

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

Or

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

For the transition period from _____ to _____

Commission File Number **000-51372**

Omega Flex, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

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

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

19341
(Zip Code)

Registrant's telephone number, including area code

610-524-7272

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

Title of each class
Common

Name of each exchange on which registered
NASDAQ Global Market

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

Not applicable
(Title of class)

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

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

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

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

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

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

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

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

The aggregate market value of voting and non-voting common shares held by non-affiliates of the registrant as of June 30, 2010, the last business day of the most recently completed second quarter of 2010 was \$45,799,964.

PART I

Item 1 - BUSINESS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

GENERAL

DESCRIPTION OF OUR BUSINESS

Overview of the Company

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

Industry Overview

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

The major market categories for flexible metallic hose include (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 in the residential and commercial construction markets is primarily for flexible gas piping and gas appliance connectors and secondarily as pump connectors and seismic loops to isolate vibration in mechanical piping systems in commercial buildings. With the growth of green building technologies, there is an increased interest and 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 is dominant in more than one market. We are a leading supplier of flexible metal hose in each of the two broad markets in which we participate. Our assessment of our overall competitive position is based on several factors. The flexible gas piping market in the U.S. is currently concentrated in the residential housing market. Based on the reports issued by the national trade groups on housing construction, the level of acceptance of flexible gas piping in the construction market, and the average usage of flexible gas piping in a residential building, we are able to estimate with a high level of accuracy the size of the total gas piping market. 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. Independent manufacturers' sales representatives have good estimates, and in many cases, factual information on the volume of purchases of customers in their territories. Because there are gross differences in the market shares of many of the competing manufacturers, it is possible to reasonably assess shared positions. Large national accounts also have a sense as to shared positions as well, because they have relationships with most of the competing manufacturers and will share opinions. Lastly, the term "leading" implies a host of factors other than sales volume and market share position. 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 this alone, we are without question the undisputed leader in at least one of the two major market segments in which we participate.

Development of Business

We were incorporated in 1976 under the name of Tofle America, Inc. as the subsidiary of a Japanese manufacturer of flexible metal hose. For a number of years, we were a manufacturer of flexible metal hose that was sold primarily to customers using the hose for incorporation into finished assemblies for industrial applications. We later changed our name to Omega Flex, Inc., and in 1996, we were acquired by Mestek, Inc. In 1997, we introduced our first new product – TracPipe[®] corrugated stainless steel tubing (CSST) for use in carrying fuel gas within residential, commercial and industrial buildings. Our growth since 1997 has been primarily as a result of the growth in the use and acceptance of corrugated stainless steel tubing as an alternative to the traditional black iron pipe throughout the construction industry, and through the development of our AutoFlare[®] patented fittings and accessories to the corrugated stainless steel tubing that differentiates our systems from those of our competitors. In 2004, we introduced a brand of corrugated stainless steel tubing under the registered trademark CounterStrike[®] that is designed to be more resistant to damage caused by transient arcing of electrical energy. In 2007, we introduced a new version of CounterStrike[®] CSST that is six times more effective than the original version. In January 2005, Mestek announced its intention to distribute its equity ownership in our common stock to the Mestek shareholders. A registration statement for the Omega Flex common stock was filed with the Securities and Exchange Commission and the registration statement was declared effective on July 22, 2005. We also listed our common stock on NASDAQ National Market (now the NASDAQ Global Market) under the stock symbol "OFLX", and began public trading of our common stock on August 1, 2005. All Mestek shareholders as of

the record date for the distribution received one share of Omega Flex common stock for each share of Mestek common stock owned as of the record date. We are now a totally separate company from Mestek, and we do not use or share any material assets or services of Mestek in conducting our business.

Overview of Current Business

Products

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

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

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

In 2004, we introduced a new brand of flexible gas piping sold under the registered trademark "CounterStrike[®]". CounterStrike[®] is designed to be more resistant to damage from transient electrical arcing. This feature is particularly desirable in areas that are subject to high levels of lightning strikes, such as the Southeast, and the Ohio Valley. In a lightning strike, the electrical energy of the lightning can energize all metal systems and components in a building. This electrical energy in attempting to reach ground may arc between metal systems that have different electrical resistance, and arcing can cause damage to the metal systems. In standard CSST systems, an electrical bond between the CSST and the building's grounding

electrode would address this issue, but lightning is an extremely powerful and unpredictable force. CounterStrike[®] CSST is designed to be electrically conductive to disperse the energy of any electrical charge over the entire surface of the CounterStrike[®] line. In 2007, we introduced a new version of CounterStrike[®] CSST that was tested to be six times more resistant to damage from electrical arcing than the original version, and between 50 to 400 times more effective than standard CSST products. As a result of its robust performance, the new version of CounterStrike[®] has been warmly received in the market, and is a validation of our market leadership in the industry.

As noted below, our flexible metal hose is used in a wide variety of applications besides flexible gas piping. Our involvement in these markets is important because just as the flexible gas piping applications have sprung from our expertise in manufacturing annular metal hose, 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 commercialization, with slow but steady sales. 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 fatigue and fail. Alternatively, within certain industrial or commercial applications using steam, either as a heat source or in the industrial process itself, the pumps used to transfer the liquid or steam within the system are subject to varying degrees of vibration. Flexible metal hoses can be used as connections between the pump and the intake of the fluids being transferred to eliminate the vibration effects of the pumps on the piping transfer system. In 2008, after several years of development and testing, we unveiled one of our newest products DoubleTrac[®] double containment piping, which is used in a variety of applications that require a double containment piping system to protect the environment. DoubleTrac[®] received certification from Underwriters Laboratory, the testing and approval agency, that our product is fully compliant with UL971A, which is the product standard in the United States for metallic underground fuel piping, as well as approvals from other relevant state agencies that have more stringent testing procedures for the product.

Manufacturing

In each instance, whether the application is for corrugated stainless steel tubing for fuel gases, flexible metal hose for handling specialty chemicals or gases, flexible double containment piping, flexible piping for solar heated hot water systems, or unique industrial applications requiring ability to withstand wide variations in temperature and vibration, all of our success rests on 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 14". All of our smaller diameter pipe (2" inner diameter and smaller) is made by a proprietary process that is known as the rotary process. The proprietary process that we use to manufacture our annular hose is the result of a long-term development effort begun in 1995. Through continuous improvement 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. In 2010, we achieved a delivery performance to the scheduled ship date of approximately 93%. The quick inventory turnover reduces our costs for in-process inventory, and further contributes to our gross margin levels. We have also improved our productivity on a historical basis.

Raw Materials

We use various materials in the manufacture of our products, primarily stainless steel for our flexible metal hose and plastics for our jacketing material on TracPipe[®] and CounterStrike[®] flexible gas piping. We also purchase all of our proprietary AutoFlare[®] brass fittings for use with the TracPipe[®] and CounterStrike[®] flexible gas piping. Although we have multiple sources qualified for all of our major raw materials and components, we have historically used one or two sources of supply for such raw materials and components. Our current orders for stainless steel and fittings are each placed with one or two suppliers. If any one of these sources of supply were interrupted for any reason, then we would have to devote additional time and expense in obtaining the same volume of supply from our other qualified sources. This potential transition, if it were to occur, could affect our operations and financial results during the period of such transition. Commodities markets in general and stainless steel in particular experienced upward price movement in 2010, resulting in an increase of costs to manufacture products. The supply of our main raw materials appears to be stable with ample volume. We believe that with our purchase commitments for stainless steel, polyethylene and for our proprietary fittings, that we have adequate sources of supply for these raw materials and components for 2011. We have not had difficulty in obtaining the raw materials, component parts or finished goods from our suppliers in prior years. We believe that an ample supply of stainless steel will continue until there is a reduction in global capacity, such as mine closures, which would then cause a constriction. Continued volatility in the commodities marketplace and competitive conditions in the sale of our products may not allow us to pass along raw materials or component part price increases to our customers if that was the case.

Business Seasonality

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

Customers

We sell our products to customers scattered across a wide and diverse set of industries ranging from construction to pharmaceutical with approximately 5,600 customers on record. These sales channels include sales through independent sales representatives, distributors, original equipment manufacturers, direct sales, and sales through our website on the internet. We utilize various distribution companies in the sale of our TracPipe[®] flexible gas piping, and these distribution customers in the aggregate represent a material portion of our business. In particular, our customer, Ferguson Enterprises, and its various branches, represented approximately 19% of our sales in both 2010 and 2009, and also accounted for approximately 21% and 22% of our accounts receivable balance at December 31, 2010 and 2009, 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 Ferguson and other distributors, it is possible that there would continue to be purchasing activity from one or more regional or branch distribution customers. We sell our products within North America, primarily in the United States and Canada, and we also sell our products internationally, primarily in Europe through our manufacturing facility located in Banbury, England. Our sales outside of North America represent approximately 9% 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 outlined above, with most concentrating in just one. We estimate that we hold a number one or number two share position in the two major market categories in which we participate. In the flexible gas piping market, the U.S. market is currently concentrated in the residential housing market. 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 a reduction in the number of housing starts in 2010 and decreased activity in commercial construction. As discussed elsewhere, black iron pipe or copper tube was historically used by all builders of commercial and residential buildings until the advent of flexible gas piping and changes in the relevant building codes. Since that time, flexible gas piping has taken an increasing share of the total amount of fuel gas piping used in construction.

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 153 patents issued in 36 countries around the world. The patents cover (a) the fittings used by the flexible gas piping to join the piping to a junction or assembly, (b) pre-sleeved corrugated stainless steel tubing for use in underground applications, (c) an electrically conductive jacket for flexible gas piping that we sell under the trademark CounterStrike[®], and (d) a tubing containment system for our DoubleTrac[®] double containment piping. Our AutoFlare[®] fitting is the leading fitting for use with flexible gas piping because it offers a metal-to-metal seal between the fitting and the tubing, and because of its robustness and ease of use. The metal-to-metal contact provides for a longer lasting and more reliable seal than fittings which use gaskets or sealing compounds that can deteriorate over time. In applications involving fuel gases in a building, the ability to maintain the seal and prevent the leaking of such gases over long periods of time is valued by our customers. We also have received a patent for the composition of the polyethylene jacket used in our CounterStrike[®] flexible gas piping product, which has increased ability to dissipate electrical energy in the event of a nearby lightning strike. The tubing containment system of our DoubleTrac[®] double containment piping, which is also patented in the U.S. and in other countries, allows for the monitoring and collection of any liquids that may leak from the stainless steel containment layer. The expiration dates for the several patents covering our AutoFlare[®] fittings will expire between 2016 and 2020 and the Counterstrike[®] patent will expire 2025. We currently have several patent applications pending in the United States and internationally covering improvements to our AutoFlare[®] fittings and our CounterStrike[®] polyethylene jacket. Finally, and as mentioned above, our unique rotary process for manufacturing flexible metal hose has been developed over the last ten years, and constitutes a valuable trade secret. In 2007, a Pennsylvania court has issued a ruling that confirms our proprietary rotary manufacturing process does constitute a “trade secret” under Pennsylvania law, and is entitled to protection against unauthorized disclosure or misappropriation.

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

Employees

As of December 31, 2010, we had 107 employees. Most of our employees are located in our main facility in Exton, Pennsylvania, which is currently our main manufacturing facility, and which contains our engineering, finance, human resources and most of our sales personnel. Our factory workforce in Exton, Pennsylvania, is not represented by a collective bargaining agent. We also maintain an office in Middletown, Connecticut where management and certain sales personnel are assigned. A number of individual sales personnel are also scattered across the United States. We also maintain a 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:

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

Item 1B – UNRESOLVED STAFF COMMENTS

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

Item 2 - PROPERTIES

Our main facility is located in Exton, Pennsylvania about one hour west of Philadelphia and contains about 83,000 square feet of manufacturing and office space. We lease our Exton facility from Exton Ranch, LLC., our wholly-owned subsidiary. 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

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

In October 2010, the company took the first case relating to CSST and lightning to trial. At trial the company proved that the company was not negligent in the product design, but under Pennsylvania law, the jury did find the company liable under strict product liability. However, the company has appealed the verdict through several post-trial motions, which are currently pending. The final outcome of the case is not yet determined.

In 2008, we prevailed in a patent infringement case against Parker Hannifin Corporation, a flexible gas pipe competitor, for infringement on one or more of our U.S. patents covering our AutoFlare[®] fittings. In 2006, the trial court has ruled that the competitor did infringe on one or more of our AutoFlare[®] patents, and in a subsequent jury trial in 2008, the jury returned a verdict that the AutoFlare[®] patents are valid. The case was subsequently settled by an agreement between the parties dated January 28, 2009. The settlement agreement provided that Parker Hannifin would (1) transfer information relating to its flexible gas piping customers to us, (2) work cooperatively with us to transition those customers to TracPipe or CounterStrike products, (3) agree not to make, sell or distribute competitive products for a five year period after the end of a transition period concluding on June 30, 2009, and (4) pay to us the balance of the damages awarded in patent infringement case. The amount was not material to us. Each of the parties also agreed to dismiss the patent infringement case with prejudice, and release the other from any claims that arose out of that litigation.

In 2007, we instituted a legal complaint against a former insurer, seeking reimbursement of amounts we paid in defense of a class action litigation, as well as supplementary payments made in connection with the class action. After an adverse ruling at the trial court level, we appealed that ruling, and in January 2011, the appeals court found in our favor, reversing the trial court decision and establishing the insurer's legal obligation to reimburse us for the defense costs. The case will be remanded to the trial court for further proceedings and determination of the amount payable to the company, which the Company estimates to be in excess of \$3 million, together with attorneys' fees incurred in establishing the insurer's defense obligations. The litigation has not been fully resolved and while we believe we will ultimately prevail, further developments in the case could reduce or eliminate any potential recoveries.

Item 4 - SUBMISSION OF MATTER TO A VOTE OF THE SECURITY HOLDERS

No matters were submitted to the security holders of the Company for a vote during the fourth quarter of 2010.

PART II

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

(All dollars in thousands except per share amounts)

Common Stock

Our common stock is listed on the NASDAQ Global Market, under the symbol OFLX. The number of shareholders of record as of December 31, 2010, based on inquiries of the registrant's transfer agent, was 721. For this purpose, shareholders whose shares are held by brokers on behalf of such shareholders (shares held in "street name") are not separately counted or included in that total.

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

	<u>PRICE RANGE</u>			
	<u>2010</u>		<u>2009</u>	
	<u>high</u>	<u>low</u>	<u>high</u>	<u>low</u>
First Quarter	\$14.71	\$10.10	\$22.56	\$11.00
Second Quarter	\$14.76	\$10.53	\$19.08	\$13.59
Third Quarter	\$15.73	\$12.34	\$18.47	\$14.37
Fourth Quarter	\$17.72	\$13.44	\$18.30	\$14.00

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

Dividends

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

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

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

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

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

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

OVERVIEW

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

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

CHANGES IN FINANCIAL CONDITION (All dollars in thousands)

The Company's cash balance at December 31, 2010 was \$2,209, compared to \$1,881 at December 31, 2009, which represents an increase of \$328 (17.4%) between periods. Operations generated cash, with net income for the year of \$4,566, and in October of 2010, the Company also collected the \$3,250 Note Receivable from Mestek, Inc., as disclosed in Note 12 of the financial statements. Regarding significant outflows, the Company paid back the entire \$7,500 line of credit to Sovereign Bank NA, which it borrowed in December 2009. These components along with other less significant variables contributed to the Company's cash position at December 31, 2010.

Accounts Receivable increased \$799 (12.3%), moving from \$6,515 at the end of 2009, to \$7,314 at December 31, 2010. The change was primarily due to an increase in sales in the last month of 2010 versus 2009, offset partially by an increase in related reserves.

As discussed in detail in Note 5, the Company had no bank debt at year's end.

Accrued Commissions and Sales Incentives have increased \$730 (43.5%) between 2010 and 2009. The primary reason for the change pertains to an overall increase in sales, and related incentive programs with customers in 2010, which produced higher payouts as certain customers reached growth tiers that they were not able to reach in the prior year.

RESULTS OF OPERATIONS
(All dollars in thousands)

Three-months ended December 31, 2010 vs. December 31, 2009

The Company reported comparative results from continuing operations for the three-month period ended December 31, 2010 and 2009 as follows:

	<u>Three-months ended December 31,</u> (in thousands)			
	<u>2010</u> <u>(\$000)</u>	<u>2010</u> <u>%</u>	<u>2009</u> <u>(\$000)</u>	<u>2009</u> <u>%</u>
Net Sales	\$12,821	100.0%	\$12,595	100.0%
Gross Profit	\$6,623	51.7%	\$7,011	55.7%
Operating Profits	\$2,734	21.3%	\$2,514	20.0%

The Company's sales increased \$226 (1.8%) from \$12,595 in the three-month period ended December 31, 2009 as compared to \$12,821 in the three-month period December 31, 2010.

Revenue for the three-months ended December 31, 2010 reflects continued penetration of the Company's proprietary products into the market, despite a weak construction environment. Overall, unit volume for the quarter was up approximately 5.0% compared to the prior year quarter. The change between the unit sales increase of 5% and the dollar sales increase of 1.8%, was largely connected to increased promotional sales incentives.

The Company's gross profit margins have however decreased from 55.7% to 51.7% for the three-month period ended December 31, 2009 and 2010, respectively, mostly due to cost increases in numerous commodity type metals including nickel and brass, which adversely impact the price of the Company's component material costs, such as stainless steel and fittings.

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 \$1,927 and \$2,355 for the three months ended December 31, 2009 and 2010, respectively. The \$428 increase was largely attributable to increases in staffing expenses related to a shift in the management structure in the UK, designed to expand sales markets, along with an increase in commissions and freight on pace with sales volume. Sales expense as a percentage of sales increased from 15.3% to 18.4% for the three-months ended December 31, 2009 and 2010, respectively.

General and Administrative Expenses. General and administrative expenses consist primarily of employee salaries, benefits for administrative, executive and finance personnel, legal and accounting, and corporate general and administrative services. General and administrative expenses were \$1,964 and \$918 for the three months ended December 31, 2009 and 2010, respectively. The \$1,046 reduction between quarters was primarily the result of decreases in incentive compensation of \$987 during the quarter to bring it into alignment with historical results and payouts. As a percentage of sales, general and administrative expenses dropped from 15.6% for the three months ended December 31, 2009 to 7.2% for the three months ended December 31, 2010.

Engineering Expense. Engineering expenses consist of development expenses associated with the development of new products and enhancements to existing products, and manufacturing engineering costs. Engineering expenses were largely in line with the prior year, going from \$606 to \$616 for the three months ended December 31, 2009 and 2010, respectively. Engineering expenses were 4.8% as a percent of sales for both periods.

Reflecting all of the factors mentioned above, Operating Profit margins increased \$220 (8.8%), from a profit of \$2,514 in the three-month period ended December 31, 2009, to a profit of \$2,734 in the three-month period ended December 31, 2010.

Interest (Expense) Income-Net. Interest income includes interest earned at 6% on the note receivable from Mestek, the Company's former parent, which was issued in June 2009, and paid back in October of 2010. Interest expense was recorded at 4% on the Sovereign line of credit loan balance outstanding, which was established in December 2009, and paid off in full by the end of November 2010. The net increase in expense from the fourth quarter of last year was \$57.

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

Income Tax Expense. The Company's effective tax rate in 2010 is lower than the 2009 rate due to the expiration of the statute of limitations for assessment related to the Company's filings in earlier years, which lowered the tax expense by \$155 for the three months ended December 31, 2010. The rate in both years does not differ materially from expected statutory rates.

Twelve months ended December 31, 2010 vs. December 31, 2009

The Company reported comparative results from continuing operations for the twelve-month period ended December 31, 2010 and 2009 as follows:

	<u>Twelve-months ended December 31,</u>			
	(in thousands)			
	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>
	<u>(\$000)</u>	<u>%</u>	<u>(\$000)</u>	<u>%</u>
Net Sales	\$46,875	100.0%	\$44,140	100.0%
Gross Profit	\$24,302	51.8%	\$22,633	51.3%
Operating Profits	\$ 6,748	14.4%	\$ 6,244	14.1%

The Company's sales increased \$2,735 (6.2%) from \$44,140 in the twelve-month period ended December 31, 2009 to \$46,875 in the twelve-month period December 31, 2010.

Unit volume for the twelve months was up approximately 9% compared to the prior year, but the sales dollars were partially reduced by various sales deduction components, most significantly marketing incentives. The growth reflects increased demand for the Company's proprietary products, such as CounterStrike[®], and overall outperformance of the market. General housing statistics, such as housing starts actually decreased approximately 8% from the prior year.

The Company's gross profit margins were largely consistent with the prior year, being 51.3% in the twelve-month period ended December 31, 2009, and 51.8% in the twelve-month period ended December 31, 2010. The slight increase in margin is the result of various factors, including manufacturing efficiencies, mostly derived from increased sales volume, expired royalty charges, and a decrease in obsolete inventory of approximately \$400, as the prior year absorbed higher expenses for identified excess parts. The favorable components were however tamped down partially by an increase in price for numerous commodity type metals including nickel and brass, which adversely impact the price of material costs, such as stainless steel and fittings.

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 \$7,872 and \$8,855 for the twelve months ended December 31, 2009 and 2010, respectively. There was an increase of \$552 attributable to staffing expenses with a majority of the increase related to a shift in the management structure in the UK, as resources were shifted to selling from administrative in an effort to expand sales markets. Also, as anticipated with an increase in sales volume, commissions and freight also rose. Travel increased as well. Sales expense as a percentage of sales increased from 17.8% for the twelve-months ended December 31, 2009 to 18.9% for the same period in 2010.

General and Administrative Expenses. General and administrative expenses consist primarily of employee salaries, benefits for administrative, executive and finance personnel, legal and accounting, and corporate general and administrative services. General and administrative expenses were \$6,267 and \$6,378 for the twelve months ended December, 2009 and 2010, respectively. General and administrative expense, as a percentage of sales, decreased from 14.2% for the twelve months ended December 31, 2009 to 13.6% for the twelve months ended December 31, 2010. The variance was actually the result of opposing changes. There was a decrease in staffing expenses of \$411, partially due to UK functions being shifted into selling expenses as noted above. There was however an increase of \$427 in legal expenses, as the prior year included the favorable impact of \$265 related to the Parker Hannifin settlement, which therefore decreased the 2009 expense

Engineering Expense. Engineering expenses consist of development expenses associated with the development of new products and enhancements to existing products, and manufacturing engineering costs. Engineering expenses were reasonably similar for the twelve months ended December 31, 2009 and 2010, and were 5.1% and 5.0% as a percent of sales for their respective years.

Reflecting all of the factors mentioned above, Operating Profit margins increased \$504 (8.1%) from a profit of \$6,244 in the twelve-month period ended December 31, 2009 to a profit of \$6,748 in the twelve-month period ended December 31, 2010. Operating profit improved slightly as a percent of sales, being 14.1% and 14.4% in 2009 and 2010, respectively.

Interest (Expense) Income-Net. Interest income includes interest earned at 6% on the note receivable from Mestek, the Company's former parent, which was issued in June 2009, and paid back in October of 2010. Interest expense was recorded at 4% on the Sovereign line of credit loan balance outstanding, which was established in December 2009, and paid in full by the end of November 2010. The net increase in expense from of last year was \$199.

Other (Expense) Income-Net. Other Income-net primarily consists of foreign currency exchange gains (losses) on transactions. There was an unfavorable change from last year of \$132.

Income Tax Expense. The Company's effective tax rate in 2010 is slightly lower than the 2009 rate primarily as a result of the phasing in of federal benefits for manufacturers in 2010. The rate in 2010 does not differ materially from expected statutory rates.

COMMITMENTS AND CONTINGENCIES

(All dollars in thousands)

Commitments:

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

The Company has entered into salary continuation agreements with two employees, which provide for monthly payments to each of the employees or their designated beneficiary upon the employee's retirement or death. The payment benefits range from \$1 per month to \$3 per month with the term of such payments limited to 15 years after the employee's retirement at age 65. The agreements also provide for survivorship benefits if the employee dies before attaining age 65, and severance payments if the employee is terminated without cause; the amount of which is dependent on the length of company service at the date of termination. The net present value of the retirement payments is \$407 at December 31, 2010, of which \$395 is included in Other Long Term Liabilities, and the remaining current portion of \$12 in accrued liabilities, as one of the employees retired at the end of 2010. The December 31, 2009 liability of \$388 was all reported in Other Long Term Liabilities. The Company has obtained and is the beneficiary of three whole life insurance policies with respect to the two employees discussed above, and one other policy. The cash surrender value of such policies (included in Other Long Term Assets) amounts to \$706 at December 31, 2010 and \$622 at December 31, 2009, respectively.

Contingencies:

The Company's general liability insurance policies are subject to deductibles or retentions, in amounts ranging from \$25 to \$75, (depending on policy year) up to an aggregate amount. The Company is insured on a 'first dollar' basis for workers' compensation subject to statutory limits.

In the ordinary and normal conduct of our business, the Company is subject to periodic lawsuits, investigations and claims (collectively, the "Claims"). The Company has in place commercial general liability insurance policies that cover the Claims, including those alleging damages as a result of product defects. Although we cannot predict with certainty the ultimate resolution of the Claims asserted against the Company, the estimated liability for the Claims, both in litigation and pre-suit, are limited to the deductible amounts under those insurance policies. Those liabilities were estimated to be \$309 and \$125, at December 31, 2010 and 2009, respectively, and are included in Other Accrued Liabilities. The increase in 2010 from 2009 reflects additional deductible amounts anticipated to be paid with respect to new Claims. The Company does not believe that the Claims have legal merit, and is therefore vigorously defending those Claims.

It is possible that additional Claims may be filed against the company in the future, which could adversely impact the terms and pricing of the Company's product liability insurance programs, possibly materially. We do not believe that any currently pending Claim to which the Company is a party will have a material adverse effect on our business, financial condition or results of operations.

Warranty Commitments:

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

FUTURE IMPACT OF KNOWN TRENDS OR UNCERTAINTIES

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

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

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

Initiatives taken by the federal government, such as the first time home owner credits in place during the 4th quarter of 2009 and the 1st quarter of 2010, were aimed to help stabilize the residential housing markets and stimulate the short term economy. Those changes may however have a negative impact on future construction. A significant reduction in residential construction activity may materially adversely affect the Company's revenues.

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

Weather Conditions—The Company’s flagship TracPipe® and CounterStrike® products are used in residential and commercial heating applications. As such, the demand for its products is impacted by weather as it affects the level of construction. Furthermore, severe climatic changes, such as those suggested by the “global 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.

Supply Disruptions and Commodity Risks—The Company uses a variety of materials in the manufacture of its products, including stainless steel, polyethylene and brass for its AutoFlare® connectors. In connection with the purchase of commodities, principally stainless steel for manufacturing requirements, the Company occasionally enters into one-year purchase commitments which include a designated fixed price or range of prices. These agreements require the Company to accept delivery of the commodity in the quantities committed, at the agreed upon prices. Transactions required for these commodities in excess of the one year commitments are conducted at current market prices at the Company’s discretion. 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 line of credit (LOC) with Sovereign Bank, NA (Sovereign), but has no draws on the line outstanding at December 31, 2010, and therefore has no related interest rate risk. However, if 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, 2010, the actual rate to borrow was at 2.01%. 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 **(All dollars are in thousands)**

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates and assumptions relate to revenue recognition, 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 generally accepted accounting principles, revenues are considered to have been earned when the Company has substantially accomplished what it must do to be entitled to the benefits represented by the revenues. The following criteria represent preconditions to the recognition of revenue:

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

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

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

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

Inventory

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

Goodwill and Intangible Assets

In accordance with FASB ASC Topic 350 Intangibles – Goodwill of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the Company ceased recording amortization of goodwill and intangible assets with indefinite lives effective January 1, 2002. The Company performed an annual impairment test in accordance with this guidance as of December 31, 2010. This analysis did not indicate any impairment of goodwill.

Product Liability Reserves

Product liability reserves represent the estimated remaining payout for known claims against the Company, and incurred but not reported claims for the current year. The Company uses historical data to project unreported 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, in amounts ranging from \$25 to \$75, depending on the policy year, up to an aggregate amount. The Company is vigorously defending 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, 2010.

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 and related deferred taxes and tax benefits.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to

apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize the benefit, or that future deductibility is uncertain.

LIQUIDITY AND CAPITAL RESOURCES

(All dollars in thousands)

Twelve Months ended December 31, 2010

The Company's cash balance at December 31, 2010 was \$2,209, compared to \$1,881 at December 31, 2009, which represents an increase of \$328 between periods. The change is attributable to various components, as described below.

Operating Activities

Cash provided by operating activities was \$3,583 lower in 2010 than in 2009, being \$4,760 and \$8,343, respectively.

Regarding significant cash outflows compared to 2009, the Company recognized a \$4,059 cash depletion in 2010 related to inventory. In the prior year, the Company was able to purchase less inventory, as quantities on hand at the beginning of 2009 were higher than required to fulfill sales, a result of the general economic downturn. In 2010, inventory purchases went back to normal levels; however, the price of materials had increased for some core materials. Most notably, the price increased for nickel, which is a component of stainless steel and is used for many of the Company's hose products, and the price of copper, a key ingredient in the Company's brass fittings. Overall, inventory realizability has however actually improved, as evidenced by the ratio of inventory to quarterly cost of goods sold, which was 0.97 and 1.11 at the end of 2010 and 2009, respectively. Accounts receivable was also a factor, as receipts went down \$1,251. A good portion of the change was due to the decrease in sales from the fourth quarter of 2008 to the same quarter in 2009, thus impacting the eventual cash collections during the succeeding year. And although the Company had an excellent sales month in December of 2010, thus driving up the accounts receivable balance, cash deposits will not show until 2011.

Regarding the favorable components, accounts payable outflows were reduced by \$584. The bulk of the difference related to a unique raw material payment of \$490, which was disbursed in the first quarter of 2009. Accrued compensation required \$656 less cash. This is the result of diminished 2009 results paid out in 2010, versus much stronger results in 2008, paid in 2009. Also, accrued commissions and sales incentives produced \$1,078 more cash, largely due to a higher payout in 2009 related to higher sales in 2008.

The changes in other assets of \$808 related to various items including a portion connected to the timing of tax payments between periods.

Investing Activities

Cash from investing activities was \$3,106 in 2010 versus (\$3,688) in 2009. This is largely a result of receiving \$3,250 from our former parent company, Mestek, on October 20, 2010, which we loaned to them in 2009. Further details of the loan are contained in Note 12, Certain Relationships and Related Party Transactions. Capital spending was \$144 and \$438 in 2010 and 2009, respectively.

Financing

Cash used in financing activities during 2010 was \$7,500, compared with \$12,708 used in 2009. In 2009, the Company paid \$20,183 in dividends, while also borrowing \$7,500 from its line of credit to fund a portion of that payment. The Company paid the entire \$7,500 of debt related to the LOC in 2010, as fully explained in Note 5, "Line of Credit".

On December 30, 2010, the Company agreed to a new Revolving Line of Credit Note and Loan Agreement with Sovereign. The Company established a line of credit facility in the maximum amount of \$10,000, maturing in four years (December 31, 2014), with funds available for working capital purposes and to fund dividends. See Note 5 for a full description of terms and fees associated with the line.

The Company believes its liquidity position as of December 31, 2010 is fully adequate to meet foreseeable future needs and that the Company will possess adequate cash reserves to meet its day-to-day needs including any acquisitions, capital expenditures or stock repurchases it can reasonably foresee at this time.

RECENT ACCOUNTING PRONOUNCEMENTS

ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements* This ASU affects all entities that are required to make disclosures about recurring and nonrecurring fair value measurements under FASB ASC Topic 820, originally issued as FASB Statement No. 157, *Fair Value Measurements*. The ASU requires certain new disclosures and clarifies two existing disclosure requirements. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

Off-Balance Sheet Obligations or Arrangements

The Company has off-balance sheet obligations or arrangements at December 31, 2010 that relate to purchase commitments and operating lease obligations totaling \$7,560. The total amount of these obligations at December 31, 2009 was \$10,765.

Item 7A - QUANTITATIVE AND QUALITATIVE MARKET RISKS

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the consolidated balance sheet of Omega Flex, Inc. and subsidiaries (the Company) as of December 31, 2009, and the related consolidated statement of operations, change in stockholders' equity and comprehensive income, and cash flow for the year 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 audit 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 audit provides a reasonable basis for our opinion.

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

/s/ Caturano and Company, P.C.

CATURANO AND COMPANY, P.C.

Boston, Massachusetts
March 16, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Omega Flex, Inc. and subsidiaries as of December 31, 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the year 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 audit 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 audit provides 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, 2010, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

/s/ McGladrey & Pullen, LLP

MCCLADREY & PULLEN, LLP

Boston, Massachusetts
March 9, 2011

OMEGA FLEX, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$2,209	\$1,881
Accounts Receivable - less bad debt allowances of \$216 and \$92, respectively	7,314	6,515
Inventories - Net	6,016	6,188
Deferred Taxes	859	712
Note Receivable from former Parent Company	-	3,250
Other Current Assets	<u>644</u>	<u>542</u>
Total Current Assets	17,042	19,088
Property and Equipment – Net	5,784	6,296
Goodwill	3,526	3,526
Other Long Term Assets	<u>706</u>	<u>622</u>
Total Assets	<u>\$27,058</u>	<u>\$29,532</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$856	\$863
Line of Credit	-	7,500
Accrued Compensation	1,433	1,552
Accrued Commissions and Sales Incentives	2,410	1,680
Taxes Payable	215	226
Other Accrued Liabilities	<u>1,769</u>	<u>1,546</u>
Total Current Liabilities	6,683	13,367
Deferred Taxes	1,217	1,372
Other Long Term Liabilities	<u>892</u>	<u>987</u>
Total Liabilities	<u>\$8,792</u>	<u>\$15,726</u>
Shareholders' Equity:		
Controlling Interest:		
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, 2010 and 2009	102	102
Treasury Stock	(1)	(1)
Paid in Capital	10,808	10,808
Retained Earnings	7,750	3,184
Accumulated Other Comprehensive Loss	<u>(519)</u>	<u>(434)</u>
Total Omega Flex, Inc. Shareholders' Equity	18,140	13,659
Noncontrolling Interest	<u>126</u>	<u>147</u>
Total Shareholders' Equity	<u>\$18,266</u>	<u>\$13,806</u>
Total Liabilities and Equity	<u>\$27,058</u>	<u>\$29,532</u>

See Accompanying Notes to Consolidated Financial Statements.

OMEGA FLEX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31,

	<u>2010</u>	<u>2009</u>
	(Amounts in thousands, except earnings per Common Share)	
Net Sales	\$46,875	\$44,140
Cost of Goods Sold	<u>22,573</u>	<u>21,507</u>
Gross Profit	24,302	22,633
Selling Expense	8,855	7,872
General and Administrative Expense	6,378	6,267
Engineering Expense	<u>2,321</u>	<u>2,250</u>
Operating Profit	6,748	6,244
Interest Income (Expense) - Net	(25)	174
Other Income (Expense) - Net	<u>(5)</u>	<u>132</u>
Income Before Income Taxes	6,718	6,550
Income Tax Expense	<u>2,169</u>	<u>2,172</u>
Net Income	4,549	4,378
Less: Net Income (Loss) – Noncontrolling Interest	<u>(17)</u>	<u>(3)</u>
Net Income attributable to Omega Flex, Inc.	\$4,566	\$4,381
	=====	=====
Basic Earnings per Common Share	\$0.45	\$0.43
Basic Weighted Average Shares Outstanding	10,092	10,092
Diluted Earnings per Common Share	\$0.45	\$0.43
Diluted Weighted Average Shares Outstanding	10,092	10,092

See Accompanying Notes to Consolidated Financial Statements.

OMEGA FLEX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
For the years ended December 31, 2010 and 2009

	<u>Common Stock Outstanding</u>	<u>Treasury Stock</u>	<u>Common Stock</u>	<u>Paid In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Noncontrolling Interest</u>	<u>Total</u>
(Dollars in Thousands)								
Balance -December 31, 2008	10,093,808		\$102	\$10,832	\$18,986	(\$674)	\$138	\$29,348
Net Income (Loss)					4,381		(3)	4,378
Cumulative Translation Adjustment Comprehensive Income						240	12	<u>252</u>
								<u>4,630</u>
Purchase of Shares for Treasury	(1,986)	(1)		(24)				(25)
Dividends Paid					(20,183)			<u>(20,183)</u>
Balance - December 31, 2009	10,091,822	(1)	\$102	\$10,808	\$3,184	(\$434)	\$147	\$13,806
Net Income (Loss)					4,566		(17)	4,549
Cumulative Translation Adjustment Comprehensive Income						(85)	(4)	<u>(89)</u>
								<u>4,460</u>
Balance - December 31, 2010	<u>10,091,822</u>	<u>(\$1)</u>	<u>\$102</u>	<u>\$10,808</u>	<u>\$7,750</u>	<u>(\$519)</u>	<u>\$126</u>	<u>\$18,266</u>

See Accompanying Notes to Consolidated Financial Statements

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

For the years ended December 31,

	<u>2010</u>	<u>2009</u>
	(Dollars in Thousands)	
Cash Flows from Operating Activities:		
Net Income	\$4,549	\$4,378
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Non-Cash Compensation Expense	99	102
Depreciation and Amortization	637	623
Provision for Losses on Accounts		
Receivable, net of write-offs and recoveries	170	57
Changes in Assets and Liabilities:		
Accounts Receivable	(774)	477
Inventories, Net	140	4,199
Accounts Payable	(217)	(801)
Accrued Compensation	(116)	(772)
Accrued Commissions and Sales Incentives	730	(348)
Other Liabilities	(125)	(47)
Other Assets	<u>(333)</u>	<u>475</u>
Net Cash Provided by Operating Activities	<u>4,760</u>	<u>8,343</u>
Cash Flows from Investing Activities:		
Note Receivable from former Parent Company	3,250	(3,250)
Capital Expenditures	<u>(144)</u>	<u>(438)</u>
Net Cash Provided by (Used In) Investing Activities	<u>3,106</u>	<u>(3,688)</u>
Cash Flows from Financing Activities:		
Principal (Payments) Borrowings on Line of Credit	(7,500)	7,500
Treasury Stock Purchases	--	(25)
Dividends Paid	<u>--</u>	<u>(20,183)</u>
Net Cash Used In Financing Activities	<u>(7,500)</u>	<u>(12,708)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	366	(8,053)
Translation effect on cash	(38)	161
Cash and Cash Equivalents - Beginning of Year	<u>1,881</u>	<u>9,773</u>
Cash and Cash Equivalents - End of Year	<u>\$2,209</u>	<u>\$1,881</u>
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid for Income Taxes	<u>\$2,672</u>	<u>\$1,707</u>
Cash paid for Interest	<u>\$186</u>	<u>\$13</u>

See Accompanying Notes to Consolidated Financial Statements.

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

1. BASIS OF PRESENTATION AND CONSOLIDATION

Description of Business

The accompanying consolidated financial statements include the accounts of Omega Flex, Inc. (Omega) and its subsidiaries (collectively the "Company"). The Company's audited consolidated financial statements for the year ended December 31, 2010 and 2009 have been prepared in accordance with generally accepted accounting principles (GAAP), and with the instructions of Form 10-K and Article 8 of Regulation S-X. All material inter-company accounts and transactions have been eliminated in consolidation.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Revenue Recognition

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

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

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

Cash Equivalents

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

Inventories

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

Property and Equipment

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

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

In accordance with FASB ASC Topic 350, with respect to Goodwill and Intangibles, the Company performs annual impairment tests using the stock price as of the last day of the year, to determine the fair value of the reporting unit and then compares that value to the carrying value. The fair value of the reporting unit exceeded the carrying value, therefore as of December 31, 2010 and December 31, 2009 the Company concluded that goodwill was not impaired.

Fair Value of Financial and Nonfinancial Instruments

The Company measures financial instruments in accordance with FASB ASC Topic 820, Fair Value Measurements and Disclosures. The accounting standard defines fair value,

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

Advertising Expense

Advertising costs are charged to operations as incurred, and are included in selling expenses in the accompanying consolidated financial statements. Such charges aggregated \$510 and \$528, for the years ended December 31, 2010, and 2009, respectively.

Research and Development Expense

Research and development expenses are charged to operations as incurred. Such charges aggregated \$788, and \$727, for the years ended December 31, 2010 and 2009, respectively and are included in engineering expense in the accompanying consolidated financial statements.

Shipping Costs

Shipping costs are included in selling expense on the Statements of Operations. The expense relating to shipping was \$1,224 and \$1,114 for the years ended December 31, 2010 and 2009, respectively.

Provision for Doubtful Accounts

The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balance. The Company determines the allowance based on any known collection issues, historical experience, and other currently available evidence. The reserve for doubtful accounts was \$216 and \$92 as of December 31, 2010 and 2009, respectively. In regards to identifying uncollectible accounts, the Company reviews an aging report on a consistent basis to determine past due accounts and charges off those accounts that are deemed uncollectible once all collection efforts have been exhausted.

Earnings per Common Share

Basic earnings per share have been computed using the weighted average number of common shares outstanding. For the periods presented, there are no dilutive securities. Consequently, basic and dilutive earnings per share are the same.

Currency Translation

Assets and liabilities denominated in foreign currencies, most of which relates to our United Kingdom subsidiary whose functional currency is British pounds sterling, are translated into U.S. dollars at exchange rates prevailing on the balance sheet date. The Statements of Operations are translated into U.S. dollars at average exchange rates. Adjustments resulting from the translation of financial statements are excluded from the determination of income and are accumulated in a separate component of shareholders' equity. For the years ended December 31, 2010 and 2009 exchange gains and losses resulting from foreign currency transactions were not significant and are included in the statements of operations (other income (expense)) in the period in which they occur.

Income Taxes

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

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

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

Upon inception, the Company adopted the provisions ASC 740-10 relative to accounting for uncertainties in tax positions. These provisions provide guidance on the recognition, de-recognition and measurement of potential tax benefits associated with tax positions. The Company elected to recognize interest and penalties related to income tax matters as a component of the income tax provision in the consolidated statements of operations. For additional information regarding ASC 740-10, see Note 7.

Other Comprehensive Loss

For the years ended December 31, 2010 and 2009, respectively, the components of Other Comprehensive Loss consisted solely of foreign currency translation adjustments.

Significant Concentration

One customer accounted for approximately 19% of sales in both 2010 and 2009. That same customer accounted for 22% and 21% of Accounts Receivable at December 31, 2010 and 2009, respectively. Also, approximately 91% of sales occur in North America, with the remaining 9% portion scattered among other countries, but mostly pertaining to the United Kingdom.

Subsequent Events

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

New Accounting Pronouncements

ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements* This ASU affects all entities that are required to make disclosures about recurring and nonrecurring fair value measurements under FASB ASC Topic 820, originally issued as FASB Statement No. 157, *Fair Value Measurements*. The ASU requires certain new disclosures and clarifies two existing disclosure requirements. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. The portions adopted by the Company did not have a significant impact on the year ended December 31, 2010. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

3. INVENTORIES

Inventories, net of reserves of \$1,296 and \$1,443, respectively, consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Finished Goods	\$4,297	\$4,447
Raw Materials	<u>1,719</u>	<u>1,741</u>
Total Inventory, Net	<u>\$6,016</u>	<u>\$6,188</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>	Depreciation and Amortization Est.
	(in thousands)		<u>Useful Lives</u>
Land	\$538	\$538	
Buildings	4,141	4,141	39 Years
Leasehold Improvements	211	207	3-10 Years (Lesser of Life or Lease)
Equipment	<u>8,494</u>	<u>8,384</u>	3-10 Years
	13,384	13,270	
Accumulated Depreciation	<u>(7,600)</u>	<u>(6,974)</u>	
	<u>\$5,784</u>	<u>\$6,296</u>	

The above amounts include approximately \$150 at December 31, 2010 and \$154 at December 31, 2009 in assets that had not yet been placed in service by the Company. No depreciation was recorded in the related periods for these assets.

Depreciation and amortization expense was approximately \$637 and \$623 for the years ended December 31, 2010 and 2009, respectively.

5. LINE OF CREDIT

As of December 31, 2010, the Company had no outstanding bank debt. At December 31, 2009, the Company had \$7,500 of borrowings outstanding under its line of credit agreement with Sovereign Bank, NA (“Sovereign”).

On December 30, 2010, the Company agreed to a new Revolving Line of Credit Note and Loan Agreement with Sovereign. The Company established a line of credit facility in the maximum amount of \$10,000, maturing in four years (December 31, 2014), with funds available for working capital purposes and to fund dividends. This supersedes the \$15,000 line of credit that the Company previously had in place with Sovereign, as described below. The loan is collateralized by all of the Company’s tangible and intangible assets. The loan agreement provides for the payment of any loan under the agreement at an interest rate range of either LIBOR plus 1.75% to plus 2.75%, or, Prime less 0.50% to plus 0.50%, depending upon the Company’s then existing financial ratios. At December 31, 2010, the Company’s ratio would allow for the most favorable rates under the agreement’s range, which would be a rate of 2.01% (LIBOR plus 1.75%). The Company is required to pay an annual commitment fee for the use of the funds, and is also obligated to pay a “Line Fee” ranging from 17.5 to 35.0 basis points of the average unused balance on a quarterly basis, depending again upon the Company’s ratio of Funded Debt to Tangible Net Worth. The Company may terminate the line at any time during the four year term, as long as there are no amounts outstanding.

In 2009, the Company agreed to a Revolving Line of Credit Note and a Loan Agreement with Sovereign dated December 17, 2009, which established a line of credit facility in the maximum amount of \$15,000, maturing on December 31, 2010. Similar to the above 2010 agreement, funds were available for working capital purposes and to fund dividends, and the loan was collateralized by all of the Company’s tangible and intangible assets. The 2009 loan agreement provided for the payment of any loan under the agreement at a rate that is either prime rate plus 0.75% or LIBOR rate plus 3%, with a 4% floor. The Company was also required to pay a commitment fee equal of \$19 for the additional \$7,500 of available funds, and was delegated to pay a “Line Fee” equal to 17.5 basis points of the average unused balance on a quarterly basis.

On September 4, 2009, the Company had extended its revolving line of credit note and loan agreement with Sovereign established in 2008, with considerably similar terms, with the exception that the new agreement included the collateralization of assets. This note and agreement were originally in place until September 1, 2010, but was subsequently superseded by the December 2009 loan facility described in the preceding paragraph. There were no borrowings under the September 4, 2009 agreement.

As of December 31, 2010 and 2009, the Company was in compliance with all debt covenants.

6. SHAREHOLDERS’ EQUITY

As of December 31, 2010 and December 31, 2009, the Company had authorized 20,000,000 common stock shares with par value of \$0.01 per share. For the same periods, the number of shares issued were 10,153,633, and the total number of outstanding shares were 10,091,822, with the variance representing shares held in Treasury.

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

On September 11, 2009, the Company's Board of Directors authorized an extension of its stock repurchase program for an additional 24 months. The original program established in September of 2007 authorized the purchase of up to \$5,000 of its common stock. The purchases may be made from time-to-time in open market or in privately negotiated transactions, depending on market and business conditions. The Board retained the right to cancel, extend, or expand the share buyback program, at any time and from time-to-time. During 2009, the Company purchased 1,986 shares for \$25, including commissions. Since inception, the Company has purchased a total of 61,811 shares for approximately \$932, or \$15 per share. The Company did not make any stock purchases during 2010.

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

7. INCOME TAXES

Income tax expense consisted of the following:

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Federal Income Tax:		
Current	\$2,273	\$1,613
Deferred	(165)	354
State Income Tax:		
Current	244	177
Deferred	(26)	47
Foreign Income Tax:		
Current	--	(6)
Deferred	(157)	(13)
Income Tax Expense	<u>\$2,169</u>	<u>\$2,172</u>
	=====	=====

Pre-tax income included foreign losses of (\$591) and (\$84) in 2010 and 2009, respectively.

Total income tax expense differed from "statutory" income tax expense, computed by applying the U.S. federal income tax rate of 34% to earnings before income tax, as follows:

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Computed "Statutory" Income Tax Expense	\$2,361	\$2,290
State Income Tax, Net of Federal Tax Benefit	168	184
Foreign Tax Rate Differential	41	6
Reduction in Tax Reserves	(155)	(181)
Other - Net	(246)	(127)
Income Tax Expense	<u>\$2,169</u>	<u>\$2,172</u>
	=====	=====

A deferred income tax (expense) benefit results from temporary timing differences in the recognition of income and expense for income tax and financial reporting purposes. The components of and changes in the net deferred tax assets (liabilities) which give rise to this deferred income tax (expense) benefit for the years ended December 31, 2010 and 2009 are as follows:

	December 31,	
	<u>2010</u>	<u>2009</u>
	(in thousands)	
<u>Deferred Tax Assets:</u>		
Compensation Assets	\$97	\$160
Inventory Valuation	583	548
Accounts Receivable Valuation	183	137
Deferred Litigation Costs	41	---
Other	333	110
Compensation Liabilities	<u>251</u>	<u>146</u>
Total Deferred Assets	<u>\$1,488</u>	<u>\$1,101</u>
<u>Deferred Tax Liabilities:</u>		
Prepaid Expenses	(207)	(190)
Depreciation and Amortization	<u>(1,639)</u>	<u>(1,571)</u>
Total Deferred Liabilities	<u>(\$1,846)</u>	<u>(\$1,761)</u>
Total Deferred Tax Liability	<u>(\$358)</u>	<u>(\$660)</u>

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

As of January 1, 2010, the Company had provided a liability of \$431 for unrecognized tax benefits related to various federal and state income tax matters. Of this amount, the amount that would impact the Company's effective tax rate, if recognized, was \$187. The difference between the total amount of unrecognized tax benefits and the amount that would impact the effective tax rate consists of items that are offset by the federal tax benefit of state income tax items of \$137. The reserve has decreased by \$155 in the twelve-months ended December 31, 2010.

The Company is currently subject to audit by the Internal Revenue Service for the calendar year ended 2007. In 2010, the Company settled an audit by the Internal Revenue Service of its 2008 and 2009 returns. The audit adjustments, all of which were temporary differences, resulted in net additional federal and state tax of \$108, plus interest of \$10. The Company and its Subsidiaries state income tax returns are subject to audit for the calendar years ended 2006 through 2009.

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

	<u>2010</u>	<u>2009</u>
Beginning Unrecognized Tax Benefits –	\$431	\$612
Current Year – Increases	3	---
Current Year – Decreases	---	---
Current Year – Interest/Penalties	\$20	\$25
Settlements	---	---
Expired Statutes	<u>(178)</u>	<u>(206)</u>
Ending Unrecognized Tax Benefits –	<u>\$276</u>	<u>\$431</u>
	=====	=====

8. LEASES

In the United Kingdom the Company leases a facility in Banbury, England for approximately \$19 per month, which serves sales, warehousing and operational functions. The lease in Banbury was effective April 1, 2006 and has a 15-year term ending in March of 2021. There is an option to terminate in September of 2012, and again in September of 2017. If the Company elects to terminate in 2012, a penalty of 7.5 months additional rent must be paid, or approximately \$142. Termination in 2017 requires a penalty of 2 months rentals, or approximately \$38. The Company's current intention is to utilize the facility for the 15 years.

In the United States, in 2010 and 2009, the Company leased office space in Middletown, CT for approximately \$8 a month.

In addition to property rentals, the Company also leases several automobiles, which are included in the rent expense and operating lease details below.

Rent expense for operating leases was approximately \$317 and \$289 for the years ended December 31, 2010, and 2009, respectively.

Future minimum lease payments under non-cancelable leases as of December 31, 2010 are as follows:

Year Ending December 31,	Operating Leases (in thousands)
2011	\$322
2012	314
2013	269
2014	224
2015	224
Thereafter	<u>1,175</u>
Total Minimum Lease Payments	<u>\$2,528</u>
	=====

9. EMPLOYEE BENEFIT PLANS

Defined Contribution and 401-K Plans

The Company maintains a qualified non-contributory profit-sharing plan covering all eligible employees. There were \$224 of contributions made to the plan in both 2010 and 2009, which were charged to expense.

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

The Company also maintains a savings & retirement plan qualified under Internal Revenue Code Section 401(k) for all employees. Employees are eligible to participate in the Plan the first day of the month following date of hire. Participants may elect to have up to fifty percent (50%) of their compensation withheld, up to the maximum allowed by the Internal Revenue Code. After completing (1) year of service, the Company contributes an additional amount equal to 25% of all employee contributions, up to a maximum of 6% of an employee's gross wages. Contributions are funded on a current basis. Contributions to the Plan charged to expense for the years ended December 31, 2010 and 2009 were \$67 and \$49, respectively. The participants Company contribution vests over six years.

10. COMMITMENTS AND CONTINGENCIES

Commitments:

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

The Company has entered into salary continuation agreements with two employees, which provide for monthly payments to each of the employees or their designated beneficiary upon the employee's retirement or death. The payment benefits range from \$1 per month to \$3 per month with the term of such payments limited to 15 years after the employee's retirement at age 65. The agreements also provide for survivorship benefits if the employee dies before attaining age 65, and severance payments if the employee is terminated without cause; the amount of which is dependent on the length of company service at the date of termination. The net present value of the retirement payments is \$407 at December 31, 2010, of which \$395 is included in Other Long Term Liabilities, and the remaining current portion of \$12 in accrued liabilities, as one of the employees retired at the end of 2010. The December 31, 2009 liability of \$388 was all reported in Other Long Term Liabilities. The Company has obtained and is the beneficiary of three whole life insurance policies with respect to the two employees discussed above, and one other policy. The cash surrender value of such policies (included in Other Long Term Assets) amounts to \$706 at December 31, 2010 and \$622 at December 31, 2009, respectively.

Contingencies:

The Company's general liability insurance policies are subject to deductibles or retentions, in amounts ranging from \$25 to \$75, (depending on policy year) up to an aggregate amount. The Company is insured on a 'first dollar' basis for workers' compensation subject to statutory limits.

In the ordinary and normal conduct of our business, the Company is subject to periodic lawsuits, investigations and claims (collectively, the "Claims"). The Company has in place commercial general liability insurance policies that cover the Claims, including those alleging damages as a result of product defects. Although we cannot predict with certainty the ultimate resolution of the Claims asserted against the Company, the estimated liability for the Claims, both in litigation and pre-suit, are limited to the deductible amounts under those insurance policies. Those liabilities were estimated to be \$309 and \$125, at December 31, 2010 and 2009, respectively, and are included in Other Accrued Liabilities. The increase in 2010 from 2009 reflects additional deductible amounts anticipated to be paid with respect to new Claims. The Company does not believe that the Claims have legal merit, and is therefore vigorously defending those Claims. It is possible that additional Claims may be filed against the company in the future, which could adversely impact the terms and pricing of the Company's product liability insurance programs, possibly materially. We do not believe that any currently pending Claim to which the Company is a party will have a material adverse effect on our business, financial condition or results of operations.

Warranty Commitments:

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

11. STOCK – BASED COMPENSATION PLANS

Phantom Stock Plan

Plan Description. On April 1, 2006, the Company adopted the Omega Flex, Inc. 2006 Phantom Stock Plan (the "Plan"). The Plan authorizes the grant of up to one million units of phantom stock to employees, officers or directors of the Company. The phantom stock units ("Units") each represent a contractual right to payment of compensation in the future based on the market value of the Company's common stock.

The Units are not shares of the Company's common stock, and a recipient of the Units does not receive any of the following:

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

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

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

On December 9, 2009, the Board of Directors authorized an amendment to the Plan which authorized payment of an amount equal to the value of any cash or stock dividend declared by the Company on its common stock to be accrued to the phantom stock units outstanding as of the record date of the common stock dividend. The dividend equivalent will be paid at the same time the underlying phantom stock units are paid to the participant.

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

Grants of Phantom Stock Units. As of December 31, 2009, the Company had 12,937 unvested units outstanding, all of which were granted at *Full Value*. On March 3, 2010, the Company granted an additional 8,100 *Full Value* Units with a fair value of \$7.90 per unit on the date of grant, using historical volatility. In all cases, the grant price was equal to the closing price of the Company's common stock at the grant date.

The Company uses the Black-Scholes option pricing model as its method for determining fair value of the Units on a variable compensation plan model. 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, 2010. Of the \$266 December 31, 2010 liability, \$45 is included in current liability, as it will be paid in March 2011. And the balance of \$221 is included in other long term liabilities.

In accordance with FASB ASC Topic 718 Stock Compensation, the Company recorded compensation expense of approximately \$99 and \$102 related to the Phantom Stock Plan for the twelve months ended December 31, 2010 and 2009, respectively.

The following table summarizes information about the Company's nonvested phantom stock Units at December 31, 2010:

	<u>Units</u>	<u>Weighted Average Grant Date Fair Value</u>
Number of Phantom Stock Unit Awards:		
Nonvested at December 31, 2009	12,937	\$14.77
Granted	8,100	\$7.90
Vested	(5,482)	(\$15.30)
Forfeited	(---)	(\$---)</td
Canceled	(---)	(\$---)</td
Nonvested at December 31, 2010	<u>15,555</u>	<u>\$11.01</u>
Phantom Stock Unit Awards Expected to Vest	<u>15,555</u>	<u>\$11.01</u>

At December 31, 2010, a total of 8,990 Units have vested including 5,482, which vested during 2010. The Units granted are expected to vest in one year intervals over three years, subject to earlier termination or forfeiture.

The total unrecognized compensation costs calculated at December 31, 2010 are \$139, which will be recognized through March of 2013. The unrecognized costs for last year were \$116, going through 2012. The Company will recognize the related expense over the weighted average period of 1.29 years.

12. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Mestek, Inc.

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

13. SUBSEQUENT EVENTS

We have assessed and reported on subsequent events through the date of issuance of these financial statements.

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

None

Item 9A(T) – CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

We evaluated, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (“Exchange Act”), as amended as of December 31, 2010, the end of the period covered by this report on Form 10K. Based on this evaluation, our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) have concluded that our disclosure controls and procedures were effective as of December 31, 2010. Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) is accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures.

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

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

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of our management and directors; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

Our management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2010. In making this assessment, the company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*.

Based on its evaluation, our management has concluded that, as of December 31, 2010, our internal control over financial reporting was effective.

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

(d) Changes in Internal Control over Financial Reporting.

There were no changes on our internal control over financial reporting during the most recent quarter ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B – OTHER INFORMATION

All matters required to be disclosed on Form 8-K during our fiscal 2010 fourth quarter have been previously disclosed on a Form 8-K filed with the Securities and Exchange Commission.

PART III

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

Item 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors of the Company will be set forth in the Company's proxy statement relating to the annual meeting of shareholders to be held June 7, 2011, under the caption "Current Directors and Nominees for Election – Background Information", and to the extent required and except as set forth therein, is incorporated herein by reference.

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

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

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

Item 11 - EXECUTIVE COMPENSATION

Information regarding executive compensation will be set forth in the Company's proxy statement relating to the annual meeting of shareholders to be held June 7, 2011, and under the caption "Executive Compensation" to the extent required and except as set forth therein, is incorporated herein by reference.

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

Item 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management as well as information regarding equity compensation plans and individual equity contracts or arrangements will be set forth in the Company's proxy statement relating to the annual meeting of shareholders to be held June 7, 2011, under the caption "Security Ownership of Certain Beneficial Owners and Management", and to the extent required and except as set forth therein, is incorporated herein by reference.

Item 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions will be set forth in the Company's proxy statement relating to the annual meeting of shareholders to be held June 7, 2011, under the caption "Certain Relationships and Related Transactions" and to the extent required and except as set forth therein, is incorporated herein by reference.

Item 14 – PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding financial accounting fees and services will be set forth in the Company's proxy statement relating to the annual meeting of shareholders to be held June 7, 2011, under the caption "Principal Accounting Fees and Services", and to the extent required, and except as set forth therein, is incorporated herein by reference.

PART IV

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

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

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	<u>Pages of this report</u>
Reports of Independent Registered Public Accounting Firms	Pages 24 through 25
Financial Statements:	
(a)(1) Consolidated Balance Sheets as of December 31, 2010 and 2009	Page 26
Consolidated Statements of Operations for the Years Ended December 31, 2010 and 2009	Page 27
Consolidated Statements of Shareholders' Equity and Comprehensive Loss for the Years Ended December 31, 2010 and 2009	Page 28
Consolidated Statements of Cash Flows for the Years Ended December 31, 2010 and 2009	Page 29
Notes to the Consolidated Financial Statements	Pages 30 through 43
(a)(2) Financial Statement Schedules	

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

(a)(3) Exhibits

The Exhibit Index is set forth on Pages 49 and 50. No annual report to security holders as of December 31, 2010 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 2011. Such annual report to security holders, proxy statement or form of proxy will be furnished to security holders subsequent to the filing of this Annual Report on Form 10-K.

EXHIBIT INDEX

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

Exhibit No. *****	Description *****	Reference Key *****
3.1	Articles of Incorporation of Omega Flex, Inc., as amended	(A)
3.2	Amended and Restated By-laws of Omega Flex, Inc.	(A)
10.1	Indemnity and Insurance Matters Agreement dated July 29, 2005 between Omega Flex, Inc. and Mestek, Inc.	(A)
10.2	Form of Indemnification Agreements entered into between Omega Flex, Inc. and its Directors and Officers and the Directors of its wholly-owned subsidiaries.	(A)
10.3	Schedule of Directors/Officers with Indemnification Agreement	(A)
10.4	Employment Agreement dated December 15, 2008 between Omega Flex, Inc. and Kevin R. Hoben	(D)
10.5	Employment Agreement dated December 15, 2008 between Omega Flex, Inc. and Mark F. Albino	(D)
10.6	Amended and Restated Committed Revolving Line of Credit Note dated December 30, 2010 by Omega Flex, Inc. to Sovereign Bank, N.A. in the principal amount of \$10,000,000.	
10.7	Loan and Security Agreement dated December 17, 2009 between Omega Flex, Inc. and Sovereign Bank, N.A.	(G)
10.8	First Amendment dated December 30, 2010 to the Loan and Security Agreement between Omega Flex, Inc. and Sovereign Bank, N.A.	
10.9	Promissory Note dated June 10, 2009 by Mestek, Inc. payable to Omega Flex, Inc. in the principal amount of \$3,249,615.00.	(B)
10.10	Subordination Agreement dated June 10, 2009 by Omega Flex, Inc. and Bank of American, N.A.	(B)
10.11	Executive Salary Continuation Agreement	(C)
10.12	Phantom Stock Plan dated December 11, 2006.	(E)
10.13	First Amendment to the Omega Flex, Inc. 2006 Phantom Stock Plan	(G)

10.14	Form of Phantom Stock Agreement entered into between Omega Flex, Inc. and its directors, officers and employees, except as set forth in the attached schedule.	(E)
10.15	Schedule of Phantom Stock Agreements between Omega Flex, Inc. and its directors and executive officers.	
10.16	Rule 10b5-1 Agreement between Omega Flex, Inc. and Hunter Associates dated September 15, 2008.	(D)
10.17	Amendment 1 to the Rule 10b5-1 Repurchase Plan dated September 15, 2009	(F)
14.1	Code of Business Ethics	(A)
21.1	List of Subsidiaries	(A)
23.1	Consent of Caturano and Company, Inc.	
23.2	Consent of McGladrey & Pullen, LLP	
31.1	CEO Certification	
31.2	CFO Certification	
32.1	906 CEO and CFO Certifications	
99.1	Information Statement	(A)
99.2	Corporate Governance Guidelines	(A)

Reference Key

(A)	Filed as an Exhibit to the Registration Statement on Form 10-12G filed on June 22, 2005.
(B)	Filed as an Exhibit to the Quarterly Report on Form 10-Q filed August 7, 2009.
(C)	Filed as an Exhibit to the Annual Report on Form 10-K filed March 31, 2006.
(D)	Filed as an Exhibit to the Annual Report on Form 10-K filed March 18, 2009.
(E)	Filed as an Exhibit to the Annual Report on Form 10-K filed April 2, 2007.
(F)	Filed as an Exhibit to the Quarterly Report on Form 10-Q filed November 5, 2009.
(G)	Filed as an Exhibit to the Annual Report on Form 10-K filed March 17, 2010.

Each management contract or compensatory plan or arrangement to be filed as an exhibit to this report pursuant to item 15 is listed in Exhibit numbers 10.1, 10.2, 10.4 and 10.5.

SIGNATURES

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

OMEGA FLEX, INC.

Date: March 10, 2011 By: /S/ Kevin R. Hoben
Kevin R. Hoben, President and
Chief Executive Officer

Date: March 10, 2011 By: /S/ Paul J. Kane
Paul J. Kane, Vice President Finance,
Chief Financial Officer

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

Date: March 10, 2011 By: /S/ Mark F. Albino
Mark F. Albino, Director

Date: March 10, 2011 By: /S/ David K. Evans
David K. Evans, Director

Date: March 11, 2011 By: /S/ J. Nicholas Filler
J. Nicholas Filler, Director

Date: March 10, 2011 By: /S/ David W. Hunter
David W. Hunter, Director

Date: March 10, 2011 By: /S/ Bruce C. Klink
Bruce C. Klink, Director

Date: March 10, 2011 By: /S/ John E. Reed
John E. Reed, Director

Date: March 10, 2011 By: /S/ Stewart B. Reed
Stewart B. Reed, Director

Date: March 10, 2011 By: /S/ Edward J. Trainor
Edward J. Trainor, Director

This Amended and Restated Committed, Revolving Line of Credit Note replaces and supersedes a Revolving Line of Credit Note dated December 17, 2009

AMENDED AND RESTATED COMMITTED, REVOLVING LINE OF CREDIT NOTE

up to \$10,000,000.00

Springfield, MA
December 30, 2010

- 1.1 **Borrower:** OMEGA FLEX, INC., a Pennsylvania corporation with a usual address of 213 Court Street, Suite 701, Middletown, Connecticut.
- 1.2 **Bank:** SOVEREIGN BANK, a federal savings bank, and its successors and assigns, with a usual address of 1350 Main Street, Springfield, Massachusetts.
- 1.3 **Principal Sum or Loan:** up to Ten Million and 00/100 United States (\$10,000,000.00) Dollars.
- 1.4 **Interest Rate:** See Paragraphs 2 and 6.1 below.
- 1.5 **First Payment Date:** January __, 2011
- 1.6 **Maturity Date:** December 31, 2014, unless renewed by the Bank, in its sole discretion, at which time Bank may renew, terminate or extend this Note.
- 1.7 **Definitions:**

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

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

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

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

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

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

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

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

“LIBOR Advance” or “Libor Rate Advance” or “Libor Rate Loan” shall mean any principal outstanding under this Note which, pursuant to this Note, bears interest at the LIBOR Rate, plus the applicable margin which is set forth in Exhibit A which is attached hereto and made a part hereof.

“LIBOR Rate” means the per annum rate equal to the Adjusted LIBOR Rate, plus the applicable margin which is set forth in Exhibit A which is attached hereto and made a part hereof, for the 30, 60 or 90 day period as selected and as achieved by the Borrower.

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

“Loan Agreement” shall mean the Loan and Security Agreement dated December 17, 2009, as amended by a First Amendment, of even date, by and between Bank and the Borrower.

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

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

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

“Prime Rate” or “Base Rate” means the Bank’s Prime Rate as designated from time to time by the Bank plus or minus the applicable margin which is set forth in Exhibit A which is attached hereto and made a part hereof. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate being charged to any customer.

“Prime Rate Advance” or “Prime Rate Loan(s)” shall mean any principal outstanding under this Note which, pursuant to this Note, bears interest at the Prime Rate plus or minus the applicable margin which is set forth in Exhibit A attached hereto.

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

2. **INTEREST RATE:** The interest rate payable with respect to a Loan Advance shall be either the Applicable Libor Margin or the Applicable Prime Margin, as selected by the Borrower in the column under the header "Pricing Tier" appearing on Exhibit A.

The initial rate hereunder shall be based upon "Tier V" under the header "Pricing Tier" which appears on Exhibit A.

Interest rates applicable to subsequent Loan Advances shall be established on a quarterly basis by reference to the Pricing Tier corresponding with the Borrower's then current Funded Debt to Tangible Net Worth Ratio as set forth in Exhibit A attached hereto and made a part hereof.

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

4. **PRINCIPAL ADVANCES; BORROWING AVAILABILITY:**

4.1 So long as no prior Event of Default has occurred and is continuing, the Bank, shall, upon Borrower's request, make advances to Borrower from time to time during the period commencing as of the date of this Note and until December 31, 2014. All advances pursuant to this Note shall be limited to the aggregate amount of not more than \$10,000,000.00.

4.2 Any advance by Bank hereunder shall be within the reasonable discretion of the Bank. The making of an advance at any time shall not be deemed a waiver of the foregoing, or a consent, agreement or advance to the Borrower. This Note and the Bank's willingness to receive requests for advances from Borrower hereunder are subject to cancellation by Bank in its reasonable discretion at any time without prior notice.

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

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

5.1 **Calculation of Interest.** All computation of interest under this Note shall be made on the basis of a three hundred sixty (360) day year and the actual number of days elapsed. Each change in the Prime Rate shall simultaneously change the interest rate payable under this Note with respect to any Prime Rate Advance from the date of such change and during any period when a Prime Rate Advance is outstanding.

5.2 **Payment of Principal and Interest.** Beginning on the day which is thirty (30) days from the date hereof and continuing on the same day of each month, Borrower shall make to Bank payments of interest only on the outstanding principal balance of all Loan Advances from the day that an advance is made. The periodic interest payments due under this Section 5.2 shall be the sum of the daily interest amounts accruing during the relevant monthly interest period, calculated as (a) the total aggregate amount of all outstanding Loan Advances determined daily as of 1 p.m. Eastern Time during that monthly interest period, (b) multiplied by the interest rate applicable to those Loan Advances, (c) divided by 360. **THE ENTIRE OUTSTANDING PRINCIPAL BALANCE (INCLUDING ANY BALLOON PAYMENT) AND ALL ACCRUED AND UNPAID INTEREST SHALL BE DUE AND PAYABLE, IN FULL, ON DECEMBER 31, 2014.**

5.3 **Method of Payment; Date of Credit.** All payments of interest, principal and fees shall be made in lawful money of the United States immediately available funds: (a) by direct charge to an account of Borrower maintained with Bank (or the then holder of the Loan), or (b) to such other bank or address as the holder of the Loan may designate in a written notice to Borrower. Payments shall be credited on the Business Day on which immediately available funds are received prior to one o'clock, P.M. Eastern Time; payments received after one o'clock P.M. Eastern Time shall be credited to the Loan on the next Business Day. Payments which are by

check, which Bank may at its option accept or reject, or which are not in the form of immediately available funds shall not be credited to the Loan until such funds become immediately available to the Bank, and, with respect to payments by check, such credit shall be provisional until the item is finally paid by the payor bank. The date of payment of all payments of principal, interest and other charges shall be subject to the Modified Following Business Day Convention.

- 5.4 **Billings.** Bank may submit monthly billings reflecting payments due; however, any changes in the interest rate which occur between the date of billing and the due date may be reflected in the billing for a subsequent month. Neither the failure of Bank to submit a billing nor any error in any such billing shall excuse Borrower from the obligation to make full payment of all Borrower' payment obligations when due.
- 5.5 **Default Rate.** Upon the declaration by Bank of an Event of Default pursuant to Section 11, below, Borrower shall pay upon billing therefor, an interest rate which is five (5%) percent per annum above the rate in effect for any Loan Advance ("Default Rate") outstanding as of the date when Bank declares an Event of Default: (a) during the period of any delinquency, which shall mean if any payment of principal, interest or other monetary obligation due with respect to the Loan is not paid when due, that period between the date that is 15 days after the due date and the date of payment; (b) during the period any Event of Default exists and remains uncured; (c) after the Maturity Date; and (d) after judgment has been rendered on this Note.
- 5.6 **Late Charges.** The Borrower shall pay, upon billing therefor, a "Late Fee" equal to five (5%) percent of the entire amount of any payment of principal, interest, or both, which is not paid in full within fifteen (15) days of the due date thereof. Late fees are: (a) payable in addition to, and not in limitation of, the Default Rate, (b) intended to compensate Bank for administrative and processing costs incident to late payments, (c) are not interest, and (d) shall not be subject to refund or rebate or credited against any other amount due.
- 5.7 **Make Whole Provision.** Borrower shall pay to Bank, immediately upon request and notwithstanding contrary provisions contained in any of the Loan Documents, such amounts as shall, in the reasonable judgment of Bank, compensate Bank for the loss, cost or expense which it may reasonably incur as a result of (i) any prepayment, under any circumstances whatsoever, whether voluntary or involuntary, of all or any portion of a LIBOR Advance on a date other than the last day of the applicable Interest Period, or (ii) except in circumstances as set forth in Section 6.3, below, the conversion, for any reason, whether voluntary or involuntary, of any LIBOR Advance to a Prime Rate Advance on a date other than the last day of the applicable Interest Period. Such amounts payable by Borrower shall be equal to any administrative costs actually incurred, plus any amounts required to compensate Bank for any out-of-pocket loss, cost or expense incurred by reason of the liquidation or re-employment of deposits or other funds acquired by Bank to fund or maintain a LIBOR Advance and in any event, but without duplication, a Yield Maintenance Fee, as defined below, in the event of the prepayment of all or any portion of a LIBOR Advance on a date other than the last day of the applicable Interest Period. Both the provisions of this Paragraph 5.7 and the provisions of Paragraph 10 relating to the payment of a Yield Maintenance Fee shall not apply either to monthly principal payments due pursuant to this Note which are not prepaid or principal payments made on the last day of an applicable Interest Period that constitute a prepayment of the Principal Sum.

6. ADDITIONAL PROVISIONS RELATED TO INTEREST RATE SELECTION.

- 6.1 **Election of Interest Rate.** Interest shall accrue on the unpaid principal balance of a Loan Advance from time to time outstanding at Borrower's election of either:
- a. the Applicable LIBOR Margin; or
 - b. the Applicable Prime Margin;

both as identified on Exhibit A and based upon the then applicable achievement by the Borrower of the Funded Debt to Tangible Net Worth covenant.

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

- 6.2 **Method of Selection.** At least two (2) Business Days prior to the last day of any Interest Period, Borrower may select by 1:00 p.m. of a Boston Banking Day both the Interest Period from the alternatives available in Paragraphs 6.1(a) or 6.1(b), and the corresponding interest rate as of the same day as a request may be made, by giving irrevocable written notice to Bank, by electronic mail, telecopy (with authorized signature) or telephone, but if not written, such notice shall be immediately confirmed by written notice, specifying the Interest Period. If no such selection is made, then the Prime Rate shall be deemed selected.
- 6.3 **Illegality.** Notwithstanding any other provision of this Note, if the introduction of or change in or in the interpretation of any law, treaty, statute, regulation or interpretation thereof shall make it unlawful for Bank to make or maintain LIBOR Advances or to continue to fund or maintain LIBOR Advances then, on written notice thereof and demand by Bank to Borrower, (a) the obligation of Bank to make LIBOR Advances and to convert or continue any Loan Advances as LIBOR Advances shall terminate and (b) Borrower shall convert all principal outstanding under this Note into Prime Rate Advances
- 6.4 **Additional LIBOR Rate Conditions.** The availability of the LIBOR Rate and the maintenance of Loan Advances at such rate shall be subject to the following additional terms and conditions:
- (i) **Availability.** If Bank notifies Borrower (and notice will be given as soon as the Bank has knowledge of the same) that:
- (a) dollar deposits in the amount and for the maturity requested are not available to Bank in the London interbank market at the rate specified in the definition of LIBOR, or
- (b) reasonable means do not exist for Bank to determine the LIBOR for the amounts and maturity requested, and then the principal which would have been a LIBOR Advance shall be or be converted to a Prime Rate Advance.
- (ii) **Payments Net of Taxes.** All payments and prepayments of principal and interest due under this Note shall be made net of any taxes and costs resulting from having principal outstanding at or computed with reference to a LIBOR. Without limiting the generality of the preceding obligation, illustrations of such taxes and costs are taxes, or the withholding of amounts for taxes, of any nature whatsoever including excise (other than income taxes) as well as all levies, imposts, duties or fees whether now in existence or hereafter arising as the result of a change in or promulgation of any treaty, statute, regulation, or interpretation thereof or any directive, guideline or otherwise by a central bank or fiscal authority (whether or not having the force of law) or a change in the basis of, or the time of payment of, such taxes and other amounts resulting therefrom.
7. **ACCELERATION; EVENT OF DEFAULT:** Upon the occurrence at any time of any one or more of the following events, each of which shall be an “Event of Default” hereunder and the other Loan Documents, at the option of the Bank, this Note and the indebtedness evidenced hereby shall become immediately due and payable without further notice or demand, and notwithstanding any prior waiver of any breach or default, or other indulgence: (i) a Default continuing uncured beyond the applicable grace or cure period, if any, in making any payment of interest, principal, other charges or payments due hereunder; (ii) an Event of Default as defined herein or any other Loan Document, each as the same may from time to time hereafter be amended; or (iii) an event which pursuant to any express provision of any other Loan Document, gives Bank the right to accelerate the Loan.
8. **COSTS AND EXPENSES UPON DEFAULT:** After a Default, in addition to principal, interest and delinquency charges, Bank shall be entitled to collect all reasonable out-of-pocket costs of collection, including, but not limited to, reasonable attorneys’ fees and expenses, incurred in connection with the protection or realization of collateral or in connection with any of Bank’s collection efforts, whether or not suit on this Note is filed, and all such costs and expenses shall be payable on demand.
9. **APPLICATION OF PAYMENTS:** All payments hereunder shall be applied first to delinquency charges, costs of collection and enforcement and other similar amounts due, if any, under this Note and under the other Loan Documents, then to late charges, then to interest which is due and payable under this Note and the remainder, if any, to principal due and payable under this Note. Bank is authorized, but not required, to charge scheduled monthly principal and interest payments due under this Note to any account of Borrower when and as such interest and principal and such other amounts become due, provided that such charge shall be made as of the due date of the applicable payment and not in advance thereof.

10. **PERMITTED PREPAYMENT:**

- 10.1 Any Prime Rate Loan(s) may be prepaid at any time in whole or in part without charge.
- 10.2 If no Event of Default exists, Borrower shall have the right at any time and from time to time to prepay any LIBOR Advance on a date other than the last Banking Day of the then current Interest Period in whole (but not in part). If Borrower elects to prepay a LIBOR Advance, or if payment of a LIBOR Advance is required by Bank on a date other than the last Banking Day of the then current Interest Period pursuant to Section 10.3, below, Borrower shall pay to Lender a yield maintenance fee (the "Yield Maintenance Fee") in an amount computed as follows: The current rate for United States Treasury securities (bills on a discounted basis shall be converted to a bond equivalent) with a maturity date closest to the maturity date of the term chosen pursuant to the Interest Period as to which the prepayment is made, shall be subtracted from the "cost of funds" component of the fixed rate in effect at the time of prepayment. If the result is zero or a negative number, there shall be no Yield Maintenance Fee. If the result is a positive number, then the resulting percentage shall be multiplied by the amount of the principal balance being prepaid. The resulting amount shall be divided by 360 and multiplied by the number of days remaining in the term chosen pursuant to the Interest Period as to which the prepayment is made. Said amount shall be reduced to present value calculated by using the number of days remaining in the designated term and using the above referenced United States Treasury security rate and the number of days remaining in the designated term chosen pursuant to the Interest Period as to which the prepayment is made. The resulting amount shall be the Yield Maintenance Fee due to Lender upon prepayment of the fixed rate loan.
- 10.3 If by reason of any Event of Default Lender elects to declare the Loan to be immediately due and payable, then any Yield Maintenance Fee with respect to the Loan shall become due and payable in the same manner as though Borrower had exercised such right of prepayment. Borrower recognizes that Lender will incur substantial additional costs and expenses including loss of yield and anticipated profitability in the event of a prepayment of the Loan and that the Yield Maintenance Fee compensates Lender for such costs and expenses. Borrower acknowledges that the Yield Maintenance Fee is bargained for consideration and not a penalty.
- 10.4 All such prepayments of LIBOR Advances or Prime Rate Advances shall be applied first to fees and expenses then due hereunder, then to interest on the unpaid principal balance accrued to the date of prepayment and last to the principal balance then due hereunder.

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

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

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

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

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

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

13. **DELAY NOT A BAR:** No delay or omission on the part of the holder in exercising any right hereunder or any right under any instrument or agreement now or hereafter executed in connection herewith, or any agreement or instrument which is given or may be given to secure the indebtedness evidenced hereby, or any other agreement now or hereafter executed in connection herewith or therewith shall operate as a waiver of any such right or of any other right of such holder, nor shall any delay, omission or waiver on any one occasion be deemed to be a bar to or waiver of the same or of any other right on any future occasion.
14. **NO USURY:** All agreements between Borrower and Bank are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of maturity of the indebtedness evidenced hereby or otherwise, shall the amount paid or agreed to be paid to Bank for the use or the forbearance of the indebtedness evidenced hereby exceed the maximum permissible under applicable law. As used herein, the term "applicable law" shall mean the law in effect as of the date hereof provided, however that in the event there is a change in the law which results in a higher permissible rate of interest, then this Note shall be governed by such new law as of its effective date. In this regard, it is expressly agreed that it is the intent of Borrower and Bank in the execution, delivery and acceptance of this Note to contract in strict compliance with the laws of the Commonwealth of Massachusetts from time to time in effect. If, under or from any circumstances whatsoever, fulfillment of any provision hereof or of any of the Loan Documents at the time of performance of such provision shall be due, shall involve transcending the limit of such validity prescribed by applicable law, then the obligation to be fulfilled shall automatically be reduced to the limits of such validity, and if under or from circumstances whatsoever Bank should ever receive as interest an amount which would exceed the highest lawful rate, such amount which would be excessive interest shall be applied to the reduction of the principal balance evidenced hereby and not to the payment of interest. This provision shall control every other provision of all agreements between Borrower and Bank.
15. **SUCCESSORS AND ASSIGNS:** This Note shall be binding upon Borrower and upon its respective heirs, successors, assigns and representatives, and shall inure to the benefit of Bank and its successors, endorsees, and assigns.
16. **SECURITY:** This Note is secured pursuant to the Loan and Security Agreement, as amended between Bank and Borrower.
17. **COLLECTION:** Any check, draft, money order or other instrument given in payment of all or any portion hereof may be accepted by Bank and handled by collection in the customary manner, but the same shall not constitute payment hereunder or diminish any rights of Bank except to the extent that actual cash proceeds of such instrument are unconditionally received by Bank and applied to this indebtedness in the manner elsewhere herein provided.
18. **AMENDMENTS:** This Note may be changed or amended only by an agreement in writing signed by the party against whom enforcement is sought.
19. **GOVERNING LAW; SUBMISSION TO JURISDICTION:** This Note is given to evidence debt for business or commercial purposes, is being negotiated and executed in the Commonwealth of Massachusetts and delivered to Bank at one of its offices in The Commonwealth of Massachusetts and shall be governed by and construed under the laws of said Commonwealth. Borrower, each partner, or any partner of such partner, officer, director and employee of Borrower, hereby submit to personal jurisdiction in said Commonwealth for the enforcement of Borrower's obligations hereunder, under the other Loan Documents, and waive any and all personal rights under the law of any other state to object to jurisdiction within such Commonwealth for the purposes of litigation to enforce such obligations of Borrower. In the event such litigation is commenced, Borrower agrees that service of process may be made, and personal jurisdiction over Borrower obtained, by service of a copy of the summons, complaint and other pleadings required to commence such litigation upon Borrower at 213 Court Street, Suite 701, Middletown, Connecticut or such other address as Borrower may designate.

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

28. **ASSIGNABILITY OF NOTE:** The Bank may assign and transfer this Note to any person(s), firm or corporation who shall thereupon become vested with all of the rights and powers herein given to Bank as holder, and Bank shall thereafter be forever relieved and discharged from any responsibility or liability in respect herein.
29. **CAPTIONS:** All paragraph and subparagraph captions are for convenience of reference only and shall not affect the construction of any provision herein.

THIS DOCUMENT INTENTIONALLY ENDS HERE EXCEPT FOR SIGNATURE PAGE

IN WITNESS WHEREOF, this Note has been executed and delivered as a sealed instrument this 30th day of December, 2010.

Witness:

THE BORROWER
OMEGA FLEX, INC.

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

EXHIBIT A
to
COMMITTED, REVOLVING LINE OF CREDIT NOTE

Interest rate pricing for the Committed Revolving Line of Credit Note is available at the Borrower's selection at either "LIBOR" (the London Interbank Offered Rate) plus an applicable margin (the "Applicable Libor Margin") or the Prime Rate plus an applicable margin (the "Applicable Prime Margin") determined in accordance with the performance grid listed below. A Libor rate can be elected for periods of 30, 60 or 90 days.

<u>Pricing Tier</u>	<u>FUNDED DEBT TO TANGIBLE NET WORTH Ratio</u>	<u>Applicable LIBOR Margin</u>	<u>Applicable Prime Margin</u>	<u>Applicable Unused Fee</u>
I	≥ 3.50x	2.75%	0.50%	35 bps
II	≥ 3.0x and <3.50x	2.50%	0.25%	30 bps
III	≥ 2.5x and <3.0x	2.25%	0.00%	25 bps
IV	≥ 2.0x and < 2.5x	2.00%	Minus 0.25%	20 bps
V	<2.0x	1.75%	Minus 0.50%	17.5 bps

The initial Applicable LIBOR Margin will be 1.75%, and the initial Applicable Prime Margin will be the Prime Rate minus 0.50%, respectively for the period of December __, 2010 until the Bank's receipt of the 12/31/10 Compliance Certificate from the Borrower. The Applicable LIBOR Margin and Prime Margin will be reviewed and determined quarterly thereafter as of the last Banking Day in each calendar quarter.

At no time shall the ratio of Borrower's (i) Funded Debt to its (ii) tangible net worth shall be equal to or greater than 3.75 to 1.0 as determined in accordance with GAAP consistently applied. "Funded Debt" shall mean the Borrower's loans and obligations with a maturity of one year or more which bears interest including the Committed Revolving Line of Credit Note made in favor of Sovereign Bank.

FIRST AMENDMENT TO THE LOAN AGREEMENT

FIRST AMENDMENT made with an effective date as of this 30th day of December, 2010 (the "First Amendment") to the Loan Agreement made as of December 17, 2009 by and between **SOVEREIGN BANK, a federal savings bank** with an usual office at 1350 Main Street, Springfield, Massachusetts (hereinafter referred to as the "**Lender**"), and **OMEGA FLEX, INC.**, a Pennsylvania corporation with an usual place of business and mailing address at 213 Court Street, Suite 701, Middletown, Connecticut (hereinafter referred to as the "**Borrower**").

RECITALS

On or about December 17, 2009, the Borrower and the Bank entered into various commercial credit relationships evidenced by and including, without limitation: (i) a Loan and Security Agreement (the "Loan Agreement") relating to a Revolving Loan in the original principal amount of up to \$15,000,000 (the "Revolving Loan"); and (ii) other loan documents executed by the Borrower in favor of the Bank.

The Borrower and the Bank have recently agreed to decrease the principal amount of the Revolving Loan from up to \$15,000,000 to become up to \$10,000,000, to commit availability of the Loan for four (4) additional years, to change the interest rate pricing, to revise the financial covenant relating to the Borrower's Funded Debt/Tangible Net Worth and to provide for an early cancellation of the Revolving Loan at the Borrower's election.

Consequently, the Bank and the Borrower have agreed that the Borrower will execute and deliver to the Bank: (i) this First Amendment; and (ii) an Amended and Restated Committed Revolving Line of Credit Note in the principal amount of up to Ten Million (\$10,000,000) Dollars as made by the Borrower in favor of the Bank, dated as of the same day of this First Amendment (the "Committed, Revolving Note").

AGREEMENT

In furtherance of the foregoing and in consideration of the mutual promises contained herein, the parties agree to amend the Loan Agreement, as follows:

1. Terms not otherwise defined in this First Amendment shall have the same meanings as set forth in the Loan Agreement.
2. Paragraph 1.1 of Section 1 of the Loan Agreement entitled: "Defined Terms" is hereby amended or modified by deleting those definitions set forth below and substituting the following in place thereof:

"Agreement" means the Loan and Security Agreement dated December 17, 2009 amended by a First Amendment to the Loan and Security Agreement dated December 30, 2010 and as further amended from time to time.

"Maturity Date" means December 31, 2014 and as that date may be extended, renewed or modified in the sole discretion of the Bank.

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

3. Paragraph 1.1 of Section 1 of the Loan Agreement is hereby amended by adding the following definitions:

"Committed, Revolving Note" shall have the meaning first ascribed above.

4. Sections 2.1, 2.2, 2.3, 2.4 and 2.8 of the Loan Agreement are hereby amended by deleting those sections in their entirety, and substituting in lieu thereof the following:

“2. TERMS OF COMMITTED REVOLVING LOAN.

2.1 Committed Revolving Loan; Availability; Purpose. From time to time the Bank shall, unless the Borrower shall be then in Default, make revolving loan(s) to the Borrower of such amounts as the Borrower may request and the Bank may approve in its reasonable discretion; *provided, however*, that the aggregate principal amount of the Revolving Loan at any time outstanding shall not exceed Ten Million (\$10,000,000.00) Dollars. The Revolving Loan shall be evidenced by the Committed, Revolving Note to be executed and delivered by the Borrower to the Bank upon the execution of this Agreement.

2.2 Interest Rate. The annual interest rate of all Loan Advances shall be established on a quarterly basis by reference to the Pricing Tier corresponding with the Borrower's then current Funded Debt to Tangible Net Worth Ratio, as is more particularly described in Exhibit A, which is attached to this First Amendment and to the Committed, Revolving Note, and is made a part hereof. The interest rate in effect as of the date of this First Amendment shall be the Tier V interest rates set forth in Exhibit A.

2.3 Advances. Advances will be made in the Bank's reasonable discretion and so long as the Borrower is not in Default. The Revolving Loan will be due and payable on December 31, 2014 despite the enumeration of an Event of Default, set forth herein and despite the use of any express or implied term. The obligation of the Bank to make initial advances to the Borrower is subject to the conditions precedent in Section 4 below. The obligation of the Bank to make any subsequent advances is subject to the conditions precedent that: (a) no event has occurred and is continuing which would constitute an Event of Default; (b) no event would constitute an Event of Default; (c) the Bank has, upon request, received a certificate signed by a duly authorized officer of the Borrower stating that all representations and warranties contained in this Loan Agreement are correct as though made on and as of the date of such certificate; (d) the Bank has received such other approvals, opinions, or documents as the Bank may reasonably request; and (e) there has been no material adverse change in the financial condition of the Borrower since the date of the latest financial statement delivered to the Bank.

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

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

Notwithstanding the foregoing Maturity Date, the Borrower, at its election, may terminate the Revolving Loan at any time by providing the Bank with a written notice of not less than thirty (30) days prior to the date that the Revolving Loan is to be terminated (the "Effective Termination Date"). If any principal is outstanding on the Effective Termination Date, the Borrower shall pay to the Bank all amounts then due, including principal, interest, prepayment penalty and late fees, if any.

2.4 Repayment. Beginning on the date which is thirty (30) days from the date of the Committed, Revolving Note and continuing on the same day of each month thereafter until the Maturity Date, the Borrower shall make to Bank payments of interest only on the outstanding principal balance of all Loan Advances from the day that an advance is made. THE ENTIRE OUTSTANDING PRINCIPAL BALANCE (INCLUDING ANY BALLOON PAYMENT) AND ALL ACCRUED AND UNPAID INTEREST SHALL BE DUE AND PAYABLE IN FULL ON DECEMBER 31, 2014.

2.8 Unused Fees. In connection with the Revolving Loan, the Borrower agrees to pay a fee on any difference between the total amount of principal available under the Committed Revolving Note (the "Commitment") and the total aggregate amount of all outstanding Loan Advances, determined daily as of 1 p.m. Eastern Time, during the specified period and in the amounts described under the header entitled: "Applicable Unused Fees" as set forth in Exhibit A. Such amount (the "Unused Fee") will be sum for each day during the calendar quarter of (a) the difference of the Commitment and the total aggregate amount of all Loan Advances outstanding each day as of 1 p.m. Eastern Time, (b) multiplied by the applicable unused fee shown on Exhibit A(c) divided by 360.

5. A new Section 4.6 of the Loan Agreement entitled: “Conditions Precedent to Future Advances of the Revolving Loan, as Amended” is hereby added as follows:

“4.6 CONDITIONS PRECEDENT TO FUTURE ADVANCES OF THE REVOLVING LOAN, AS AMENDED.

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

4.6.1 Execution of Note. The Committed Revolving Note duly executed by the Borrower.

4.6.2 Evidence of Authority and Incumbency of Representatives. Certified (as of the date of this Agreement) copies of all action taken by the Borrower, including resolutions of and of its directors, authorizing the execution, delivery, and performance of the Loan Documents to which it is a party and each other document to be delivered pursuant to this Agreement together with a certificate (dated as of the date of this Agreement) of its corporate secretary certifying the names and true signatures who may act on behalf of the Borrower and who are authorized to sign the Loan Documents to which the Borrower is a party and the other documents to be delivered by the Borrower under this Agreement.

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

4.6.3.1 The payment of a commitment fee to the Bank in the amount of Five Thousand (\$5,000.00) Dollars. The Borrower agrees to pay the Bank an annual commitment fee of Five Thousand (\$5,000.00) Dollars (each an “Annual Commitment Fee”) for so long as the Revolving Loan is made available to the Borrower. The Annual Commitment Fee shall be due and payable on each anniversary date of this First Amendment.

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

6. Section 11.6.2 entitled: “Funded Debt to Tangible Net Worth Ratio” is hereby deleted in its entirety and the following is substituted in lieu thereof:

“11.6.2 Funded Debt to Tangible Net Worth Ratio. The ratio of Borrower’s (i) Funded Debt to its (ii) Tangible Net Worth shall be less than 3.75 to 1.0 as determined in accordance with GAAP consistently applied. “Funded Debt” shall mean the Borrower’s loans and obligations with a maturity of one year or more which bears interest including the Committed, Revolving Note.”

7. The Borrower hereby grants, regrants and confirms to the Bank the grant of a security interest in all of the Borrower’s Collateral as defined in the Agreement.

8. Representations, Warranties and Covenants. The Revolving Loan shall be subject to all of the terms and conditions set forth in the Agreement and shall also be subject to such further terms and conditions as are set forth in this First Amendment. Without limiting the generality of the foregoing, the Borrower reaffirms all representations and warranties contained in Sections 8, 9 and 10 of the Agreement as if such representations and warranties were being made as of the date of this First Amendment.

9. In all other respects the Loan Agreement is hereby confirmed and ratified and all terms and provisions not amended hereby shall remain in full force and effect.

THIS DOCUMENT INTENTIONALLY ENDS HERE EXCEPT FOR SIGNATURE PAGE

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

WITNESS:

SOVEREIGN BANK

s/ Jeanette A. Meyer

By: s/ James T. Curran
Its Senior Vice President
Duly Authorized

BORROWER:
OMEGA FLEX, INC.

s/ Yolanda Hunnicutt

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

EXHIBIT A
to
FIRST AMENDMENT TO THE LOAN AGREEMENT

Interest rate pricing for the Committed Revolving Line of Credit Note is available at the Borrower's selection at either "LIBOR" (the London Interbank Offered Rate) plus an applicable margin (the "Applicable Libor Margin") or the Prime Rate plus an applicable margin (the "Applicable Prime Margin") determined in accordance with the performance grid listed below. A Libor rate can be elected for periods of 30, 60 or 90 days.

<u>Pricing Tier</u>	<u>FUNDED DEBT TO TANGIBLE NET WORTH Ratio</u>	<u>Applicable LIBOR Margin</u>	<u>Applicable Prime Margin</u>	<u>Applicable Unused Fee</u>
I	≥ 3.50x	2.75%	0.50%	35 bps
II	≥ 3.0x and <3.50x	2.50%	0.25%	30 bps
III	≥ 2.5x and <3.0x	2.25%	0.00%	25 bps
IV	≥ 2.0x and < 2.5x	2.00%	Minus 0.25%	20 bps
V	<2.0x	1.75%	Minus 0.50%	17.5 bps

The initial Applicable LIBOR Margin will be 1.75%, and the initial Applicable Prime Margin will be the Prime Rate minus 0.50%, respectively for the period of December __, 2010 until the Bank's receipt of the 12/31/10 Compliance Certificate from the Borrower. The Applicable LIBOR Margin and Prime Margin will be reviewed and determined quarterly thereafter as of the last Banking Day in each calendar quarter.

At no time shall the ratio of Borrower's (i) Funded Debt to its (ii) tangible net worth shall be equal to or greater than 3.75 to 1.0 as determined in accordance with GAAP consistently applied. "Funded Debt" shall mean the Borrower's loans and obligations with a maturity of one year or more which bears interest including the Committed Revolving Line of Credit Note made in favor of Sovereign Bank

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

As independent registered public accountants, we hereby consent to the incorporation by reference of the report of Caturano and Company, P.C. (whose name has since been changed to Caturano and Company, Inc.), dated March 16, 2010 relating to the consolidated financial statements of Omega Flex, Inc. and subsidiaries for the year ended December 31, 2009, included in this Form 10-K, into the Company's previously filed Registration Statement on Form S-8 (File No. 333-135515).

/s/ Caturano & Company, Inc.

CATURANO & COMPANY, INC.

Boston, Massachusetts
March 9, 2011

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement (No. 333-135515) on Form S-8 of Omega Flex, Inc. of our report dated March 9, 2011, relating to our audit of the consolidated financial statements, which appear in this Annual Report on Form 10-K of Omega Flex, Inc. for the year ended December 31, 2010.

/s/ McGladrey & Pullen, LLP

MCGLADREY & PULLEN, LLP

Boston, Massachusetts
March 9, 2011

I, Kevin R. Hoben, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2010, of Omega Flex, Inc. (the “registrant”);

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

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

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

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

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

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

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

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

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

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

Date: March 10, 2011

/s/ Kevin R. Hoben

Kevin R. Hoben
Chief Executive Officer

I, Paul J. Kane, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2010, of Omega Flex, Inc. (the “registrant”);

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

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

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

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

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

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

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

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

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

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

Date: March 10, 2011

/s/ Paul J. Kane

Paul J. Kane
Chief Financial Officer

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

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

(a) the Annual Report on Form 10-K of the Company for the year ended December 31, 2010, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

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

Dated: March 10, 2011

/s/ Kevin R. Hoben

Kevin R. Hoben
Chief Executive Officer

/s/ Paul J. Kane

Paul J. Kane
Chief Financial Officer

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