
FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED
JUNE 30, 2011

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED JUNE 30, 2011

Item 1. Exact name of issuer and address of its principal executive offices

Name of Issuer: Flanders Corporation

Principal Executive Offices: 531 Flanders Filters Road
Washington, NC 27889
Telephone: (252) 946-8081
Fax: (252) 946-4738
www.flanderscorp.com

Investor Relations Officer: John Oakley, President & CFO
531 Flanders Filters Road
Washington, NC 27889
Telephone: (252) 946-8081

Item 2. Shares outstanding

Class	As of	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (public float)	Total Number of Beneficial Shareholders	Total Number of Shareholders of Record
Common	6/30/2011	50,000,000	27,782,838	19,568,935	1,555	212
	12/31/2010	50,000,000	27,132,838	19,568,935	1,555	212
Preferred	6/30/2011	10,000,000	-	-	-	-
	12/31/2010	10,000,000	-	-	-	-

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Item 3. Interim financial statements

FLANDERS CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands)

	June 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,055	\$ 594
Receivables:		
Trade, net of allowance for doubtful accounts: \$1,506 in 2011 and \$1,456 in 2010	46,691	41,787
Other	361	442
Inventories, net	30,362	24,195
Deferred income tax asset	9,714	9,714
Assets held for sale	1,117	1,117
Other current assets	15,456	14,110
Total current assets	104,756	91,959
Property and equipment, net	95,643	74,176
Intangible assets, net	207	237
Notes receivable and other assets	18,947	16,262
	\$ 219,553	\$ 182,634
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 34,388	\$ 33,435
Accrued expenses	10,600	10,857
Current maturities of long-term debt and capital lease obligations	2,227	1,495
Current portion of exit cost liability	1,051	1,136
Other current liabilities	282	100
Total current liabilities	48,548	47,023
Long-term capital lease obligations, less current maturities	29,845	6,686
Long-term debt, less current maturities	42,420	35,309
Long-term liabilities, other	6,533	2,905
Deferred income tax liability	3,491	2,983
Long-term exit cost liability	5,200	7,902
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$.001 par value, 10,000,000 shares authorized; none issued	-	-
Common stock, \$.001 par value, 50,000,000 shares authorized; issued and outstanding: 27,782,838 shares at June 30, 2011 and 27,132,838 shares at December 31, 2010	28	27
Additional paid-in capital	95,758	93,120
Accumulated other comprehensive loss	(119)	(883)
Accumulated deficit	(12,151)	(12,438)
Total stockholders' equity	83,516	79,826
	\$ 219,553	\$ 182,634

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

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED JUNE 30, 2011

FLANDERS CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Net sales	\$ 64,977	\$ 63,052	\$119,546	\$111,894
Cost of goods sold	52,568	49,723	97,348	91,400
Gross profit	12,409	13,329	22,198	20,494
Operating expenses	8,451	9,182	17,091	15,992
Plant consolidation and exit costs, net	133	7,747	(995)	10,157
Loss on disposal of property and equipment	18	194	22	579
Stock compensation expense	2,548	3,850	2,639	4,866
Operating income (loss)	1,259	(7,644)	3,441	(11,100)
Nonoperating income (expense):				
Other income, net	46	75	73	174
Interest expense on swap liability settlement	-	-	(1,168)	-
Interest expense, net	(1,226)	(374)	(1,876)	(777)
Nonoperating expense, net	(1,180)	(299)	(2,971)	(603)
Income (loss) from continuing operations before income taxes and extraordinary items	79	(7,943)	470	(11,703)
Provision (benefit) for income taxes	31	(3,092)	183	(4,552)
Net income (loss)	\$ 48	\$ (4,851)	\$ 287	\$ (7,151)
Extraordinary gain, net of taxes	-	385	-	385
Net earnings (loss) after extraordinary items	\$ 48	\$ (4,466)	\$ 287	\$ (6,766)
Basic earnings (loss) per share:				
Income (loss) before extraordinary item	\$ 0.00	\$ (0.18)	\$ 0.01	\$ (0.27)
Extraordinary item	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.01
Net earnings (loss) per share	\$ 0.00	\$ (0.17)	\$ 0.01	\$ (0.26)
Diluted earnings (loss) per share:				
Income (loss) before extraordinary item	\$ 0.00	\$ (0.18)	\$ 0.01	\$ (0.27)
Extraordinary item	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.01
Net earnings (loss) per share	\$ 0.00	\$ (0.17)	\$ 0.01	\$ (0.26)
Weighted average common shares outstanding				
Basic	27,633	26,759	27,384	26,448
Diluted	27,637	26,759	27,388	26,448

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

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FLANDERS CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF
STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS
(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>
Balance, December 31, 2009	26,133	\$ 26	\$ 88,902	\$ (908)	\$ 3,684	\$ 91,704
Stock option award compensation	-	-	354	-	-	354
Purchase and retirement of common shares	(312)	-	(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)
Net unrealized gain on cash flow hedges, net of tax	-	-	-	25	-	25
Total comprehensive earnings						(16,097)
Balance, December 31, 2010	27,133	\$ 27	\$ 93,120	\$ (883)	\$ (12,438)	\$ 79,826
Stock option award compensation		-	298	-	-	298
Common shares issued as compensation	650	1	2,340	-	-	2,341
Comprehensive income (loss):						
Net income	-	-	-	-	287	287
Net unrealized gain on cash flow hedges, net of tax	-	-	-	764	-	764
Total comprehensive earnings						1,051
Balance, June 30, 2011 (unaudited)	<u>27,783</u>	<u>\$ 28</u>	<u>95,758</u>	<u>(119)</u>	<u>\$ (12,151)</u>	<u>\$ 83,516</u>

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

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FLANDERS CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	\$ 48	\$ (4,466)	\$ 287	\$ (6,766)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization expense	2,136	1,517	4,124	3,049
Provision for bad debts	(46)	795	95	1,269
Extraordinary gain, net of taxes	-	(385)	-	(385)
Stock compensation expense	2,548	3,850	2,638	4,866
Amortization of deferred gain	(15)	(18)	(36)	(36)
Loss on disposal of property and equipment	16	624	16	890
Deferred income taxes	2	(2,637)	502	(3,495)
Change in working capital components:				
Increase in accounts receivable	(9,846)	(7,787)	(4,998)	(11,600)
(Increase) decrease in other receivables	111	(20)	82	57
Increase in inventory	(2,678)	(2,906)	(6,167)	(3,500)
(Increase) decrease in other current assets	650	37	(608)	(2,576)
(Increase) decrease in other assets	(1,002)	37	(880)	(608)
Increase in accounts payable	324	1,979	954	7,724
Increase (decrease) in accrued expenses	(55)	(948)	(281)	747
Increase in other current liabilities	30	-	183	-
Increase (decrease) in exit cost liability	(258)	6,429	(1,928)	8,392
Decrease in other non-current liabilities	(7)	-	(512)	-
Net cash provided by (used in) operating activities	<u>(8,042)</u>	<u>(5,787)</u>	<u>(6,529)</u>	<u>(1,972)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(2,645)	(3,744)	(4,989)	(6,878)
Proceeds from sale of property and equipment	-	1,106	-	1,799
Proceeds from insurance claim on building and equipment	-	1,885	-	1,885
Proceeds from notes receivable	354	502	676	892
Advances on notes receivable	(211)	(175)	(382)	(291)
Net cash used in investing activities	<u>\$ (2,502)</u>	<u>\$ (426)</u>	<u>\$ (4,695)</u>	<u>\$ (2,593)</u>

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FLANDERS CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS - continued
(In thousands)
(Unaudited)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
(Increase) decrease in restricted cash	\$ 2,416	\$ (137)	\$ -	\$ (273)
Principal payments on long-term borrowings	(3,496)	(84)	(12,961)	(1,371)
Proceeds from revolving credit agreement	68,340	63,228	137,280	110,609
Payments to revolving credit agreement	(63,827)	(56,605)	(121,725)	(103,147)
Proceeds from refinance of revolving credit agreement	-	-	24,903	-
Payoff of revolving credit agreement	-	-	(24,903)	-
Proceeds from long-term borrowings	1,609	-	3,609	-
Proceeds from sale leaseback	5,831	-	5,831	-
Payment of debt issuance costs	(5)	-	(349)	-
Purchase of common stock	-	-	-	(1,000)
Net cash provided by financing activities	<u>10,868</u>	<u>6,402</u>	<u>11,685</u>	<u>4,818</u>
Net increase in cash and cash equivalents	324	189	461	253
CASH AND CASH EQUIVALENTS				
Beginning of period	<u>731</u>	<u>324</u>	<u>594</u>	<u>260</u>
End of period	<u>\$ 1,055</u>	<u>\$ 513</u>	<u>\$ 1,055</u>	<u>\$ 513</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period for:				
Income taxes	<u>\$ -</u>	<u>\$ 1,284</u>	<u>\$ -</u>	<u>\$ 1,582</u>
Interest, net of amounts capitalized property, and equipment	<u>\$ 1,151</u>	<u>\$ 281</u>	<u>\$ 1,712</u>	<u>\$ 818</u>
Interest on settlement swap liability	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,168</u>	<u>\$ -</u>
Interest capitalized to property, and equipment	<u>\$ 106</u>	<u>\$ 121</u>	<u>\$ 187</u>	<u>\$ 258</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITY				
Sale of building/equipment for note receivable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ 400</u>
Purchase of building with debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,576</u>	<u>\$ -</u>
Sale of equipment for accounts payable offset	<u>\$ -</u>	<u>\$ 83</u>	<u>\$ -</u>	<u>\$ 332</u>
Acquisition of capital lease assets	<u>\$ 21,590</u>	<u>\$ -</u>	<u>\$ 22,220</u>	<u>\$ -</u>

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

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED JUNE 30, 2011

FLANDERS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

Note A. Nature of Business and Interim Financial Statements

Nature of business

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 subsidiaries 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 condensed 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.

Interim financial statements

The interim consolidated condensed financial statements presented herein are unaudited and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary to summarize fairly our financial position, results of operations and cash flows. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our annual report for the year ended December 31, 2010, as filed with the OTCQX. The results of operations and cash flows for the three months and six months ended June 30, 2011 may not be indicative of the results that may be expected for the year ending December 31, 2011.

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

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certificates of deposit which have an original maturity of three months or less when purchased to be cash equivalents.

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 June 30, 2011 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 June 30, 2011.

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.

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.

Derivative financial instruments

The Company has limited involvement with derivative financial instruments. The Company has one interest-rate swap agreement to hedge against the potential impact on earnings from increases in market interest rates of one variable rate note. Under the interest rate swap agreement for the note, we receive or make payments on a monthly basis, based on the differential between 5.86% and LIBOR plus 1.75%. This interest rate swap is accounted for as a cash flow hedge in accordance with FASB authoritative guidance. Gains or losses related to inefficiencies of the cash flow hedge were included in net income during the period related to hedge ineffectiveness. The tax affected fair market value of the interest rate swap of \$116 is included in "Accumulated other comprehensive loss" on the balance sheet. This fair value was determined using level 2 inputs as defined in FASB authoritative guidance. The interest rate swap on the note expires in 2013.

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Revenue recognition

The Company's products are sold with terms and conditions, which vary depending on particular business environments in which the Company operates. The standard policy of the Company is to recognize revenue in accordance with accounting principles generally accepted in the United States of America.

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 losses are recorded when identified.

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.

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.

Note B. Inventories

Inventories consist of the following at June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Finished goods	12,675	\$ 10,439
Work in progress	2,561	1,272
Raw materials	15,126	12,484
	<u>\$ 30,362</u>	<u>\$ 24,195</u>

Note C. Notes Receivable and Other Assets

Notes Receivable and Other assets consist of the following at June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Other assets	\$ 1,582	\$ 357
Deposits	406	429
Notes receivable	16,959	15,476
	<u>\$ 18,947</u>	<u>\$ 16,262</u>

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INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED JUNE 30, 2011

The Company has \$18,391 in notes receivable from various parties relating from the sale of businesses, real estate or equipment unrelated to the Company's core business of manufacturing and marketing air filters and air filtration products. Of this amount, approximately \$1,471 is due in one year and reported in other current assets as of June 30, 2011. The carrying value of the notes receivable approximate fair market value and the Company believes that all notes are collectible as of June 30, 2011.

Note D. Pledged Assets and Debt

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 \$45,000, bears interest annually at 0.5% plus the higher of (i) the bank rate (ii) the Federal Funds Open Rate plus 0.5% or (iii) the Daily LIBOR Rate plus 1%, and is for a term of three years expiring on February 28, 2014. The facility is subject to certain restrictive covenants. Proceeds from the financing were used to retire the revolving facility the Company had maintained with Bank of America. As of June 30, 2011, the Company's total obligations under the revolving credit agreement with PNC were \$34,400. The facility is collateralized by substantially all of the Company's assets and restricts capital expenditures, payment of dividends and share repurchases.

In February 2011, borrowings from the line of credit were used to extinguish two of the Company's interest rate swaps totaling approximately \$1,200. Borrowings were also used to satisfy the two outstanding industrial notes revenue bonds of \$4,000 and \$4,500 and the associated letters of credit serving as collateral for these debts were terminated.

In April 2011, the Company sold its Momence, IL and Smithfield, NC manufacturing facilities in a sale leaseback transaction (see Note H). The related assets are reported on the Company's consolidated balance sheet as of June 30, 2011 until such time that the transaction qualifies for sale treatment under generally accepted accounting principles.

Note E. Other comprehensive loss

As of June 30, 2011, accumulated comprehensive loss consisted entirely of cash flow hedges:

Balance at December 31, 2010	\$ (883)
Net change during the period related to cash flow hedges	<u>764</u>
Balance at June 30, 2011	<u><u>(119)</u></u>

Note F. Income Taxes

The Company is 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 G. 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.

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Note H. Sale Leaseback of Property and Related Party Transactions

In April 2008, the Company recorded a deferred gain on the sale leaseback of its Bartow facility to a related party. The related lease was classified as an operating lease and the deferred gain was amortized to rent expense over the remaining 10 year lease term. As a result of the new lease agreement with a third party described below, the deferred gain of \$1,273 as of June 30, 2011 is now offset against the new capital lease asset and amortized to depreciation expense over the current lease life of 20 years as a result of the lease meeting the criteria for capital lease classification.

In May 2010, the Company entered into separate lease agreements with Trebor Air, LLC, a related party entity owned by an officer of the Company, 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.

In April 2011, the Company completed the sale leaseback of two of its properties for net consideration of approximately \$21,200. In addition to the properties sold by the Company, two of its leased properties, Bartow, Florida and Ardmore, Oklahoma, and owned by a related party entity owned by an officer of the Company were sold in this transaction to the same buyer. As a result of the transaction, the Company now leases from an unrelated party four of its manufacturing facilities of approximately 1,401 square feet under non-cancellable leases for a term of 20 years with automatic renewals for two 10 year periods unless notice to terminate is provided to the lessor. Annual minimum lease payments for all four facilities are approximately \$4,600 with an annual increase for inflation of 3% after the first year. The Bartow, Florida lease is classified on the Company's consolidated balance sheet as a capital lease. The Ardmore, Oklahoma property previously accounted for as a capital lease continues to meet the criteria for capital lease treatment under the new lease agreement. The present value of future minimum lease payments under the capital lease asset and obligation for the Oklahoma property increased \$3,054. The sale leaseback of the two properties owned by the Company is accounted for by the financing method. This treatment is the result of a default covenant remedy that is considered to represent "continuing involvement" pursuant to ASC 840-40, "*Sales-Leaseback Transactions*." This remedy stipulates that the buyer has the right to require the Company to repurchase the property in the event of default. The financing method requires the assets subject to the sale leaseback transaction to remain on the Company's consolidated balance sheet at their historical cost, depreciated over their remaining useful lives and sale recognition deferred until such time that the sale criteria is met under generally accepted accounting principles. Proceeds received by the Company from the sale are recorded as lease financing obligations in Long-term liabilities, other on the Company's consolidated balance sheet with the lease payments recognized as interest expense. The Company received approximately \$1,800 in cash and satisfied debt obligations related to one of the owned properties in the amount of approximately \$3,000 when the transaction closed in April 2011. Certain amounts of the sale proceeds were held in escrow per the terms of the sale leaseback agreement as follows: \$8,000 for expansion projects at the two previously owned locations, and approximately \$8,400 for deferred maintenance and environmental matters for each of the four properties purchased by the buyer. Release of escrow funds will occur as funds are expended by the Company to satisfy all or a portion of these post-closing obligations. As of June 30, 2011, the Company has received or claimed approximately \$1,400 for expansion costs and \$900 related to other post closing obligations. Sale proceeds in escrow from the sale of the two properties owned by the Company are approximately \$15,100 as of June 30, 2011 including approximately \$1,000 of escrowed funds assigned to the Company by the related party seller in exchange for cash. The Company anticipates receiving these additional escrowed funds under the assignment as post closing obligations are completed at the Bartow and Ardmore properties.

In June 2011, the Company leased warehouse and office space in Hudson, New York from NEFG, LLC, an entity owned by two officers of the Company. The lease is for a term of 20 years with monthly payments of \$49 and is classified as a capital lease in the amount of \$3,201 on the Company's consolidated balance sheet.

As of June 30, 2011, the Company has two real estate operating leases with a related party both of which expire in 2026 with monthly payments totaling \$101.

Although our Audit Committee ratifies, reviews, and approves all related party transactions and believes the terms

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED JUNE 30, 2011

of transactions are fair to the Company and reflect which would otherwise be negotiated on an arm's length basis, 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.

Note I. 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 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.

Brownsville, Texas: 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. Upon lease termination, the Company reversed the related lease liability of \$2,238 resulting in a net gain as of June 30, 2011 of \$995 for Plant consolidation and exit costs, net.

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

Bath, North Carolina: The Company's Bath, North Carolina facility was closed during the first quarter of 2010, and its operations have been consolidated into our facility in Washington, North Carolina. This location was disposed of in the first quarter of 2011. The Company donated the property in exchange for a \$75 interest-free note receivable due in equal annual installments through 2014.

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. The related non-cancelable operating lease expires in 2017.

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 gain of \$995 to plant consolidation and exit costs for the six months ending June 30, 2011. The charges have been computed based on the present value of future obligations under operating leases, as well as other estimated exit costs, and our estimate of the realizable value of the affected tangible assets.

Liabilities for exit costs, including, but not limited to, 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 cumulative expense net of adjustments incurred by the Company to date is \$12,438.

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The following table summarizes the 2010 charges taken for plant restructuring, exit and impairment charges related to actions initiated in 2010. The accrued amounts remaining as of June 30, 2011, are broken out to show the current and long term requirements to satisfy the remaining obligations.

	Accrued as of December 31, 2010	Costs Recognized and Accrued in 2011	Adjustments	Payments / Amortized	Accrued as of June 30, 2011
Consolidation of manufacturing footprint	\$ -	\$ 959	\$ -	\$ (959)	\$ -
Asset disposition	-	284	-	(284)	-
Operating lease liability	9,038		(2,238)	(549)	6,251
	<u>\$ 9,038</u>	<u>\$ 1,243</u>	<u>\$ (2,238)</u>	<u>\$ (1,792)</u>	<u>\$ 6,251</u>

Note J. Stock Options and Warrants

The following table summarizes the activity related to all Company stock options and warrants for the six months ended June 30, 2011 and the year ended December 31, 2010:

	Warrants (thousands)	Options (thousands)	Exercise Price per Share		Weighted Average Exercise Price per Share	
			Warrants	Options	Warrants	Options
Outstanding at December 31, 2010	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)	4.69	8.85 - 11.10	4.69	9.83
Outstanding at December 31, 2010	-	1,880	-	3.85 - 11.72	-	6.27
Granted	-	603	-	3.03 - 3.53	-	3.49
Exercised	-	-	-	-	-	-
Cancelled or expired	-	(9)	-	3.53 - 11.72	-	8.27
Outstanding at June 30, 2011	<u>-</u>	<u>2,474</u>	-	\$ 3.03 - 9.52	-	\$ 6.17

The options expire at various dates ranging through April 2021. The 603 options to purchase common stock granted under the 2007 Equity Incentive Plan as compensation expenses for the period ending June 30, 2011 had a weighted average fair value of \$840 at the grant date. Of the 2,474 outstanding options at June 30, 2011, 2,086 are fully vested and the remaining 388 options are subject to a service condition where these options vest monthly through April 2014.

Share-Based Compensation

As of June 30, 2011, there is \$497 of unrecognized stock-based compensation expense related to non-vested stock options.

The aggregate intrinsic value of options outstanding at June 30, 2011, based on the Company's closing stock price of \$3.30 as of the last business day of the period ended June 30, 2011, which would have been received by the

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optionees had all options been exercised on that date was \$14. There were no options exercised during the six months ended June 30, 2011 or during the year ended December 31, 2010. Intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of the options.

Options on 1,920 shares of common stock were not included in computing diluted EPS for the quarter ended June 30, 2011, because their effects were anti-dilutive.

Note K. Subsequent Events

The Company evaluated its June 30, 2011 financial statements for subsequent events through August 12, 2011, the date the financial statements were available to be issued. There are no material subsequent events.

Item 4. Management's discussion and analysis or plan of operations

The following discussions should be read in conjunction with our Consolidated Condensed Financial Statements presented in "Item 3 – Financial Statements" and our audited financial statements and the related Management's Discussion and Analysis or Plan of Operations included in our report filed with the OTCQX for the year ended December 31, 2010. The information set forth in this "Management's discussion and analysis or plan 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 uses 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, 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 condensed 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 condensed financial statements.

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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's 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 losses are recorded when identified.

Results of Operations for Three Months Ended June 30, 2011 Compared to June 30, 2010 (in thousands)

The following table summarizes our results of operations as a percentage of net sales for the three months ended June 30, 2011 and 2010 (in thousands):

	Three Months Ended			
	June 30,			
	2011		2010	
Net sales	\$ 64,977	100.0%	\$ 63,052	100.0%
Gross profit	12,409	19.1	13,329	21.1
Operating expenses	8,451	13.0	9,182	14.6
Plant consolidation and exit costs, net	133	0.2	7,747	12.3
Loss on disposal of property and equipment	18	0.0	194	0.3
Stock compensation expense	2,548	3.9	3,850	6.1
Operating income (expense), net	1,259	1.9	(7,644)	(12.1)
Nonoperating income (expense), net	(1,180)	(1.8)	(299)	(0.5)
Provision (benefit) for income taxes	31	0.0	(3,092)	(4.9)
Extraordinary gain, net of taxes	-	0.0	385	0.6
Net income (loss)	48	0.1	(4,466)	(7.1)

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Net sales: Net sales for the second quarter of 2011 increased by \$1,925, or 3.1%, to \$64,977 from \$63,052 for the second quarter of 2010. Sales were up during the second quarter of 2011 compared to the second quarter of 2010 due to growth in our C&A ASHRAE product lines coupled with strong shipments in our containment product lines followed by ongoing growth in retail.

Gross profit: Gross profit for the second quarter of 2011 decreased by \$920, or 6.9%, to \$12,409, which represented 19.1% of net sales, from \$13,329, which represented 21.1% of net sales for the second quarter of 2010. The gross profit decreased during the second quarter of 2011 was due to higher depreciation in cost of goods sold of \$500 thousand as well as some larger projects in our containment product lines having slightly lower margins than traditionally experienced on smaller projects.

Operating expenses: Operating expenses for the second quarter of 2011 decreased by \$731 or 8.0%, to \$8,451, representing 13.0% of net sales, from \$9,182, representing 14.6% of net sales, for the second quarter of 2010. The decrease in operating expenses is due primarily to a decrease of approximately \$800 in bad debts offset slightly by higher commissions paid in second quarter 2011 of approximately \$100 due to higher revenues.

Plant consolidation and exit costs, net: Plant consolidation and exit costs for the second quarter of 2011 \$133. In the second quarter of 2010, the company was exiting locations and recorded an exit cost loss of \$7,747 primarily for ongoing costs and expenses and lease liabilities.

Stock Compensation: Stock compensation for second quarter of 2011 decreased by \$1,302 or 33.8% to \$2,548 from \$3,850 in second quarter 2010. A portion of the stock compensation granted for second quarter 2011 was not immediately vested and the unrecognized compensation expense will be recognized over the service period as vesting occurs.

Nonoperating income (expense), net: Net nonoperating expense for the second quarter of 2011 increased by \$881, to a loss of \$1,180 representing (1.8%) of net sales, from a loss of \$299 representing (0.5%) of net sales for the second quarter of 2010. The increase is primarily due to interest expense incurred of \$1,226 due to the accounting required by the sale and leaseback of several facilities in second quarter 2011.

Provision (benefit) for income taxes: Our effective state and federal tax rate, adjusted for the effect of certain credits and adjustments, was approximately 39.8% for 2011 and 2010, respectively.

Results of Operations for Six Months Ended June 30, 2011 Compared to June 30, 2010 (in thousands)

The following table summarizes our results of operations as a percentage of net sales for the six months ended June 30, 2011 and 2010 (in thousands):

	Six Months Ended			
	2011		2010	
	June 30,			
	2011	2010	2011	2010
Net sales	\$ 119,546	100.0%	\$ 111,894	100.0%
Gross profit	22,198	18.6	20,494	18.3
Operating expenses	17,091	14.3	15,992	14.3
Plant consolidation and exit costs, net	(995)	(0.8)	10,157	9.1
Loss on disposal of property and equipment	22	0.0	579	0.5
Stock compensation expense	2,639	2.2	4,866	4.3
Operating income (expense), net	3,441	2.9	(11,100)	(9.9)
Nonoperating income (expense), net	(2,971)	(2.5)	(603)	(0.5)
Provision (benefit) for income taxes	183	0.2	(7,151)	(6.4)
Extraordinary gain, net of taxes	-	0.0	385	0.3
Net income (loss)	287	0.2	(6,766)	(6.0)

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Net sales: Net sales for the first half of 2011 increased by \$7,652, or 6.8%, to \$119,546 from \$111,894 for the second quarter of 2010. Sales were up during the second quarter of 2011 compared to the second quarter of 2010 due to our improved ability to meet the demands of our customers through on time and accurate deliveries, having the right inventories on hand and the unique capabilities of Flanders, specifically in our High Purity product lines. The result being retail sales were up 6% for the year, High Purity product lines were up 11% for the year, and Industrial ASHRAE product lines remained steady at 5% for the year.

Gross profit: Gross profit for the first half of 2011 increased by \$1,704, or 8.3%, to \$22,198, which represented 18.6% of net sales, from \$20,494, which represented 18.3% of net sales for the first half of 2010. The gross profit increased during the first half of 2011 due primarily to efficiencies gains from higher volumes and automation.

Operating expenses: Operating expenses for the first half of 2011 increased by \$1,100 or 6.9%, to \$17,092, representing 14.3% of net sales, from \$15,992, representing 14.3% of net sales, for the first half of 2010. The increase in operating expenses is due primarily to an increase of higher outbound freight costs and commission expense from higher revenues.

Plant consolidation and exit costs, net: Plant consolidation and exit costs for the first half of 2011 resulted in a net gain of \$995. In the first half of 2010, the company was exiting locations and recorded an exit cost loss of \$10,157 primarily for ongoing costs and expenses and lease liabilities.

Stock Compensation: Stock compensation for the first half of 2011 decreased by \$2,228 or 45.8% to \$2,638 from \$4,866 in the first half 2010. A portion of the stock compensation granted for first half 2011 was not immediately vested and the unrecognized compensation expense will be recognized over the service period as vesting occurs.

Nonoperating income (expense), net: Net nonoperating expense for the first half of 2011 increased by \$2,368, to a loss of \$2,971 representing (2.5%) of net sales, from a loss of \$603 representing (0.5%) of net sales for the first half of 2010. The increase is primarily due to interest expense incurred of \$1,226 due to the accounting required by the sale and leaseback of several facilities in first half 2011..

Provision (benefit) for income taxes: Our effective state and federal tax rate, adjusted for the effect of certain credits and adjustments, was approximately 39.8% for 2011 and 2010, respectively.

Use of Non-GAAP Measures for Measuring Quarterly Results

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 nonoperating expenses, extraordinary items, depreciation and amortization (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 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. EBITDA does not represent funds available for the 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 U.S. generally accepted accounting principles ("GAAP"). The items excluded from 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 condensed income statements and cash flows, and must be considered in performing a comprehensive assessment of overall financial performance. Our calculation of EBITDA may not be consistent with calculations of EBITDA used by other companies.

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The following is a reconciliation of the Corporation's net earnings to Adjusted EBITDA (in thousands):

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income (loss)	\$ 48	\$ (4,466)	\$ 287	\$ (6,766)
Interest expense, net	1,226	374	3,044	777
Income tax expense (benefit)	31	(3,092)	183	(4,552)
Depreciation and amortization	2,136	1,517	4,124	3,049
Plant consolidation and exit costs, net	133	7,747	(995)	10,157
Loss on disposal of property and equipment	18	194	22	579
Noncash stock compensation expense	2,548	3,850	2,638	4,866
Extraordinary gain, net of taxes	-	(385)	-	(385)
Adjusted EBITDA	\$ 6,140	\$ 5,793	\$ 9,303	\$ 7,725

Liquidity and Capital Resources (in thousands)

Our working capital was approximately \$56,208 at June 30, 2011, compared to approximately \$44,936 at December 31, 2010. This includes cash and cash equivalents of \$1,055, at June 30, 2011 and \$594 at December 31, 2010.

Our trade receivables increased \$4,904, or 11.7% to \$46,691 at June 30, 2011, from \$41,787 at December 31, 2010 due to the seasonal nature of our business, growing spontaneously as sales increased approaching peak season.

Inventories increased \$6,167, or 25.5%, to \$30,362 at June 30, 2011 from \$24,195 at December 31, 2010. The increase in inventory was primarily due to the increase in inventory days on hand to 65 days at June 30, 2011 from 61 days at December 31, 2010. The increase in inventories reflects the seasonality of our business..

Our continuing operations used \$6,529 and \$1,972 of cash during the six months ended June 30, 2011 and 2010, respectively. The increase in cash flows used in operating activities was primarily due to an increase accounts receivable offset by the decrease in exit cost liability.

Our financing activities provided \$11,685 of cash during the six months ended June 30, 2011, primarily consisting of proceeds from the sale leaseback and an increase in restricted cash offset by higher payments on the revolver and long-term borrowings. Our investing activities consumed \$4,695 of cash during the six months ended June 30, 2011 primarily due to the purchase of property and equipment.

In February 2011, the Company refinanced its revolving credit facility with another bank, which is discussed further under Note D "Pledged Assets and Debt." The Company's new revolving credit agreement provides a maximum line of credit of \$45,000 (subject to availability) and bears interest annually at 0.5% plus the higher of (i) floating the bank rate (ii) the Federal Funds Open Rate plus 0.5% or (iii) the Daily LIBOR Rate plus 1%. The line of credit is due in February 28, 2014. The 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, the Company has agreed to certain restrictive covenants which include, among other things, not paying dividends, not exceeding annual capital expenditure maximums, and maintenance at all times of a minimum fixed charge coverage ratio calculated on a consolidated basis for the Company and its subsidiaries.

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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 June 30, 2011, 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.

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.

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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.

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements made in this report other than statements of historical fact, are forward-looking statements. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include, among other things: statements and assumptions relating to future growth, as well as management's short-term and long-term performance goals; statements regarding anticipated order patterns from our customers or the anticipated economic conditions of the industries and markets that we serve; statements related to the performance of the U.S. and other economies generally; statements relating to the anticipated effects on results of operations or financial condition from recent and expected developments or events; statements relating to the Flanders’ business and growth strategies; and any other statements or assumptions that are not historical facts. Flanders believes that its expectations are based on reasonable assumptions. However, these forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause Flanders’ actual results, performance or achievements, or industry results, to differ materially from the Flanders’ expectations of future results, performance or achievements expressed or implied by these forward-looking statements. In addition, the Flanders’ past results of operations do not necessarily indicate its future results. You should not place undue reliance on any forward looking statements. These statements speak only as of the date of this report. Except as otherwise required by applicable laws, Flanders undertakes no obligation to publicly update or revise any forward-looking statements or the risk factors described in this report, including projected sales and profit levels for any business segment in any given quarter, whether as a result of new information, future events, changed circumstances or any other reason after the date of this report.

Item 5. 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.

Item 6. Defaults upon senior securities

None.

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Item 7. Other information

Election of Directors

On January 5, 2011, Joachim Gfoeller, Jr. was nominated to fill an open seat on the Board of Directors.

Joachim Gfoeller, Jr., 52, is the managing partner of GMG Capital Partners, L.P. (“GMG”), a private partnership formed in 1997 to invest in early and growth stage technology companies. Gfoeller has over 25 years experience in money management and private equity investment. Prior to co-founding GMG, Mr. Gfoeller was one of the founding partners of Stolberg Partners, a New York based buyout fund and also served as a vice president of the money management firm, Weiss, Peck & Greer. Gfoeller holds a Bachelor of Arts (magna cum laude) from Ohio State University, a Master of Arts with honors from John Hopkins School of Advanced International Studies, and a Master of Business Administration in Finance from the Wharton School at the University of Pennsylvania.

Item 8. Exhibits

None.

Item 9. Certifications

Please see Exhibits 9A and 9B included at the end of this information and disclosure statement.

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Exhibit 9A

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 quarterly information and disclosure statement of the Company for the period ended June 30, 2011;
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.

August 15, 2011

/s/ Harry Smith

Harry Smith

Chief Executive Officer and Chairman of the Board of Directors

Exhibit 9B

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 quarterly information and disclosure statement of the Company for the period ended June 30, 2011;
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.

August 15, 2011

/s/ John Oakley

John Oakley

Chief Financial Officer, President, and Director