotary process for manufacturing flexible metal hose has been developed over the last ten years, and constitutes a valuable trade secret. In 2007, a Pennsylvania court issued a ruling that confirms our proprietary rotary manufacturing process does constitute a trade secret under Pennsylvania law, and is entitled to protection against unauthorized disclosure or misappropriation.

Research and Development Expense

Research and development expenses are charged to operations as incurred. Such charges aggregated $807,000, and $850,000, for the years ended December 31, 2012 and 2011, respectively, and are included in engineering expense in the accompanying consolidated financial statements.

Employees

As of December 31, 2012, the Company had 129 employees. Most of our employees are located in our main manufacturing facility in Exton, Pennsylvania, which contains our factory personnel, engineering, finance, human resources and most of our sales staff. Our factory workforce in Exton, Pennsylvania, is not represented by a collective bargaining agent. We also maintain an office in Middletown, Connecticut where management and certain other sales personnel are located. A number of individual sales personnel are also scattered across the United States. We also maintain a manufacturing facility in Banbury, England, which contains employees of similar functions to those in the U.S., but on a much smaller scale. The sales personnel in England handle all sales and service for our products in Europe and select accounts in Asia and the Middle East.

Environmental

Our manufacturing processes do not require the use of significant quantities of hazardous substances or materials, and therefore we are able to operate our Exton facility as a small quantity generator under the Resource Conservation and Recovery

Act, 42 U.S.C. §§ 321 *et seq.* As a result, compliance with federal, state and local environmental laws do not pose a material burden on our business, and we are not required to expend any material amounts on capital expenditures for environmental control facilities for our manufacturing facility.

Internet Website

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

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Code of Business Ethics

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Corporate Governance Guidelines

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Charters for each of the Board committees

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Policy on receiving complaints regarding account or internal control issues

Item 1B UNRESOLVED STAFF COMMENTS

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

Item 2 - PROPERTIES

The Company owns its main facility, which is located in Exton, Pennsylvania about one hour west of Philadelphia and contains about 83,000 square feet of manufacturing and office space. The majority of the manufacturing of our flexible metal hose is done at the Exton facility. In the United Kingdom, we rent a facility in Banbury, England, which manufactures products and serves sales, warehousing and operational functions as well. The corporate office of Omega Flex, Inc., in Middletown, Connecticut, is leased.

Item 3 - LEGAL PROCEEDINGS

In the ordinary and normal conduct of the Company s business, it is subject to periodic lawsuits, investigations and claims (collectively, the Claims). There has been an increase in the frequency of those Claims over the past two years relating to product liability. The Company does not believe that the Claims have legal merit, and is therefore vigorously defending against those Claims. The Company has in place commercial general liability insurance policies that cover the Claims, as noted above, including those alleging damages as a result of product defects. Litigation is subject to many uncertainties and management is unable to predict the outcome of the pending suits and claims. The potential liability for a given claim could range from zero to a maximum of $250,000, depending upon the insurance deductible in place for the respective claim year. The aggregate maximum exposure for all current open claims is estimated to not exceed $2,200,000. It is possible that the results of operations or liquidity and capital resources of the Company could be adversely affected by the ultimate outcome of the pending litigation as a result of the costs of contesting such lawsuits, potentially materially. Again, the Company is currently unable to estimate the ultimate liability, if any, that may result from the pending litigation and, accordingly, the liability in the consolidated financial statements represents an accrual for legal costs for services previously rendered and outstanding settlements for existing claims. The liabilities recorded on the Company s books at December 31, 2012 and December 31, 2011 were $537,000 and $414,000, respectively, and are included in Other Liabilities.

In October 2010, the Company took the first case relating to CSST and lightning to trial. At trial the Company proved that it was not negligent in the product design, but the jury did find the Company liable under strict product liability. However, the company has appealed the jury verdict. The final outcome of the case is not yet determined. The Company has insurance coverage with regards to this case and therefore no liability is reflected in the financials associated with this item.

In 2007, the Company instituted a legal complaint against a former insurer, seeking reimbursement of amounts paid in defense of a class action litigation, as well as supplementary payments made in connection with the class action. In March of 2012, the Company and the insurer settled the litigation for $4,700,000, with receipt of the cash occurring during that same month.

Our subsidiary, Omega Flex Limited (OFL), has been sued regarding the installation of TracPipe product in an apartment complex in England, the performance of the product, and the involvement of OFL in subsequent remedial efforts to address perceived deficiencies in the system. As of December 31, 2012, OFL was vigorously defending this matter and was marshaling substantial defenses to the claims alleged in the litigation. The amount in controversy is approximately £3,000,000. As disclosed in Note 13, Subsequent Events, OFL has settled that case in March 2013 by entering into a settlement agreement and making a one-time payment of £800,000 to resolve all claims associated with the project. The Company has subsequently recorded approximately $1,300,000 in Other Liabilities at December 31, 2012 to reflect the event.

Item 4 MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Common Stock

Our common stock is listed on the NASDAQ Global Market, under the symbol OFLX. The number of shareholders of record as of December 31, 2012, based on inquiries of the registrant s transfer agent, was 590. For this purpose, shareholders whose shares are held by brokers on behalf of such shareholders (shares held in street name) are not separately counted or included in that total.

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

PRICE RANGE

	2012		2011	
	high	low	high	low
First Quarter	$ 16.97	$ 12.50	$ 16.00	$ 12.12
Second Quarter	$ 13.51	$ 11.03	$ 14.14	$ 12.81
Third Quarter	$ 11.96	$ 9.99	$ 14.87	$ 12.58
Fourth Quarter	$ 13.40	$ 10.57	$ 14.13	$ 10.40

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

Dividends

On November 14, 2012, the Board of Directors Board declared a dividend of $1.00 per share, which was paid on December 14, 2012 to all shareholders on record as of November 30, 2012, totaling $10,092,000. There were no dividends declared or paid during 2011.

The Board, in its sole discretion, has a general policy of reviewing the cash needs of the Company from time to time, and based on results of operations, financial condition and capital expenditure plans, as well as other factors that the board may consider relevant, to determine on a quarterly basis whether to declare a dividend.

Item 7 - MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

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

OVERVIEW

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

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

CHANGES IN FINANCIAL CONDITION

Cash and cash equivalents were $939,000 at December 31, 2012, compared to $3,476,000 at December 31, 2011. The change is essentially a function of solid earnings from operations, plus insurance legal recovery funds, less a dividend payment. As stated in the Company s Statement of Operations, the Company had net income during 2012 of $6,876,000, which resulted in higher cash. A good portion of the Company s income was generated from ongoing operations. As disclosed in March 2012, the Company also received a $4,700,000 Insurance Legal Recovery, which after considering its auxiliary costs such as taxes, served to increase the year s income and cash by approximately $2,530,000. As a result of the strong cash position of the Company as of September 2012, which had a balance of $9,206,000, as well as other factors, the board elected to pay a cash dividend to shareholders during December 2012, which amounted to $10,092,000. It should also be mentioned that the board elected to allow the Company to pay the bulk of the year s earned incentive compensation during December 2012.

Accounts Receivable was $12,134,000 at December 31, 2012, compared to $9,052,000 at December 31, 2011, increasing $3,082,000, or 34.0%. The majority of this increase is the result of higher sales during fourth quarter of 2012, particularly in December, compared to the fourth quarter and December of 2011. The aging of the Company s receivables appears stable and consistent, and the Company is not aware of any deterioration in the viability of its customer base which is regularly monitored.

Inventory has increased $663,000 or 10.3% from December 31, 2011. This was largely due to a ramp up in emerging product inventory, such as DoubleTrac®, to meet the increasing market demand in a timely manner.

Accounts Payable has increased $1,718,000 (168.6%), ending at $2,737,000 at December 31, 2012, from a balance of $1,019,000 at December 31, 2011. The Company acquired a sizable amount of raw materials during the latter part of December 2012, and those obligations, as well as a few other large invoices were still unpaid as of the end of the period, but all were still within normal payments terms. The change was therefore largely timing related, as the Company typically pays all vendors within discount terms to ensure priority relationships.

The Line of Credit had a balance of $324,000 at the end of December 2012, but had no borrowings against it at the same point in 2011. As noted above, the Company paid a significant dividend payment and also incentive compensation at the end of 2012, which reduced cash and required the Company to draw against the line.

Accrued Compensation was $349,000 at December 31, 2012, decreasing $1,121,000 or 76.3% from its balance of $1,470,000 at December 31, 2011. The majority of this change relates to the incentive compensation payment discussed above, which was made during December 2012, and was higher than the prior year in general as it changes in correlation with profits.

Accrued Commissions and Sales Incentives were $3,671,000 and $2,098,000 at December 31, 2012 and 2011, respectively, increasing $1,573,000 or 75.0%. A larger portion of the customer base has achieved growth tiers, which increases the payments due to them related to accrued sales incentives.

Other Accrued Liabilities have increased $2,071,000 or 96.6% from December 31, 2011, primarily due to an increase in the legal accrual in relation to the legal settlement discussed in Note 13, Subsequent Events , also due to an increase in legal and product liability accruals, which is described in detail in Note 11, Commitments and Contingencies .

RESULTS OF OPERATIONS

Three-months ended December 31, 2012 vs. December 31, 2011

The Company reported comparative results from continuing operations for the three-month period ended December 31, 2012 and 2011 as follows:

	Three-months ended December 31, (in thousands)			
	2012 ($000)	**2012**	**2011 ($000)**	**2011**
Net Sales	$ 18,426	100.0%	$ 15,618	100.0%
Gross Profit	$ 9,698	52.6%	$ 7,990	51.2%
Operating Profit	$ 1,461	7.9%	$ 2,279	14.6%

Net Sales. The Company s 2012 fourth quarter sales dollars increased $2,808,000 (18.0%) over the same period in 2011, ending at $18,426,000, compared to $15,618,000 for the same three months in 2011. Volume, or units sold, increased approximately 24% compared to the prior year quarter. Pricing related decreases were however required due to the competitive nature of the market place, which lessened the impact of the surge in volume.

During the fourth quarter of 2012, the Company had experienced sales growth simultaneously from various product lines. Domestically, the Company s gas piping product, TracPipe® CounterStrike®, had benefited from the improving construction environment, as everything from single homes to high-rises and hospitals look to install gas piping to keep energy costs down. Additionally, the Company s emerging DoubleTrac® and DEF-Trac® double-containment piping systems have thrived, as the world moves towards more environmentally friendly solutions. Internationally, despite the soft economy, the Company s long standing gas piping product TracPipe® also showed signs of growth.

Gross Profit. The Company s gross profit margins increased between the two periods, being 52.6% and 51.2% for the three-months ended December 31, 2012 and 2011, respectively.

Selling Expenses. Selling expenses consist primarily of employee salaries and associated overhead costs, commissions, and the cost of marketing programs such as advertising, trade shows and related communication costs, and freight. Selling expense was $3,207,000 and $3,049,000 for the three-months ended December 31, 2012 and 2011, respectively, representing an increase of $158,000. Commissions were the largest contributing factor, as they went up primarily as a result of the increase in sales. Sales expense for the quarter was 17.4% compared to 19.5% last year, which was an improvement.

General and Administrative Expenses. General and administrative expenses consist primarily of employee salaries, benefits for administrative, executive and finance personnel, legal and accounting, insurance, and corporate general and administrative services. General and administrative expenses were $4,363,000 and $2,048,000 for the three-months ended December 31, 2012 and 2011, respectively, increasing $2,315,000 between periods. Legal related costs increased $2,451,000. As announced on March 20, 2013, the Company s English subsidiary, Omega Flex Limited, had reached an agreement to settle litigation related to a construction project in Milton Keynes, England, to avoid any potentially prolonged and costly legal conflict. The amount of the settlement equated to approximately $1,300,000. The Company has also seen an increase of $1,151,000 in legal costs related to product liability cases, as discussed in detail in Note 11 of the financial statements, Commitments and Contingencies . Fortunately, the Company has been able to find small savings in other various areas to mildly offset the increase in legal. As a percentage of sales, general and administrative expenses increased to 23.7% for the three months ended December 31, 2012 from 13.1% for the three months ended December 31, 2011.

Engineering Expense. Engineering expenses consist of development expenses associated with the development of new products, and costs related to enhancements of existing products and manufacturing processes. Engineering expenses increased $53,000. They were $667,000 and $614,000 for the three months ended December 31, 2012 and 2011, respectively. However, engineering expenses as a percentage of sales were lower, at 3.6% for the three months ended December 31, 2012 and 3.9% for the three months ended December 31, 2011.

Operating Profits. Reflecting all of the factors mentioned above, Operating Profits decreased by $818,000 or 35.9%. The Company had a profit of $1,461,000 in the three-month period ended December 31, 2012, versus a profit of $2,279,000 in the three-months ended December 31, 2011.

Interest Income (Expense)-Net. Interest income is recorded on cash investments, and interest expense is recorded at times when the Company has debt amounts outstanding on its line of credit. The interest income was nominal for the fourth quarter of 2012 and 2011, and both periods had reasonably similar amounts of income.

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

Income Tax Expense. Income Tax Expense was $754,000 for the fourth quarter of 2012, compared to $555,000 for the same period in 2011. Although the Company had a decrease in Income before Income Taxes compared to last quarter, the income tax expense for the same period increased due to the significant loss generated from our United Kingdom subsidiary, OFL, which has a much lower tax rate. Additionally, there was a release of a tax reserve for uncertainties during the fourth quarter of 2011 for amounts beyond the statutory audit period.

Twelve months ended December 31, 2012 vs. December 31, 2011

The Company reported comparative results from continuing operations for the twelve-month period ended December 31, 2012 and 2011 as follows:

Twelve-months ended December 31,

(in thousands)

	2012 ($000)	2012	2011 ($000)	2011
Net Sales	$ 64,016	100.0%	$ 54,193	100.0%
Gross Profit	$ 32,930	51.4%	$ 27,717	51.1%
Operating Profit	$ 10,747	16.8%	$ 6,709	12.4%

Net Sales. The Company s sales for the twelve-months of 2012 increased $9,823,000 (18.1%) over the same period in 2011, ending at $64,016,000 and $54,193,000 in 2012 and 2011, respectively. Volume, or units sold, increased approximately 17% compared to the prior year quarter, and modest price increases were also recognized primarily related to the sales of the Company s highly advanced TracPipe® CounterStrike®, which sells at a premium compared to its predecessor product.

During 2012, the Company had experienced sales growth simultaneously from various directions during the year. Domestically, the Company s gas piping product, TracPipe® CounterStrike®, had benefited from the improving construction environment, as everything from single homes to high-rises and hospitals look to install gas piping to keep energy costs down. Additionally, the Company s emerging DoubleTrac® and DEF-Trac® double-containment piping systems have thrived, as the world moves towards more environmentally friendly solutions. Internationally, despite the soft economy, the Company s long standing gas piping product TracPipe® also showed signs of growth.

Gross Margins. The Company s gross profit margins increased slightly, being 51.4% and 51.1% for the twelve-month period ended December 31, 2012 and 2011, respectively.

Selling Expenses. Selling expenses consist primarily of employee salaries and associated overhead costs, commissions, and the cost of marketing programs such as advertising, trade shows and related communication costs, and freight. Selling expense was $12,256,000 and $10,874,000 for 2012 and 2011, respectively, representing an increase of $1,382,000. Commissions and Freight increased largely in unison with the increase in sales volume, accounting for $1,069,000, or approximately 77% of the variance from last year. The Company also had additional sales staff and travel related expenses compared to last year. Sales expense was however lower than the prior year when compared as a percent of net sales, being 19.1% for the twelve-months ended December 31, 2012, and 20.1% for the twelve-months ended December 31, 2011.

General and Administrative Expenses. General and administrative expenses consist primarily of employee salaries, benefits for administrative, executive and finance personnel, legal and accounting, insurance, and corporate general and administrative services. General and administrative expenses were $12,030,000 and $7,666,000 for the twelve-months ended December 31, 2012 and 2011, respectively, increasing $4,364,000 between periods. Compared to last year, the Company incurred $2,322,000 of additional legal and insurance related expenses primarily associated with product liability claims and coverage. Additionally, as announced on March 20, 2013, the Company s English subsidiary, Omega Flex Limited, had reached an agreement to settle litigation related to a construction project in Milton Keynes, England, to avoid any potentially prolonged and costly legal conflict. The amount of the settlement equated to approximately $1,300,000. Furthermore, the Company absorbed $818,000 of additional administrative staffing expenses in 2012, which includes an increase in incentive compensation related to increased profits from this year s general business activities, as well as the additional earnings derived from the Insurance Legal Recovery discussed below. Those increases were slightly offset by efficiencies found in various other items. As a percentage of sales, general and administrative expenses increased to 18.8% for 2012 from 14.1% in 2011.

Insurance Legal Recovery As previously disclosed in the Form 8-K/A filed with the Securities and Exchange Commission on March 15, 2012, the Company agreed to settle a legal dispute relating to insurance coverage and received $4,700,000 as part of the settlement during the same month. This receipt was all recorded as income during the first quarter of 2012. There was no comparable event during the previous year, and thus the change between periods is $4,700,000. This event also impacted incentive compensation, which is included in the General and Administrative Expenses, and Income Tax Expense, increasing both significantly compared to last year.

Engineering Expense. Engineering expenses consist of development expenses associated with the development of new products, and costs related to enhancements of existing products and manufacturing processes. These expenses were $2,597,000 and $2,468,000 for the twelve-months ended December 31, 2012 and 2011, respectively, thus increasing $129,000 between periods. There was an increase in staffing during the year of $223,000, which was then partially offset by various other insignificant favorable items. Engineering expenses as a percentage of sales improved, being 4.1% for the twelve-months ended December 31, 2012, compared to 4.6% for the twelve-months ended December 31, 2011.

Operating Profits. Reflecting all of the factors mentioned above, Operating Profits were up 60.2%, increasing by $4,038,000 to a profit of $10,747,000 in the twelve-months ended December 31, 2012, from a profit of $6,709,000 in the twelve-months ended December 31, 2011.

Interest Income (Expense)-Net. Interest income is recorded on cash investments, and interest expense is recorded at times when the Company has debt amounts outstanding on its line of credit. The interest income was nominal for the years ended 2012 and 2011, and both periods had similar amounts of income.

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

Income Tax Expense. Income Tax Expense was $4,046,000 for 2012, compared to $2,107,000 in 2011. Of the $1,939,000 increase in tax expense, approximately $1,400,000 was the result of the receipt of the Insurance Legal Recovery, with the remaining increase associated with higher profits from general operations, and the release of a tax reserve for uncertainties during the fourth quarter of 2011, as they were beyond the statutory audit period. The Company s effective tax rate in 2012 does however approximate the 2011 rate and does not differ materially from expected statutory rates.

COMMITMENTS AND CONTINGENCIES

See Note 11 to the Company s financial statements for a detailed description of Commitments and Contingencies.

FUTURE IMPACT OF KNOWN TRENDS OR UNCERTAINTIES

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

Construction Activity The Company is directly impacted by the level of single family and multi-family residential housing starts and, to a lesser extent, commercial construction starts. A few years ago, low interest rates and easy availability of credit, contributed to a high level of construction activity. However, the past couple of years have seen deterioration in demand for residential, commercial and institutional construction.

Some of the factors that influenced the decline include:

.

the crisis in the financial markets reduced the availability of financing for new construction, especially large projects

.

foreclosures have increased the inventory of available residential housing, thereby decreasing the demand for new construction, and

.

consumer demand and confidence has declined as a result of reduced economic activity and increased unemployment.

Recently construction activity has shown upward mobility, and statistics provided by the National Association of Home builders suggests housing starts will increase during the coming year. However, any significant decrease in residential construction activity may materially adversely affect the Company s financial condition.

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

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

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

Legal Costs The Company is subject to lawsuits mostly relating to claims of product liability. The company has in place insurance policies to cover the defense of most of these cases, and any amounts payable with respect thereto, are typically subject to deductibles or self-insured retention amounts that vary depending on the policy year. The company is vigorously defending these cases and is confident of prevailing in one or more lawsuits in the near term. However, continued litigation and the defense costs associated therewith, in addition to any other payments made, could affect the company's results of operations, perhaps materially.

Supply Disruptions and Commodity Risks The Company uses a variety of materials in the manufacture of its products, including stainless steel, polyethylene and brass for its AutoFlare® connectors. In connection with the purchase of commodities, principally stainless steel for manufacturing requirements, the Company occasionally enters into one-year purchase commitments which include a designated fixed price or range of prices. These agreements typically require the Company to accept delivery of the commodity in the quantities committed, at the agreed upon prices. Transactions required for these commodities in excess of the one year commitments are conducted at current market prices at the Company s discretion. Currently, the Company does not have any fixed purchase commitment contracts, but may enter into such transactions in the future.

In addition to the raw material cost strategy described above, the Company enters into fixed pricing agreements for the fabrication charges necessary to convert these commodities into useable product. It is possible that prices may decrease below the fixed prices agreed upon and therefore require the Company to pay more than market price, potentially materially. Management believes at present that it has adequate sources of supply for its raw materials and components (subject to the risks described above under Purchasing Practices) and has historically not had significant difficulty in obtaining the raw materials, component parts or finished goods from its suppliers. The Company is not dependent for any commodity on a single supplier, the loss of which would have a material adverse effect on its business.

Interest Rate Sensitivity - The Company currently has access to a $10,000,000 line of credit (LOC) with Sovereign Bank, NA (Sovereign), and as of December 31, 2012, has drawn $324,000 on the line. When the Company borrows against the LOC, all amounts must be paid back with interest, using an interest rate range of LIBOR plus 1.75% to LIBOR plus 2.75% or Prime less 0.50% to Prime plus 0.50%, depending upon the Company s then existing financial ratios. The Company may elect to use either the LIBOR or PRIME rates. As of December 31, 2012, the actual rate to borrow was at 2.75%. Interest rates are also significant to the Company as a participant in the residential construction industry, since interest rates can be a determinant factor on whether or not borrowing funds for building will be affordable to our customers. (See Construction Activity, above). Currently, interest rates are at historic lows, but any dramatic change to interest rates could have a detrimental effect on the business.

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

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

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 in the Notes to the Consolidated Financial Statements include a summary of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. The following is a brief discussion of the Company s more significant accounting policies.

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

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

Revenue Recognition

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

.

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

.

Delivery has occurred or services rendered.

.

The sales price to the customer is fixed or determinable.

.

Collection is reasonably assured.

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

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

Accounts Receivable

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

Inventory

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

Goodwill

In accordance with Financial Accounting Standards Board (FASB) ASC Topic 350, with respect to Goodwill, the Company performs annual impairment tests using the market capitalization on the last day of the year to determine the fair value of the reporting unit and then compares that value to the carrying value. As of December 31, 2012 and

December 31, 2011, the fair value of the reporting unit exceeded the carrying value, and therefore the Company concluded that goodwill was not impaired.

Product Liability Reserves

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

Phantom Stock

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

The FASB ASC Topic 718 Stock Compensation requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates in order to derive the Company s best estimate of awards ultimately to vest. Forfeitures represent only the unvested portion of a surrendered Unit and are typically estimated based on historical experience. Based on an analysis of the Company s historical data, which has limited experience related to any stock-based plan forfeitures, the Company applied a 0% forfeiture rate to Plan Units outstanding in determining its Plan Unit compensation expense for December 31, 2012.

Accounting for Income Taxes

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

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize the benefit, or that future deductibility is uncertain. No valuation allowance was deemed necessary at December 31, 2012 or 2011.

Also, in accordance with FASB ASC Topic 740, the Company had a reserve for uncertainties in tax positions of $119,000 at December 31, 2012, and $135,000 at December 31, 2011. These reserves are reviewed each quarter.

LIQUIDITY AND CAPITAL RESOURCES

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

As of December 31, 2012, the Company had a cash balance of $939,000. Additionally, the Company has a $10,000,000 line of credit available with Sovereign Bank, as discussed in detail in Note 4, which had borrowings of $324,000 outstanding upon it at the end of 2012. At December 31, 2011, the Company had cash of $3,476,000, and therefore had experienced a decrease in cash of $2,537,000 during 2012.

Operating Activities

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

For the twelve months of 2012, the Company s cash from operating activities increased $5,876,000 over the comparable period in the prior year, of which a portion was due to cash generated from 2012 standard operations over and above 2011. A significant factor contributing to the increase was however related to the Insurance Legal Recovery received during the first quarter of 2012, which enhanced cash from operations by approximately $2,500,000 after considering the deduction for auxiliary costs such as taxes. Additionally, the Company had experienced a $1,882,000 increase in its marketing related promotional incentive liabilities when comparing December 31, 2012 to 2011. While the extra promotional incentives reduced income in 2012, the associated cash will not be paid until the first quarter of 2013. Further, in 2011 the Company paid approximately $900,000 more for insurance costs than in 2012, largely connected to long-term coverage. The overall increase discussed above was reflected even though the Company paid incentive compensation during December 2012 which would normally have been paid during the first quarter of the new year. This was done preemptively in light of the looming governmental tax increases.

As a general trend, the Company tends to deplete cash during the first four months of the year, as significant payments are typically made for accrued promotional incentives, incentive compensation, and taxes. Cash has then historically shown a tendency to be restored and accumulated during the latter portion of the year.

In 2013, the cash outlay for operating items may be larger than usual, as it is known that the Company will pay approximately $1,300,000 in regards to the settlement agreement reached by the Company s English subsidiary, Omega Flex Limited during March of 2013, as described in detail in Note 13, Subsequent Events .

Investing Activities

Cash used in investing activities for the twelve months of 2012 and 2011 was $130,000 and $131,000, respectively, all related to capital expenditures for both years.

We believe our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend upon many factors including our rate of revenue growth, the timing and extent of any expansion efforts, and the potential for investments in, or the acquisition of any complementary products, businesses or supplementary facilities for additional capacity. Regarding any known material commitments for capital expenditures, the Company does anticipate an increase in capital spending in 2013 related to the expansion of our current manufacturing capabilities, as well as space, as the Company has opened another manufacturing facility located largely adjacent to the existing main manufacturing facility in Exton, PA. Total capital spending for the coming year could approach $1,800,000.

Financing Activities

During 2012, the Company borrowed $324,000 from its line of credit with Sovereign, as described in Note 5. Additionally, the Company paid a $1.00 per share cash dividend to shareholders during December of 2012 totaling $10,092,000 as described fully in Note 6. There were no financing activities during 2011. If excess cash is available at the end of the year, and if no sensible investment opportunity exists, the Company may, and has shown a willingness in the past, to declare and pay a dividend to the shareholders.

RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Update (ASU) 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. In September 2011, the FASB issued guidance to amend and simplify the rules related to testing goodwill for impairment. The revised guidance allows an entity to make an initial qualitative evaluation, based on the entity s events and circumstances, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of this qualitative assessment determine whether it is necessary to perform the currently required two-step impairment test. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Management evaluated the impact on the consolidated financial statements as a result of adopting this guidance, and we believe it had no impact on the Company s financial condition, results of operations or cash flow.

ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. In June 2011, the FASB issued new accounting guidance related to the presentation of comprehensive income that eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendments require that all non-owner changes in shareholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company adopted this guidance in the quarter ended March 31, 2012. The adoption of this guidance did not have any impact on the Company's financial position, results of operations or cash flows and only impacted the presentation of other comprehensive income in the financial statements.

ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*

This ASU requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet, and instruments and transactions subject to an agreement similar to a master netting arrangement. The requirements are effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. Management believes ASU 2011-11 will have no impact on the Company s financial conditions, results of operations and cash flows for the foreseeable future.

ASU 2011-12, *Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, issued in December 2011 amends ASU 2011-05 to reflect only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments. The amendments are being made to allow FASB time to re-deliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments; entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. Nonpublic entities should begin applying these requirements for fiscal years ending after December 15, 2012. Adoption of ASU 2011-12 had no material impact on the financial statements.

Off-Balance Sheet Obligations or Arrangements

The Company has off-balance sheet obligations or arrangements at December 31, 2012 that relate to purchase commitments for the following year, and also operating lease obligations, which in total equal $12,248,000. The total amount of these obligations at December 31, 2011 was $12,989,000.

Item 7A - QUANTITATATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Omega Flex, Inc.:

We have audited the accompanying consolidated balance sheets of Omega Flex, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, shareholders equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Omega Flex, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ McGladrey LLP

MCGLADREY LLP

Blue Bell, Pennsylvania

March 27, 2013

OMEGA FLEX, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31,

(Dollars in Thousands)

	2012	2011
ASSETS		
Current Assets:		
	$	$
Cash and Cash Equivalents	939	3,476
Accounts Receivable - less allowances of $653 and $624, respectively	12,134	9,052
Inventories-Net	7,128	6,465
Deferred Taxes	750	714
Other Current Assets	1,503	1,240
Total Current Assets	22,454	20,947
Property and Equipment - Net	4,824	5,270
Goodwill-Net	3,526	3,526
Other Long Term Assets	1,865	1,748
	$	$
Total Assets	32,669	31,491
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
	$	$
Accounts Payable	2,737	1,019
Line of Credit	324	-
Accrued Compensation	349	1,470
Accrued Commissions and Sales Incentives	3,671	2,098
Taxes Payable	235	-
Other Liabilities	4,214	2,143
Total Current Liabilities	11,530	6,730
Deferred Taxes	614	1,037
Other Long Term Liabilities	783	807

Total Liabilities	12,927	8,574
Shareholders Equity:		
Omega Flex, Inc. Shareholders Equity:		
Common Stock par value $0.01 Share: authorized 20,000,000 Shares: 10,153,633 shares issued and 10,091,822 outstanding at both December 31, 2012 and 2011	102	102
Treasury Stock	(1)	(1)
Paid-in Capital	10,808	10,808
Retained Earnings	9,181	12,397
Accumulated Other Comprehensive Loss	(410)	(502)
Total Omega Flex, Inc. Shareholders Equity	19,680	22,804
Noncontrolling Interest	62	113
Total Shareholders Equity	19,742	22,917
Total Liabilities and Shareholders Equity	$ 32,669	$ 31,491

See Accompanying Notes to Consolidated Financial Statements.

OMEGA FLEX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31,

	2012	2011
	(Amounts in thousands, except earnings per common share)	
Net Sales	$ 64,016	$ 54,193
Cost of Goods Sold	31,086	26,476
Gross Profit	32,930	27,717
Selling Expense	12,256	10,874
General and Administrative Expense	12,030	7,666
Insurance Legal Recovery	(4,700)	-
Engineering Expense	2,597	2,468
Operating Profit	10,747	6,709
Interest Income (Expense) - Net	25	8
Other Income (Expense) - Net	93	24
Income Before Income Taxes	10,865	6,741
Income Tax Provision	4,046	2,107
Net Income	6,819	4,634
Less: Net Loss Noncontrolling Interest	(57)	(13)
Net Income attributable to Omega Flex, Inc.	$ 6,876	$ 4,647
Basic and Diluted Earnings per Common Share	$ 0.68	$ 0.46

Basic and Diluted Weighted Average Shares Outstanding	10,092	10,092

See Accompanying Notes to Consolidated Financial Statements.

OMEGA FLEX, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31,

	2012	2011
	(Amounts in Thousands)	
Net Income	$ 6,819	$ 4,634
Other Comprehensive Income (Loss), Net of Tax:		
Foreign Currency Translation Adjustment, Net of Taxes	98	17
Other Comprehensive Income	98	17
Comprehensive Income	6,917	4,651
Less: Comprehensive Income (Loss) Attributable to the Noncontrolling Interest, Net of Taxes	51	13
Total Other Comprehensive Income	$ 6,968	$ 4,664

See Accompanying Notes to Consolidated Financial Statements.

OMEGA FLEX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

For the years ended December 31, 2012 and 2011

(Dollars in Thousands)

	Common Stock Outstanding	Common Stock	Treasury Stock	Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Shareholders Equity
Balance - December 31, 2010	10,091,822	$ 102	($1)	$ 10,808	$ 7,750	($519)	$ 126	$ 18,266
Net Income (Loss)					4,647		(13)	4,634
Cumulative Translation Adjustment						17		17
Balance - December 31, 2011	10,091,822	$ 102	($1)	$ 10,808	$ 12,397	($502)	$ 113	$ 22,917
Net Income (Loss)					6,876		(57)	6,819
Cumulative Translation Adjustment						92	6	98
Dividends Paid					(10,092)			(10,092)
Balance - December 31,	10,091,822	$	($1)	$	$	($410)	$	$

2012		102	10,808	9,181		62	19,742

See Accompanying Notes to Consolidated Financial Statements

OMEGA FLEX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2012	2011
	(Dollars in Thousands)	
Cash Flows from Operating Activities:		
	$	$
Net Income	6,819	4,634
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Non-Cash Compensation Expense	72	73
Depreciation and Amortization	588	651
Provision for Losses on Accounts		
Receivable, net of write-offs and recoveries	30	(21)
Deferred Taxes	(459)	(35)
Provision for Inventory Reserves	87	180
Changes in Assets and Liabilities:		
Accounts Receivable	(3,045)	(1,736)
Inventories	(706)	(619)
Other Assets	(369)	(1,366)
Accounts Payable	1,703	163
Accrued Compensation	(1,125)	43
Accrued Commissions and Sales Incentives	1,570	(312)
Other Liabilities	2,133	(233)
Net Cash Provided by Operating Activities	7,298	1,422
Cash Flows from Investing Activities:		
Capital Expenditures	(130)	(131)
Net Cash Provided by (Used In) Investing Activities	(130)	(131)
Cash Flows from Financing Activities:		
Principal Borrowings (Repayments) on Line of Credit	324	--
Dividends Paid	(10,092)	--
Net Cash Used In Financing Activities	(9,768)	--
Net Increase (Decrease) in Cash and Cash Equivalents	(2,600)	1,291
Translation effect on cash	63	(24)
Cash and Cash Equivalents - Beginning of Year	3,476	2,209
Cash and Cash Equivalents - End of Year	$	$

	939	3,476

Supplemental Disclosure of Cash Flow Information

	$	$
Cash paid for Income Taxes	4,049	2,254