

PARAGON TILE LLC
Form S-4/A
June 20, 2011
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As filed with the Securities and Exchange Commission on June 20, 2011

Registration No. 333-172482

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

Pre-effective Amendment No. 4 to Form S-4
REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

BEAZER HOMES USA, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
State or other jurisdiction of

1531
Primary Standard Industrial

58-2086934
I.R.S. Employer

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incorporation or organization

Classification Code Number
1000 Abernathy Road, Suite 1200

Identification No.

Atlanta, Georgia 30328

(770) 829-3700

(Address, including zip code, and telephone number, including area code, of each registrant's principal executive offices)

SEE TABLE OF CO-REGISTRANTS

Kenneth F. Khoury

Executive Vice President, General Counsel and Secretary

Beazer Homes USA, Inc.

1000 Abernathy Road, Suite 1200

Atlanta, Georgia 30328

(770) 829-3700

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

Large accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer
Smaller reporting company

The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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	State of Incorporation /Formation	Primary Standard Industrial Classification Code Number	IRS Employer Identification No.
Beazer Homes Corp.	TN	1531	62-0880780
Beazer/Squires Realty, Inc.	NC	1531	56-1807308
Beazer Homes Sales, Inc.	DE	1531	86-0728694
Beazer Realty Corp.	GA	1531	58-1200012
Beazer Homes Holdings Corp.	DE	1531	58-2222637
Beazer Homes Texas Holdings, Inc.	DE	1531	58-2222643
Beazer Homes Texas, L.P.	DE	1531	76-0496353
April Corporation	CO	1531	84-1112772
Beazer SPE, LLC	GA	1531	not applied for(1)
Beazer Homes Investments, LLC	DE	1531	04-3617414
Beazer Realty, Inc.	NJ	1531	22-3620212
Beazer Clarksburg, LLC	MD	1531	not applied for(1)
Homebuilders Title Services of Virginia, Inc.	VA	1531	54-1969702
Homebuilders Title Services, Inc.	DE	1531	58-2440984
Beazer Allied Companies Holdings, Inc.	DE	1531	54-2137836
Beazer Homes Indiana LLP	IN	1531	35-1901790
Beazer Realty Services, LLC	DE	1531	35-1679596
Paragon Title, LLC	IN	1531	35-2111763
Trinity Homes, LLC	IN	1531	35-2027321
Beazer Commercial Holdings, LLC	DE	1531	not applied for(1)
Beazer General Services, Inc.	DE	1531	20-1887139
Beazer Homes Indiana Holdings Corp.	DE	1531	03-3617414
Beazer Realty Los Angeles, Inc.	DE	1531	20-2495958
Beazer Realty Sacramento, Inc.	DE	1531	20-2495906
BH Building Products, LP	DE	1531	20-2498366
BH Procurement Services, LLC	DE	1531	20-2498277
Arden Park Ventures, LLC	FL	1531	not applied for(1)
Beazer Mortgage Corporation	DE	6163	58-2203537
Beazer Homes Michigan, LLC	DE	1531	20-3420345
Dove Barrington Development LLC	DE	6531	20-1737164
Elysian Heights Potomia, LLC	VA	6531	30-0237203
Clarksburg Arora LLC	MD	6531	52-2317355
Clarksburg Skylark, LLC	MD	6531	52-2321110

The address for each Co-Registrant is 1000 Abernathy Road, Suite 1200, Atlanta, Georgia 30328.

(1) Does not have any employees.

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The information in this prospectus is not complete and may be changed. We may not issue these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

Subject to Completion dated June 20, 2011

\$250,000,000

Offer to Exchange

9.125% Senior Notes due 2019,

which have been registered under the Securities Act of 1933,

for any and all outstanding

9.125% Senior Notes due 2019,

which have not been registered under the Securities Act of 1933,

of

Beazer Homes USA, Inc.

We will exchange all original notes that are validly tendered and not withdrawn before the end of the exchange offer for an equal principal amount of new notes that we have registered under the Securities Act of 1933.

This exchange offer expires at 12:01 a.m., New York City time, on _____, 2011, unless extended.

No public market exists for the original notes or the new notes. We do not intend to list the new notes on any securities exchange or to seek approval for quotation through any automated quotation system.

See Risk Factors beginning on page 10 for a discussion of the risks that holders should consider prior to making a decision to exchange original notes for new notes.

The notes will be our senior unsecured obligations and will rank equally in right of payment with all of our existing and future senior obligations, senior to all of our existing and future subordinated indebtedness and effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. The notes and related guarantees will be structurally subordinated to all indebtedness and other liabilities of all of our subsidiaries that do not guarantee the notes. The notes will be fully and unconditionally guaranteed on a senior unsecured basis by each of our subsidiaries that guarantee the revolving credit facility (as defined herein) and our other outstanding senior notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Each broker-dealer that receives new notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. A broker-dealer who acquired original notes as a result of market-making or other trading activities may use this prospectus, as supplemented or amended from time to time, in connection with any resales of the new notes.

The date of this prospectus is _____, 2011.

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone else to provide you with additional or different information. We are only offering these securities in states where the offer is permitted. You should not assume that the information in this prospectus is accurate as of any date other than the dates on the front of this document.

This prospectus incorporates important business and financial information about the company that is not included in or delivered with this document. For more information regarding the documents incorporated by reference into this prospectus, see Where You Can Find More Information beginning on page 70. We will provide, without charge, to each person, including any beneficial owner, to whom a copy of this prospectus is delivered, upon the written or oral request of such person, a copy of any or all of the information incorporated by reference in this prospectus, other than exhibits to such information (unless such exhibits are specifically incorporated by reference into the information that this prospectus incorporates). Requests for such copies should be directed to:

Beazer Homes USA, Inc.

Attn: Secretary

1000 Abernathy Road, Suite 1200

Atlanta, Georgia 30328

Telephone: (770) 829-3700

In order to obtain timely delivery, security holders must request the information no later than five business days before , 2011, the expiration date of the exchange offer.

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PROSPECTUS SUMMARY

This summary highlights selected information from this prospectus. The following summary information is qualified in its entirety by the information contained elsewhere in this prospectus. This summary may not contain all of the information that you should consider prior to making a decision to exchange original notes for new notes. You should read the entire prospectus carefully, including the Risk Factors section beginning on page 10 of this prospectus, and the additional documents to which we refer you. You can find information with respect to these additional documents under the caption Where You Can Find More Information beginning on page 70. Unless the context requires otherwise, all references to we, us, our and Beazer Homes refer specifically to Beazer Homes USA, Inc. and its subsidiaries. In this section, references to the Notes are references to the outstanding 9.125% Senior Notes due 2019 and the exchange 9.125% Senior Notes due 2019 offered hereby, collectively. Definitions for certain other defined terms may be found under Description of the Notes Certain Definitions appearing below.

The Company

Beazer Homes USA, Inc.

We are a geographically diversified homebuilder with active operations in 15 states. Our homes are designed to appeal to homeowners at various price points across various demographic segments and are generally offered for sale in advance of their construction. Our objective is to provide our customers with homes that incorporate exceptional value and quality while seeking to maximize our return on invested capital over time.

Our and our co-registrants principal executive offices are located at 1000 Abernathy Road, Suite 1200, Atlanta, Georgia 30328, telephone (770) 829-3700. Our Internet website is <http://www.beazer.com>. Information on our website is not a part of and shall not be deemed incorporated by reference in this prospectus.

The Exchange Offer

The Exchange Offer

We are offering to exchange up to \$250,000,000 aggregate principal amount of our new 9.125% Senior Notes due 2019 for up to \$250,000,000 aggregate principal amount of our original 9.125% Senior Notes due 2019, which are currently outstanding. Original notes may only be exchanged in a minimum principal amount of \$2,000 and \$1,000 principal increments above such minimum. In order to be exchanged, an original note must be properly tendered and accepted. All original notes that are validly tendered and not validly withdrawn prior to the expiration of the exchange offer will be exchanged.

Resales Without Further Registration

Based on interpretations by the staff of the SEC in several no action letters issued to third parties, we believe that the new notes issued pursuant to the exchange offer may be offered for resale, resold or otherwise transferred by you without compliance with the registration and prospectus delivery provisions of the Securities Act of 1933 (the Securities Act) provided that:

you are acquiring the new notes issued in the exchange offer in the ordinary course of your business;

you have not engaged in, do not intend to engage in, and have no arrangement or understanding with any person to participate in,

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the distribution of the new notes issued to you in the exchange offer in violation of the provisions of the Securities Act; and

you are not our affiliate, as defined under Rule 405 of the Securities Act.

Each broker-dealer that receives new notes for its own account in exchange for original notes, where such original notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such new notes.

The letter of transmittal states that, by so acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of new notes received in exchange for original notes where such original notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed to use our reasonable best efforts to make this prospectus, as amended or supplemented, available to any broker-dealer for a period of 180 days after the date of this prospectus for use in connection with any such resale. See Plan of Distribution.

Expiration Date 12:01 a.m., New York City time, on _____, 2011, unless we extend the exchange offer.

Accrued Interest on the New Notes and Original Notes The new notes will bear interest from November 12, 2010 or the last interest payment date on which interest was paid on the original notes surrendered in exchange therefor. Holders of original notes that are accepted for exchange will be deemed to have waived the right to receive any payment in respect of interest on such original notes accrued to the date of issuance of the new notes.

Conditions to the Exchange Offer The exchange offer is subject to certain customary conditions which we may waive. See The Exchange Offer Conditions.

Procedures for Tendering Original Notes Each holder of original notes wishing to accept the exchange offer must complete, sign and date the letter of transmittal, or a facsimile of the letter of transmittal; or if the original notes are tendered in accordance with the book-entry procedures described in this prospectus, the tendering holder must transmit an agent's message to the exchange agent at the address listed in this prospectus. You must mail or otherwise deliver the required documentation together with the original notes to the exchange agent.

Special Procedures for Beneficial Holders If you beneficially own original notes registered in the name of a broker, dealer, commercial bank, trust company or other nominee and

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you wish to tender your original notes in the exchange offer, you should contact such registered holder promptly and instruct them to tender on your behalf. If you wish to tender on your own behalf, you must, before completing and executing the letter of transmittal for the exchange offer and delivering your original notes, either arrange to have your original notes registered in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time.

Guaranteed Delivery Procedures

You must comply with the applicable guaranteed delivery procedures for tendering if you wish to tender your original notes and:

your original notes are not immediately available; or

time will not permit your required documents to reach the exchange agent prior to 12:01 a.m., New York City time, on the expiration date of the exchange offer; or

you cannot complete the procedures for delivery by book-entry transfer prior to 12:01 a.m., New York City time, on the expiration date of the exchange offer.

Withdrawal Rights

You may withdraw your tender of original notes at any time prior to 12:01 a.m., New York City time, on the date the exchange offer expires.

Failure to Exchange Will Affect You Adversely

If you are eligible to participate in the exchange offer and you do not tender your original notes, you will not have further exchange or registration rights and your original notes will continue to be subject to restrictions on transfer under the Securities Act. Accordingly, the liquidity of the original notes will be adversely affected.

Material United States Federal Income Tax Consequences

The exchange of original notes for new notes pursuant to the exchange offer will not result in a taxable event. Accordingly, we believe that:

no gain or loss will be realized by a United States holder upon receipt of a new note;

holder's holding period for the new notes will include the holding period of the original notes; and

the adjusted tax basis of the new notes will be the same as the adjusted tax basis of the original notes exchanged at the time of such exchange.

See Material United States Federal Income Tax Considerations.

Exchange Agent

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U.S. Bank National Association is serving as exchange agent in connection with the Exchange Offer. Deliveries by hand, registered, certified, first class or overnight mail should be addressed to U.S. Bank National Association, 60 Livingston Avenue, EP-MN-WS2N,

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St. Paul, MN 55107, Attention: Specialized Finance Department, Reference: Beazer Homes USA, Inc. Exchange. For information with respect to the Exchange Offer, contact the Exchange Agent at telephone number (800) 934-6802 or facsimile number (651) 495-8158.

Use of Proceeds

We will not receive any proceeds from the exchange offer. See Use of Proceeds.

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Summary of Terms of New Notes

The exchange offer constitutes an offer to exchange up to \$250,000,000 aggregate principal amount of the new notes for up to an equal aggregate principal amount of the original notes. The new notes will be obligations of Beazer Homes evidencing the same indebtedness as the original notes, and will be entitled to the benefit of the same indenture. The form and terms of the new notes are substantially the same as the form and terms of the original notes except that the new notes have been registered under the Securities Act. See Description of the Notes.

Comparison with Original Notes

Freely Transferable

The new notes will be freely transferable under the Securities Act by holders who are not restricted holders. Restricted holders are restricted from transferring the new notes without compliance with the registration and prospectus delivery requirements of the Securities Act. The new notes will be identical in all material respects (including interest rate, maturity and restrictive covenants) to the original notes, with the exception that the new notes will be registered under the Securities Act. See The Exchange Offer Terms of the Exchange Offer.

Registration Rights

The holders of the original notes currently are entitled to certain registration rights pursuant to the registration rights agreement entered into on the issue date of the original notes by and among Beazer Homes, the subsidiary guarantors named therein and the initial purchasers named therein, including the right to cause Beazer Homes to register the original notes for resale under the Securities Act if the Exchange Offer is not consummated prior to the exchange offer termination date. However, pursuant to the registration rights agreement, such registration rights will expire upon consummation of the exchange offer. Accordingly, holders of original notes who do not exchange their original notes for new notes in the exchange offer will not be able to reoffer, resell or otherwise dispose of their original notes unless such original notes are subsequently registered under the Securities Act or unless an exemption from the registration requirements of the Securities Act is available.

Terms of New Notes

Issuer

Beazer Homes USA, Inc.

Notes Offered

The form and terms of the new notes will be the same as the form and terms of the outstanding notes except that:

the new notes will bear a different CUSIP number from the original notes;

the new notes have been registered under the Securities Act and, therefore, will not bear legends restricting their transfer; and

you will not be entitled to any exchange or registration rights with respect to the new notes.

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The notes will evidence the same debt as the original notes. They will be entitled to the benefits of the indenture and the supplemental indenture governing the original notes and will be treated under the indenture and the supplemental indenture as a single class with the original notes. We refer to the new notes and the original notes collectively as the notes in this prospectus.

Maturity Date

May 15, 2019.

Interest

The notes bear interest at a rate of 9.125% per annum payable semi-annually in cash on May 15 and November 15 of each year.

Guarantees

On the issue date of the notes, all payments on the notes, including principal and interest, will be jointly and severally guaranteed on a senior unsecured basis by substantially all of our existing subsidiaries.

Ranking

The notes and the guarantees will be our and the guarantors' senior unsecured obligations. The indebtedness evidenced by the notes and the guarantees will:

rank senior in right of payment to any of our and the guarantors' existing and future subordinated indebtedness;

rank equally in right of payment with all of our and the guarantors' existing and future senior indebtedness, including our outstanding senior notes and our revolving credit facility;

be effectively subordinated to our and the guarantors' obligations under our revolving credit facility, our 12% Senior Secured Notes due 2017, our cash-secured delayed-draw term loan facilities (the Cash-Secured Facilities) and any other debt incurred after the issue date that is secured, in each case to the extent of the collateral securing such obligations; and

be structurally subordinated to all existing and future indebtedness and other liabilities of our non-guarantor subsidiaries (other than indebtedness and liabilities owed to us or one of our guarantor subsidiaries).

As of March 31, 2011, we and the subsidiary guarantors had approximately \$1.3 billion of indebtedness outstanding, net of unamortized discount of \$25.2 million and unamortized accretion of \$52.3 million, of which (1) \$286.2 million was secured indebtedness and (2) \$106.0 million, net of accretion, was subordinate to the notes and the guarantees. In addition, as of March 31, 2011, our non-guarantor subsidiaries had outstanding indebtedness and other liabilities (excluding intercompany obligations) of approximately \$3.6 million.

Optional Redemption

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Prior to November 15, 2014, we may redeem the notes, in whole or in part, at a price equal to 100% of the principal amount thereof plus the make-whole premium described under Description of the Notes Optional Redemption.

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We may also redeem any of the notes at any time on or after November 15, 2014, in whole or in part, at the redemption prices described under Description of the Notes Optional Redemption, plus accrued and unpaid interest, if any, to the date of redemption. In addition, prior to November 15, 2013, we may redeem up to 35% of the aggregate principal amount of the notes issued under the indenture with the net proceeds of certain equity offerings, provided at least 65% of the aggregate principal amount of the notes originally issued remain outstanding immediately after such redemption. See Description of the Notes Optional Redemption.

Certain Covenants

The indenture governing the notes contains certain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to:

incur additional indebtedness or issue certain preferred shares;

create liens on assets to secure indebtedness;

pay dividends or make other equity distributions;

purchase or redeem capital stock; and

make certain investments.

These limitations are subject to a number of important qualifications and exceptions. See Description of the Notes Certain Covenants.

Change of Control

Upon a change of control, we will be required to make an offer to purchase each holder's notes at a price of 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase. See Description of the Notes Mandatory Offers to Purchase the Notes and Description of the Notes Certain Covenants Change of Control.

No Listing on any Securities Exchange

We do not intend to list the new notes on any securities exchange or to seek approval for quotation through any automated system.

Risk Factors

You should carefully consider the information under Risk Factors beginning on page 10 of this prospectus and all other information included or incorporated by reference in this prospectus prior to making a decision to exchange original notes for new notes.

For additional information regarding the notes, see the Description of the Notes section of this prospectus.

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Our summary historical consolidated financial and operating data set forth below as of and for each of the periods presented are derived from our audited and unaudited consolidated financial statements. These historical results are not necessarily indicative of the results to be expected in the future. You should also read our historical financial statements and related notes in our annual report on Form 10-K for the year ended September 30, 2010 and our quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2011, and Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended September 30, 2010 and our quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2011, incorporated herein by reference, before deciding to exchange the original notes for the new notes.

	Fiscal Year Ended			Six Months Ended		
	2008	September 30, 2009	2010	2010	March 31, 2011	
(\$ in millions, except ratios)						
Statement of Operations Data Continuing Operations(1):						
Total revenue	\$	1,737	\$ 972	\$ 1,010	\$ 406	\$ 238
Gross (loss) profit		(247)	16	86	43	10
Operating loss		(618)	(241)	(114)	(51)	(73)
(Loss) income from continuing operations(2)		(780)	(176)	(30)	51	(103)
Operating Statistics Continuing Operations:						
Number of new orders, net of cancellations		5,158	4,077	4,122	2,339	1,734
Backlog at end of period(3)		1,290	1,171	780	1,743	1,414
(6,766)		(11,987)				
Translation effect on cash		24	8			
Cash and Cash Equivalents	Beginning of Period	<u>13,143</u>	<u>17,424</u>			
Cash and Cash Equivalents	End of Period	\$6,401	\$5,445			
		=====	=====			

See Accompanying Notes to Consolidated Financial Statements.

OMEGA FLEX, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All dollars in thousands except per share amounts)

(Unaudited)

1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Omega Flex, Inc. (Omega) and its subsidiaries (collectively the Company). The Company's unaudited consolidated financial statements for the quarter ended June 30, 2008 have been prepared in accordance with generally accepted accounting principles, and with the instructions of Form 10-Q and Article 10 of Regulation S-X. All material inter-company accounts and transactions have been eliminated in consolidation. It is Management's opinion that all adjustments necessary for a fair presentation 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. Our industrial flexible metal piping is used to carry other types of gases and fluids in a number of industrial applications where the customer requires the piping to have both a degree of flexibility and/or an ability to carry corrosive compounds or mixtures, or to carry at both very high and very low (cryogenic) temperatures.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Revenue Recognition

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

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

Delivery has occurred or services rendered.

The sales price to the customer is fixed or determinable.

Collection is reasonably assured.

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

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

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

Earnings per Common Share

Basic earnings per share have been computed using the weighted average number of common shares outstanding. 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 date. The Statement of Operations is translated into U.S. dollars at average exchange rates. Adjustments resulting from the translation of financial statements are excluded from the determination of income and are accumulated in a separate component of shareholders' equity. 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

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The Company accounts for federal tax liabilities in accordance with SFAS No. 109, Accounting for Income Taxes . 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

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and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize the benefit, or that future deductibility is uncertain.

Other Comprehensive (Loss) Income

For the quarters ended June 30, 2008 and 2007, respectively, the components of Other Comprehensive (Loss) Income consisted solely of foreign currency translation adjustments.

New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 160 Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company believes that this new pronouncement will not have any significant impact on the Company s financial statements in future periods.

In December 2007, the FASB issued SFAS No. 141 (R) Business Combinations (SFAS 141R). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. SFAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company believes that this new pronouncement will have an impact on our accounting for future business combinations once adopted, but the effect is dependent upon the acquisitions that are made in the future.

In March 2008, FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 which establishes the disclosure requirements for derivative instruments and for hedging activities. This Statement amends and expands the disclosure requirements of Statement 133 with the intent to provide users of financial statements with an enhanced understanding of derivative instruments and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. We do not expect adoption of SFAS 161 to have a material impact on the Company s financial statements.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 will be effective 60 days following the SEC s approval of the Public

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Company Accounting Oversight Board amendment to AU 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect the implementation of SFAS 162 to have a material impact on its consolidated financial statements.

Reclassifications

Certain reclassifications have been made to prior years' financial statements to conform to the 2008 presentation.

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

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

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

At the effective date of the Spin-Off, Mestek was indebted to the Company in the amount of \$3,250 which was converted on the effective date of the Spin-Off to a 3-year note receivable from Mestek bearing interest at 100 basis points above the then prevailing 3-year US Treasury note yield at approximately 5%. The principal balance of the Note at June 30, 2008 and December 31, 2007 remained \$3,250. The interest income recorded on the note was approximately \$81 for the six months ended 2008 and 2007, respectively.

As stated in Note 8, Subsequent Event, in July of 2008 Mestek paid the entire \$3,250 principal note balance and applicable interest in accordance with the above agreement.

4. INVENTORIES

Inventories consisted of the following at June 30:

	<u>2008</u> (unaudited) (dollars in thousands)	<u>2007</u>
Finished Goods	\$7,758	\$7,150
Raw Materials	<u>2,628</u>	<u>3,417</u>
Total Inventory	\$10,386 =====	\$10,567 =====

5. SHAREHOLDERS EQUITY

(Amounts in thousands, except share amounts)

As of June 30, 2008 and December 31, 2007, the Company had authorized 20,000,000 common stock shares with par value of \$0.01 per share, and had 10,093,808 and 10,128,516 shares issued and outstanding, respectively.

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On December 11, 2007, the Board authorized a special dividend of \$0.70 per share to all Shareholders of record as of January 3, 2008, which was subsequently paid on January 16, 2008 in the amount of \$7,092.

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

On September 12, 2007, the Company announced that its Board of Directors has authorized the purchase of up to \$5,000 of its common stock. The purchases may be made from time-to-time in open market or in privately negotiated transactions, depending on market and business conditions, within the next 24 months. The Board retained the right to cancel, extend, or expand the share buyback program, at any time and from time-to-time. During the first six months of 2008, the Company purchased 34,708 shares for \$540, including commissions. Since inception, the Company has purchased in total 59,825 shares for approximately \$907 or \$15 per share.

6. COMMITMENTS AND CONTINGENCIES

Commitments:

On September 5, 2006 the Company and other defendants entered into a Stipulation and Settlement Agreement with the Class Representatives and Class Counsel, to settle and resolve the allegations brought forth in the lawsuit titled *Lovelis, et al. v. Titeflex Corp., Inc., et al.* in the Arkansas Circuit Court, Clark County. Both the Company and the other defendants denied these allegations, and denied any wrongdoing or legal liability, but agreed to settle this matter to avoid further cost and the uncertainty and risk of the outcome of further litigation. Under the Settlement Agreement, the Company agreed to pay the value of each payment voucher redeemed by a class member for the installation of a lightning protection system or bonding and grounding of the Company's CSST product. The amount of the voucher is dependent on the geographical area in the United States where the building is located and the size of the heated or air-conditioned area of the building. The Company also agreed to pay a fixed amount of administrative expenses and attorneys' fees to the Class Counsel.

The Company cannot determine the exact amount for which it may be liable for the costs of the payment vouchers tendered under the claim program, because of the number of unknown variables associated with this liability. However, the Company estimated that the total amount of the liability relating to the settlement of the litigation would fall within a range of approximately \$8,810 and \$10,200. Thus far the Company has paid approximately \$8,424 related to the Settlement with a remaining liability of \$236 classified in current liabilities. This amount is based on currently available information and certain estimates and judgments, and is subject to revision as actual claims are received. In addition, there is a \$10 current liability for legal services related to the Settlement. As of June 30, 2008, the third party administrator of the settlement program has received 775 claims relating to the Company's products in connection with the Settlement.

Included in the payments noted above, and as indicated in Note 15 of the Company's December 31, 2007 Form 10-K, on February 4, 2008, the Company reached an agreement for final payment relating to the class action settlement, excluding the outstanding vouchers. This

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final payment, which was made on March 3, 2008, in the amount of \$1,850, represents the \$1,000 current portion due as previously disclosed, and the remaining \$1,000 long-term portion which was due in March of 2009, less a \$150 (15%) reduction resulting from early payment.

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

The Company has entered into salary continuation agreements with two employees, which provide for monthly payments to each of the employee or his designated beneficiary upon the employee's retirement or death. The payment benefits range from \$1 per month to \$3 per

month with the term of such payments limited to 15 years after the employee's retirement at age 65. The agreements also provide for survivorship benefits if the employee dies before attaining age 65, and severance payments if the employee is terminated without cause, the amount of which is dependent on the length of company service at the date of termination. The net present value of the retirement payments is included in Other Long-Term Liabilities, which amounts to \$340 for June 30, 2008 and \$312 at December 31, 2007. The Company has obtained and is the beneficiary of three whole life insurance policies in respect of the two employees discussed above, and one other policy. The cash surrender value of such policies (included in Other Assets) amounts to \$533 at June 30, 2008 and \$521 at December 31, 2007.

Contingencies:

The Company retains significant obligations under its commercial insurance policies for losses occurring in the policy years in which it was a subsidiary of Mestek, Inc. For the policy year ending October 1, 2004, the Company retained liability for the first \$2,000 per occurrence of commercial general liability claims (including product liability claims), subject to an agreed aggregate. In addition, for 2004 the Company retained liability for the first \$250 per occurrence of workers compensation coverage, subject to an agreed aggregate. However, for policy years beginning on July 22, 2005 (the effective date of the Spin-Off), the Company retained liability for a maximum of \$50 per occurrence of commercial liability claims (including products liability claims), subject to an agreed aggregate, and the Company is insured on a first dollar basis for workers' compensation subject to statutory limits.

The Company's liability is limited to \$30 per case and an aggregate of \$620 annually for health insurance.

Warranty Commitments:

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

7. STOCK BASED COMPENSATION PLANS

(Amounts in thousands, except units)

Phantom Stock Plan

Plan Description. On April 1, 2006, the Company adopted the Omega Flex, Inc. 2006 Phantom Stock Plan (the Plan). The Plan authorizes the grant of up to one million units of phantom stock to employees, officers or directors of the Company and of any of its subsidiaries. The phantom stock units ("Units") each represent a contractual right to payment of compensation in the future based on the market value of the Company's common stock. The Units are not shares of the Company's common stock, and a recipient of the Units does not receive any of the following:

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

The Units are granted to participants upon the recommendation of the Company's CEO, and the approval of the compensation committee. Each of the Units that are granted to a participant will be initially valued by the compensation committee, and at a minimum, the Unit's value will be in an amount equal to the closing price of the Company's common stock on the grant date. The Units have a vesting schedule, with a maximum vesting schedule of 3 years after

the grant date. Upon vesting, the Units represent a contractual right to the payment of the value of the Unit. The Units will be paid on their maturity date, which is a maximum of one year after all of the Units granted in a particular award have fully vested. The amount to be paid to the participant on the maturity date is dependant on the type of Unit granted to the participant. The Units may be *Full Value*, in which the value of each Unit at the maturity date, will equal the closing price of the Company's common stock as of the maturity date; or *Appreciation Only*, in which the value of each Unit at the maturity date will be equal to the closing price of the Company's common stock at the maturity date ~~minus~~ the closing price of the Company's common stock at the grant date.

In certain circumstances, the Units may be immediately vested upon the participant's death or disability. All Units granted to a participant are forfeited if the participant is terminated from his relationship with the Company or its subsidiary for ~~cause~~, which is defined under the

Plan. If a participant's employment or relationship with the Company is terminated for reasons other than for ~~cause~~, then any vested Units will be paid to the participant upon termination.

However, Units granted to certain specified employees as defined in Section 409A of the Internal Revenue Code will be paid approximately 181 days after that termination.

Grants of Phantom Stock Units. As of December 31, 2007, the Company had 2,724 units outstanding, all of which were granted at *Full Value*. On March 6, 2008, the Company granted an additional 5,076 *Full Value* Units with a face value of \$80 (fair value at grant date of approximately \$70). In all cases, the grant price was equal to the closing price of the Company's common stock at the grant date.

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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 service or vesting period of each grant or award.

Statement 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates in order to derive the Company's best estimate of awards ultimately to vest. Forfeitures represent only the

unvested portion of a surrendered Unit and are typically estimated based on historical experience. As of October 8, 2007, in connection with an officer's resignation, a total of 2,874 unvested units were forfeited, however; based on an analysis of the Company's historical data, which has limited experience related to any stock-based plan forfeitures, the Company applied a 0% forfeiture rate to Plan Units outstanding in determining its Plan Unit compensation expense for June 30, 2008.

In accordance with SFAS 123R, the Company recorded compensation expense of approximately \$17 in 2008 related to the Phantom Stock Plan.

The fair value of the Units granted through the first six months June 30, 2008 using the Black-Scholes option-pricing model, uses the following assumptions:

<u>Year Ended December</u> <u>31,</u>	<u>Expected Term</u>	<u>Expected Volatility</u> <u>Factor</u>	<u>Expected Dividend</u> <u>Amount</u>	<u>Risk-Free Interest</u> <u>Rate</u>
2007	3.0	111.00%	1.93%	4.46%
2008	3.0	87.95%	4.27%	1.77%

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

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The following table summarizes information about Phantom Stock Units for the six month period ending on June 30, 2008:

	<u>Units</u>	<u>Weighted Average Grant Date Fair Value</u>
Number of Phantom Stock Unit Awards:		
Outstanding at December 31, 2007	2,724	\$20.38
Granted	5,076	\$13.86
Vested	---	(\$---
Forfeited	---	(\$---
Canceled	---	(\$---
Outstanding at June 30, 2008	7,800	\$16.74
Phantom Stock Unit Awards Expected to Vest	7,800	\$16.74

At June 30, 2008 none of the Units have vested. The Units granted are expected to vest in three year intervals, subject to earlier termination or forfeiture.

As of June 30, 2008, the unrecognized compensation costs related to Plan Units vesting will be primarily recognized over a period of approximately 3 years.

<u>Fiscal year ending</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
Compensation Expense	\$21	\$42	\$26	\$4	\$93

The Units outstanding and exercisable at June 30, 2008 were in the following exercise price ranges:

Units Outstanding					
Year	Range of Exercise Price	Number of Units Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
2007	\$22.02	2,724	1.67	\$22.02	---
2008	\$15.76	5,076	2.67	\$15.76	---

Units Exercisable					
Year	Range of Exercise Price	Number of Units Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Aggregate Intrinsic Value
2007	\$22.02	---	1.67	\$22.02	---
2008	\$15.76	---	2.67	\$15.76	---

8. SUBSEQUENT EVENT

In July of 2008 Mestek paid the entire \$3,250 principal note balance and applicable interest in accordance with the agreement discussed in Note 3, Distribution from Mestek (Spin-Off).

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

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

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

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

OVERVIEW

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

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

CHANGES IN FINANCIAL CONDITION

(All dollars in thousands)

During 2008, the Company's cash balance has decreased \$6,742 from \$13,143 at December 31, 2007 to \$6,401 at June 30, 2008. Some of the major transactions that affected our cash balance were a \$7,092 special dividend payment made on January 16, 2008, and a payment of \$1,850 on March 3, 2008 to the Settlement Agreement as outlined in Note 15 of the year-end Form 10-K. Those payments were partially offset by cash generated from earnings for the year.

As discussed in Note 5, Shareholders' Equity, in December of 2007 the Company declared a dividend in December 2007, which amounted to \$7,092. The Company subsequently paid the dividend on January 16, 2008.

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RESULTS OF OPERATIONS

(All dollars in thousands)

Three-months ended June 30, 2008 vs. June 30, 2007

The Company reported comparative results from continuing operations for the three-month period ended June 30, 2008 and 2007 as follows:

	<u>Three-months ended June 30,</u> (in thousands)			
	<u>2008</u> <u>(\$000)</u>	<u>2008</u> <u>%</u>	<u>2007</u> <u>(\$000)</u>	<u>2007</u> <u>%</u>
Net Sales	\$16,378	100.0%	\$19,202	100.0%
Gross Profit	\$ 8,214	50.2%	\$ 8,660	45.1%
Operating Profits	\$ 2,989	18.3%	\$ 2,726	14.2%

The Company's sales decreased \$2,824 (14.7%) from \$19,202 in the three-month period ended June 30, 2007 as compared to \$16,378 in the three-month period June 30, 2008.

Revenue for the three-months ended June 30, 2008 reflects continued weakness in the residential construction industry, which was offset somewhat by gains in market share in residential, non-residential and international construction markets. Overall, volume for the quarter was down 28.7% compared to the prior year quarter, partially offset by a favorable product mix and higher selling prices.

The Company's gross profit margins increased from 45.1% in the three-month period ended June 30, 2007 to 50.2% in the three-month period ended June 30, 2008. The increase in margin is primarily the result of the sales factors mentioned above combined with lower raw material costs, in particular stainless steel.

Selling Expenses. Selling expenses consist primarily of employee salaries and associated overhead costs, commissions, and the cost of marketing programs such as advertising, trade shows and related communication costs, and freight. Selling expense was \$3,264 and \$2,810 for the three months ended June 30, 2007 and 2008, respectively. The reduction was largely attributable to decreases in commissions and freight related to sales volume. Sales expense as a percentage of sales increased from 17.0% for the three-months ended June 30, 2007 to 17.2% for the three-months ended June 30, 2008.

General and Administrative Expenses. General and administrative expenses consist primarily of employee salaries, benefits for administrative, executive and finance personnel, legal and accounting, and corporate general and administrative services. General and administrative expenses were \$1,892 and \$1,836 for the three months ended June 30, 2007 and 2008, respectively. As a percentage of sales, general and administrative expenses increased from 9.9% for the three months ended June 30, 2007 to 11.2% for the three months ended June 30, 2008.

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Legal Settlement and Related Costs. Legal charges related to the Arkansas litigation in the three months ended June 30, 2007 and 2008, were \$166 and \$65, respectively. As disclosed in Note 6, Commitments and Contingencies, the majority of the costs associated with this litigation are behind the Company.

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 \$612 and \$514 for the three months ended June 30, 2007 and 2008 respectively. Accordingly, engineering expenses as a percentage of sales were largely in line with the prior year at 3.2% for the three months ended June 30, 2007 and 3.1% for the three months ended June 30, 2008.

Reflecting all of the factors mentioned above, Operating Profit margins increased \$263 from a profit of \$2,726 in the three-month period ended June 30, 2007 to a profit of \$2,989 in the three-month period ended June 30, 2008.

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

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

Income Tax Expense. The Company's effective tax rate in 2008 approximates the 2007 rate and does not differ materially from expected statutory rates.

Six-months ended June 30, 2008 vs. June 30, 2007

The Company reported comparative results from continuing operations for the six-month period ended June 30, 2008 and 2007 as follows:

	<u>Six-months ended June 30,</u>			
	(in thousands)			
	<u>2008</u>	<u>2008</u>	<u>2007</u>	<u>2007</u>
	<u>(\$000)</u>	<u>%</u>	<u>(\$000)</u>	<u>%</u>
Net Sales	\$32,801	100.0%	\$36,533	100.0%
Gross Profit	\$16,394	50.0%	\$16,936	46.4%
Operating Profits	\$ 6,181	18.8%	\$ 5,542	15.2%

The Company's sales decreased \$3,732 (10.2%) from \$36,533 in the six-month period ended June 30, 2007 as compared to \$32,801 in the six-month period June 30, 2008.

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Revenue for the six-months ended June 30, 2008 reflects continued weakness in the residential construction industry, which was offset somewhat by gains in market share in residential, non-residential and international construction markets. Overall volume for the six months was down 23.0% compared to the prior year, partially offset by a favorable product mix and higher selling prices.

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The Company's gross profit margins increased from 46.4% in the six-month period ended June 30, 2007 to 50.0% in the six-month period ended June 30, 2008. The increase in margin is primarily the result of the sales factors mentioned above combined with lower raw material costs, in particular stainless steel. Additionally, manufacturing efficiencies contributed to improved margins.

Selling Expenses. Selling expenses consist primarily of employee salaries and associated overhead costs, commissions, and the cost of marketing programs such as advertising, trade shows and related communication costs, and freight. Selling expense was \$6,091 and \$5,304 for the six months ended June 30, 2007 and 2008, respectively. The reduction was largely attributable to decreases in commissions and freight related to sales volume. Sales expense as a percentage of sales decreased from 16.7% for the six-months ended June 30, 2007 to 16.2% for the six-months ended June 30, 2008.

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 \$3,755 and \$3,833 for the six months ended June, 2007 and 2008, respectively. General and administrative expense, as a percentage of sales, increased from 10.3% for the six months ended June 30, 2007 to 11.7% for the six months ended June 30, 2008.

Legal Settlement and Related Costs. Legal charges related to the Arkansas litigation in the six months of 2007 and 2008, were \$330 and (\$41), respectively. The Company recognized a \$150 reduction in legal costs in 2008 due to the early class action settlement payment in March of 2008 as disclosed in Note 6, Commitments and Contingencies. The majority of the costs associated with this litigation are behind the Company.

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 \$1,218 and \$1,117 for the six months ended June 30, 2007 and 2008 respectively. Engineering expenses as a percentage of sales were mostly in line with the prior year at 3.3% for the six months ended June 30, 2007 and 3.4% for the six months ended June 30, 2008.

Reflecting all of the factors mentioned above, Operating Profit margins increased \$639 from a profit of \$5,542 in the six-month period ended June 30, 2007 to a profit of \$6,181 in the six-month period ended June 30, 2008.

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

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

Income Tax Expense. The Company's effective tax rate in 2008 approximates the 2007 rate and does not differ materially from expected statutory rates.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

(All dollars are in thousands)

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

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

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

Revenue Recognition

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

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

Delivery has occurred or services rendered.

The sales price to the customer is fixed or determinable.

Collection is reasonably assured.

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

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

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

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Accounts Receivable

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

Inventory

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

Goodwill and Intangible Assets

In accordance with FAS 142, the Company ceased recording amortization of goodwill and intangible assets with indefinite lives effective January 1, 2002. The Company performed its annual impairment test in accordance with FAS 142 as of December 31, 2007 which indicated no impairment of goodwill.

Product Liability Reserves

As explained more fully under Contingencies, the Company retains liability for the first \$50 of product liability claims. To date, the Company has not experienced a meaningful product failure rate.

Workers Compensation Claims Reserves

The Company is insured on a first dollar basis for workers compensation.

Health Care Claim Reserves

The Company's liability is limited to \$30 per case and an aggregate of \$620 annually.

Accounting for Income Taxes

The Company accounts for federal tax liabilities in accordance with SFAS No. 109, Accounting for Income Taxes . 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

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future deductibility is uncertain.

LIQUIDITY AND CAPITAL RESOURCES

(All amounts in thousands except share amounts)

Six Months ended June 30, 2008

As of June 30, 2008, we had \$6,401 in consolidated cash, cash equivalents and short-term investments, which is \$6,742 less than at December 31, 2007, mostly resulting from cash payments of \$7,092 for a special dividend, and \$1,850 related to the Legal Settlement discussed in Note 6. The decrease was partially offset by cash generated from earnings for the year.

Operating Activities

Cash provided by operations for the first six months of 2008 was \$1,248 compared with \$7,711 used in the first six months of 2007; an \$8,959 increase. The most significant component was the \$6,000 payment related to the Legal Settlement made in the first six months of 2007.

Investing Activities

Capital spending was \$382 and \$215 in the first six months ended June 30, 2008 and June 30, 2007, respectively.

Financing

Cash used in financing activities during the first six months of 2008 was \$7,632 compared with \$4,061 used in the first six months of 2007. The primary component for the first six months of 2008 was the \$7,092 related to the special dividend.

On September 12, 2007, the Company announced that its Board of Directors has authorized the purchase of up to \$5,000 of its common stock. The purchases may be made from time-to-time in open market or in privately negotiated transactions, depending on market and business conditions, within the next 24 months. The Board retained the right to cancel, extend, or expand the share buyback program at any time and from time-to-time. During the first six months of 2008, the Company had purchased 34,708 shares of treasury stock for \$540.

In September 2007, the Company entered into a Revolving Line of Credit Note and a Loan Agreement with Sovereign Bank, N.A., whereby the Company established a line of credit facility for a one-year duration, and in the maximum amount of \$7,500. The loan agreement provides for the payment of any loan under the agreement at a rate that is either prime rate less 1% or LIBOR rate plus 1%. As of June 30, 2008 the Company does not have any loans or loan balances, under the loan agreement.

The Company believes its liquidity position as of June 30, 2008 is fully adequate to meet foreseeable future needs and that the Company will possess adequate cash reserves to meet its day-to-day needs including any acquisitions or capital expenditures or stock repurchases it can reasonably foresee at this time.

As stated in Note 8, Subsequent Event, in July of 2008 Mestek paid the entire \$3,250 principal note balance and applicable interest in accordance with the above agreement.

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CONTINGENT LIABILITIES AND GUARANTEES

See Note 6 to the Company's financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

Refer to Item 7 of the Company's 2007 year-end Form 10-K under the caption "Tabular Disclosure of Contractual Obligations and Off-Balance Sheet Arrangements".

Item 3. Quantitative And Qualitative Information About Market Risks

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

Item 4 Controls And Procedures

- (a) Evaluation of Disclosure Controls and Procedures.

At the end of the fiscal second quarter of 2008, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures. The Company's disclosure controls and procedures are designed to ensure that the Company records, processes, summarizes and reports in a timely manner the information required to be disclosed in the periodic reports filed by the Company with the Securities and Exchange Commission. The Company's management, including the chief executive officer and chief financial officer have conducted an evaluation of the effectiveness of the design and operation of the Company's Disclosure Controls and Procedures as defined in the Rule 13a-15(e) of Securities Exchange Act of 1934. Based on that evaluation, the chief executive officer and chief financial officer have concluded that, as of the date of this report, the Company's disclosure controls and procedures are effective to provide reasonable assurance of achieving the purposes described in Rule 13a-15(e), and no changes are required at this time.

- (b) Changes in Internal Controls.

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

PART II - OTHER INFORMATION

Item 1 Legal Proceedings

(Dollars in Thousands)

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

On May 23, 2008, the Company received a favorable verdict in its claims of patent infringement against Parker Hannifin Corporation, and specifically that the Omega Flex patents at issue in that case were valid. As a result, a judgment has been entered by the court requiring Parker Hannifin to pay the Company approximately \$1,127 in damages, interest and costs. Parker Hannifin has filed post trial motions, and payment of the damages, interest and costs have been stayed pending resolution of that appeal.

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

Item 4 Submission of Matters to a Vote of the Security Holders

No matters were submitted to the security holders of the Company for a vote during the first quarter of 2008.

On June 3, 2008, the Company held its 2008 Annual Meeting of Shareholders. The shareholders voted on the following proposals:

1. To elect three Class 3 directors for a three year term expiring at the 2011 annual meeting of shareholders.
2. To ratify the appointment by the audit committee of the board of directors of Vitale Caturano & Co., Ltd. as the independent auditors for the Company for the fiscal year ending December 31, 2008.

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The results of the voting are as follows:

1.	Election of Directors	<u>For</u>	<u>Withheld</u>
	John E. Reed	7,876,656	297,313
	Kevin R. Hoben	8,166,608	7,361
	Mark F. Albino	8,166,608	7,361
2.	To ratify the appointment of Vitale Caturano & Co., Ltd. as the independent auditors for the Company for the fiscal year ending December 31, 2008:		
	For		8,166,254
	Against		5,933
	Abstain		1,782

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Item 6 - Exhibits

Exhibit

<u>No.</u>	<u>Description</u>
31.1	Certification of Chief Executive Officer of Omega Flex, Inc. pursuant to Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer of Omega Flex, Inc. pursuant to 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
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.

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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: August 13, 2008

By: /S/ Paul J. Kane
Paul J. Kane
Vice President Finance
and Chief Financial Officer