

**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, 2024**

() 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)

(610) 524-7272

Registrant's telephone number, including area code

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, par value \$0.01 per share	OFLX	NASDAQ Global Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

The number of shares of the registrant's common stock outstanding as of May 1, 2024 was 10,094,322.

OMEGA FLEX, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2024

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q (“Form 10-Q”) of Omega Flex, Inc. that are not historical facts -- but rather reflect our 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,” “intent,” “estimates,” “potential,” “continues,” “hopes,” “likely,” “will,” and similar expressions, or the negative of these terms, identify such forward-looking statements. Such forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. Important factors that could cause the actual results, performance or achievements of Omega Flex, Inc., or industry results, to differ materially from future results, performance or achievements expressed or implied by such forward-looking statements are set forth in Part I, Item 1A. Risk Factors, and other parts of the Company’s Annual Report on Form 10-K for the year ended December 31, 2023.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s view only as of the date of this Form 10-Q. We undertake no obligation to update or revise any forward-looking statements, whether to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, conditions, or circumstances, except as required by law. In addition, certain sections of this Form 10-Q contain information obtained from independent industry sources and other sources that we have not independently verified.

Unless otherwise indicated or the context otherwise requires, all references in this Form 10-Q to the terms “Omega Flex,” the “Company,” “us,” “we”, and “our” refer to Omega Flex, Inc. and its subsidiaries.

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

OMEGA FLEX, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, except Common Stock par value)

	March 31, 2024	December 31, 2023
	(unaudited)	
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 45,268	\$ 46,356
Accounts Receivable - less allowances of \$833 and \$1,126, respectively	14,271	15,361
Inventories - Net	15,582	15,597
Other Current Assets	2,398	2,874
Total Current Assets	77,519	80,188
Right-Of-Use Assets - Operating	4,622	2,940
Property and Equipment - Net	9,125	8,951
Goodwill - Net	3,526	3,526
Deferred Taxes	-	189
Other Long Term Assets	4,418	4,440
Total Assets	\$ 99,210	\$ 100,234
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$ 2,857	\$ 2,090
Accrued Compensation	600	3,198
Accrued Commissions and Sales Incentives	2,930	4,428
Dividends Payable	3,331	3,332
Taxes Payable	1,299	190
Lease Liability - Operating	387	454
Other Liabilities	3,036	4,390
Total Current Liabilities	14,440	18,082
Lease Liability - Operating, net of current portion	4,297	2,492
Deferred Taxes	21	-
Taxes Payable Long Term	205	205
Other Long Term Liabilities	542	603
Total Liabilities	19,505	21,382
Commitments and Contingencies (Note 6)		
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 10,094,322 shares outstanding as of March 31, 2024 and December 31, 2023, respectively	102	102
Treasury Stock	(1)	(1)
Paid-in Capital	11,025	11,025
Retained Earnings	69,381	68,493
Accumulated Other Comprehensive Loss	(945)	(930)
Total Omega Flex, Inc. Shareholders' Equity	79,562	78,689
Noncontrolling Interest	143	163
Total Shareholders' Equity	79,705	78,852
Total Liabilities and Shareholders' Equity	\$ 99,210	\$ 100,234

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

OMEGA FLEX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, except per Common Share data)

	For the three-months ended	
	March 31,	
	2024	2023
	(unaudited)	
Net Sales	\$ 25,216	\$ 29,987
Cost of Goods Sold	<u>10,117</u>	<u>11,359</u>
Gross Profit	15,099	18,628
Selling Expense	5,352	5,573
General and Administrative Expense	3,758	4,794
Engineering Expense	<u>931</u>	<u>955</u>
Operating Profit	5,058	7,306
Interest Income	546	281
Other (Expense) Income	<u>(29)</u>	<u>31</u>
Income Before Income Taxes	5,575	7,618
Income Tax Expense	<u>1,375</u>	<u>1,877</u>
Net Income	4,200	5,741
Net Loss - Noncontrolling Interest	<u>19</u>	<u>1</u>
Net Income attributable to Omega Flex, Inc.	<u>\$ 4,219</u>	<u>\$ 5,742</u>
Basic and Diluted Earnings per Common Share	<u>\$ 0.42</u>	<u>\$ 0.57</u>
Cash Dividends Declared per Common Share	<u>\$ 0.33</u>	<u>\$ 0.32</u>
Basic and Diluted Weighted Average Shares Outstanding	<u>10,094</u>	<u>10,094</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

OMEGA FLEX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands)

	For the three-months ended	
	2024	2023
	(unaudited)	
Net Income	\$ 4,200	\$ 5,741
Other Comprehensive (Loss) Income:		
Foreign Currency Translation Adjustment	(16)	81
Other Comprehensive (Loss) Income	(16)	81
Comprehensive Income	4,184	5,822
Comprehensive Loss (Income) - Noncontrolling Interest	20	(3)
Total Comprehensive Income	\$ 4,204	\$ 5,819

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

OMEGA FLEX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Amounts in Thousands, Except Share Amounts)
(unaudited)

For the three months ended March 31, 2024

	Common Stock Outstanding	Common Stock	Treasury Stock	Paid In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Noncontrolling Interest	Shareholders' Equity
January 1, 2024	10,094,322	\$ 102	\$ (1)	\$ 11,025	\$ 68,493	\$ (930)	\$ 163	\$ 78,852
Net Income					4,219		(19)	4,200
Cumulative Translation Adjustment						(15)	(1)	(16)
Dividends Declared					(3,331)			(3,331)
March 31, 2024	10,094,322	\$ 102	\$ (1)	\$ 11,025	\$ 69,381	\$ (945)	\$ 143	\$ 79,705

For the three months ended March 31, 2023

	Common Stock Outstanding	Common Stock	Treasury Stock	Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Shareholders' Equity
January 1, 2023	10,094,322	\$ 102	\$ (1)	\$ 11,025	\$ 60,954	\$ (1,103)	\$ 196	\$ 71,173
Net Income					5,742		(1)	5,741
Cumulative Translation Adjustment						77	4	81
Dividends Declared					(3,229)			(3,229)
March 31, 2023	10,094,322	\$ 102	\$ (1)	\$ 11,025	\$ 63,467	\$ (1,026)	\$ 199	\$ 73,766

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

OMEGA FLEX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	For the three months ended	
	March 31,	
	2024	2023
	(unaudited)	
Cash Flows from Operating Activities:		
Net Income	\$ 4,200	\$ 5,741
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Non-Cash Compensation	61	409
Non-Cash Lease Expense	170	120
Depreciation and Amortization	287	264
Provision for Losses on Accounts Receivable, net of		
write-offs and recoveries	(292)	(4)
Deferred Taxes	210	435
Provision for Inventory Reserves	(142)	443
Changes in Assets and Liabilities:		
Accounts Receivable	1,376	102
Inventories	134	(393)
Other Assets	500	820
Accounts Payable	767	(244)
Accrued Compensation	(2,598)	(2,647)
Accrued Commissions and Sales Incentives	(1,498)	(1,729)
Lease Liability - Operating	(115)	(118)
Other Liabilities	(356)	(1,729)
Net Cash Provided by Operating Activities	2,704	1,470
Cash Flows from Investing Activities:		
Capital Expenditures	(461)	(453)
Net Cash Used in Investing Activities	(461)	(453)
Cash Flows from Financing Activities:		
Dividends Paid	(3,332)	(3,232)
Net Cash Used in Financing Activities	(3,332)	(3,232)
Net Decrease in Cash and Cash Equivalents	(1,089)	(2,215)
Translation effect on cash	1	(8)
Cash and Cash Equivalents – Beginning of Period	46,356	37,703
Cash and Cash Equivalents – End of Period	\$ 45,268	\$ 35,480
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid for Income Taxes	\$ 90	\$ 102
Declared Dividends	\$ 3,331	\$ 3,229
Additions to Right-Of-Use Assets obtained from new operating Lease Liabilities	\$ 1,874	\$ 6

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., and its subsidiaries (collectively the “Company”). The Company’s Condensed Consolidated Financial Statements for the quarter ended March 31, 2024 have been prepared in accordance with accounting principles generally accepted in the United States (GAAP), and with the instructions of Quarterly Report on 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 Annual Report on Form 10-K for the year ended December 31, 2023 (“Form 10-K”). All material intercompany 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. 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 fuel gases within residential and commercial buildings; gasoline and diesel gasoline products (both above and below the ground) in a double containment piping to contain any possible leaks, which is used in automotive and marina refueling, and fueling for back-up generation; and medical gases in health care facilities. 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 facilities in Exton, Pennsylvania and Houston, Texas, in the United States (U.S.), and in Banbury, Oxfordshire in the United Kingdom (U.K.), and sells its products 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 as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management develops, and changes periodically, these estimates and assumptions based on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual amounts could differ significantly from these estimates.

Revenue Recognition

The Company applies the requirements of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“Topic 606”). The standard requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services.

The principle of Topic 606 was achieved through applying the following five-step approach:

- *Identification of the contract, or contracts, with a customer* — a contract with a customer exists when the Company enters into an enforceable contract with a customer, typically a purchase order initiated by the customer, that defines each party’s rights regarding the goods to be transferred and identifies the payment terms related to these goods.
- *Identification of the performance obligations in the contract* — performance obligations promised in a contract are identified based on the goods that will be transferred to the customer that are distinct, whereby the customer can benefit from the goods on their own or together with other resources that are readily available from third parties or from us. Persuasive evidence of an arrangement for the sale of product must exist. The Company ships products in accordance with the purchase order and standard terms as reflected within the Company’s order acknowledgments and sales invoices.
- *Determination of the transaction price* — the transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods to the customer. This would be the agreed upon quantity and price per product type in accordance with the customer purchase order, which is aligned with the Company’s internally approved pricing guidelines.
- *Allocation of the transaction price to the performance obligations in the contract* — if the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. This applies to the Company as there

is only one performance obligation to ship the goods.

- *Recognition of revenue when, or as, the Company satisfies a performance obligation* — the Company satisfies performance obligations at a point in time when control of the goods transfers to the customer. Determining the point in time when control transfers requires judgment. Indicators considered in determining whether the customer has obtained control of a good include:
 - The Company has a present right to payment
 - The customer has legal title to the goods
 - The Company has transferred physical possession of the goods
 - The customer has the significant risks and rewards of ownership of the goods
 - The customer has accepted the goods

It is important to note that the indicators are not a set of conditions that must be met before the Company can conclude that control of the goods has transferred to the customer. The indicators are a list of factors that are often present if a customer has control of the goods.

The Company has typical, unmodified FOB shipping point terms. As the seller, the Company can determine that the shipped goods meet the agreed-upon specifications in the contract or customer purchase order (e.g., items, quantities, and prices) with the buyer, so customer acceptance would be deemed a formality, as noted in ASC 606-10-55-86. As a result, the Company has a legal right to payment upon shipment of the goods.

Based upon the above, the Company has concluded that control substantively transfers to the customer upon shipment.

Other considerations of Topic 606 include the following:

- *Contract Costs* - costs to obtain a contract (e.g. customer purchase order) include sales commissions. Under Topic 606, these costs may be expensed as incurred for contracts with a duration of one year or less. The majority of the Company’s customer purchase orders are fulfilled (e.g. goods are shipped) within two days of receipt.
- *Warranties* - the Company does not offer a warranty as a separate component for customers to purchase. A warranty is generally included with each purchase, providing assurance that the goods comply with agreed-upon specifications, and the cost is therefore accrued accordingly, but contracts do not include any requirement for additional distinct services. Therefore, there is not a separate performance obligation, and there is no impact of warranties under Topic 606 upon the financial reporting of the Company.
- *Returned Goods* - from time to time, the Company provides authorization to customers to return goods. If deemed to be material, the Company would record a “right of return” asset for the cost of the returned goods which would reduce cost of sales.
- *Volume Rebates (Promotional Incentives)* - volume rebates are variable (dependent upon the volume of goods purchased by our eligible customers) and, under Topic 606, must be estimated and recognized as a reduction of revenue as performance obligations are satisfied (e.g. upon shipment of goods). Also under Topic 606, to ensure that the

related revenue recognized would not be probable of a significant reversal, the four following factors are considered:

- The amount of consideration is highly susceptible to factors outside the Company's influence.
- The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.
- The Company's experience with similar types of contracts is limited.
- The contract has a large number and broad range of possible consideration amounts.

If it was concluded that the above factors were in place for the Company, it would support the probability of a significant reversal of revenue. However, as none of the four factors apply to the Company, promotional incentives are recorded as a reduction of revenue based upon estimates of the eligible products expected to be sold.

Regarding disaggregated revenue disclosures, as previously noted, the Company's business is controlled as a single operating segment that consists of the manufacture and sale of flexible metal hose. Most of the Company's transactions are very similar in nature, contract, terms, timing, and transfer of control of goods. As indicated in this Note 2, Significant Accounting Policies, under the caption "Significant Concentrations", the majority of the Company's sales were geographically contained within North America, with the remainder scattered internationally. All performance assessments and resource allocations are generally based upon the review of the results of the Company as a whole.

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, and in U.S. Treasury bills and certificates of deposit. Carrying value approximates fair value except for U.S. Treasury bills and certificates of deposit where amortized cost approximates fair value. Cash and cash equivalents are deposited at various area banks, which at times may exceed federally insured limits. The Company monitors the viability of the banking institutions carrying their assets on a regular basis and has the ability to transfer cash to various institutions during times of risk. The Company has not experienced any losses related to these cash balances and believes its credit risk to be minimal.

Accounts Receivable and Provision for Credit Losses

All accounts receivable is stated at amortized cost, net of allowances for credit losses, and adjusted for any write-offs. The Company maintains allowances for credit losses, which represent an estimate of expected losses over the remaining contractual life of its receivables considering current market conditions and estimates for supportable forecasts when appropriate. The estimate is a result of the Company's ongoing assessments and evaluations of collectability, historical loss experience, and future expectations in estimating credit losses in its receivable portfolio. For accounts receivable, the Company uses historical loss experience rates and applies them to a related aging analysis while also considering customer and/or economic risk where appropriate.

Determination of the proper amount of allowances requires management to exercise judgment about the timing, frequency and severity of credit losses that could materially affect the provision for credit losses and, as a result, operating profit. The allowances consider numerous quantitative and qualitative factors that include receivable type, historical loss experience, delinquency trends, collection experience, current economic conditions, estimates for supportable forecasts, when appropriate, and credit risk characteristics.

The reserve for credit losses, which include future credits, discounts, and doubtful accounts, was \$833,000 and \$1,126,000 as of March 31, 2024 and December 31, 2023, respectively.

Inventories

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

Property and Equipment

Property and equipment are initially recorded 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 other income or expense for the period. The cost of maintenance and repairs is expensed as incurred; significant improvements are capitalized.

Goodwill

In accordance with FASB ASC Topic 350, *Intangibles – Goodwill and Other*, using the simplified method as adopted, the Company performed an annual impairment test as of December 31, 2023. This analysis did not indicate any impairment of goodwill.

Stock Based Compensation Plans

In 2006, the Company adopted a Phantom Stock Plan (the “Plan”), which allows the Company to grant phantom stock units (“Units”) to certain key employees, officers, or directors. The Units each represent a contractual right to payment of compensation in the future based upon the market value of the Company’s common stock and are accordingly recorded as liabilities. The Units follow a vesting schedule over three years from the grant date and are then paid upon maturity. In accordance with FASB ASC Topic 718, *Compensation - Stock Compensation*, the Company uses the Black-Scholes option pricing model as its method for determining the fair value of the Units. The liabilities for the Units are adjusted to market value over time from the grant dates to the related maturity dates. The Company recognizes the reversal of any previously recognized compensation expense on forfeited nonvested Units in the period the Units are forfeited.

The Plan has been amended and restated, for all grants made starting January 1, 2023, to set the vesting method to three-year cliff vesting following the grant date, with payment upon maturity. Additionally, for grants made starting January 1, 2023, upon retirement at age 67 or greater, and with one year of continuous service prior to retirement, vesting of the issued grant(s) would accelerate on a pro-rata basis, 1/3 per year from the grant date.

Further details of the Plan are provided in Note 7, Stock Based Compensation Plans, to the Condensed Consolidated Financial Statements included in this report.

Product Liability Reserves

Product liability reserves represent the estimated unpaid amounts under the Company's insurance policy deductibles or self-insured retention limits, with respect to existing claims. The Company uses the most current available data to estimate claims. As explained more fully under Note 6, Commitments and Contingencies, to the Condensed Consolidated Financial Statements included in this report, for various product liability claims covered under the Company's general liability insurance policies, the Company must pay certain defense and settlement costs within its deductible or self-insured retention limits, ranging primarily from \$250,000 to \$3,000,000 per claim, depending on the terms of the policy and the applicable policy year, up to an aggregate amount. The Company is vigorously defending against all known claims.

Leases

The Company applies the requirements of FASB ASC Topic 842, *Leases* which defines a lease as any contract that conveys the right to use a specific asset for a period of time in exchange for consideration. Leases are classified as a finance lease, formerly called a capital lease, if any of the following criteria are met:

1. The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
2. The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
3. The lease term is for the major part of the remaining economic life of the underlying asset.
4. The present value of the sum of lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying asset.
5. The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

For any leases that do not meet the criteria identified above for finance leases, the Company treats such leases as operating leases. As of March 31, 2024 and December 31, 2023, each of the Company's leases is classified as an operating lease.

Both finance and operating leases are reflected on the balance sheet as lease or "right-of-use" assets and lease liabilities.

There are some exceptions which the Company has elected in its accounting policies. For leases with terms of twelve months or less, or below the Company's general capitalization policy threshold, the Company has elected an accounting policy to not recognize lease assets and lease liabilities for all asset classes. The Company recognizes lease expense for such leases generally on a straight-line basis over the lease term.

The Company determines if a contract is a lease at the inception of the arrangement. The Company reviews all options to extend, terminate, or purchase its right-of-use assets at the inception of the lease and accounts for these options when they are reasonably certain to be exercised. Certain leases contain non-lease components, such as common area maintenance, which are generally accounted for separately. In general, the Company will assess if non-lease components are fixed and determinable, or variable, when determining if the component should be included in the lease liability. For purposes of calculating the present value of the lease obligations, the Company utilizes the implicit interest rate within the lease agreement when known and/or determinable, and otherwise utilizes its incremental borrowing rate at the time of the lease agreement.

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 upon Level 1 inputs in determining the fair value of the Company's 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 assets and liabilities denominated in foreign currencies relate to the Company's U.K. subsidiary whose functional currency is the

British Pound and the U.K. subsidiary's France subsidiary whose functional currency is the Euro. The Condensed Consolidated 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 the Condensed Consolidated Statements of Income in the period in which they occur.

Income Taxes

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

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

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.

The Company follows the provisions of FASB ASC Subtopic 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.

Other Comprehensive Income

For the three months ended March 31, 2024 and 2023, respectively, the components of other comprehensive income consisted solely of foreign currency translation adjustments.

Significant Concentrations

The Company has one significant customer which represented more than 10% of the Company's Accounts Receivable as of March 31, 2024 and as of December 31, 2023. That same customer represented more than 10% of the Company's total Net Sales for the three months ended March 31, 2024 and 2023. Geographically, the Company has a significant amount of sales in the United States versus internationally. These concentrations are consistent with those discussed in detail in the Company's Form 10-K.

Subsequent Events

The Company evaluates all events or transactions through the date of the related filing that may have a material impact on its Condensed Consolidated Financial Statements. Refer to Note 11 of the Condensed Consolidated Financial Statements.

Recent Accounting Pronouncements

In March 2020, the FASB issued Accounting Standards Update (“ASU”) No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, updated in December 2022 by ASU No. 2022-06, *Deferral of Sunset Date of Topic 848*. The ASUs apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The ASUs provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The expedients and exceptions provided by the ASUs do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2024, except for hedging relationships existing as of December 31, 2024, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. ASU 2020-04, as updated by ASU 2022-06, is effective for all entities as of March 12, 2020, through December 31, 2024. The impact of the adoption did not have a material impact on the Company's Condensed Consolidated Financial Statements.

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The ASU expands public entities tax disclosures including improving disclosures surrounding the company's rate reconciliation, cash taxes paid, and disaggregation of income tax expense (or benefit) from continuing operations. The amendment is effective for annual periods beginning after December 15, 2024. The Company is in the process of evaluating the impact of ASU No. 2023-09 on its Condensed Consolidated Financial Statements.

3. INVENTORIES

Inventories, net of reserves of \$547,000 and \$692,000 as of March 31, 2024 and December 31, 2023, respectively, consisted of the following:

	March 31, 2024	December 31, 2023
	(in thousands)	
Finished Goods	\$ 6,410	\$ 6,161
Raw Materials	9,172	9,436
Inventories - Net	<u>\$ 15,582</u>	<u>\$ 15,597</u>

4. OTHER LONG TERM ASSETS

Other long term assets were as follows:

	March 31, 2024	December 31, 2023
	(in thousands)	
Inventories, net	\$ 2,563	\$ 2,620
Cash surrender value of life insurance policies	1,733	1,681
Other	122	139
Other Long Term Assets	<u>\$ 4,418</u>	<u>\$ 4,440</u>

The Company maintains inventories, net of reserves of \$1,000,000 as of March 31, 2024 and December 31, 2023, which are estimated to be used beyond the next twelve months, mainly for the new corrugated medical tubing (“CMT”) products. Higher amounts of materials for the new CMT products were initially purchased for cost considerations and because of longer required lead times.

The Company has obtained and is the beneficiary of life insurance policies with respect to past employees.

5. LINE OF CREDIT AND OTHER BORROWINGS

On July 3, 2023, the Company agreed to an Amended and Restated Loan Agreement with Santander Bank, N.A. (the “Bank”), and a Second Amended and Restated Committed Revolving Line of Credit Note to the Bank (both documents together, the “Facility”). The Facility is an unsecured revolving credit facility in the maximum amount of \$15,000,000, with a \$1,000,000 letter of credit sublimit, expiring June 1, 2028, with funds available for working capital and other corporate purposes. The interest rate payable on any borrowings is either the Term SOFR Reference Rate or the Bank’s Prime Rate, as specified by the Company, plus the Applicable Margin. The Applicable Margin for the Term SOFR Reference Rate is plus 0.75% to plus 1.75%, and for Prime Rate, up to plus 0.50%, depending upon the Company’s then existing specified financial ratios. As of March 31, 2024, the Company’s ratio would allow for the most favorable rate under the Facility’s ranges or 6.07%. The Company is also required to pay on a quarterly basis an unused facility fee of 10 basis points of the average unused balance of the note and an annual commitment fee of \$5,000 due and payable on each anniversary date of the Facility. The Company may terminate the Facility at any time as long as there are no amounts outstanding and may prepay any borrowings. Prior to this, the Company had been operating in adherence with the December 1, 2017 agreement, as discussed below.

On December 1, 2017, the Company agreed to an Amended and Restated Revolving Line of Credit Note (the “Line”) and Third Amendment to the Loan Agreement with the Bank. The Company established a line of credit facility in the maximum amount of \$15,000,000, maturing on December 1, 2022, with funds available for working capital purposes and other cash needs. The Line was unsecured and extended through the effective date of the Facility of July 3, 2023. The loan agreement provided for the payment of any borrowings under the agreement at an interest rate range of either LIBOR plus 0.75% to plus 1.75% (for borrowings with a fixed term of 30, 60,

or 90 days), or Prime Rate up to Prime Rate plus 0.50% (for borrowings with no fixed term other than to the effective date of the Facility of July 3, 2023), depending upon the Company's then existing financial ratios. The Company was also required to pay on a quarterly basis an unused facility fee of 10 basis points of the average unused balance of the note.

As of March 31, 2024 and December 31, 2023, the Company had no outstanding borrowings on the Facility or the Line, as applicable, and was in compliance with all debt covenants.

6. 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 obtained directors' and officers' insurance policies to fund certain obligations under the indemnity agreements.

The Company has salary continuation agreements with past employees. These agreements provide for monthly payments to each of the past employees or their designated beneficiary upon the employee's retirement or death. The payment benefits range from \$1,000 to \$3,000 per month with the term of such payments limited to 15 years after the employee's retirement. The net present value of the retirement payments associated with these agreements is \$326,000 as of March 31, 2024 and December 31, 2023, of which \$278,000 is included in Other Long Term Liabilities, and the remaining current portion of \$48,000 is included in Other Liabilities, associated with the applicable retirement benefit payments over the next twelve months.

In addition to the above, the Company has other contractual employment and or change of control agreements in place with key employees, as previously disclosed and noted in the Exhibit Index to the Company's Form 10-K. Obligations related to these arrangements are currently indeterminable due to the variable nature and timing of possible events required to incur such obligations.

As disclosed in detail in Note 8, Leases, to the Condensed Consolidated Financial Statements included in this report, the Company has several lease obligations in place that will be paid over time. Most notably, the Company leases a facility in Banbury, England that serves the manufacturing, warehousing, and distribution functions and a facility in West Chester, Pennsylvania that provides warehousing, quality control, distribution, and corporate office space.

Lastly, as provided in Item 7 under "Liquidity and Capital Resources", of the Company's Form 10-K, the Company has numerous contractual obligations in place for the current year,

mainly related to purchase obligations for the Company's raw material inventories.

Contingencies

In the ordinary and normal conduct of the Company's business, it is subject to lawsuits, investigations, and claims (collectively, the "Claims"). The Claims generally relate to potential lightning or other electrical damage to our flexible gas piping products and may result in legal and product liability related expenses. The Company does not believe the Claims have legal merit and vigorously defends them. It is possible that the Company may incur increased litigation costs in the future due to a variety of factors, including a higher number of Claims, higher legal and expert costs, and higher insurance deductibles or self-insured retention limits (or "retentions").

The Company has in place commercial general liability insurance policies that cover most Claims, which are subject to deductibles or retentions, ranging primarily from \$250,000 to \$3,000,000 per claim (depending on the terms of the policy and the applicable policy year), up to an aggregate amount. Litigation is subject to many uncertainties and management is unable to predict the outcome of the pending suits and claims. The potential liability for a given claim could range from zero to a maximum of \$3,000,000, depending upon the circumstances, and insurance deductible or retention in place for the respective claim year. The aggregate maximum exposure for all current open Claims as of March 31, 2024 is estimated to not exceed approximately \$3,046,000, which represents the potential costs that may be incurred over time for the Claims within the applicable insurance policy deductibles or retentions. From time to time, depending upon the nature of a particular case, the Company may decide to spend in excess of a deductible or retention to enable more discretion regarding the defense, although this is not common. It is possible that the results of operations or liquidity of the Company, as well as the Company's ability to procure reasonably priced insurance, could be adversely affected by the pending litigation, potentially materially. The Company is currently unable to estimate the ultimate liability, if any, that may result from the pending litigation, or potential litigation from future claims or claims that have not yet come to our attention, and accordingly, the liability in the Condensed Consolidated Financial Statements primarily represents an accrual for legal costs for services previously rendered, outstanding settlements for Claims not yet paid, and anticipated, probable, settlements for Claims within the Company's remaining retention under its insurance policies. The liabilities recorded in the Company's books as of March 31, 2024 and December 31, 2023 were \$365,000 and \$947,000, respectively, and are included in Other Liabilities.

7. 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; and
- other incidents of ownership to the Company's common stock

The Units are granted to participants upon the recommendation of the Company's President, 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 at an amount equal to the closing price of the Company's common stock on the grant date but are recorded at fair value using the Black-Sholes method as described below. The Units follow a vesting schedule, with a maximum vesting of three years after the grant date. Grants made on or after January 1, 2023, will fully vest three-years from the grant date. Upon vesting, the Units represent a contractual right of payment for the value of the Unit and therefore are stated as liabilities in accordance with FASB ASC Topic 718, *Compensation - Stock Compensation*. The Units will be paid on their maturity date, one year after all the Units granted in a particular award have fully vested, unless a specified event occurs under the terms of the Plan, which would allow for earlier payment. Units granted with value at the maturity date equal to the closing price of the Company's common stock as of the maturity date are defined as Full Value Units. Unless stated otherwise, all Units described herein are Full Value Units.

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

In addition, the Plan has been amended and restated, for all grants made starting January 1, 2023, to set the vesting method to three-year cliff vesting following the grant date, with payment upon maturity. Additionally, for grants made starting January 1, 2023, upon retirement at age 67 or greater, and with one year of continuous service prior to retirement, vesting of the issued grant(s) would accelerate on a pro-rata basis, 1/3 per year from the grant date.

In certain circumstances, the Units may be immediately vested upon the participant's death or disability. All Units granted to a participant are forfeited if the participant is terminated from their 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 termination.

Grants of Units. As of December 31, 2023, the Company had 6,440 nonvested and unmatured Units outstanding. In March 2024, the Company paid \$141,000 for 1,875 fully vested and matured Units that were granted during 2020, including their respective earned dividend values. On March 20, 2024, the Company granted an additional 6,459 Units with a fair value of \$68.05 per Unit on grant date, using historical volatility. In March 2024, 244 unvested Units were forfeited. As of March 31, 2024, the Company had 10,983 nonvested and unmatured Units outstanding.

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 vesting and maturity periods of each grant.

The FASB ASC Topic 718, *Compensation - Stock Compensation*, requires forfeitures either to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates to derive an estimate of awards ultimately to vest or to recognize the effect of any forfeited awards for which the requisite vesting period is not completed in the period that the award is forfeited.

The Company recognizes the reversal of any previously recognized compensation expense on forfeited awards in the period that the award is forfeited. During the three months ended March 31, 2024, a reversal of \$6,000 of previously recognized compensation expense was recognized on 244 nonvested forfeited Units. During the three months ended March 31, 2023, a reversal of \$22,000 of previously recognized compensation expense was recognized on 597 nonvested forfeited Units.

The total liability related to the Units as of March 31, 2024 was \$449,000 of which \$186,000 is included in Other Liabilities, as it is expected to be paid within the next twelve months, and the balance of \$263,000 is included in Other Long Term Liabilities. The total liability related to the Units as of December 31, 2023 was \$530,000 of which \$206,000 was included in Other Liabilities, and the balance of \$324,000 was included in Other Long Term Liabilities.

Related to the Plan, in accordance with FASB ASC Topic 718, *Compensation - Stock Compensation*, the Company recorded compensation expense of \$61,000 and \$409,000 for the three months ended March 31, 2024 and 2023, respectively. Compensation expense or income for a given period largely depends upon fluctuations in the Company's stock price.

The following table summarizes information about the Company's nonvested and unmaturing Units as of and for the three months ended March 31, 2024:

	Units	Weighted Average Grant Date Fair Value
Number of Units:		
Nonvested and Unmatured as of December 31, 2023	6,440	\$ 111.85
Granted	6,459	\$ 68.05
Vested	(1,672)	\$ 127.80
Forfeited	(244)	\$ 119.17
Canceled	---	---
Nonvested and Unmatured as of March 31, 2024	<u>10,983</u>	<u>\$ 83.50</u>
Units Expected to Vest and Mature	<u>10,983</u>	<u>\$ 83.50</u>

The total unrecognized compensation costs calculated as of March 31, 2024 were \$683,000 which will be recognized through March of 2027. The Company will recognize the related expense over the weighted average period of 2.2 years.

8. LEASES

In the U.S., the Company owns its two main operating facilities located in Exton, Pennsylvania. In addition to the owned facilities, the Company also has operations in other locations that are leased, as well as other leased assets. In conjunction with the guidance for leases, as defined by FASB ASC Topic 842, *Leases*, the Company has described the existing leases, which are all classified as operating leases, pursuant to the below.

In the U.S., the Company leases a facility in Houston, Texas, which currently provides manufacturing, stocking, and sales operations, with the lease term running through October 2024, a facility in Malvern, Pennsylvania, with a term ending in December 2024, that provides warehousing, and a facility in West Chester, Pennsylvania which was consummated effective January 2024, with a term ending February 2030, that provides warehousing and storage, quality control, distribution, and corporate office space. Additionally, the Company has an operating lease agreement for its corporate office space in Middletown, Connecticut, with the lease term ending in June 2027.

In the U.K., the Company leases a facility in Banbury, England, which serves manufacturing, warehousing, and other operational functions. The lease in Banbury has a 15-year term ending in March 2036.

In addition to property rentals, the Company also has lease agreements in place for various fleet vehicles and equipment with various lease terms.

As of March 31, 2024, the Company recorded right-of-use assets of \$4,622,000, and a lease liability of \$4,684,000, of which \$387,000 is reported as a current liability. On December 31, 2023, the Company recorded right-of-use assets of \$2,940,000, and a lease liability of \$2,946,000, of which \$454,000 was reported as a current liability. The respective weighted average remaining lease term and discount rate are approximately 9.06 years and 3.04% as of March 31, 2024.

Rent expense for operating leases was \$194,000 and \$122,000 for the three months ended March 31, 2024 and 2023, respectively.

Future minimum lease payments, under non-cancelable leases as of March 31, 2024, are as follows:

<u>Twelve Months Ending March 31,</u>	<u>Operating Leases</u> (in thousands)
2025	\$ 534
2026	673
2027	662
2028	604
2029	597
Thereafter	2,261
Total Future Minimum Lease Payments	<u>5,331</u>
Less: Interest	647
Lease Liability	<u>4,684</u>
Less: Current Portion of Lease Liability	387
Lease Liability – Net of Current Portion	<u>\$ 4,297</u>

9. SHAREHOLDERS' EQUITY

As of March 31, 2024 and December 31, 2023, the Company had 20,000,000 shares of common stock, with par value of \$0.01 per share, authorized. For both periods, the total number of outstanding shares was 10,094,322, shares held in Treasury was 59,311, and total shares issued was 10,153,633.

During 2024 and 2023, upon approval of the Board of Directors (the “Board”) the Company has declared and paid regular quarterly dividends, as set forth in the following table:

Dividend Declared		Dividend Paid	
Date	Price Per Share	Date	Amount
March 28, 2024	\$0.33	April 24, 2024	\$3,331,000
December 6, 2023	\$0.33	January 4, 2024	\$3,332,000
September 11, 2023	\$0.33	October 6, 2023	\$3,331,000
June 13, 2023	\$0.33	July 7, 2023	\$3,332,000
March 28, 2023	\$0.32	April 24, 2023	\$3,229,000

It should be noted that from time to time, the Board may elect to pay special dividends, in addition to or in lieu of the regular quarterly dividends, depending upon the financial condition of the Company. The most recent special dividend was declared and paid in December 2019.

10. RELATED PARTY TRANSACTIONS

From time to time the Company may have related party transactions (“RPTs”). RPTs represent any transaction between the Company and any Company employee, director or officer, or any related entity, or relative, etc. The Company performs a review of transactions each year to determine if any RPTs exist, and if so, determines if the related parties act independently of

each other in a fair transaction. Through this investigation the Company noted a limited number of RPTs. In all cases, these RPTs have been determined to be arms length transactions with no indication that they are influenced by the related relationships.

11. SUBSEQUENT EVENTS

The Company evaluated all events or transactions that occurred through the date of this filing. During this period, no events came to the Company's attention that would impact the Condensed Consolidated Financial Statements for the period ended March 31, 2024.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and related notes thereto included in Part I, Item 1 of this Form 10-Q. This discussion and other parts of this report contain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations, and intentions that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Our actual results could differ materially from those discussed in these forward-looking statements. See “Cautionary Note Regarding Forward-Looking Statements” in this Form 10-Q.

OVERVIEW

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

The Company’s business is managed as a single operating segment that consists of the manufacture and sale of flexible metal hose, fittings, and accessories. The Company’s products are concentrated in residential and commercial construction, and general industrial markets, with a comprehensive portfolio of intellectual property and patents issued in various countries around the world. The Company’s primary product, flexible gas piping, is used for gas piping within residential and commercial buildings. Through its flexibility and ease of use, the Company’s TracPipe® and TracPipe® CounterStrike® flexible gas piping, along with its fittings distributed under the trademarks AutoFlare®, allows users to substantially cut the time required to install gas piping, as compared to traditional methods. The Company’s newest product line MediTrac® corrugated medical tubing (“CMT”) is used for piping medical gases (oxygen, nitrogen, nitrous oxide, carbon dioxide, and medical vacuum) in health care facilities. Building on the recognized strengths and strategies employed in the flexible gas piping market, MediTrac® CMT can be used in place of rigid copper pipe, and due to its long continuous lengths and flexibility, it can be installed approximately five times faster than rigid copper pipe, saving on installation labor and construction schedules. The Company’s products are manufactured at its Exton, Pennsylvania and Houston, Texas facilities in the U.S., and in Banbury, Oxfordshire in the U.K. 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

For the period ended March 31, 2024 vs. December 31, 2023

The Company’s cash balance of \$45,268,000 on March 31, 2024 decreased \$1,088,000 (2.3%) from a \$46,356,000 balance at December 31, 2023. Consistent with prior years, the

Company paid a significant amount of cash during the first quarter for obligations that were accrued as of the end of the preceding year such as incentive related compensation. The Company also paid a dividend payment during 2024 totaling \$3,332,000, as detailed in Note 9, Shareholders' Equity, to the Condensed Consolidated Financial Statements included in this report. These cash outflows were partially offset by income generated from operations. See the Company's Condensed Consolidated Cash Flow Statements for further details regarding the change in cash.

Accrued Compensation was \$600,000 on March 31, 2024, compared to \$3,198,000 on December 31, 2023, decreasing \$2,598,000 or 81.2%. A significant portion of the liability that existed at the previous year end related to incentive compensation earned in 2023. As is customary, the liability was then paid during the first quarter of the following year, or 2024, thus diminishing the balance. The liability now represents amounts mainly earned during the current year.

Retained earnings were \$69,381,000 and \$68,493,000 as of March 31, 2024 and December 31, 2023, respectively, increasing \$888,000 or 1.3%. The increase was primarily due to net income during the year, as provided on the Company's Condensed Consolidated Statements of Income, partially offset by dividends declared during 2024, as discussed in detail in Note 9, Shareholders' Equity, to the Condensed Consolidated Financial Statements included in this report.

RESULTS OF OPERATIONS

Three months ended March 31, 2024 compared to three months ended March 31, 2023

The Company reported comparative results from operations for the three month periods ended March 31, 2024 and 2023 as follows:

	<u>Three months ended March 31,</u> (in thousands)			
	<u>2024</u> <u>(\$000)</u>	<u>2024</u> <u>%</u>	<u>2023</u> <u>(\$000)</u>	<u>2023</u> <u>%</u>
Net Sales	\$25,216	100.0%	\$29,987	100.0%
Gross Profit	\$15,099	59.9%	\$18,628	62.1%
Operating Profit	\$ 5,058	20.1%	\$ 7,306	24.4%

Net Sales. The Company's 2024 first quarter sales of \$25,216,000 decreased \$4,771,000 or 15.9% compared to the first quarter of 2023, which generated sales of \$29,987,000. The decrease in sales is mainly due to lower sales unit volumes as a result of the overall market being suppressed because of, among other factors, a decline in housing starts.

Gross Profit. The Company's gross profit margins were 59.9% and 62.1% for the quarters ended March 31, 2024 and 2023, respectively. Gross profit for the first quarter of 2024 declined mainly due to lower production, which caused lower absorption of factory labor and overhead costs.

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 expenses were \$5,352,000 and \$5,573,000 for the quarters ended March 31, 2024 and 2023, respectively, representing a decrease of \$221,000 or 4.0%. The decrease is mostly related to commissions and freight due to the lower sales. These decreases were partially offset by higher staffing related costs. Selling expenses increased as a percent of net sales compared to last year, being 21.2% for the quarter ended March 31, 2024, and 18.6% for the quarter ended March 31, 2023.

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 \$3,758,000 and \$4,794,000 for the quarters ended March 31, 2024 and 2023, respectively, decreasing by \$1,036,000 or 21.6%. Incentive compensation, which is aligned with profitability, was lower as well as stock based compensation, which moves in relation to the Company's stock price, as detailed in Note 7, Stock Based Compensation Plans. Product liability reserves and expenses were also lower. As a percentage of sales, general and administrative expenses decreased to 14.9% for the quarter ended March 31, 2024 from 16.0% for the quarter ended March 31, 2023.

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 \$931,000 and \$955,000 for the quarters ended March 31, 2024 and 2023, respectively, decreasing by \$24,000 or 2.5%. Engineering expenses increased as a percentage of sales, being 3.7% for the quarter ended March 31, 2024, and 3.2% for the same quarter in 2023.

Operating Profits. Reflecting all of the factors mentioned above, operating profits were \$5,058,000 and \$7,306,000 for the quarters ended March 31, 2024 and 2023, respectively, decreasing by \$2,248,000 or 30.8%.

Interest Income. Interest income is recorded on cash investments, and interest expense is recorded at times when the Company has debt amounts outstanding on its line of credit. The Company recorded \$546,000 of interest income for the first quarter of 2024 and \$281,000 for the first quarter of 2023. Higher interest rates are mainly responsible for the higher interest income.

Other Income (Expense). Other income (expense) primarily consists of foreign currency exchange gains (losses) on transactions settled in currencies other than the Company's local currency, typically related to the Company's foreign U.K. and France subsidiaries. There was a loss of \$29,000 during the first quarter of 2024 compared to a gain of \$31,000 during the first quarter of 2023.

Income Tax Expense. Income tax expense was \$1,375,000 for the first quarter of 2024, compared to \$1,877,000 for the first quarter in 2023, decreasing \$502,000 or 26.7%, mostly the result of lower current quarter income before income taxes.

LIQUIDITY AND CAPITAL RESOURCES

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

As of March 31, 2024, the Company had a cash balance of \$45,268,000. Additionally, the Company has a \$15,000,000 line of credit available, as discussed in detail in Note 5, which had no borrowings outstanding upon it as of March 31, 2024. As of December 31, 2023, the Company had a cash balance of \$46,356,000, with no borrowings against the line of credit.

We believe our existing cash and cash equivalents, along with our borrowing capacity, will be sufficient to meet our anticipated cash needs for at least the next twelve months. Our future capital requirements will depend upon many factors including our rate of revenue growth, the timing and extent of any expansion efforts, and the potential for investments in, or the acquisition of any complementary products, businesses, or supplementary facilities for additional capacity.

See Notes 6 and 8 to the Company's Condensed Consolidated Financial Statements included in this Form 10-Q for a description of the Company's commitments and contingencies.

CASH FLOWS

Operating Activities

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

For the three months ended March 31, 2024, the Company's operating activities provided cash of \$2,703,000, compared to the three months ended March 31, 2023 which provided cash of \$1,470,000, an increase of \$1,233,000. For details of the operating cash flows refer to the Condensed Consolidated Statements of Cash Flows in Part I – Financial Information on page eight.

As a general trend, the Company tends to deplete or generate lower amounts of cash early in the year, as significant payments are typically made for incentive compensation and accrued promotional incentives. Cash has then historically shown a tendency to be restored and accumulated during the latter portion of the year.

Investing Activities

Cash used in investing activities during the three months ended March 31, 2024 and 2023 was \$461,000 and \$453,000, respectively, as a result of payments for mainly manufacturing equipment capital expenditures.

Financing Activities

All financing activities relate to dividend payments, which are detailed in Note 9, Shareholders' Equity. Dividend payments through the first three months of 2024 and 2023

amounted to \$3,332,000 and \$3,232,000, respectively.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

See our Annual Report on Form 10-K for the year ended December 31, 2023 for a discussion of our critical accounting policies and estimates. There have been no material changes to our critical accounting policies and estimates discussed in such report.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 2020, the FASB issued Accounting Standards Update (“ASU”) No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, updated in December 2022 by ASU No. 2022-06, *Deferral of Sunset Date of Topic 848*. The ASUs apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The ASUs provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The expedients and exceptions provided by the ASUs do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2024, except for hedging relationships existing as of December 31, 2024, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. ASU 2020-04, as updated by ASU 2022-06, is effective for all entities as of March 12, 2020, through December 31, 2024. The impact of the adoption did not have a material impact on the Company's Condensed Consolidated Financial Statements.

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The ASU expands public entities tax disclosures including improving disclosures surrounding the company's rate reconciliation, cash taxes paid, and disaggregation of income tax expense (or benefit) from continuing operations. The amendment is effective for annual periods beginning after December 15, 2024. The Company is in the process of evaluating the impact of ASU No. 2023-09 on its Condensed Consolidated Financial Statements.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

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 4 – Controls and Procedures

- (a) Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures (as

defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this Form 10-Q, our disclosure controls and procedures were effective at the reasonable assurance level. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

(b) Changes in Internal Controls.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent quarter ended March 31, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1 – Legal Proceedings

See legal proceedings disclosure in Note 6, Commitments and Contingencies, to the Condensed Consolidated Financial Statements included in this Form 10-Q.

Item 1A – Risk Factors

Risk factors are discussed in detail in the Company’s December 31, 2023 Form 10-K. There are no additional risks attributable to the quarter.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Mine Safety Disclosures

Not Applicable.

Item 5 – Other Information

None.

Item 6 - Exhibits

Exhibit

<u>No.</u>	<u>Description</u>
31.1	Certification of Chief Executive Officer of Omega Flex, Inc. pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer of Omega Flex, Inc. pursuant to 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer and Chief Financial Officer of Omega Flex, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

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

OMEGA FLEX, INC.
(Registrant)

Date: May 3, 2024

By: /s/ Matthew F. Unger
Matthew F. Unger
Vice President – Finance
and Chief Financial Officer

Certification of the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Dean W. Rivest, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2024 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; and

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: May 3, 2024

/s/ Dean W. Rivest

Dean W. Rivest
Chief Executive Officer

Certification of the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Matthew F. Unger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2024 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; and

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: May 3, 2024

/s/ Matthew F. Unger

Matthew F. Unger
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”), as set forth below, that, to the best of his knowledge:

(a) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended March 31, 2024 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; 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: May 3, 2024

/s/ Dean W. Rivest _____

Dean W. Rivest
Chief Executive Officer (Principal Executive Officer)

/s/ Matthew F. Unger _____

Matthew F. Unger
Chief Financial Officer (Principal Financial Officer)

This certification is not deemed to be “filed” for purposes of section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. This certification is not deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or Securities Exchange Act of 1934, as amended, irrespective of any general incorporation language contained in such filing..