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**FLANDERS CORPORATION**  
**INFORMATION AND DISCLOSURE STATEMENT**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2010 AND DECEMBER 31, 2009**

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## **Part A General Company Information**

### **Item 1. The Exact Name of the Issuer and Its Predecessor, if any.**

Name of Issuer: Flanders Corporation

### **Item 2. The Address of the Issuer's Principal Executive Offices.**

Principal Executive Offices: 531 Flanders Filters Road  
Washington, NC 27889  
Telephone: 252.946.8081  
Fax: 252.946.4738  
[www.flanderscorp.com](http://www.flanderscorp.com)

Investor Relations Officer: John Oakley, President & CFO  
531 Flanders Filters Road  
Washington, NC 27889  
Telephone: 252.946.8081  
Email: [joakley@flanderscorp.com](mailto:joakley@flanderscorp.com)

### **Item 3. The Jurisdiction(s) and Date of the Issuer's Incorporation or Organization.**

Flanders Corporation was incorporated in the State of North Carolina on March 8, 1996.

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**Part B Share Structure**

**Item 4. The Exact Title and Class of Securities Outstanding.**

Flanders Corporation has one class of outstanding stock - common stock, \$.001 par value per share.

Flanders Corporation's common stock trades on the OTCQX market under the ticker symbol "FLDR".

Our common stock CUSIP number is 338494107.

In addition, Flanders Corporation has issued options to purchase shares of its common stock.

**Item 5. Par or Stated Value and Description of the Security.**

Flanders Corporation has one class of outstanding stock - common stock.

The par value of all of Flanders Corporation's outstanding common stock is \$.001 per share.

The holder of each share of Flanders Corporation's common stock is entitled to one vote per share on any matter submitted to a vote of the stockholders. Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of common stock are entitled to receive, when, if any, as declared by our Board of Directors, out of assets legally available therefore, such dividends or distributions as may be declared from time to time by our Board of Directors. Subject to preferences that may be applicable to any outstanding shares of preferred stock, in the event of our liquidation, dissolution or winding up, whether voluntary or involuntary, the funds and assets that may be legally distributed to the stockholders shall be distributed among the holders of the then outstanding common stock pro rata according to the number of shares of common stock held by each holder thereof. Holders of common stock have no preemptive, conversion, subscription or other rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are validly issued, fully paid and non-assessable. Our credit facility restricts our ability to declare and pay dividends.

Our Board of Directors has the authority, without further action by our stockholders, to issue up to 10 million shares of preferred stock in one or more series. In addition, our Board of Directors may fix the rights, preferences and privileges of any series of preferred stock it may determine to issue. These rights may include a preferential return in the event of our liquidation, the right to receive dividends if declared by the Board of Directors, special dividend rates, conversion rights, redemption rights, superior voting rights to the common stock, the right to protection from dilutive issuances of securities, or the right to approve corporate actions. Any or all of these rights may be superior to the rights of the common stock. As a result, preferred stock could be issued with terms that could delay or prevent a change in control or to make removal of our management more difficult. Additionally, our issuance of preferred stock may decrease the market price of our common stock.

We have elected to opt-out of the Control Shares Acquisition Act of the State of North Carolina. This act provides that any person who acquires "control shares" of a publicly held North Carolina corporation will not have voting rights with respect to the acquired shares in certain circumstances. We are still subject to the North Carolina Shareholder Protection Act which requires the affirmative vote of 95% of our voting shares to approve a business combination with any entity that beneficially owns 20% of the outstanding voting shares of the corporation unless the "fair price" provisions of the Act are satisfied. We cannot predict what effects, if any, our opting out of the North Carolina Control Shares Acquisition Act or continued application of the North Carolina Shareholder Protection Act will have on the future value of our shares or the opportunity for shareholders to realize takeover premiums for their shares.

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**Item 6. The Number of Shares or Total Amount of the Securities Outstanding for Each Class of Securities Authorized.**

The following table sets forth information concerning the stock of Flanders Corporation.

<b>Class</b>	<b>As of</b>	<b>Number of Shares Authorized</b>	<b>Number of Shares Outstanding</b>	<b>Freely Tradable Shares (public float)</b>	<b>Total Number of Beneficial Shareholders</b>	<b>Total Number of Shareholders of Record</b>
Common	12/31/2010	50,000,000	27,132,838	19,568,935	1,555	212
	12/31/2009	50,000,000	26,132,838	19,568,935	1,541	215
Preferred	12/31/2010	10,000,000	-	-	-	-
	12/31/2009	10,000,000	-	-	-	-

(1) Estimate of individual holdings represented by security position listings.

**Item 7. The Name and Address of the Transfer Agent.**

The name, address, and telephone number of Flanders Corporation's transfer agent are:

American Stock Transfer & Trust Company, LLC  
59 Maiden Lane  
New York, New York 10038  
Telephone: 718.921.8293  
Website: www.amstock.com

American Stock Transfer & Trust, LLC is currently registered under the Securities Exchange Act of 1934, and is an authorized transfer agent subject to regulation by the U.S. Securities and Exchange Commission.

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**Part C Business Information**

**Item 8. The Nature of the Issuer's Business.**

See disclosures under Item 9 below.

**Item 9. The Nature of Products or Services Offered.**

**Overview**

We design, manufacture and market air filters and related products, and are focused on providing complete environmental filtration systems for end users ranging from controlling contaminants in residences and commercial office buildings through specialized manufacturing environments for semiconductors, pharmaceuticals, chemical, biological, radiological and nuclear processing. Currently, we believe, based on available trade and industry data, that we are one of the largest domestic manufacturers of air filters that are utilized by many industries including those associated with commercial and residential heating, ventilation and air conditioning systems (commonly known as "HVAC" systems), semiconductor manufacturing, ultra-pure materials, chemical, biological, radiological and materials processing, biotechnology, pharmaceuticals, synthetics, nuclear power and nuclear materials processing. We also design and manufacture much of our own production equipment to automate our processes in order to decrease labor costs associated with our standard products. Our customers include Texas Instruments; The Home Depot, Inc.; Lowe's; Glaxo, Merck & Co., Inc.; Upjohn Co.; Wal-Mart Stores, Inc.; Westinghouse Electric Corp.; Ace; True Value; Intel, and several government agencies.

The majority of our revenues come from the sale of after-market replacement filters, since air filters are typically placed in equipment designed to last much longer than the filters.

**General development of business and availability of information**

Flanders Corporation was incorporated in the State of North Carolina on March 8, 1996. Our principal executive offices are currently located at 531 Flanders Filters Road, Washington, NC 27889. We use a December 31 calendar year end. Our internet website address is [www.flanderscorp.com](http://www.flanderscorp.com). The information contained on our website is not part of this report and is not incorporated by reference into this report. Our future annual and quarterly reports and all amendments thereto, will be available free of charge on our website as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the OTCQX.

**Forward looking statements and associated risks**

This report, including all documents incorporated herein by reference, includes certain "forward-looking statements" within the meaning of that term in Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934, including, among others, those statements preceded by, following or including the words "believe," "expect," "anticipate" or similar expressions. These forward-looking statements are based largely on the current expectations of management and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements. In addition to the other risks described in the discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations", important factors to consider in evaluating such forward-looking statements include risks associated with demand for our products, market acceptance, economic conditions, competitive products and pricing, difficulties in product development, commercialization and technology. In light of these risks and uncertainties, there can be no assurance that the events contemplated by the forward-looking statements contained in this annual report will, in fact, occur. Accordingly, readers should not place undue reliance on forward-looking statements. The forward-looking statements speak as of the date of this report and we do not undertake any obligation to revise or update the forward-looking statements.

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**Strategy**

We have embarked on a program to increase earnings, and hence shareholder value, by improving our operating efficiency. We are seeking to grow at rates in excess of our market's general rate of growth, primarily through the introduction of qualitatively superior new products to our major marketplaces through existing and new customers.

**Introduce new products**

In the last three years, we have focused our development efforts on products which address the actual technical requirements of maintaining clean air to promote health. Maintaining ultra-clean air in residential and commercial settings requires continuous and complete replacement of "used" air contaminated by contact with hair, skin, carpet, solvents, cigarette smoke and other common particle sources with air filtered through a combination of pre-filters, High Efficiency Particulate Air (commonly called "HEPA") filtration, and odor removal, as well as controlling all air inlets. This typically requires upgraded and augmented blowers for central or zoned HVAC systems necessary to push air through more effective filters, additional filtration placed at building air inlets, and enough additional HVAC capacity to generate "over-pressure" so that the majority of air leaks push clean air out, rather than allow dirty air inside.

We have been able to provide an upgrade path for government buildings, large commercial office buildings and other public venues wishing to utilize HEPA filtration as part of a program to "harden" buildings against bioterrorist attacks.

Most currently available air filters for commercial, industrial and residential use are primarily useful for protecting motors, coils and other mechanical components from airborne particulate condensation and other contaminants which reduce the life and energy-efficiency of the HVAC equipment.

*Security Products for Government Buildings and Commercial Office Buildings.* We have adapted our containment product to be used in "hardening" government facilities, large commercial office buildings and public venues against anthrax attacks and other bioterrorist incidents. While these systems do not offer complete protection against bioterrorist attacks, any credible multi-layered defense requires HEPA filtration and related technologies adapted to the unique requirements of these facilities. Marketing for these products will include analysis and diagnostic services offered through our IAQ (Indoor Air Quality) Diagnostic Group, adapted sales literature, technical seminars and electronic multimedia presentations.

**Improve operating efficiency**

*Centralize Overhead Functions.* During 2010 and 2009, we continued our ongoing programs to centralize functions and eliminate duplication of efforts between subsidiaries in the following areas: purchasing, production planning, shipping coordination, accounting and personnel management, risk management and benefit plan administration.

*Strategic Integration of Manufacturing Capabilities.* In November 2010, we shut-down AirSeal Filter Housing (ASFH) and moved its operations to Washington, North Carolina. This will allow us to concentrate resources on the designing and manufacturing of air filters and filtration equipment. We will then focus our marketing efforts of our products to these wholesale distribution channels rather than to the commercial end users, lowering operating expenses.

*Strategic Acquisitions.* We will continue to evaluate acquisition opportunities; however, it is not likely we will make any acquisitions in 2011 as we continue to focus on improving core competencies rather than making acquisitions.

*Optimization of Mature Products.* Now that we have completed the rationalization and consolidation of our product lines, we should be able to stabilize designs and complete efficiency studies on our manufacturing processes and supply chains which should enable us to duplicate our most successful processes across all plants.

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**Increase market share**

*Use Strategically Located Facilities Throughout the United States to Increase Market Share.* Through acquisition and the establishment of new plants, we have placed facilities within one day's over-the-road shipping to most major population centers in the United States. We believe this ability to regionalize production and distribution has improved our business in several ways: (i) decreased cost of products to customers by reducing the average distance between our plants and both our customers and our major raw materials suppliers, hence decreasing freight expenses; (ii) increased responsiveness by decreasing the average time required to ship products to customers; and (iii) increased our share of national accounts' total business by having manufacturing facilities in closer proximity to customers' regional distribution centers. The ability to service all major population centers with regional manufacturing centers is critical for our business, allowing us to compete on price against less broadly based competitors without sacrificing margins as well as the ability to respond more rapidly than most of our competition. We will continue to review the market for new locations for expansion.

*Continued Emphasis on Quality and Performance.* A continued emphasis on product quality and on-time shipments has allowed us to capture market share in serving several industries in recent years. We are expanding our Nuclear Quality Assurance – Level 1 (NQA1) Quality Assurance Program to include a more expanded approach to allow us to provide many other products related to our current product line.

*Utilize High Efficiency Production and Logistics Systems to Dominate Niche Markets.* During the past several years we have invested heavily in upgrading and opening new production facilities, scheduling capacity, and logistics management capabilities. We intend to continue using these advantages to capture market share in niche markets with specialized products tailored to their exact requirements. Many end users with specialized air filtration needs are currently “making do” with standard products. It has been our experience that minor changes made to our standard products to meet specialized requirements may offer significant operational savings to these end users, although the actual filters cost more.

*Create Brand Awareness for Flanders Residential Air Filtration Products.* We are establishing our own brand names NaturalAire® and EnergyAire®. During 2010 and 2009, we focused efforts to grow the NaturalAire® brand through a billboard campaign, full page magazine and trade journal advertisements, and marketing at nationally televised sporting events. These efforts gave us broadcast television and cable television exposure for the NaturalAire® brand. We believe recognition of the NaturalAire® and EnergyAire® brands will create awareness for Flanders as a primary selection for residential air filtration products.

**Air filter market background**

The air filtration market is mature, with market growth driven by a gradual trend toward higher efficiency and greener filters for residential, commercial and industrial applications.

Management is of the belief that concerns about the quality of indoor air and environmental awareness will accelerate this trend over the next five years as commercial buildings in large U.S. cities upgrade their ventilation systems to install more efficient filters. Other growth drivers include an increasing propensity towards using higher-performance filters in commercial and residential spaces instead of current low-efficiency models, and the use of HEPA filters in new applications.

Management believes the forces driving the air filtration market are evolving, beginning in the past decade and continuing for the next several years, from preserving machinery and equipment to maintaining and or facilitating indoor air quality. In addition, we expect many technology industries to increase their reliance on air filters to remove microscopic and gaseous contaminants from sensitive manufacturing processes associated with semiconductor manufacturing, pharmaceutical production, ultra-pure materials manufacturing, nuclear power and materials processing, and biotechnology. Companies are devoting resources to air filtration products to enhance process efficiency and employee productivity.

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Air filters are used in many different applications, including the following:

- *Commercial and Residential HVAC Systems.* Replacement filters are an essential requirement for the efficient operation of commercial and residential HVAC systems.
- *Residential Air Cleaners.* Stand-alone air cleaners which produce ultra-clean air in a defined area are also gaining in popularity among allergy sufferers and asthmatics, although follow-up sales of replacement filtration cartridges have been limited.
- *General Industrial.* Air filters are used in standard industrial settings to provide cleaner work environments; for example, auto makers use air filtration systems to remove “oil mist” contaminants from the air in their plants and industrial paint booth users utilize air filtration to remove paint particles from the air.
- *Semiconductors.* HEPA and carbon filters are necessary to meet the increasingly stringent manufacturing environment requirements of semiconductor manufacturers, where microscopic airborne contaminants can ruin microchips during production, having a large impact on manufacturing yield and profitability. Carbon filters are also being increasingly used to filter gaseous contaminants from semiconductor manufacturing areas.
- *Pharmaceuticals.* Pharmaceutical companies are increasingly using Cleanrooms to prevent cross-contamination between different products, and different lots of the same product, being manufactured at the same facility. The increasing use of cultured microbes for drug production is also expected to increase demand for high-end containment environments.
- *Biotechnology.* Containment systems for the manipulation of viruses and bacteria using genetic engineering techniques are critical to the biotechnology industry.
- *Nuclear Power and Materials Processing.* Filtration systems are necessary to radioactive containment procedures for all nuclear facilities, containment systems are necessary to provide shielding.
- *Chemical, Biological and Radiological Safe Environments.* Filtration systems are necessary to provide a safe environment for those working in sensitive areas that may be subject to exposure to such substances.

**Recent trends**

Recent trends in the air filter industry, as well as changes in laws and governmental regulations during the past five years, encourage an increased awareness of the benefits of the use of air filtration products. Some of these trends and changes are:

*Security Initiatives to Counter Terrorist Threats.* We believe initiatives to “harden” buildings against bioterrorist attacks and other security initiatives will result in many governmental and commercial facilities upgrading their HVAC systems to incorporate HEPA filters and other types of upgraded air control systems. We have seen orders increase in this area.

*Semiconductor Downturn and Economic Recovery.* Sales of air filtration products for semiconductor facilities, historically a major market, are expected to continue improving during 2011.

*Indoor Air Quality and Health.* We believe there is an increase in public concern regarding the effects of Indoor Air Quality (IAQ) on employee productivity and health, as well as an increase in interest in standards for detecting and solving IAQ problems. For example, the American Society of Heating Refrigeration and Air-Conditioning Engineers (ASHRAE) recently established certain minimum standards for ventilation and indoor air quality for commercial and industrial settings. The World Health Organization has recently been studying the effects of air quality on human health. We are seeing a greater interest in upgrading residential filtration systems as well as commercial systems to address both energy savings and better indoor air quality.

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*Increase Public Awareness.* We believe there is an increase in public and regulatory frustration with spurious and misleading claims made by certain manufacturers in the air filtration industry. This trend is evidenced by recent rulings by the Federal Trade Commission disallowing claims of “cleaning the air in an entire room” made by several manufacturers of “area HEPA filtration systems” as well as medical benefits claimed by manufacturers of “passive electrostatic” washable synthetic filters and other articles in consumer reports. ASHRAE is tightening the test standards to help the consumer more easily rate air filters.

*Hazardous Working Environments.* Several studies recognize that air quality in working facilities has an impact upon human health. Occupational Safety & Health Administration (OSHA) regulations, in particular, have made IAQ a consideration in a wide variety of industries, ranging from those industries using spray-paint booths to those using automobile assembly lines. We are encouraged by the awareness and increased interest in improving indoor air quality in working environments.

*Sick Building Syndrome.* Sick Building Syndrome, which is characterized by lethargy, frequent headaches, eye irritation, and fatigue, has recently been shown to be a valid concern and is a major design consideration in new and renovated commercial and industrial buildings. The identification of “sick” buildings, and solutions for mitigation, involve complex issues which need to be examined on a case-by-case basis by qualified engineers. Solutions typically include improving the HVAC and filtration systems of the affected buildings.

## **Marketing**

*Retail Sales:* Retail marketing is focused on increasing the effectiveness and efficiency of communicating to customers, consumers, suppliers, and prospects (customers and suppliers). The communication is directed to all four groups of constituents:

1. Institutional to enhance Flanders’ image by educating on the depth of knowledge and expertise Flanders has in air filtration.
2. Persuasive that our products have “want-satisfying” capabilities
3. Advertorial to inform prospects of the existence of our products.

Direct interaction with retailers will continue. Tradeshow participation will be minimized to contracted agreements primarily with hardware co-ops and these venues will focus on the institutional and advertorial messages. Our direct interaction methods are primarily technical selling with emphasis on providing solutions for consumers through our filtration expertise and experience; and “creative” selling of providing our key retailers analytical support to grow their market share.

Our non-personal presentation and promotion of the marketing message is print, primarily industry journals, magazines, and newspapers; direct advertising, mail and billboards; broadcast, primarily radio and television. The billboard, newspaper and radio campaigns focus on strategic markets with well defined geographic exposure where effectiveness can be measured.

*Commercial & Industrial Sales:* Marketing for the commercial and industrial market is focused on increasing communication and education to our customer distribution network. This will be accomplished through printed material, email, CD’s, technical presentations and direct interaction.

Direct interaction will consist primarily through regional managers and management contact with the customer base. Regional managers cover the United States, Mexico and Canada, supporting the existing customer base as well as new prospects with product expertise, experience, and support in the filtration industry.

Education and visual presence will be achieved by actively being involved through professional memberships such as NAFA, ASHRAE, IEST, CETA, ABSA, CBSA, ANS, HARDI and ISPE. Emphasis will continue to be placed on securing product specifications on all products through specifying engineering firms.

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**Products**

We design, manufacture and market a broad range of air filters and related products, including:

- Residential heating and air conditioning filters, typically sold through retailers under the Flanders Precisionaire® brand name.
- Residential air cleaners, developed in 2000, which offer different filtration types ranging from single-room HEPA units which clean the air in a room to near-cleanroom levels to in-duct electrostatic precipitators which remove large quantities of airborne contaminants from entire residences without negatively impacting the efficiency of HVAC systems.
- Industrial specialty filters which fall under specifications that are categorized by efficiency ratings established by ASHRAE and used in a wide variety of industries, including paint facilities, automobile factories, chemical treatment plants, mushroom farms, coal mines, oil refineries and power plants.
- Commercial and industrial filters for use in office and general manufacturing environments, typically sold through wholesalers and distributors.
- High Efficiency Particulate Air (HEPA) filters (at least 99.97% efficient to 99.99999% efficient) in various grades, for use in semiconductor facilities, nuclear containment vessels, disease containment facilities, and other critical applications.
- Absolute Isolation Barriers which are customized stand-alone units, typically manufactured of stainless steel, used in various industries which require absolute control over contaminants, atmospheric composition and containment.
- Carbon filters, both in bonded panels, various impregnated medias, and activated charcoal beds, used to remove gaseous contaminants, odors and toxic chemical vapors in various commercial and industrial applications.
- Specialized air filter housings for use in multi-stage filtration applications.
- Other related products, including ductwork and equipment cleaning chemicals, custom air handlers and specialized filter housings.
- Surface finishing filters for any paint booth or surface finishing application in the overall surface finishing market.

**Manufacturing**

We manufacture air filters, housings, custom air handlers, absolute isolation barriers and related equipment at several facilities in the United States and Mexico. The major plants are:

- Manufacturing and warehousing facilities located in Washington, North Carolina; Bartow, Florida; Momence, Illinois; Smithfield, North Carolina (2 locations); Tijuana, Mexico; Salt Lake City, Utah and Ardmore, Oklahoma, produce a broad range of HEPA, commercial, residential and industrial filters.
- Other facilities in Washington, North Carolina manufacture (High Efficiency Gas Absorption (HEGA)) filters, high-end containment environments, housings, custom filter assemblies and other custom filtration products and systems which require extensive custom design, production and lot tracking, including products used in the production and containment of potentially dangerous biologically engineered microorganisms.

In addition, we design and manufacture much of our automated production equipment.

Our manufacturing operations are subject to periodic inspection by regulatory authorities. Because of the nature of some of our products, these agencies include the Department of Energy, Department of Defense and other agencies

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responsible for overseeing sensitive technologies. One of the considerations in deciding which types of products each facility will manufacture is the segregation of highly-regulated products to a minimal number of facilities to reduce the overhead associated with regulatory monitoring and compliance.

Each of our manufacturing facilities utilizes testing and design strategies appropriate to the products manufactured. These range from standard statistical process quality controls for residential replacement filters to individual testing and certification with patented proprietary particle scanning technologies for each Laminar flow-grade HEPA and WHPA filter. We believe that our ability to comprehensively test and certify HEPA and WHPA filters is a competitive advantage.

**Source and availability of raw materials**

Our principal raw materials are cardboard, fiberglass fibers, recyclable waste-glass, extruded glass, sheet metal, extruded aluminum, stainless steel, various grades of mild rolled steel, adhesives, resins, and wood. All of these raw materials are readily available in sufficient quantities from many suppliers.

**Competition**

The air filtration market is fragmented and highly competitive. There are many companies which compete in our market areas. We believe that the principal competitive factors in the air filtration business include product performance, name recognition, price, product knowledge, reputation, customized design, timely delivery, and product maintenance. We believe that we compete favorably in all of these categories. Competitors include companies with resources, assets, financial strength, and market share which may be greater than ours. Major competitors include American Air Filter International, Camfil Farr Company, Donaldson Company, Inc., 3M, and Clarcor Inc.

**Patents, trademarks and licenses**

The Company and its subsidiaries currently holds four (4) patents related to filtration technology including patents relating to isolation workstations, deodorizing air filters and method of fabricating deodorizing filters.

In addition, the Company and its subsidiaries maintain twenty-three (23) United States, three (3) Canadian and one (1) United Kingdom trademark registrations including the following: FLANDERS®, PRECISIONAIRE®, EZ FLOW®, AIRVELOPE®, CHANNEL-CEIL®, PUREFORM®, ECONO-CELL®, GAS-PAK®, PUREFRAME®, DIMPLE PLEAT®, BLU-JEL®, VLSI®, KWIK KUT®, SUPER-FLOW®, NATURALAIRE®, AIRPURE®, PURESEAL®, FLANDERS ABSOLUTE ISOLATION®, FLANDERS/CSC®, TECH-SORB®, DUSTGARD®, VAPORCLEAN®, and PRECISIONCELL®. Although management believes that the patents and trademarks associated with our various product lines and subsidiaries are valuable, we do not consider any of them to be essential to our business.

**Customers**

We are not dependent upon any single customer. One customer, The Home Depot, Inc., accounted for 16%, and 20% of net sales for the years ended December 31, 2010 and 2009, respectively. Lowe's accounted for 11% and 10% of net sales for the years ended December 31, 2010 and 2009, respectively. No other single customer accounted for 10% or more of net sales during the past three years. Other significant customers include ACE; Walmart Stores, Inc.; Texas Instruments; Glaxo, Merck & Co., Inc.; Upjohn Co.; Westinghouse Electric Corp.; Ace; True Value; Intel; and several U.S. government agencies.

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**Backlog**

We had approximately \$60.3 and \$57.7 million of firm backlog as of December 31, 2010, and December 31, 2009, respectively. Firm backlog includes orders received and not yet begun and the unfinished, unbilled portion of special orders. Orders are typically not cancelable without penalty, except for certain stable filter supply contracts to nuclear facilities operated by the United States government. Backlog varies from week to week, based on the timing and mix of orders received.

**Employees**

We employed approximately 2,400 full-time employees as of December 31, 2010 with approximately 2,200 of those employees being in the Company's manufacturing area. The remaining employees are a combination of development and technical staff, sales and marketing, and administration and support staff. Approximately 320 employees in Mexico are covered by government-mandated collective bargaining arrangements. Our operations have not been significantly affected by work stoppages and, in the opinion of management, employee relations are good. We are committed to continuous productivity improvement and we continue to evaluate opportunities to reduce fixed costs, simplify or improve processes, and eliminate excess capacity. As a consequence, we may, from time to time, transfer production from one manufacturing facility to another, outsource certain production or close certain manufacturing facilities. Such production transfers, outsourcing, and/or facility closures may result in a deterioration of employee relations at the impacted locations. We believe that our relationship with our employees is satisfactory.

**Government regulation**

Although we believe our operations are in material compliance with applicable environmental laws and regulations, risks of significant costs and liabilities are inherent in manufacturing operations, and we cannot assure that significant costs and liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly strict environmental laws and regulations and enforcement policies, and claims for damages to property or persons resulting from our operations, could result in substantial costs and liabilities to us. We believe that changes in environmental laws and regulations will not have a material adverse effect on our financial position, results of operations or cash flows in the near term.

We are also subject to the requirements of OSHA and comparable state statutes. We believe we are in material compliance with OSHA and state requirements, including general industry standards, record keeping requirements and monitoring of occupational exposures. In general, we expect to increase our expenditures to comply with stricter industry and regulatory safety standards such as those described above. Although such expenditures cannot be accurately estimated at this time, we do not believe that they will have future material adverse effects on our financial position, results of operations or cash flows.

**Seasonality**

Historically, our business has been seasonal with a substantial percentage of sales occurring during the second and third quarters of each year. We believe that this will continue in future years. In addition, demand for our general commercial and industrial products appears to be highly influenced by the weather, with higher sales generally associated with extremes of either hot or cold weather, and lower sales generally associated with temperate weather. Because of these seasonal and weather-related demand fluctuations, quarter-to-quarter performance may not be a good predictor of future results.

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**Export sales**

We sell products to end users outside of the United States through domestic specialty Cleanroom contractors. These sales are counted as domestic sales. We also sell products through foreign distributors, primarily in Europe, and through Flanders International, Ltd., a wholly-owned subsidiary located in Singapore which sells to customers in the Pacific Rim. In 2010, we began selling products throughout northern Europe and the Middle East from a wholly-owned subsidiary located in Rotterdam, Netherlands. Sales through foreign distributors and Flanders International amounted to less than 5% of net sales for the period ending December 31, 2010 and 2009, respectively. Assets held outside the United States are negligible.

**Subsidiaries**

The following table sets forth information concerning Flanders Corporation and its subsidiaries as of December 31, 2010:

Name	Incorporated	Activity	Flanders Corp. Ownership	Included in Issuer's Consolidated Financial Statements
Flanders Corp.	NC	Manufacturing	Parent	Yes
Precisionaire, Inc.	FL	Manufacturing	100%	Yes
Eco-Air Products	CA	Manufacturing	100%	Yes
Flanders Filters, Inc.	NC	Manufacturing	100%	Yes
Flanders / CSC, LLC	NC	Manufacturing	100%	Yes
Flanders/Precisionaire Corp.	NC	Holding	100%	Yes
Air Seal Filter Housings, Inc.	TX	Manufacturing	100%	Yes
Industrias Seco de Tijuana, SA de CV	Mexico (TJ)	Manufacturing	— <sup>(1)</sup>	Yes
Flanders International, PTE Ltd.	Singapore	Air Filter Sales	100%	Yes
Flanders EMEA, B.V.	Netherlands	Air Filter Sales	100%	Yes

(1) Eco Air Products owns 99.8% and Flanders Corp. owns .2% of this Mexican entity.

**Item 10. The Nature and Extent of the Issuer's Facilities.**

The Company leases five facilities with approximately 1,346 thousand square feet of manufacturing and warehouse space used for operations. These facilities are located in Bartow, Florida; Ardmore, Oklahoma; Smithfield, North Carolina; Salt Lake City, Utah and Tijuana, Mexico. The Company does enter into related party leases which are disclosed in the footnotes to the audited financial statements.

The Company leases various small offices and/or warehouses outside the United States to support sales and distribution locations in Singapore and the Netherlands.

The Company owns four facilities with approximately 1,090 thousand square feet of manufacturing and warehouse space used for operations. These facilities are located in Momence, Illinois; Smithfield, North Carolina, and Washington, North Carolina.

As a result of the Company's decision to shed vertical integration an exit and consolidation strategy has been implemented resulting in several locations previously owned being marketed for sale (approximately 114 thousand square feet) and previously leased properties being marketed for sublease where allowed by the terms of the non-cancelable lease agreement (approximately 746 thousand square feet). These properties had previously been used for manufacturing, warehousing, office and sales space.

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**Part D Management Structure and Financial Information**

**Item 11. The Name of the Chief Executive Officer, Members of the Board of Directors, as well as Control Persons.**

*Director and Executive Officer Information*

Name	Position	Common Shares Beneficially Owned	
Harry L. Smith, Jr.	Chief Executive Officer and Chairman of the Board	2,376,928	(1)
John Oakley	Director, Chief Financial Officer, President	112,500	(2)
Kirk Dominick	Senior Vice President	55,000	(3)
David M. Mock	Director	95,700	(4)
Charlie Lee Tingen, Jr.	Director	50,000	(5)
Wesley M. Measamer	Director	50,000	(5)
Phil Hodges	Director	50,000	(5)

For privacy reasons, the business address of the Company's non-employee directors, have been excluded from the above table. All correspondence to such individuals may be mailed to the Company's corporate headquarters at 531 Flanders Filter Road, Washington, NC and a member of management will see that it is delivered to the appropriate person. All of the Company's directors, executive officers and control persons are United States citizens.

(1) Includes 500,000 shares which are subject to an option to purchase such shares from the Company at \$4.99 per share. These options expire in 2017.

(2) Includes 50,000 shares which are subject to an option to purchase such shares from the Company at \$4.69 per share. These options expire in 2013.

(3) Includes 50,000 shares which are subject to an option to purchase such shares from the Company at \$5.55 per share. These options expire in 2017. Also includes 5,000 shares which are subject to an option to purchase such shares from the Company at \$4.60 per share. These options expire in 2019.

(4) Includes 50,000 shares which are subject to an option to purchase such shares from the Company at \$4.37 per share. These options expire in 2013. Also includes 5,000 shares which are subject to an option to purchase such shares from the Company at \$11.72 per share. These options expire in 2011. Also includes 5,000 shares which are subject to an option to purchase such shares from the Company at \$9.52 per share. These options expire in 2017. Also includes 5,000 shares which are subject to an option to purchase such shares from the Company at \$5.71 per share. These options expire in 2018. Also includes 5,000 shares which are subject to an option to purchase such shares from the Company at \$4.60 per share. These options expire in 2019.

(5) These individuals recently became directors and are currently entitled to 50,000 options after six (6) months of service on an annual basis.

**Harry L. Smith, Jr.** Mr. Smith, age 41, has a long history in the air filtration industry. He has worked at Flanders since 1997, holding roles of increasing responsibility including working with the Flanders direct offices; ARW – Wholesale Division; FSS-Filter Sales and Service; FFI-Flanders Filters, Inc.; CSC-Charcoal Services, Inc., and AirSeal Filter Housings. Mr. Smith received his Bachelor of Science degree in Business Administration from East Carolina University in 1992. Mr. Smith was appointed our Chief Operating Officer in August 2007 and our Chief Executive Officer in November 2008. Mr. Smith was appointed Chairman of the Board in 2009 upon the retirement of Mr. Amerson.

**John Oakley.** Mr. Oakley, age 43, joined Flanders in December 2008 with 18 years of diverse experience in finance, accounting, and operations. Prior to joining Flanders, he served as Chief Financial Officer of Nexxus Lighting, Inc. Mr. Oakley also held several posts of increasing responsibility with Home Meridian International and

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its subsidiary Pulaski Furniture Corporation, including Director and CFO of Home Meridian, having joined the company in 2001. Earlier in his career, he served as Corporate Controller for Collins and Aikman Floorcoverings, Inc., now Tandus Group, and Senior Auditor for Arthur Andersen. Mr. Oakley holds a Bachelor of Science in Accounting degree from the University of North Carolina at Charlotte. Mr. Oakley was appointed our Chief Financial Officer in December 2008 and our President and a director in March 2010.

**Kirk Dominick.** Mr. Dominick, age 43, served as an independent Director of the Company since December 2007. In September 2010, Mr. Dominick became the Senior Vice President of Flanders/Precisionaire and resigned as a director. In March 2011, Mr. Dominick also became Senior Vice President of High Purity. For the previous seventeen years, Mr. Dominick served in various executive capacities with Boys & Girls Clubs of America. He most recently served as Executive Vice President for Boys & Girls Clubs of America, where he oversees the delivery of services to over 4,300 local affiliates across the United States and on military installations overseas. Prior to his involvement with Boys & Girls Clubs of America, Mr. Dominick served as President of DNS Associates, a privately owned consulting firm specializing in strategy development, organizational restructuring, management consulting, and board and resource development. In addition, Mr. Dominick is a partner in InnerBanks Capital, a private equity firm focused on real estate development in emerging growth markets. Mr. Dominick holds a Bachelor of Science in Criminal Justice from East Carolina University.

**David M. Mock.** Mr. Mock, age 58, has served as an independent Director of the Company since August 2003 and serves on the Compensation and Audit Committees. Mr. Mock serves in several capacities as a consultant, advisor, and equity principal to numerous business entities. Current involvement includes a part-time position as a Managing Director at Daybreak Capital Partners in the Software and Technology sector. Mr. Mock is also a General Partner with GMG Capital Partners, a New York-based investment firm, which he co-founded in 1997. Mr. Mock has extensive operations and private investment experience with respect to technology companies. Mr. Mock holds an B.S. in Accounting degree from the University of Utah.

**Charlie Lee Tingen Jr.** Mr. Tingen Jr., age 41, has served as an independent Director of the Company since March 2010 and serves on both the Executive and Board Compensation Committees. Mr. Tingen is a Senior Financial Advisor with Bengala and Tingen, a financial advisory practice of Ameriprise Financial Services, Inc. since 1995. Prior to providing 15 years of analysis and financial planning to individuals and businesses, Tingen was a loan officer with BB&T Corporation. Tingen received a Bachelor of Science degree from East Carolina University in 1992.

**Wesley M. Measamer CPA.** Mr. Measamer, age 40, has served as an independent Director of the Company since March 2010 and serves on both the Audit and Board Compensation Committees. Mr. Measamer is president of Wesley M. Measamer, CPA PA. and has provided full service accounting services for 15 years to businesses within several industries including manufacturing and retail. Mr. Measamer is licensed with the NC State Board of Certified Public Accountants and holds a Bachelor of Science in Accounting and Master of Business Administration from East Carolina University.

**Phil Hodges.** Mr. Hodges, age 54, has served as an independent Director of the Company since March 2010 and serves on Audit Committee. Mr. Hodges is the founder of Metrics, Inc., a contract pharmaceutical development company based in Greenville NC and currently serves as its President and CEO. Prior to Metrics, Mr. Hodges spent 12 years with Burroughs Wellcome Corporation in its analytical development laboratories. Mr. Hodges holds a Bachelor of Science in Chemistry and a Master of Science in Analytical Chemistry from East Carolina University.

None of the executive officers, directors or control persons have, to the best knowledge of the Company, in the last five (5) years, been the subject of:

- (i) A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (including traffic violations and other minor offenses);

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- (ii) The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities.
- (iii) A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or
- (iv) The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.

To the best knowledge of the Company, there are no family relationships among and between the Company's directors, officers or beneficial owners of more than 5% of Flanders' outstanding common stock.

***Compensation of officer and directors***

**Compensation of directors**

Directors who are Company employees receive no additional or special remuneration for serving as directors. Upon initial appointment to the Board, a director receives an option to purchase 50,000 shares of the Company's common stock exercisable at the fair market value as of that date. All independent directors with a minimum of six (6) months on the Board are automatically granted an additional 5,000 options to purchase Company common stock each year thereafter for so long as the director remains on the Board. We currently pay our independent directors a \$5,000 quarterly fee. In addition, we will pay our independent directors \$500 for each board of directors meeting personally attended plus reimbursement of associated out-of-pocket costs.

**Employment agreements**

Mr. Smith has an employment agreement, which was originally effective as of March 17, 2010, as amended effective January 1, 2011 ("Employment Agreement"). Mr. Smith's current base annual salary is \$500 and the Employment Agreement terminates on January 31, 2016. Mr. Smith is entitled to bonus payments, which are currently determined by our Compensation Committee, comprised solely of independent directors. During our year ended December 31, 2010, we paid Mr. Smith a base salary of \$350 and a bonus of \$555. Mr. Smith is entitled to certain lump sum payments in the event of a "Change of Control" of the Company or termination for any reason other than death, disability or cause. Any lump sum payments to Mr. Smith are limited to the excess parachute payment provisions set forth in Section 280(g) of the Internal Revenue Code, which essentially provides that termination payments shall not exceed the present value of 2.999 times Mr. Smith's base period income. Mr. Smith has agreed to a two (2) year non-competition covenant following termination. We also provide Mr. Smith with use of an automobile and reimbursement of automobile expenses and other business related expenses.

Mr. Oakley has an employment agreement, originally effective as of January 28, 2009, amended effective January 1, 2011 ("Employment Agreement"). Mr. Oakley's current base annual compensation is \$250 per year. The term of Mr. Oakley's Employment Agreement is through January 31, 2016. Mr. Oakley is also entitled to receive bonuses of 50% of his annual base salary. Mr. Oakley is entitled to a lump sum payment in the event of a Change of Control equal to 2 times his then annual base salary and the bonus amount paid to him for the previous four (4) quarters prior to the effective date of the Change of Control. Mr. Oakley is also entitled to similar lump sum payments in the events of death, disability or termination without cause, including, vesting and acceleration of all unvested options. During year-end December 31, 2010, we paid Mr. Oakley a base annual salary of \$200 and a cash bonus of \$150. The Company has also provided for a stay bonus of \$225 which is earned over a three year period ending January 2012. We also provide Mr. Oakley with use of an automobile and reimbursement of automobile expenses and other business related expenses.

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**FOR THE YEARS ENDED DECEMBER 31, 2010 AND DECEMBER 31, 2009**

**Related party transactions and conflicts of interest**

Review and Approval of Related Person Transactions.

The Audit Committee reviews all relationships and transactions in which the Company and our directors and executive officers or their immediate family members are participants. The Audit Committee reviews and approves or ratifies any related person transaction that is required to be disclosed. As set forth in the Audit Committee's key practices, in the course of its review and approval or ratification of a disclosable related party transaction, the committee considers:

- the nature of the related person's interest in the transaction;
- the material terms of the transaction, including, without limitation, the amount and type of transaction;
- the importance of the transaction to the related person;
- the importance of the transaction to the company;
- whether the transaction would impair the judgment of a director or executive officer to act in the best interest of the company; and
- any other matters the committee deems appropriate.

Any member of the Audit Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote respecting approval or ratification of the transaction, provided, however, that such director may be counted in determining the presence of a quorum at a meeting of the committee that considers the transaction.

Related Party Transactions

As more fully defined in Note M to our audited financial statements and included under Item 12 of this Annual Report, we have entered into sale and sale leaseback transactions for certain of our facilities with affiliates of Mr. Amerson and Mr. Smith. Mr. Amerson is our former CEO and former Chairman of our Board of Directors and beneficially owns approximately 24.32% of the Company's outstanding common shares as of December 31, 2010. Mr. Amerson owns Wal-Pat II, LLC, a related party.

Although our Audit Committee has reviewed, approved or ratified our related party transactions and believes the terms of our current leases with affiliates of Mr. Smith and Mr. Amerson are on terms that are fair to the Company, such transactions are not necessarily indicative of the amounts and transactions which would have been incurred if comparable transactions had been entered into with third parties.

In July 2009 and February 2010, we redeemed 391,236 and 312,500 of our common shares, respectively, from Mr. Amerson at \$6.39 and \$3.20 per share, respectively. Mr. Amerson used the proceeds from these shares to satisfy personal obligations to BB&T, which is secured by a pledge of our shares. Our Audit Committee approved these redemptions.

Our board of directors approved indemnity agreements for our officers and directors. The indemnification agreements provide indemnification for (i) proceedings by or in the right of the company (ii) indemnification for expenses of a party who is wholly or partly successful and (iii) indemnification for expenses as a witness. The indemnification rights generally applies only if the officer or director acted in good faith and in a manner in which he or she reasonably believed to be in or not opposed to the best interests of the Company, and, in the case of a criminal proceeding had no reasonable cause to believe that his or her conduct was unlawful.

**FLANDERS CORPORATION**  
**INFORMATION AND DISCLOSURE STATEMENT**  
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**Item 12. Financial Information for the Issuer's Most Recent Fiscal Period.**

Index to Consolidated Financial Statements:

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Consolidated Statements of Operations	21
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**FLANDERS CORPORATION**  
**INFORMATION AND DISCLOSURE STATEMENT**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND DECEMBER 31, 2009**

**Report of Independent Certified Public Accountants**

To the Stockholders of  
Flanders Corporation:

We have audited the accompanying consolidated balance sheet of Flanders Corporation (a North Carolina company) and Subsidiaries (the Company) as of December 31, 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive loss, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Flanders Corporation and Subsidiaries as of and for the year ended December 31, 2009, were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 22, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton  
Charlotte, NC  
April 19, 2011

**FLANDERS CORPORATION**  
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**FLANDERS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)

<b>ASSETS</b>	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Current assets		
Cash and cash equivalents	\$ 594	\$ 260
Receivables:		
Trade, net of allowance for doubtful accounts: \$1,456 in 2010 and \$2,172 in 2009	41,787	33,159
Other	442	407
Inventories, net	24,195	29,415
Deferred income tax asset	9,714	2,566
Assets held for sale	1,117	-
Other current assets	14,110	8,134
Total current assets	91,959	73,941
Property and equipment, net	74,176	71,263
Intangible assets, net	237	280
Notes receivable and other assets	16,262	17,511
Total assets	\$ 182,634	\$ 162,995
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 33,435	\$ 26,856
Accrued expenses	10,857	5,831
Current maturities of long-term debt and capital lease obligations	1,495	1,051
Current portion of exit cost liability	1,136	-
Other current liabilities	100	498
Total current liabilities	47,023	34,236
Long-term capital lease obligation, less current maturities	6,686	150
Long-term debt, less current maturities	35,309	33,662
Long-term liabilities, other	2,905	3,085
Deferred income tax liability	2,983	158
Long-term exit cost liabilities	7,902	-
Commitments and contingencies (Notes I, L)		
Stockholders' equity:		
Preferred stock, \$.001 par value, 10,000,000 shares authorized; none issued and outstanding as of December 31, 2010 and 2009		
Common stock, \$.001 par value; 50,000,000 shares authorized; issued and outstanding: 27,132,838 as of December 2010 and 26,132,838 as of December 2009	27	26
Additional paid-in capital	93,120	88,902
Accumulated other comprehensive loss	(883)	(908)
Retained earnings (accumulated deficit)	(12,438)	3,684
Total stockholders' equity	79,826	91,704
	\$ 182,634	\$ 162,995

The accompanying notes are an integral part of these financial statements.

**FLANDERS CORPORATION**  
**INFORMATION AND DISCLOSURE STATEMENT**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND DECEMBER 31, 2009**

**FLANDERS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

**Year Ended December 31,**  
(In thousands, except per share data)

	<u>2010</u>	<u>2009</u>
Net sales	\$ 244,336	\$ 222,380
Cost of goods sold	<u>204,100</u>	<u>179,167</u>
Gross profit	40,236	43,213
Operating expenses	35,956	31,294
Plant consolidation and exit costs	13,433	-
Loss on impairment of property	3,279	-
Loss (gain) on disposal of property and equipment	1,367	(304)
Stock compensation expense	<u>5,219</u>	<u>46</u>
Operating income (loss)	(19,018)	12,177
Nonoperating income (expense):		
Other income (expense), net	(393)	688
Interest income (expense), net	<u>(2,315)</u>	<u>(1,338)</u>
Nonoperating income (expense), net	(2,708)	(650)
Income (loss) from continuing operations before income taxes and extraordinary items	(21,726)	11,527
Provision (benefit) for income taxes	<u>(5,200)</u>	<u>4,563</u>
Net income (loss) before extraordinary items	(16,526)	6,964
Extraordinary gain, net of taxes	<u>404</u>	<u>-</u>
Net income (loss)	<u>\$ (16,122)</u>	<u>\$ 6,964</u>
Basic earnings (loss) per share:		
Income (loss) before extraordinary items	\$ (.62)	\$ .27
Extraordinary items	<u>\$.02</u>	<u>\$ -</u>
Net earnings (loss) per share	<u>\$ (.60)</u>	<u>\$ .27</u>
Diluted earnings per share:		
Income (loss) before extraordinary items	\$ (.62)	\$ .27
Extraordinary items	<u>\$.02</u>	<u>\$ -</u>
Net earnings (loss) per share	<u>\$ (.60)</u>	<u>\$ .27</u>
Weighted average common shares outstanding		
Basic	<u>26,793</u>	<u>25,779</u>
Diluted	<u>26,793</u>	<u>25,795</u>

The accompanying notes are an integral of these financial statements.

**FLANDERS CORPORATION**  
**INFORMATION AND DISCLOSURE STATEMENT**  
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**FLANDERS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS**  
**Year Ended December 31, 2010 and 2009**  
(In thousands)

	<u>Shares</u>	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Total</u>
<b>Balance, January 1, 2008</b>	25,524	\$ 26	\$ 87,253	\$ (1,231)	\$ (3,280)	\$ 82,768
Stock option award compensation	-	-	46	-	-	46
Purchase and retirement of 391 shares of common stock	(391)	(1)	(2,500)	-	-	(2,501)
Issuance of 1,000 shares of common stock upon exercise of options	1,000	1	2,499	-	-	2,500
Tax benefit from stock options	-	-	1,604	-	-	1,604
Comprehensive income						
Net income	-	-	-	-	6,964	6,964
Gain on cash flow hedges, net of tax	-	-	-	323	-	323
Total comprehensive loss						<u>7,287</u>
<b>Balance, December 31, 2009</b>	26,133	\$ 26	\$ 88,902	\$ (908)	\$ 3,684	\$ 91,704
Stock option award	-	-	354	-	-	354
Purchase and retirement of common shares	(312)	(0)	(1,000)	-	-	(1,000)
Common shares issued as compensation	1,312	1	4,864	-	-	4,865
Comprehensive income (loss):						
Net loss	-	-	-	-	(16,122)	(16,122)
Gain on cash flow hedges, net of tax	-	-	-	25	-	25
Total comprehensive loss						<u>(16,097)</u>
<b>Balance, December 31, 2010</b>	<u>27,133</u>	<u>\$ 27</u>	<u>\$ 93,120</u>	<u>\$ (883)</u>	<u>\$ (12,438)</u>	<u>\$ 79,826</u>

The accompanying notes are an integral part of these financial statements.

**FLANDERS CORPORATION**  
**INFORMATION AND DISCLOSURE STATEMENT**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND DECEMBER 31, 2009**

**FLANDERS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Year Ended December 31,

(In thousands)

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (16,122)	\$ 6,964
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	7,385	5,778
Provision for bad debts	1,316	2,095
Write-off of investment and related notes receivable	616	-
Stock compensation expense	5,219	46
Extraordinary gain, net of taxes	(404)	-
Proceeds from insurance claims	-	1,135
Tax impact of stock options exercised	-	(1,604)
Deferred income taxes	(4,568)	1,704
Amortization of deferred gain	(72)	(60)
Loss on impairment of property	3,279	-
(Gain) loss on disposal of property and equipment	1,367	(304)
Change in working capital components:		
Increase in accounts receivable	(9,944)	(10,293)
Increase in other receivables	(35)	(127)
Decrease in inventory	5,220	2,135
(Increase) decrease in other current assets	(7,235)	5,946
(Increase) decrease in other assets	(274)	8
Increase (decrease) in accounts payable	6,579	4,061
Increase in accrued expenses	5,026	2,862
Decrease in other current liabilities	(398)	(5,682)
Increase in exit cost liability	9,038	-
Decrease in other non-current liabilities	(60)	(603)
Net cash provided by operating activities	5,933	14,061
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(12,076)	(15,019)
Proceeds from sale of property and equipment	2,216	259
Proceeds from insurance claim on building and equipment	1,885	466
Proceeds from notes receivable	2,450	5,046
Advances on notes receivable	(707)	(3,807)
Net cash used in investing activities	\$ (6,232)	\$ (13,055)

**FLANDERS CORPORATION**  
**INFORMATION AND DISCLOSURE STATEMENT**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND DECEMBER 31, 2009**

**CONSOLIDATED STATEMENTS OF CASH FLOWS—Continued**  
**Years Ended December 31,**  
(In thousands)

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term borrowings	\$ (3,009)	\$ (3,095)
Proceeds from revolving credit agreement	235,844	224,550
Payments on revolving credit agreement	(232,152)	(224,143)
Proceeds from long-term borrowings	1,081	-
Payment of debt issuance costs	(131)	(66)
Tax impact of stock options exercised	-	1,604
Purchase of common stock	(1,000)	-
Net cash provided by (used in) financing activities	633	(1,150)
Net increase (decrease) in cash and cash equivalents	334	(144)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	260	404
End of year	\$ 594	\$ 260
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during year for:		
Income taxes	\$ 2,447	\$ 877
Interest, net of amounts capitalized to property and equipment	\$ 1,788	\$ 1,633
Interest capitalized to property and equipment	\$ 404	\$ 759
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Sale of building/equipment for note receivable	\$ 400	\$ 1,279
Purchase of building with debt	\$ -	\$ 6,080
Sale of equipment for accounts payable offset	\$ 830	\$ -
Cashless exercise of common stock	\$ -	\$ (2,500)
Acquisition of capital lease assets	\$ 6,983	\$ -

The accompanying notes are an integral part of these financial statements.

**FLANDERS CORPORATION**  
**INFORMATION AND DISCLOSURE STATEMENT**  
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**FLANDERS CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(In thousands)

**Note A. Nature of Business**

Nature of business

Flanders Corporation (“the Company”) designs, manufactures and sells air filters and related products. It is focused on providing complete environmental filtration systems for uses ranging from controlling contaminants in residences and commercial office buildings through specialized manufacturing environments for semiconductors and pharmaceuticals. The Company also designs and manufactures much of its own production equipment to automate processes to decrease labor costs associated with its standard products. The vast majority of the Company’s current revenues come from the sale of after-market replacement filters, since air filters are typically placed in equipment designed to last much longer than the filters.

The Company sells some products for end users outside of the United States through domestic specialty clean room contractors. These sales are accounted for as domestic sales. The Company also sells products through foreign distributors, primarily in Europe, and through two wholly-owned subsidiaries, which sell to customers in Europe, the Middle East, and the Pacific Rim. Sales through foreign distributors and its wholly owned foreign subsidiary total less than 5% of net sales. Assets held outside the United States are negligible.

The Company has one reportable segment which is air filtration systems.

Principles of consolidation

The consolidated financial statements include the accounts and operations of the Company and its subsidiaries, all of which are wholly owned. All intercompany transactions and balances are eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain items in the consolidated financial statements as of and for the year ended December 31, 2009, have been reclassified to conform to the current presentation. Such reclassifications were made to current liabilities. The Company reclassified uninvoiced receipts of \$6,549 and book overdraft of \$954 from “Accrued expenses” to “Accounts payable.” The Company also reclassified on the Consolidated Statements of Operations “Interest Income” of \$525 from “Other expense” to “Interest expense, net” and loss on disposal of property and equipment of \$304 from “Other expense” to “Operating expenses.”

The Company reclassified various items related to the consolidated cash flow statements. These included the reclassification of “(Increase) decrease in other assets” of \$151 from investing activities to operating activities, the gross presentation of both “purchase of property and equipment” and “proceeds from sale of property and equipment” for a transaction that was previously netted in the cash flow statement and the gross presentation of the proceeds from and payments on the revolving credit agreement.

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Cash and cash equivalents

The Company maintains its cash in bank deposit accounts, which at times, exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents. For purposes of reporting cash flows, the Company considers all cash accounts which are not subject to withdrawal restrictions or designated for equipment acquisitions and certificates of deposit which have an original maturity of three months or less when purchased to be cash equivalents. Additionally, checks issued but not presented to banks frequently result in book overdraft balances for accounting purposes and are classified within accounts payable in the balance sheets. The change in book overdrafts are reported as a component of operating cash flows for accounts payable as they do not represent bank overdrafts. The amount of these checks included in accounts payable as of December 31, 2010 and 2009 was \$1,058 and \$954, respectively.

Accounts receivable

The majority of the Company's accounts receivables are due from large retail, wholesale, construction and other companies. Credit is extended based on evaluation of the customers' financial condition. Accounts receivable terms are within normal time frames for the respective industries. The Company maintains allowances for doubtful accounts for estimated losses, which are reviewed regularly by management. The estimated losses are based on the aging of accounts receivable balances and historical write-off experience, net of recoveries. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Fair value of financial instruments

The carrying amount of cash equivalents, trade receivables, notes receivable and trade payables approximates fair value at December 31, 2010 because of the short maturity of these instruments. Based on the borrowing rates currently available to the Company for bank loans with similar maturities and similar collateral requirements, the fair value of notes payable and long-term debt approximates the carrying amounts at December 31, 2010.

Inventories

Inventories are valued at the lower of cost, under the first-in, first-out method, or market. An assessment of inventory is performed at each year-end balance sheet date to identify obsolete or unmarketable inventory based on assumptions about future demand and market conditions.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over estimated useful lives of the respective assets. Amortization of property and equipment held under capital leases is included in depreciation expense. The carrying amount of all long-lived assets is evaluated periodically to determine if adjustment to the depreciation and amortization period or the unamortized balance is warranted. Based upon management's analysis for the year ended December 31, 2010, an impairment loss of \$3.3 million was recognized on certain property as a result of management's plan to exit certain facilities in accordance with the Company's overall strategy to shed vertical integration.

Debt issuance costs

The costs related to the issuance of debt are capitalized and amortized on a straight-line basis over the term of the related debt, which approximates the effective interest method. The Company recognized amortization expense of \$63 and \$4 for the years ended December 31, 2010 and 2009, respectively.

Derivative financial instruments

The Company has three interest-rate swap agreements to hedge against the potential impact on earnings from

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increases in market interest rates of two variable rate bonds and one variable rate note. The interest rate swap agreements for the bonds have notional amounts of \$4.5 million and \$4.0 million. The Company receives or makes payments on a monthly basis, based on the differential between 5.49% and a tax exempt interest rate as determined by a remarketing agent. The interest rate swap agreement for the note has a notional amount of \$2.5 million and the Company receives or makes payments on a monthly basis, based on the differential between 5.86% and LIBOR plus 1.75%. These interest rate swaps are accounted for as cash flow hedges in accordance with FASB authoritative guidance. Gains or losses related to inefficiencies of the cash flow hedge are included in net income during the period related to hedge ineffectiveness. The tax affected cumulative change in fair market value of the interest rate swaps of \$883 is included in "Accumulated other comprehensive loss" on the balance sheet as of December 31, 2010. Any changes in the fair market value of these interest rate swaps is adjusted through "Accumulated other comprehensive income or loss". This fair value was determined using level 2 inputs as defined in FASB authoritative guidance. The interest rate swap contracts on the bonds expire in 2013 and 2015 and the interest rate swap on the note expires in 2013.

Revenue recognition

The Company's products are sold with terms and conditions, which vary depending on particular business environments in which the Company operates.

Generally, sales are recognized when shipments are made to customers. Rebates, allowances for damaged goods and other advertising and marketing program rebates, are accrued pursuant to contractual provisions and included in accrued expenses. Revenues are recorded net of any taxes collected from customers such as sales tax or value added tax. For long-term contracts the Company uses the percentage of completion method of accounting. Under this method, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. Sales and gross profit are adjusted prospectively for revisions in estimated total contract costs and contract values. Estimated losses are recorded when identified. An insignificant amount of our revenues falls under the percentage-of-completion method of accounting used for long-term contracts.

Significant customers

Net sales for the years ended December 31, 2010 and 2009 included sales to the following major customers, together with the receivables due from those customers:

	<u>Amount of Net Sales</u>		<u>Trade Receivable, as of</u> <u>December 31,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Customer A	\$ 40,312	\$ 44,623	\$ 8,339	\$ 5,613
Customer B	27,183	23,369	5,820	2,958
Customer C	13,465	12,084	2,673	2,739
Customer D	12,953	12,156	1,213	1,135

Restructuring

From time to time, the Company engages in actions associated with cost reduction initiatives. The Company's restructuring actions require significant estimates including: (a) expenses for severance and other employee separation costs, (b) remaining lease obligations, including sublease income, and (c) other exit costs. The Company has accrued amounts that it believes are its best estimates of the obligations it expects to incur in connection with these actions, but these estimates are subject to change due to market conditions and final negotiations. Should the actual amounts differ from the originally estimated amounts, earnings could increase or decrease.

Outbound shipping expenses

Outbound shipping expenses are included in "operating expenses," not in "cost of goods sold." Outbound shipping expenses were \$9,983 and \$8,606 for the years ending December 31, 2010 and 2009, respectively.

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Advertising

The costs of advertising are expenses as incurred. Advertising expense was \$3,755 and \$3,880 for the years ending December 31, 2010 and 2009, respectively.

Income taxes

Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Comprehensive income

*Accounting Standards Codification ("ASC") 220* requires disclosure of comprehensive income in addition to the existing income statement. Other comprehensive income (loss) is defined as the change in equity during a period, from transactions and other events, excluding changes resulting from investments by owners (e.g., supplemental stock offerings) and distributions to owners (e.g., dividends). An analysis of the changes in the components of accumulated comprehensive income is presented in the consolidated statements of stockholders' equity. As of December 31, 2010, the "Accumulated other comprehensive loss" balance of \$883 is the cumulative change in fair market value of the Company's three interest rate swaps net of taxes of \$583.

Earnings per share (EPS)

Basic EPS is calculated by dividing earnings available to common shareholders by the weighted average number of common shares outstanding during each period. Diluted EPS is similarly calculated, except that the denominator includes common shares that may be issued subject to existing rights with dilutive potential, except when their inclusion would be antidilutive.

Share-based compensation

*Accounting Standards Codification ("ASC") 718* requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense in the consolidated financial statements based on their fair values. That expense will be recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period).

The value of each grant is estimated at the grant date using the Black-Scholes option model with the following weighted average assumptions for options granted in 2010 and 2009: Dividend rate of 0%; risk-free interest rate of 2.55% and 3.75%, respectively; expected life of 10 years; and expected price volatility of 48.5% and 52% , respectively.

Impact of recently issued accounting pronouncements

In July 2010, the Financial Accounting Standards Board, (FASB") issued Accounting Standards Update, or ASU, 2010-20 Disclosures about the Credit Quality of Financing Receivables and Allowance for Credit Losses." The new disclosure guidance expands the existing requirements. The enhanced disclosures provide information on the nature of credit risk in a company's financing of receivables, how that risk is analyzed in determining the related allowance for credit losses, and changes to the allowance during the reporting period. The new disclosures became effective for the Company's interim and annual reporting periods ending after December 15, 2010. The adoption of the new guidance did not have a material impact on the Company's financial position or results of operations.

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In April 2010, FASB issued ASU No. 2010-17, "Revenue Recognition—Milestone Method," which is included in ASC 605—Milestone Method of Revenue Recognition. This ASU codifies the consensus reached in EITF 08-9, "Milestone Method of Revenue Recognition" ("EITF 08-9"), and addresses the accounting when entities enter into revenue arrangements with multiple payment streams for a single deliverable or a single unit of accounting. The pronouncement shall be applied prospectively to milestones achieved in fiscal years, and interim periods within those years, after June 15, 2010, with earlier application and retrospective application permitted. The adoption of the new guidance is not expected to have a material impact on the Company's financial position or results of operations.

Other recent accounting pronouncements issued by the FASB, and the AICPA, did not or are not believed by management to have a material impact on the Company's present or future financial statement

**Note B. Inventories, net**

Inventories consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Finished Goods	\$ 10,439	\$ 12,027
Work in Progress	1,272	1,373
Raw Materials	12,484	16,015
	<u>\$ 24,195</u>	<u>\$ 29,415</u>

The Company's inventory allowance for obsolete and unmarketable items was \$767 and \$774 as of December 31, 2010 and 2009, respectively. The Company recognized \$225 and \$0 in losses resulting from valuing inventory from cost to market as of December 31, 2010 and 2009, respectively.

**Note C. Other Current Assets**

Other current assets consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Income tax receivable	\$ 5,105	\$ 2,698
Costs in excess of billings	4,689	429
Other current assets	3,183	4,459
Current portion of notes receivable	1,133	608
	<u>\$ 14,110</u>	<u>\$ 8,134</u>

Cost in Excess of Billings, in the percentage of completion method used for long-term contract accounting, is when the billings on uncompleted contracts are less than the income earned to date.

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**Note D. Property and Equipment**

Property and equipment and estimated useful lives consist of the following at December 31:

	<u>2010</u>	<u>2009</u>	<u>Estimated Useful Lives</u>
Land	\$ 411	\$ 837	-
Buildings	44,125	44,622	15-40 years
Machinery and equipment	66,098	60,452	5-15 years
Office equipment	16,415	11,591	5-7 years
Vehicles	2,133	2,036	5 years
Construction in progress	8,506	10,522	-
	<u>137,688</u>	<u>130,060</u>	
Less accumulated depreciation	<u>(63,512)</u>	<u>(58,797)</u>	
	<u>\$ 74,176</u>	<u>\$ 71,263</u>	

Total depreciation expense charged to operations totaled \$7,325 and \$5,717 for the periods ending December 31, 2010 and 2009, respectively.

**Note E. Intangible Assets**

Intangible assets consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Trademarks and trade names, net of accumulated amortization of \$1,570 and \$1,510 in 2010 and 2009, respectively	\$ 237	\$ 280

Amortization expense was \$60 for the periods ending December 31, 2010 and 2009, respectively. Estimated amortization expense for each of the ensuing years through December 31, 2014 is as follows:

Year Ending December 31,	
2011	\$ 60
2012	60
2013	60
2014	57
	<u>\$ 237</u>

**Note F. Notes Receivable and Other Assets**

Notes receivable and other assets consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Other assets	\$ 357	\$ 219
Deposits	429	444
Investment, cost	-	418
Notes receivable	<u>15,476</u>	<u>16,430</u>
	<u>\$ 16,262</u>	<u>\$ 17,511</u>

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Notes receivable consists of the following at December 31:

	<u>2010</u>	<u>2009</u>
Note Receivable, which bears interest at the rate of 6.5% per annum. \$20 due each month beginning December 4, 2007.	\$ 1,358	\$ 1,508
Note Receivable, which bears interest at the rate of 6% per annum with escalating payments beginning in May 2010 with final payment due November 15, 2014.	5,062	5,072
Notes Receivable, bears interest at the rate of libor plus 2.25% and principle payments due quarterly starting July 31, 2010 with a maturity date of May 2018	8,354	8,905
Various other notes receivable	1,835	1,803
Less: Current portion of notes receivable	(1,133)	(608)
Less: Reserves on notes receivable	0	(250)
	<u>\$ 15,476</u>	<u>\$ 16,430</u>

The carrying value of the Company's notes receivable approximates fair market value. During the year ended December 31, 2010, the Company incurred losses on uncollectible notes of \$447 due to a debtor bankruptcy. Of this amount \$250 was previously reserved. The Company believes that all notes are collectible as of December 31, 2010. In connection with this debtor, the Company wrote-off \$418 of investment.

**Note G. Accrued Expenses**

The following table summarizes accrued expense balances as of December 31,

	<u>2010</u>	<u>2009</u>
Payroll and employee benefits	\$ 3,523	\$ 2,274
Customer rebates	2,737	2,068
Taxes – other	1,370	229
Other accrued expense	3,227	1,260
	<u>\$ 10,857</u>	<u>\$ 5,831</u>

**Note H. Pledged Assets and Debt**

A summary of the Company's debt, and collateral pledged thereon, consists of the following at December 31:

	<u>2010</u>	<u>2009</u>
<b>Long-term debt:</b>		
LIBOR plus 3.75% (4.06% at December 31, 2010) revolving line of credit. See discussion of terms below.	\$ 18,845	\$ 15,154
Industrial revenue bond with a variable tax exempt interest rate as determined by a remarketing agent, with rate effectively fixed at 5.49% by an interest-rate swap, balance due April 1, 2015, collateralized by a \$4,000 letter of credit.	4,000	4,000
Industrial revenue bond with a variable tax exempt interest rate as determined by a remarketing agent, with rate effectively fixed at 5.49% by an interest-rate swap, balance due April 1, 2013, collateralized by a \$4,500 letter of credit.	4,500	4,500
Note payable to a bank with a variable interest rate based on LIBOR, due in monthly payments of \$25 with final balance due August 2013, collateralized by property.	3,017	3,254

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	<b>2010</b>	<b>2009</b>
Note payable to a regional development authority, due in varying quarterly installments, plus interest of 6.5%, through December 2017, collateralized by a security agreement and financing statement on real and personal property in Momence, Illinois.	2,990	3,321
Note with a variable interest rate effectively fixed at 5.86% by an interest-rate swap, due in monthly payments of \$16 with final balance due October 9, 2013, collateralized by real property in Washington, NC.	2,514	2,564
Note payable to a bank, plus interest of Prime plus 2.0% (5.25% at December 31, 2010), due in full March 2011; collateralized by a house.	402	0
Note payable with a 4.25% fixed interest rate, due in monthly installments of \$71, balance due in full in April 2011.	282	0
Note payable to bank for vehicle at fixed 6.99% interest rate due in January 2016, collateralized by a vehicle.	54	0
Note payable to a bank, interest fixed at 6.575%, paid in full February 2010.	0	1,445
Related Party note payable, interest rate fixed at 3.25%, paid in full February 2010	0	126
	\$ 36,604	\$ 34,364
Less current maturities	1,295	702
	\$ 35,309	\$ 33,662

Aggregate maturities required on long-term debt as of December 31, 2010 which reflect the refinancing in February 2011 described below, are due in future years as follows:

Year Ending December 31,	
2011	\$ 1,295
2012	642
2013	9,802
2014	19,226
2015	4,401
Thereafter	1,238
	\$ 36,604

**Revolving credit agreement:**

As of December 31, 2010, the Company's total obligations under a revolving credit agreement with Bank of America (BOA) were approximately \$18.8 million. The current revolving credit agreement with BOA provides a maximum line of credit of \$36 million (subject to availability) and bears interest at (i) LIBOR plus 3.75%; or (ii) the bank's base rate plus 2.75%. The revolving credit agreement is part of a combined facility with a bank that also includes a \$12 million facility to guarantee letters of credit. The line of credit is due in October 2011. As of December 31, 2010, there was approximately \$4.1 million of availability under the terms of the credit agreement. The combined facility is collateralized by substantially all of the Company's assets and restricts capital expenditures, payment of dividends and share repurchases. As of December 31, 2010, events of default existed under the revolving credit agreement as the Company was not in compliance with the minimum fixed charge coverage ratio and certain other covenants.

In February 2011, the Company refinanced the credit facility with another bank, which is discussed further in Note T "Subsequent Events." The Company has classified the revolver as non-current debt in accordance with ASC 470-10-45 "Other Presentation Matters" as the Company's ability and intent to refinance is demonstrated by the long-term refinancing arrangement obtained in February 2011. The new \$45 million credit facility is for a period of three years and expires on February 28, 2014.

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**Long-term debt:**

The Company also has debt to a regional development authority with certain restrictive covenants. As of December 31, 2010, the Company is in violation of one of its financial ratio covenants. The Company cured the covenant violation during the grace period stipulated by the terms of the loan agreement. Therefore, in accordance with ASC 470-10-45-11 "Other Presentation Matters – Callable Debt", the Company has classified the debt with the regional development authority as non-current.

**Note I. Leases**

The Company leases certain facilities and equipment under long-term non-cancelable operating leases, which may be renewed in the ordinary course of business, including leases with a related party. Some agreements contain rent escalation clauses primarily based on consumer price indices with minimum increases of 2.5% to 3.5% annually. The Company leases certain manufacturing and warehousing space under a capital lease with an original term of ten years with two consecutive ten-year renewal options. The Company renewed its lease agreement in January 2010 under the first 10 year renewal option for this property. In accordance with ASC 840-10-25-42, the Company reviewed the classification of the lease as a new agreement upon renewal and determined the lease should be accounted for as an operating lease through the renewal term. Additionally, in February 2010, the Company entered into a capital lease for a manufacturing plant in Ardmore, Oklahoma with an original term of 20 years and two consecutive five year renewal options.

Leased capital assets are included in property and equipment as follows at December 31:

	<u>2010</u>	<u>2009</u>
Buildings	\$ 10,500	\$ 3,700
Machinery and equipment	356	356
Office equipment	768	768
Accumulated depreciation	(2,054)	(1,537)
	<u>\$ 9,570</u>	<u>\$ 3,287</u>

Future minimum payments, by year and in aggregate, under capital leases and operating leases which reflects the Brownsville Texas lease termination executed in February 2011 discussed at Note T consist of the following at December 31, 2010:

Year Ending December 31,	Capital leases	Operating Leases
2011	\$ 1,118	\$ 6,102
2012	1,061	5,709
2013	997	5,328
2014	983	4,864
2015	983	4,586
Thereafter	13,927	26,804
Total minimum lease payments	<u>\$ 19,069</u>	<u>\$ 53,393</u>
Less amount representing interest	(12,183)	
Present value of net minimum payments	6,886	
Current portion	(200)	
Long-term portion	<u>\$ 6,686</u>	

Total rent expense charged to operations was approximately \$6,719, and \$6,352 for 2010 and 2009, respectively. The Company receives sublease rental income from non-cancelable sublease agreements that extend beyond one year on two of the Company's leased properties. Rental income was \$353 and \$185 for the year ended December 31, 2010 and 2009, respectively. As of December 31, 2010, total rental income expected to be received under non-cancelable operating sublease agreements is \$1,158.

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**Note J. Long-term liabilities, other**

Other long-term liabilities consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Liability for unrecognized tax benefits	\$ 130	\$ 190
Deferred gain (Note M)	1,309	1,381
Interest rate swap liability (Note Q)	1,466	1,514
	<u>\$2,905</u>	<u>\$ 3,085</u>

**Note K. Income Taxes**

The Company's provision (benefit) for income taxes is as follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Current		
Federal	\$ (732)	\$ 3,517
State	49	214
Foreign	51	165
	<u>(632)</u>	<u>3,896</u>
Deferred		
Federal	(6,440)	360
State	1,872	307
	<u>(4,568)</u>	<u>667</u>
Total provision (benefit)	<u>\$ (5,200)</u>	<u>\$ 4,563</u>

The income tax provision for continuing operations differs from the amount of tax determined by applying the Federal statutory rate as follows:

	<u>2010</u>	<u>2009</u>
Income tax provision at statutory rate	\$ (7,387)	\$ 3,919
Increase (decrease) in income taxes due to		
Non deductible expenses	295	(44)
State income taxes, net	(736)	344
Foreign taxes/ Non consolidated subs	(46)	(52)
Interest, penalties, and other tax contingencies	(40)	528
Credits and adjustments	2,714	(132)
	<u>\$ (5,200)</u>	<u>\$ 4,563</u>

Included in the credits and adjustments of \$2,714 is a write-off of unrealizable tax credits due to a combination of expired credits and disallowed state tax credits arising from a state tax audit of the Company's 2005, 2006, and 2007 tax years. The Company believes that the remaining tax credits of \$715 are realizable.

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The components giving rise to the deferred tax assets and liabilities included in the accompanying consolidated balance sheets as December 31, 2010 and December 31, 2009 were comprised of the following:

	<b>2010</b>	<b>2009</b>
Deferred tax assets (liabilities)		
Accounts receivable allowance	\$ 547	\$ 714
Inventory allowance and capitalization	1,364	1,069
Accrued expenses	826	715
Deferred expenses	419	(83)
State credits	-	99
Foreign tax credit	-	52
Federal net operating loss (expires in 2030)	6,558	-
Net current asset	\$ 9,714	\$ 2,566
Deferred tax assets (liabilities)		
Property and equipment	\$ (9,592)	\$ (5,423)
Deferred expenses	3,015	
Stock options	1,023	903
Interest rate swap	583	606
State tax expense	44	65
State net operating loss carry forwards (expiring between 2018 and 2030)	1,229	338
State credits (expiring between 2015 and 2021)	715	3,353
Net noncurrent liability	\$ (2,983)	\$ (158)
Current assets	\$ 9,714	\$ 2,566
Noncurrent (liabilities) assets	(2,983)	(158)
Total deferred tax	\$ 6,731	\$ 2,408

In June 2006, the FASB issued ASC 740-10 “Accounting for Uncertainty in Income Taxes”, (formerly known as FIN 48) which clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements in accordance with ASC 740, “Accounting for Income Taxes.” This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740-10 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company adopted ASC 740-10 effective January 1, 2007. The Company is subject to income taxes in the U.S, Mexico, Singapore and Netherlands. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. The Company records unrecognized tax benefits for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These unrecognized tax benefits are established when we believe that certain positions might be challenged despite our belief that our tax return positions are fully supportable. We adjust these unrecognized tax benefits in light of changing facts and circumstances, such as the outcome of tax audit. The provision for income taxes includes the impact of unrecognized tax benefits. Accruals for unrecognized tax benefits are provided for in accordance with the requirements of ASC 740-10.

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The reconciliation of our unrecognized tax benefits are as follows:

Balance at January 1, 2010	\$ 190
Gross increases to tax positions in prior periods	0
Gross decreases to tax positions in prior periods	(60)
Gross increases to current period tax positions	0
Gross decreases to current period tax positions	0
Audit settlements during 2010	0
Decreases related to the lapse of the statute of limitations	0
Balance at December 31, 2010	<u>\$ 130</u>

As of December 31, 2010, we had \$0.1 million of unrecognized tax benefits of which \$0.1 million, if fully recognized, would affect our effective tax.

Our policy is to include interest and penalties related to our unrecognized tax benefits in income tax expense. As of December 31, 2010, the Company had no accrued interest and penalties related to unrecognized tax benefits.

We are under examination, or may be subject to examination, by the Internal Revenue Service (“IRS”) for calendar years 2007 through 2009. We are under examination, or may be subject to examination, in the following major jurisdictions for the years specified: Mexico for 2005 through 2009, Singapore for 2003 through 2009, and Florida for 2002 through 2009. We are also subject to examination in other jurisdictions.

**Note L. Commitment and Contingencies**

Litigation

From time to time, the Company is a party to various legal proceedings incidental to our business. None of these proceedings are material to our business, operations or financial condition.

In the opinion of management, although the outcome of any legal proceeding cannot be predicted with certainty, the ultimate liability of the Company in connection with its legal proceedings will not have a material adverse effect on the Company’s financial position, but could be material to the results of operations in any one future accounting period.

Self-insurance

During all periods presented, workers’ compensation claims incurred by employees were fully insured through a high deductible policy with a policy year ending each May. The deductible per employee was \$750 in 2010 and 2009, with no limit in the aggregate. The Company continuously monitors and evaluates the estimated costs of claims incurred based on historical loss information and other information provided by its carrier’s claims management personnel. Included in the liabilities in the accompanying balance sheets are accrued workers’ compensation expenses of approximately \$655 and \$500 as of December 31, 2010 and 2009, respectively.

The Company provides medical benefits to its employees under a self-insured program. Through June 30, 2002, the Company paid for 100% of an employees’ health costs as the services were incurred. In July 2002, the Company changed the program that provides medical benefits to its employees once certain deductibles are met. The benefits to the employees are limited to \$35 per year with a \$1,000 lifetime benefit. The Company estimates the amount of incurred but unreported claims based on historical information. Included in the liabilities in the accompanying balance sheets are estimated accrued health insurance expenses of approximately \$250 and \$200 as of December 31, 2010 and 2009. The employer’s portion of claims charged to operations totaled approximately \$2,034 and \$3,407 for 2010 and 2009, respectively.

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Employee Benefit Plans

The Company has a defined contribution 401(k) salary reduction plan intended to qualify under section 401(a) of the Internal Revenue Code of 1986 (“Salary Savings Plan”). The Salary Savings Plan allows eligible employees, as defined in the plan document, to defer up to fifteen percent of their eligible compensation, with the Company contributing an amount determined at the discretion of the Company’s Board of Directors. The Company contributed approximately \$73 and \$56 to the Salary Savings Plan for the years ended December 31, 2010 and 2009, respectively.

During 1996, the Company adopted the Long Term Incentive Plan (“LTI Plan”) to assist the Company in securing and retaining key employees and consultants. The LTI Plan authorizes grants of incentive stock options, nonqualified stock options, stock appreciation rights (“SARs”), restricted stock performance shares and dividend equivalents to officers, key employees of the Company and outside consultants to the Company. In 2007, the Company adopted the 2007 Equity Incentive Plan which replaced this LTI Plan.

During 2007, the Company adopted the 2007 Equity Incentive Plan. The Company has reserved 2,000,000 shares of its Common Stock for issuance under the 2007 Equity Incentive Plan that expires in 2017. During 2009, the Company awarded options to purchase 15,000 shares of common stock under the 2007 Equity Incentive Plan. No options were awarded under the Plan in 2010.

Employment Agreements

The Company’s Chief Executive Officer and Chairman of the Board, Harry L. Smith, Jr. has an employment agreement, which was originally effective as of March 17, 2010, as amended effective January 1, 2011 (“Employment Agreement”). Mr. Smith’s current base annual salary is \$500 and the Employment Agreement terminates on January 31, 2016. Mr. Smith is entitled to bonus payments, which are currently determined by our Compensation Committee, comprised solely of independent directors. During the year ended December 31, 2010, we paid Mr. Smith a base salary of \$350 and a bonus of \$555. Mr. Smith is entitled to certain lump sum payments in the event of a “Change of Control” of the Company or termination for any reason other than death, disability or cause. Any lump sum payments to Mr. Smith are limited to the excess parachute payment provisions set forth in Section 280(g) of the Internal Revenue Code, which essentially provides that termination payments shall not exceed the present value of 2.999 times Mr. Smith’s base period income. Mr. Smith has agreed to a two (2) year non-competition covenant following termination. We also provide Mr. Smith with use of an automobile and reimbursement of automobile expenses and other business related expenses.

The Company’s Chief Financial Officer and President, John Oakley has an employment agreement, originally effective as of January 28, 2009, amended effective January 1, 2011 (“Employment Agreement”). Mr. Oakley’s current base annual compensation is \$250 per year. The term of Mr. Oakley’s Employment Agreement is through January 31, 2016. Mr. Oakley is also entitled to receive bonuses of 50% of his annual base salary. Mr. Oakley is entitled to a lump sum payment in the event of a Change of Control equal to 2 times his then annual base salary and the bonus amount paid to him for the previous four (4) quarters prior to the effective date of the Change of Control. Mr. Oakley is also entitled to similar lump sum payments in the events of death, disability or termination without cause, including, vesting and acceleration of all unvested options. During year-end December 31, 2010, we paid Mr. Oakley a base annual salary of \$200 and a cash bonus of \$150. The Company has also provided for a stay bonus of \$225 which is earned over a three year period ending January 2012. The Company also provides Mr. Oakley with use of an automobile and reimbursement of automobile expenses and other business related expenses.

**Note M. Sale Leaseback of Property and Related Party Transactions**

In August 2008, the Company sold its Bartow property to Wal-Pat II, LLC, a related party owned by Robert R. Amerson. Mr. Amerson is our former CEO and former Chairman of our Board of Directors and beneficially owns approximately 24.32% of the Company’s outstanding common shares as of December 31, 2010. The property was sold for \$3.7 million and part of the proceeds was used to pay down approximately \$1.8 million of the existing debt on this property. The Company has recorded a deferred gain of \$1.4 million on the sale which will be amortized to

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rent expense over the lease term of 10 years.

During the second quarter of 2009, the Company purchased a building in Folcroft, Pennsylvania from Wal-Pat II, LLC by assuming a note payable for \$1.5 million. The property was sold during the first quarter of 2010 at a loss of \$0.4 million.

During the third quarter of 2009, the Company purchased a building in Rosenberg, Texas from Wal-Pat III, LLC by assuming a note payable of \$3.4 million from Wal-Pat III, LLC and by providing a note payable to Wal-Pat III, LLC for \$1.2 million. As part of the Company's restructuring strategy, in March 2010, the Company exited this location and consolidated the operations to its Washington, NC facility. In November 2010, the Company recognized a \$3.0 million impairment loss on this property to adjust the carrying value to its estimated fair market value based on current real estate comparables.

During the first quarter of 2010, the Company entered into a long term lease of a manufacturing facility in Ardmore, Oklahoma. The property is leased from National Warehouse Leasing, a related party owned by Harry L. Smith, Jr. Mr. Smith is the Company's CEO and Chairman of the Board of Directors and beneficially owns approximately 8.8% of the Company's outstanding common shares as of December 31, 2010. This facility is intended to replace the Company's manufacturing capacity previously located in four separate facilities in Texas and Mexico. In accordance with ASC 840, the lease is accounted for as a capital lease (Note I).

As of December 31, 2010, the Company has four real estate operating leases expiring between 2019 and 2028 with Wal-Pat II. The monthly payments to Wal-Pat II total \$239. The Company made payments of \$2,868 and \$3,039 in 2010 and 2009, respectively.

In May 2010, the Company entered into separate lease agreements with Trebor Air, LLC, a related party owned by Mr. Smith for the use of its corporate airplane and hangar. The airplane lease is for a term of five years with monthly rent of \$21 and the hanger lease is renewable annually for a term of three years with monthly rent of less than \$2. The Company made payments of \$182 in 2010 under these lease agreements while in 2009, the Company was invoiced for its use of the aircraft for which is paid \$240.

From time to time, advances are made to Mr. Smith which are subsequently deducted from the Company's rent payments due to National Warehouse Leasing.

Although our Audit Committee has ratifies, reviews, and approves all related party transactions and believes the terms of transactions are fair to the Company, the above amounts and transactions are not necessarily indicative of amounts and transactions which would have been incurred if comparable transactions had been entered into with independent parties.

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**Note N. Stock Options and Warrants**

The following table summarizes the activity related to all Company stock options and warrants for the years ended December 31, 2010 and 2009, respectively:

	Warrants (thousands)	Options (thousands)	Exercise Price per Share		Weighted Average Exercise Price per Share	
			Warrants	Options	Warrants	Options
Outstanding at						
January 1, 2009	15	2,905	\$ 4.69	\$2.50-11.72	\$ 4.69	\$ 5.29
Granted	-	15	-	4.60 - 4.60	-	4.60
Exercised	-	(1,000)	-	2.50 - 2.50	-	2.50
Canceled or expired	-	(60)	-	5.21 - 8.60	-	7.47
Outstanding at						
December 31, 2009	15	1,860	4.69	4.37 - 11.72	4.69	6.71
Granted	-	150	-	3.85 - 3.85	-	3.85
Exercised	-	-	-	-	-	-
Canceled or expired	(15)	(130)	-	8.85 - 11.10	4.69	9.83
Outstanding at						
December 31, 2010	-	1,880	-	\$3.85-11.72	-	\$6.27

The options expire at various dates ranging through January 2019. The weighted average remaining contractual term for options outstanding at December 31, 2010 was 3.5 years. The 150 options to purchase common stock granted under the 2007 Equity Incentive Plan as compensation expenses for the period ending December 31, 2010 had a weighted average fair value of \$354 at the grant date. All outstanding options at December 31, 2010 are fully vested.

Share-Based Compensation

As of December 31, 2010, unrecognized stock-based compensation expense related to non-vested stock options was \$0.

The aggregate intrinsic value of options outstanding at December 31, 2010, based on the Company's closing stock price of \$3.14 as of the last business day of the period ended December 31, 2010, which would have been received by the optionees had all options been exercised on that date was \$0. There were no options exercised during the year ended December 31, 2010. The aggregate intrinsic value of options exercised during the year ended December 31, 2009, was \$3,890. Intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of the options.

In February 2010, management issued 250,000 and 62,500 of common shares to Mr. Smith and Mr. Oakley, respectively, as equity based compensation. In May 2010, management issued Mr. Smith 1,000,000 common shares as additional equity based compensation. The Company's Audit Committee and the Board of Directors approved the issuance of these shares. The Company recognized \$4.9 million of compensation expense related to these issuances.

**Note O. Restructuring and Exit Costs**

As part of management's business strategy to improve performance and better position the Company for longer-term profitable growth, management, from time to time, alters its business model to better serve customer demand, and rationalize and consolidate manufacturing capacity. Management's facility consolidation, restructuring and integration decisions are based, in part, on cash flows analysis to achieve these goals.

As a result of our strategic review process, the Company initiated plans in 2010 to consolidate its manufacturing and administrative operations and dispose of non-strategic assets in order to provide long-term cost savings by reducing

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its fixed-cost structure.

*Ardmore, Oklahoma consolidation:* During the first quarter of 2010, the Company commenced plans to consolidate filter manufacturing previously carried out in four facilities located in Dallas, Texas, Brownsville, Texas and two facilities in Matamoros, Mexico into a single facility in Ardmore, Oklahoma. This plant consolidation effort was completed in the third quarter of 2010.

*Administrative offices:* Management completed its consolidation of administrative facilities during the first quarter of 2010, closing both the Tampa, Florida office and the former corporate headquarters in St. Petersburg, Florida consolidating those operations into our new corporate office in Washington, North Carolina.

*Bath, North Carolina:* The Company's Bath, North Carolina facility was also closed during the first quarter of 2010, its operations consolidated into our facility in Washington, North Carolina. This location was sold in the first quarter of 2011 (see Note T).

*San Diego, California:* The Company's San Diego, California facility was closed during the first quarter of 2009. The equipment and related manufacturing capacity of this manufacturing location was transferred to the Company's facility in Salt Lake City, Utah.

*Rosenberg, Texas:* The Company's Rosenberg, Texas facility was closed during the fourth quarter of 2010 in order to further streamline operations and reduce ongoing fixed costs. The equipment and related manufacturing capacity of this manufacturing location was transferred to the Company's facility in Washington, North Carolina.

As a result of these actions, the Company recorded net plant consolidation and exit costs charges of \$13.4 million through December 31, 2010. The charges have been computed based on the present value of future obligations under operating leases, as well as severance and other employee benefits based on existing severance policies and local laws and other estimated exit costs, and our estimate of the realizable value of the affected tangible assets.

Liabilities for exit costs, including, among other things, severance, other employee benefit costs and operating lease obligations on idle facilities, are measured initially at their fair value and recorded when incurred. The Company has reported restructuring and exit activities based on the specific driver of the cost and reflected the expense in the accounting period when the cost has been committed or incurred.

The following table summarizes the charges incurred for the period ending December 31, 2010 for plant restructuring, and exit costs related to actions initiated in 2010. These costs are separately shown on the Consolidated Statement of Operations. The accrued amounts included in the Consolidated Balance Sheet as of December 31, 2010 are broken out to show the current and long term requirements to satisfy the remaining obligations.

(in thousands)	Costs Recognized and Accrued in 2010	Payments / Amortized	Accrued as of December 31, 2010
Employee termination and other benefits	\$ 384	\$ 384	\$ -
Consolidation of manufacturing footprint	2,773	2,773	-
Asset dispositions	445	445	-
Operating lease liability	9,831	793	9,038
	<u>\$ 13,433</u>	<u>\$ 4,395</u>	<u>\$ 9,038</u>

The remaining costs of the operating lease liabilities will be paid over the remaining lease term of the individual leases of which the longest lease term is through 2026. Subsequent to year-end, the Company terminated the Brownsville lease (Note T).

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**Note P. Impairment Loss on Property and Assets Held for Sale**

Impairments of long-lived assets, which represent non-cash asset write-downs, typically arise from business restructuring decisions that lead to the disposition of assets no longer required in the restructured business. For these situations, we recognize a loss when the carrying amount of an asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Fair values for assets subject to impairment testing are determined primarily by management, taking into consideration various factors including third-party appraisals, quoted market prices and previous experience. If an asset remains in service at the decision date, the asset is written down to its fair value and the resulting net book value is depreciated over its remaining economic useful life. The Company recognized a total of \$3.3 million of impairment losses on property during 2010 resulting from exit activities.

When management commits to a plan to sell an asset, including the initiation of a plan to locate a buyer, and it is probable that the asset will be sold within one year based on its current condition and sales price, depreciation of the asset is discontinued and the asset is classified as an asset held for sale. The asset is written down to its fair value less any selling costs.

In first quarter 2010, the Company relocated its headquarters from St Petersburg, Florida to Washington, North Carolina. Impairment losses related to the property were determined to be approximately \$0.3 million. In accordance with ASC 360-35, the Company has classified this property with a net book value of \$376 as an asset held for sale on the Consolidated Balance Sheet as of December 31, 2010. In addition to this amount, the Company has also classified as of December 31, 2010 land in Aiken, SC and a house in Washington, NC with net book values of \$232 and \$509, respectively, to assets held for sale. Each property is expected to sell within a year as management has committed to a plan to sell and the properties are being actively marketed at a reasonable price.

In November 2010, the Company initiated the closure of its manufacturing operations in Rosenberg, Texas including relocation of the equipment and the related manufacturing capacity to its facility in Washington, North Carolina. Impairment losses related to the property were determined to be approximately \$3.0 million. As of December 31, 2010, the property is classified as held and used on its Consolidated Balance Sheet as the criteria for being classified as held for sale under ASC 360-35 had not yet been met.

**Note Q. Fair Value of Financial Instruments**

The Company measures certain assets and liabilities at fair value as discussed throughout the notes to its quarterly annual financial statements. Fair value is 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. Fair value measurements are categorized in a hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs are the highest level and reflect market data obtained from independent sources, while unobservable inputs are the lowest level and reflect internally developed market assumptions. The Company classifies fair value measurements by the following hierarchy:

- Level 1 – Quoted active market prices for identical assets.
- Level 2 – Significant other observable inputs, such as quoted prices for similar (but not identical) instruments in active markets, quoted prices for identical or similar instruments in markets which are not active and model determined valuations in which all significant inputs or significant value-drivers are observable in active markets.
- Level 3 – Significant unobservable inputs, such as model determined valuations in which one or more significant inputs or significant value-drivers are unobservable.

The carrying amount of cash equivalents, trade receivables, notes receivable and trade payables approximates fair value at December 31, 2010 and December 31, 2009 because of the short maturity of these instruments. Based on the borrowing rates currently available to the Company for bank loans with similar maturities and similar collateral requirements, the fair value of notes receivable, notes payable, and other long-term debt approximates the carrying amounts at December 31, 2010 and December 31, 2009.

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Liabilities measured at fair value on a recurring basis included the following as of December 31, 2010:

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
Long-term liabilities — Interest Rate Swaps	\$ -	\$ 1,466	\$ -

Liabilities measured at fair value on a recurring basis included the following as of December 31, 2009:

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
Long-term liabilities — Interest Rate Swaps	\$ —	\$ 1,514	\$ —

**Note R. Extraordinary Items**

In September 2008, a manufacturing facility in Pennsylvania was damaged by fire. The extraordinary gain for the period ended December 31, 2010 of \$404 was due to costs attributable to the fire of \$1,379 being less than the insurance proceeds of \$2,005, net of taxes of \$222.

**Note S. Earnings Per Share**

The following table shows the shares (in thousands) used in computing net earnings per common share including dilutive potential common stock.

	2010	2009
Common shares outstanding at beginning of year	26,133	25,524
Net weighted average common shares issued and canceled during year	660	255
Weighted average number of common shares used in basic EPS	26,793	25,779
Dilutive effect of stock options and warrants	0	16
Weighted average number of common shares and dilutive potential shares used in diluted EPS	26,793	25,795

Options on 1,880,000 and 1,245,000 shares of common stock were not included in computing diluted EPS for the periods ending December 31, 2010 and 2009, respectively, because their effects were anti-dilutive.

**Note T. Subsequent Events**

The Company evaluated its December 31, 2010 financial statements for subsequent events through April 19, 2011, the date the financial statements were available to be issued.

In January 2011, the Company entered into a 60 month sale leaseback agreement with a bank for \$5 million. The lease agreement serves to finance purchases of approximately \$2 million of equipment made during 2010 and \$3 million of future equipment purchases to occur in 2011.

In January 2011, the Company entered into a two-year sublease agreement for warehouse and office space at its San Diego, California property. The sublease transaction resulted in a change in assumption related to the Company's recognition of lease liabilities. Management had originally believed the available space at the San Diego location would rent for 100% of the market rate. The actual lease signed was less than originally expected resulting in additional lease liability of approximately \$1.2 million and is recognized in the Consolidated Balance Sheet as of December 31, 2010.

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In February 2011, the Company entered into a Revolving Credit and Security Agreement with PNC Bank, National Association (“PNC”). The facility provides for a maximum revolving advance of \$45 million and is for a term of three years expiring on February 28, 2014. Proceeds from the financing were used to retire the revolving facility the Company had maintained with BOA. Obligations under the BOA revolving credit facility were approximately \$18.8 million as of December 31, 2010. The facility is subject to certain restrictive covenants.

In February 2011, borrowings from the BOA line of credit were used to extinguish two of the Company’s interest rate swaps totaling approximately \$1.3 million at December 31, 2010. The settlement of the swaps had no impact on the outstanding availability under the terms of the revolving line of credit. Borrowings were also used to satisfy the two outstanding industrial notes revenue bonds of \$4.0 and \$4.5 million respectively and the associated letters of credit serving as collateral for these debts were terminated.

In February 2011, the Company entered into an agreement with the lessor of its Brownsville, Texas manufacturing facility to terminate the non-cancelable operating lease by purchasing the property from the lessor and simultaneously selling the property to an outside party in exchange for a note secured by the property. The lease termination liability will be recognized in first quarter 2011 as well as derecognition of the related lease liability. The lease liability for the Brownsville, Texas property is approximately \$2.3 million as of December 31, 2010. As the Company was released from liability for amounts due under the operating lease agreement as a result of lease termination agreement, future minimum lease payments disclosed in Note I reflect only those lease payments required in first quarter 2011 prior to the termination agreement.

In March 2011, the Company donated its Bath, NC facility to a not-for profit organization in order to receive tax benefits for the charitable contribution. As part of the donation, the Company received a promissory note for \$75 to be paid to the Company in four annual installments of \$19 beginning in March 2011.

In April 2011, the Company entered into a sale leaseback transaction for its Momence, Illinois and Smithfield, North Carolina manufacturing facilities. The facilities were sold for approximately \$21.8 million and will be leased for 20 years with an automatic renewal for two 10 year renewal periods unless notice to terminate is provided to the lessor. The terms of the agreement stipulate that the Smithfield facility will undergo an expansion. Annual rent for the facilities will be \$2.70 and \$2.73 per square foot, respectively.

**Item 13. Similar Financial Information for Such Part of the Two Preceding Fiscal Years as the Issuer or its Predecessor Has Been in Existence.**

Financial statements and information for Flanders Corporation’s calendar year ended December 31, 2009 are included in Item 12 above. Additional financial statements, audit reports, and other information for Flanders Corporation’s calendar years ended December 31, 2008 and earlier are contained in the filings previously made by Flanders Corporation with the Securities and Exchange Commission and are available at [www.sec.gov](http://www.sec.gov), including without limitation the Annual Report on Form 10-K Flanders Corporation filed on March 23, 2010 and the Annual Report on Form 10-K Flanders Corporation filed on March 16, 2009.

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**Item 14. Beneficial Owners.**

The following table lists the name, address, and shareholdings of all persons Flanders Corporation knows beneficially owns more than 5% of the Company's equity securities:

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percentage of Outstanding Shares of Common Stock (1)
Robert R. Amerson <sup>(2)</sup> 303 Bremerton Drive Greenville, NC 27858	6,598,776	24.32%
Heartland Advisors <sup>(3)</sup> 789 North Water Street Milwaukee, WI 53202	4,768,262	17.57%
Harry Smith <sup>(4)</sup> 531 Flanders Filters Road Washington, NC 27889	2,376,928	8.76%
Prescott Group Capital Management, LLC. <sup>(3)</sup> 1924 S. Utica Ave., Ste. 1120 Tulsa, OK 74104	2,113,935	7.79%
Rutabaga Capital Management <sup>(3)</sup> 64 Broad Street, 3 <sup>rd</sup> Floor Boston, MA 02109	2,064,999	7.61%

(1) Applicable percentage of ownership is based on 27,132,838 shares of common stock outstanding as of December 31, 2010, together with all applicable options for unissued securities for such shareholders exercisable within 60 days. Shares of common stock subject to options exercisable within 60 days are deemed outstanding for computing the percentage ownership of the person holding such options, but are not deemed outstanding for computing the percentage of any other person. .

(2) Includes 1,000,000 shares which are subject to an option to purchase such shares from the Company at \$7.50 per share. These options expire in 2011.

(3) Based upon most recent Schedule 13G.

(4) Includes 500,000 shares which are subject to an option to purchase such shares from the Company at \$4.99 per share. These options expire in 2017.

**Item 15. The Name, Address, Telephone Number, and Email Address of Each of the Following Outside Providers that Advise the Issuer on Matters Relating to Operations, Business Development, and Disclosure.**

**A. Investment banker:** None.

**B. Promoter:** None.

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**C. Counsel:** Johnson, Pope Bokor, Ruppel & Burns, LLP  
911 Chestnut Street  
Clearwater, FL 33756  
Telephone: 727.461.1818  
Facsimile: 727.462.0365  
Attn: Michael T. Cronin, Esq.  
Email: mikec@jpfirm.com

**D. Auditor:**

Preparation of the Company's financial statements is the responsibility of the Company's management. The Company's outside audit firm, Grant Thornton ("Grant Thornton"), is responsible for expressing an opinion on these financial statements based on its audit.

Grant Thornton has confirmed that Grant Thornton and its personnel are licensed to practice public accounting in the same states in which the Company conducts its business by the Public Company Accounting Oversight Board.

Auditor Contact Information:

Grant Thornton  
4140 Park Lake Avenue  
Suite 130  
Raleigh, NC 27612  
Telephone: 919.881.2700  
Email: mike.desmond@us.gt.com

**E. Public relations consultant:** None.

**F. Investor relations consultant:** None.

**G. Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement:**

True Partners Consulting, LLC  
400 North Ashley Drive  
Suite 1600  
Tampa, FL 33602  
Telephone: 813.434.4000  
Email:Connect@TPCtax.com

**Item 16. Management's Discussion and Analysis of Plan of Operation.**

The following discussions should be read in conjunction with our Consolidated Financial Statements presented in "Item 12. Financial Information for the Issuer's Most Recent Fiscal Period" and our audited financial statements and the related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our report on Form 10-K for the year ended December 31, 2009. The information set forth in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes forward-looking statements that involve risks and uncertainties. Many factors, including those discussed below under "Outlook," could cause actual results to differ materially from those contained in the forward-looking statements below.

***Overview***

We design, manufacture and market air filters and related products, and are focused on providing complete environmental filtration systems for end users ranging from controlling contaminants in residences and commercial

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office buildings through specialized manufacturing environments for semiconductors, pharmaceuticals, chemical, biological, radiological and nuclear processing. Currently, we believe, based on available trade and industry data, that we are one of the largest domestic manufacturers of air filters that are utilized by many industries including those associated with commercial and residential heating, ventilation and air conditioning systems (commonly known as "HVAC" systems), semiconductor manufacturing, ultra-pure materials, chemical, biological, radiological and materials processing, biotechnology, pharmaceuticals, synthetics, nuclear power and nuclear materials processing. We also design and manufacture much of our own production equipment to automate our processes in order to decrease labor costs associated with our standard products. Our customers include Texas Instruments, The Home Depot, Inc., Lowe's, Glaxo, Merck & Co., Inc., Upjohn Co., Wal-Mart Stores, Inc., Westinghouse Electric Corp., Ace, True Value, Intel, etc.

The majority of our revenues come from the sale of after-market replacement filters, since air filters are typically placed in equipment designed to last much longer than the filters.

***Critical Accounting Policies***

The following discussion and analysis is based upon our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses, and assets and liabilities during the periods reported. Estimates are used when accounting for certain items such as revenues, allowances for returns, early payment discounts, customer discounts, doubtful accounts, employee compensation programs, depreciation and amortization periods, taxes, inventory values, insurance programs, and valuations of investments, goodwill, other intangible assets and long-lived assets. We base our estimates on historical experience, where applicable and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions. We believe that the following critical accounting policies affect our more significant judgments and estimates used in preparation of our consolidated financial statements.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We base our estimates on the aging of our accounts receivable balances and our historical write-off experience, net of recoveries. If the financial condition of our customers were to deteriorate, additional allowances may be required.

We maintain an allowance for estimated losses on our notes receivables based on the inability of the debtor to meet the note obligations scheduled payments due.

We value our inventories at the lower of cost or market. We write down inventory balances for estimated obsolescence or unmarketable inventory equal to the difference between the cost of the inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Estimates of our insurance costs are developed by management's evaluation of the likelihood and probable amount of potential claims based on historical experience and evaluation of each claim. Changes in the key assumptions may occur in the future, which would result in changes to related insurance costs.

Poor operating performance of the business activities related to intangible assets or long-lived assets could result in future cash flows of these assets declining below carrying values, which could require a write-down of the carrying value of these assets, which would adversely affect operating results.

Generally, sales are recognized when shipments are made to customers. Rebates, allowances for damaged goods and other advertising and marketing program rebates are accrued pursuant to contractual provisions and included in accrued expenses. An insignificant amount of our revenues falls under the percentage-of-completion method of accounting used for long-term contracts. Under this method, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. Sales and gross profit are adjusted prospectively for revisions in estimated total contract costs and contract values. Estimated

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losses are recorded when identified.

***Results of Operations for Years Ended December 31, 2010 Compared to December 31, 2009 (thousands omitted)***

The following table summarizes our results of operations as a percentage of net sales for the years ended December 31, 2010 and 2009.

	Years Ended December 31,			
	2010		2009	
Net sales	\$ 244,336	100.0%	\$ 222,380	100.0%
Gross profit	40,236	16.5	43,213	19.4
Operating expenses	35,956	14.7	31,294	14.1
Plant consolidation and exit costs	13,433	5.5	-	-
Loss on impairment of property	3,279	1.3	-	-
(Gain) loss on disposal of property and equipment	1,367	0.6	(304)	(0.1)
Stock compensation expense	5,219	2.1	46	-
Operating income (expense), net	(19,018)	(7.8)	12,177	5.5
Nonoperating income (expense), net	(2,708)	(1.1)	(650)	(0.3)
Provision (benefit) for income taxes	(5,200)	(2.1)	4,563	2.1
Extraordinary gain, net of taxes	404	0.2	-	-
Net income (loss)	(16,122)	(6.6)	6,964	3.1

*Net sales:* Net sales for the year ended December 31, 2010 increased by \$21,956 or 9.9%, to \$244,336 from \$222,380 for the year ended December 31, 2009. Sales were up during 2010 compared to 2009 due primarily to increased sales of our Retail and High Purity products for most of the year.

*Gross profit:* Gross profit for the year ended December 31, 2010 decreased by \$2,977, or 6.9%, to \$40,236 which represented 16.5% of net sales, from \$43,213, which represented 19.4% of net sales for the year ended December 31, 2009. The gross profit decreased during 2010 due largely to an increase in depreciation expense of approximately \$1,800 and a \$600 charge from the write-off of inventory and equipment in fourth quarter. Gross margin was negatively impacted by product mix as retail products were a higher percentage of the Company's sales during the year ended December 31, 2010 than in the year ended December 31, 2009.

*Operating expenses:* Operating expenses for the year ended December 31, 2010 increased by \$4,662 or 14.9%, to \$35,956 representing 14.7% of net sales, from \$31,294, representing 14.1% of net sales, for the year ended December 31, 2009. Operating expenses grew during the period due to higher commission expense from the increase in sales and an increase in freight expenses due to changes in shipping arrangements with customers during 2010.

*Plant consolidation and exit costs:* Plant consolidation and exit costs for the year ended December 31, 2010 were \$13,433 which included \$384 for severance costs and \$2,773 for ongoing costs and expenses such as property taxes, insurance and utilities, \$445 for asset disposals, and \$9,831 for rent expense on non-cancellable operating leases.

*Loss on impairment of property:* Impairment losses on property totaling \$3,279 for the year ended December 31, 2010 resulted from the Company's strategy to exit certain locations including Rosenberg, Texas (manufacturing plant) and St. Petersburg, Florida (former corporate headquarters).

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*(Gain) loss on disposal of property and equipment:* For the year ended December 31, 2010, losses on disposals of property and equipment was \$1,367 and included \$510 from the sale of the Terrell, Texas facility, \$384 from the sale of the Fulcroft, Pennsylvania facility, \$208 from the disposal of leasehold improvements at the Matamoros, Mexico plants and \$265 related to various other property and equipment.

*Stock compensation expense:* Stock compensation expense for the year ended December 31, 2010 totaled \$5,219 compared to \$46 for the year ended December 31, 2009. Stock compensation expense for the year ended December 31, 2010 was a result of equity compensation issued to two key executive management employees and three new board of director members.

*Non-operating income (expense), net:* Net non-operating income for year ended December 31, 2010 decreased by \$2,058, to a loss of \$2,708 representing (1.1%) of net sales, from a loss of \$650 representing (0.2%) of net sales, for the year ended December 31, 2009 due primarily to higher interest expense resulting mainly from higher interest rates.

*Provision for income taxes:* Our effective state and federal tax rate, adjusted for the effect of certain credits and adjustments, was approximately 39% and 39% for 2010 and 2009, respectively.

*Extraordinary gain, net of taxes:* In September of 2008, a manufacturing facility in Pennsylvania was damaged by fire. The extraordinary gain, net of taxes of \$222 for the period ended December 31, 2010 of \$404 was due to costs attributable to the fire of \$1,379 being less than the insurance proceeds of \$2,005.

***Use of Non-GAAP Measures For Measuring Quarterly Results (thousands omitted)***

Management uses some measures not in accordance with generally accepted accounting principles (GAAP) to evaluate the results of the company's operations and believes earnings before interest, taxes, certain noncash and non-operating expenses, extraordinary items, depreciation and amortization (Adjusted EBITDA) provides a useful measure of operations. The measurement is used in concert with net income and cash flows from operating activities, which measure actual cash generated in the period. In addition, we believe Adjusted EBITDA is a supplemental measurement tool used by analysts and investors to help evaluate overall operating performance and the ability to incur and service debt and make capital expenditures. Adjusted EBITDA does not represent funds available for our discretionary use and is not intended to represent or to be used as a substitute for net income or cash flows from operating activities data as measured under generally accepted accounting principles ("GAAP") in the United States. The items excluded from Adjusted EBITDA, but included in the calculation of the Corporation's reported net income and cash flows from operating activities, are significant components of the accompanying consolidated income statements and cash flows, and must be considered in performing a comprehensive assessment of overall financial performance.

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Our calculation of Adjusted EBITDA may not be consistent with calculations of Adjusted EBITDA used by other companies. The following is a reconciliation of the Corporation's net earnings to Adjusted EBITDA:

	Years ended December 31,	
	2010	2009
Net income (loss)	\$ (16,122)	\$ 6,964
Interest expense, net	2,315	1,338
Income tax expense (benefit)	(5,200)	4,563
Depreciation and amortization	7,385	5,778
Plant consolidation and exit costs	13,433	(304)
Loss on impairment of property and write-off of inventory and equipment related to closed facilities; loss on disposal of property and equipment	5,250	-
Noncash stock compensation expense	5,219	46
Other, net	900	-
Adjusted EBITDA	<u>\$ 13,180</u>	<u>\$ 18,385</u>

***Liquidity and Capital Resources (thousands omitted)***

Our working capital was approximately \$44,936 as of December 31, 2010, compared to approximately \$39,705 as of December 31, 2009. This includes cash and cash equivalents of \$594, as of December 31, 2010 and \$260 as of December 31, 2009.

Our trade receivables increased \$8,628, or 26% to \$41,787 as of December 31, 2010, from \$33,159 as of December 31, 2009 due to an increase in the seasonal demand of our business and extension of credit terms with certain customers.

Inventories decreased \$5,220, or (17.7%), to \$24,195 as of December 31, 2010 from \$29,415 as of December 31, 2009. The decrease in inventories was due to management's efforts to strategically lower inventory levels through better supply chain management techniques.

Our operating activities generated \$5,933 and \$14,061 of cash for the years ended December 31, 2010 and 2009, respectively. The decrease in cash generated by operating activities during the year ended 2010 is primarily attributable to growth in the working capital accounts related to increased sales activity in 2010 over 2009 and payments of \$4,395.

Our financing activities generated \$633 of cash for the year ended December 31, 2010, primarily consisting of proceeds from our revolving credit agreement. Our investing activities consumed \$6,232 of cash for the year ended December 31, 2010, primarily due to the purchase of property and equipment, partially offset by proceeds from insurance claims, sales of property and equipment, and payments from note receivable debtors.

The Company's revolving credit agreement provides a maximum line of credit of \$36 million (subject to availability) and bears interest at (i) LIBOR plus 3.75%; or (ii) the bank's base rate plus 2.75%. The revolving credit agreement is part of a combined facility with a bank that also includes a \$12 million facility to guarantee letters of credit. The line of credit is due in October 2011. The combined facility is collateralized by substantially all of the Company's assets and restricts capital expenditures, payment of dividends and share repurchases.

In connection with the working capital credit facility and notes payable to a regional development authority and bank, the Company and its majority owned subsidiaries have agreed to certain restrictive covenants which include, among other things, not paying dividends or repurchasing its stock without prior written consent, and maintenance of certain financial ratios at all times including: a minimum current ratio, minimum tangible net worth, a maximum

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ratio of total liabilities to tangible net worth and a minimum fixed charge coverage ratio. As of December 31, 2010, events of default existed under the revolving credit agreement as the Company was not in compliance with the minimum fixed charge coverage ratio and certain other covenants and the notes payable agreement as the Company was not in compliance with a financial ratio covenant.

In February 2011, the Company refinanced the revolving credit facility with another bank, which is discussed further under Note T “Subsequent Events.” The Company has classified the revolver as long-term debt in accordance with ASC 470-10-45 “Other Presentation Matters” as the Company’s ability and intent to refinance is demonstrated by the long-term refinancing arrangement obtained. The new \$45 million credit facility is for a period of three years and expires on February 28, 2014. In addition, the Company cured the covenant violation on the note payable to the regional development authority subsequent to year-end and within the grace period stipulated by the agreement, therefore, this note payable is classified as long-term debt.

We believe that our cash on hand, cash generated by operations, and cash available from our existing credit facilities is sufficient to meet the capital demands of our current operations during the 2011 fiscal year. Any major increases in sales, particularly in new products, may require substantial capital investment for the manufacture of filtration products. Failure to obtain sufficient capital could materially adversely impact our growth potential.

***Off Balance Sheet Arrangements***

As of December 31, 2010, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

***Outlook***

During the past three years, we have captured additional market share among “big box” retailers like The Home Depot, Lowe’s and Wal-Mart, capitalizing on our ability to service national accounts from regional distribution centers. We anticipate additional market gains among these types of retailers during the next two years and are introducing new products focused on their marketing and end-user requirements. Sales to these retail outlets, while seasonal, also tend to follow progress in the overall economy. Additional gains in market share in this market may not have a significant impact on revenues without some recovery in the overall U.S. economy. Additionally, significant revenue enhancement to these customers is largely dependent upon the success of the new products we are introducing to this marketplace.

We have adapted our biocontainment products for use as part of a system for hardening government buildings, commercial office complexes and public venues against airborne bioweapons such as anthrax and smallpox. There is currently an increase of interest in these products over the past quarter. Any interest towards hardening these types of facilities against airborne bioweapons could have a significant impact on our business.

Sales of air filtration products for semiconductor facilities, historically a major market, are expected to show continued improvement during 2011.

We have collected data that indicates that residential filter users replace their filters, on average, approximately one and a half times per year. Manufacturers of residential furnace and air conditioning systems recommend that these filters be changed every month. A minor trend toward increased maintenance of these residential heating and cooling systems could have a positive impact on our business.

Our most common products, in terms of unit and dollar volume, are residential throw-away spun-glass filters, which usually sell for prices under \$1.00. Any increase in consumer concern regarding air pollution, airborne pollens, allergens, and other residential airborne contaminants could result in replacement of some of these products with higher value products. Our higher value products include our NaturalAire® higher-efficiency filters for residential use with associated sales prices typically over \$5.00 each. Any such trend would have a beneficial effect on our business.

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We believe there is currently a gradually increasing public awareness of the issues surrounding indoor air quality and that this trend will continue for the next several years. We also believe there is an increase in public concern regarding the effects of indoor air quality on employee productivity, as well as an increase in interest by standards-making bodies in creating specifications and techniques for detecting, defining and solving indoor air quality problems. We further believe there will be an increase in interest in our Absolute Isolation Barriers in the future because these products may be used in both semiconductor and pharmaceutical manufacturing plants to prevent cross-contamination between different lots and different processes being performed at the same facility. These products also increase production yields in many applications.

Currently, the largest domestic market for air filtration products is for mid-range ASHRAE-rated products and HVAC systems, typically used in commercial and industrial buildings. To date, our penetration of this market has been relatively small. We believe our ability to offer a “one stop” supply of air filtration products to HVAC distributors and wholesalers may increase our share of this market. We also believe that our recently developed modular air handlers and environmental tobacco smoke systems will enable us to expand sales to these customers. We intend our new products to serve as high profile entrants with distributors and manufacturers’ representatives, who can then be motivated to carry our complete product line.

We have continually looked for cost reductions in our products. During the past five years, we have continued to complete the development and redesigning of numerous systems and products which were only partially completed when we acquired the companies which originally claimed to have fully developed them. These products include the automated machinery necessary for high-speed production of our pleated filters, acquired with Precisionaire, and the mass-production processes for bonded carbon high-mass zero-density products. During 2006, we built our first fully automated production lines which reduced our labor related costs.

This Outlook section, and other portions of this document, include certain “forward-looking statements” within the meaning of that term in Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934, including, among others, those statements preceded by, following or including the words “believe,” “expect,” “intend,” “anticipate” or similar expressions. These forward-looking statements are based largely on the current expectations of management and are subject to a number of assumptions, risks and uncertainties. Our actual results could differ materially from these forward-looking statements. Important factors to consider in evaluating such forward-looking statements include those discussed in Item 1A. Risk Factors as well as:

- the shortage of reliable market data regarding the air filtration market,
- changes in external competitive market factors or in our internal budgeting process which might impact trends in our results of operations,
- anticipated working capital or other cash requirements,
- changes in our business strategy or an inability to execute our strategy due to unanticipated changes in the market,
- product obsolescence due to the development of new technologies, and
- various competitive factors that may prevent us from competing successfully in the marketplace.

In light of these risks and uncertainties, there can be no assurance that the events contemplated by the forward-looking statements contained in this statement will in fact occur.

### **Legal Proceedings**

From time to time, the Company is a party as plaintiff or defendant to various legal proceedings related to our normal business operations. In the opinion of management, although the outcome of any legal proceeding cannot be predicted with certainty, the ultimate liability of the Company in connection with its legal proceedings will not have a material adverse effect on the Company’s financial position, but could be material to the results of operations in any one future accounting period. The Company makes appropriate reserves for litigation, even if not material. Defense costs are expensed as incurred.

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**Part E Issuance History**

**Item 17. List of Securities Offerings and Shares Issued for Services in the Past Two Years**

The Company has not engaged in securities offerings in the past two years.

The following table sets forth information about options to acquire shares of Flanders Corporation's common stock issued since January 1, 2009 (the beginning of the two-year period which ended on the last day of Flanders Corporation's most recent fiscal year):

<b>Date</b>	<b>Type of Security Issued</b>	<b>Party to Whom Issued</b>	<b>Number of Shares of Underlying Common Stock</b>	<b>Per Share Exercise Price</b>
1/31/2010	Stock options	Three independent Flanders Corporation's Board of Directors	150,000	3.850
1/15/2009	Stock options	Three employees of Flanders Corporation	15,000	4.600

The Company has not issued warrants in the past two years. The last warrants were granted in 2008 and have expired as of December 31, 2010.

The following table sets forth information about shares of common stock we issued since January 1, 2009 (the beginning of the two-year period, which ended on the last day of our most recent fiscal year);

<b>Date</b>	<b>Nature of Offering</b>	<b>Party to Whom Issued</b>	<b>No. of Shares</b>	<b>Trading Status</b>	<b>Restrictive Legend</b>
2/20/10	Compensatory	Harry Smith	250,000	Restricted	Yes
2/20/10	Compensatory	John Oakley	62,500	Restricted	Yes
5/20/10	Compensatory	Harry Smith	1,000,000	Restricted	Yes

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**Part F Exhibits**

**Item 18. Material Contracts**

The following exhibits are included with this annual report:

1. Revolving Credit and Security Agreement between PNC, National Bank Association (“PNC”) and Flanders Corporation and its subsidiaries dated February 28, 2011. (1)
2. Loan Agreement between Will-Kankakee Regional Development Authority and Flanders Corporation dated December 15, 1997, filed with the December 31, 1997 Form 10-K, and incorporated herein by reference.
3. Loan Agreement between Flanders Corporation and the Johnston County Industrial Facilities and Pollution Control Financing Authority, dated April 1, 1998, filed with the Form 10-Q dated March 31, 1998, and incorporated herein by reference.
4. Loan Agreement between Flanders Corporation and the Johnston County Industrial Facilities and Pollution Control Financing Authority, dated March 1, 2000, filed with the Form 10-K dated December 31, 1999, and incorporated herein by reference.
5. 2007 Equity Incentive Plan filed as an exhibit to the 2006 Proxy Statement dated November 13, 2007, incorporated by reference.
6. Employment Agreement between Registrant and Harry Smith dated March 17, 2010 (1).
7. Employment Agreement between Registrant and John Oakley dated January 28, 2009, filed as an exhibit to Form 8-K dated January 30, 2009, incorporated by reference.
8. Amendment to Employment Agreement between Flanders Corporation and Harry Smith effective January 1, 2011. (1)
9. Amendment to Employment Agreement between Flanders Corporation and John Oakley effective January 1, 2011. (1)

(1) Filed herewith.

**Item 19. Articles of Incorporation and Bylaws**

Flanders Corporation’s certificate of incorporation and by-laws consist of the following documents:

1. Articles of Incorporation for Flanders Corporation, filed with the Form 8-A dated March 8, 1996, incorporated herein by reference.
2. Bylaws of Flanders Corporation, filed with the Form 8-A dated March 8, 1996, incorporated herein by reference.
3. Amendment to Bylaws opting out of North Carolina Control Share Statutes. (1)

(1) Filed herewith.

**Item 20. Purchases of Equity Securities by the Issuer and Affiliated Purchases**

As more fully described under Part D, Item 11, under the caption “Related Party Transactions”, in February 2010 the Issuer redeemed 312,500 shares of its common stock from Robert Amerson at a price of \$3.20 per share. During the period covered by this report, the Issuer has not engaged in a publicly announced issuer share repurchase program.

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**Item 21. Issuer's Certifications**

Certification of Chief Executive Officer

I, Harry Smith, Chief Executive Officer and Chairman of the Board of Directors of Flanders Corporation, (the "Company), certify that:

1. I have reviewed this annual information and disclosure statement of the Company for the year ended December 31, 2010;
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations, and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

April 19, 2011

/s/ Harry Smith

Harry Smith

Chief Executive Officer and Chairman of the Board of Directors

Certification of Chief Financial Officer

I, John Oakley, Chief Financial Officer, President, and Director of Flanders Corporation, (the "Company), certify that:

1. I have reviewed this annual information and disclosure statement of the Company for the year ended December 31, 2010;
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations, and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

April 19, 2011

/s/ John Oakley

John Oakley

Chief Financial Officer, President, and Director