Omega Flex, Inc.
Form 10-Q
May 09, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2014**

( )

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

For the transition period from ________________________ to ______________________

Commission File Number **000-51372**

Omega Flex, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-1948942**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

451 Creamery Way, Exton, PA	**19341**
(Address of principal executive offices)	(Zip Code)

(610) 524-7272

Registrant s telephone number, including area code

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

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

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

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting Company [**x**]

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

Yes [ ] No [**x**]

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS

DURING THE PRECEDING FIVE YEARS.

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

The number of shares of the registrant s common stock outstanding as of March 31, 2014 was 10,091,822.

OMEGA FLEX, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE THREE MONTHS ENDED MARCH 31, 2014

INDEX

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

OMEGA FLEX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2014	December 31, 2013
	(unaudited) (Dollars in thousands)	
ASSETS		
Current Assets		
	$	$
Cash and Cash Equivalents	6,899	8,257
Accounts Receivable - less allowances of $589 and $729, respectively	11,241	12,968
Inventories-Net	7,019	6,728
Deferred Taxes	766	871
Other Current Assets	989	1,359
Total Current Assets	26,914	30,183
Property and Equipment - Net	4,645	4,762
Goodwill-Net	3,526	3,526
Other Long Term Assets	1,540	1,603
	$	$
Total Assets	36,625	40,074
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
	$	$
Accounts Payable	1,356	1,793
Accrued Compensation	818	3,114
Accrued Commissions and Sales Incentives	1,711	3,934
Taxes Payable	472	134
Other Liabilities	2,457	3,575

Total Current Liabilities	6,814	12,550
Deferred Taxes	1,192	1,032
Other Long Term Liabilities	750	861
Total Liabilities	8,756	14,443
Shareholders Equity:		
Omega Flex, Inc. Shareholders Equity:		
Common Stock par value $0.01 Share: authorized 20,000,000 Shares: 10,153,633 shares issued and 10,091,822 outstanding at March 31, 2014 and December 31, 2013, respectively	102	102
Treasury Stock	(1)	(1)
Paid-in Capital	10,808	10,808
Retained Earnings	17,124	14,929
Accumulated Other Comprehensive Loss	(315)	(329)
Total Omega Flex, Inc. Shareholders Equity	27,718	25,509
Noncontrolling Interest	151	122
Total Shareholders Equity	27,869	25,631
Total Liabilities and Shareholders Equity	$ 36,625	$ 40,074

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

OMEGA FLEX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	For the three-months ended March 31,	
	2014	**2013**
	(unaudited) **(Amounts in Thousands)**	
	$	$
Net Sales	16,589	16,382
Cost of Goods Sold	7,310	7,782
Gross Profit	9,279	8,600
Selling Expense	3,123	3,048
General and Administrative Expense	2,187	2,371
Engineering Expense	704	718
Operating Profit	3,265	2,463
Interest (Expense) Income	6	(1)
Other (Expense) Income	(8)	(84)
Income Before Income Taxes	3,263	2,378
Income Tax Expense	1,041	794
Net Income	2,222	1,584
Less: Net Income attributable to the Noncontrolling Interest, Net of Tax	(27)	(2)
	$	$
Net Income attributable to Omega Flex, Inc.	2,195	1,582
Basic and Diluted Earnings per Common Share	$	$

	0.22	0.16
Basic and Diluted Weighted-Average Shares Outstanding	10,092	10,092

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

OMEGA FLEX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the three-months ended March 31, 2014	2013
	(unaudited) (Amounts in Thousands)	
Net Income	$ 2,222	$ 1,584
Other Comprehensive Income, Net of Tax:		
Foreign Currency Translation Adjustment, Net of Taxes	16	(57)
Other Comprehensive Income (Loss)	16	(57)
Comprehensive Income	2,238	1,527
Less: Comprehensive Income (Loss) Attributable to the Noncontrolling Interest, Net of Taxes	(28)	2
Total Other Comprehensive Income	$ 2,210	$ 1,529

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

OMEGA FLEX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three-months ended March 31, 2014	2013
	(unaudited) (Dollars in thousands)	
Cash Flows from Operating Activities:		
Net Income	$ 2,222	$ 1,584
Adjustments to Reconcile Net Income to		
Net Cash Provided By (Used In) Operating Activities:		
Non-Cash Compensation Expense	85	126
Depreciation and Amortization	143	132
Provision for Losses on Accounts Receivable, net of write-offs and recoveries	(140)	(80)
Changes in Assets and Liabilities:		
Accounts Receivable	1,878	1,910
Inventory	(286)	(514)
Other Assets	534	277
Accounts Payable	(437)	(653)
Accrued Compensation	(2,296)	254
Accrued Commissions and Sales Incentives	(2,224)	(1,764)
Other Liabilities	(820)	(1,086)
Net Cash Provided by (Used In) Operating Activities	(1,341)	186
Cash Flows from Investing Activities:		
Capital Expenditures	(25)	(92)
Net Cash Used in Investing Activities	(25)	(92)
Cash Flows from Financing Activities:		
Principal Payments on Line of Credit	-	(324)
Net Cash Used in Financing Activities	-	(324)
Net Decrease in Cash and Cash Equivalents	(1,366)	(230)
Translation effect on cash	8	(51)
Cash and Cash Equivalents Beginning of Period	8,257	939
Cash and Cash Equivalents End of Period	$	$

	6,899	658
Supplemental Disclosure of Cash Flow Information:		
Cash paid for Income Taxes	$ 434	$ 364
Cash paid for Interest	$ 0	$ 1

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

OMEGA FLEX, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Omega Flex, Inc. (Omega) and its subsidiaries (collectively the Company). The Company s unaudited condensed consolidated financial statements for the quarter ended March 31, 2014 have been prepared in accordance with accounting principles generally accepted in the United States (GAAP), and with the instructions of Form 10-Q and Article 10 of Regulation S-X. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although the company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company s latest shareholders annual report (Form 10-K). All material inter-company accounts and transactions have been eliminated in consolidation. It is Management s opinion that all adjustments necessary for a fair statement of the results for the interim periods have been made, and that all adjustments are of a normal recurring nature or a description is provided for any adjustments that are not of a normal recurring nature.

Description of Business

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

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

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, accounts receivable valuations, inventory valuations, goodwill valuation, product liability reserve and accounting for income taxes. Actual amounts could differ significantly from these estimates.

Revenue Recognition

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

.

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

.

Delivery has occurred or services rendered.

.

The sales price to the customer is fixed or determinable.

.

Collection is reasonably assured.

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

Gross sales are reduced for all consideration paid to customers for whom no identifiable benefit is received by the Company. This includes promotional incentives, which includes various programs including year-end rebates and discounts. The amounts of certain incentives are known with reasonable certainty at the time of sale, while others are projected based upon the most reliable information available at the reporting date.

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

Accounts Receivable

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

Inventory

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

Goodwill

In accordance with Financial Accounting Standards Board (FASB) ASC Topic 350, Intangibles Goodwill and Other, the Company performed an annual impairment test in accordance with this guidance as of December 31, 2013. This analysis did not indicate any impairment of goodwill. There are no circumstances that indicate that Goodwill might be impaired at March 31, 2014.

Product Liability Reserves

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

Fair Value of Financial and Nonfinancial Instruments

The Company measures financial instruments in accordance with FASB ASC Topic 820, Fair Value Measurements and Disclosures. The accounting standard defines fair value, establishes a framework for measuring fair value under GAAP, and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard creates a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs that reflect the Company s own assumptions about the assumptions market participants would use in pricing the asset or liability. The Company relies on its actively traded share value a level 1 input in determining the fair value of the reporting unit in its annual impairment test as described in the FASB ASC Topic 350, Intangibles - Goodwill and Other.

Earnings per Common Share

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

Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates prevailing on the balance sheet dates. The Statements of Income are translated into U.S. dollars at average exchange rates for the period. Adjustments resulting from the translation of financial statements are excluded from the determination of income and are accumulated in a separate component of shareholders   equity. Exchange gains and losses resulting from foreign currency transactions are included in operations (other (income) expense) in the period in which they occur.

Income Taxes