
FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED AND NINE MONTHS ENDED
SEPTEMBER 30, 2010

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. Number of shares authorized and outstanding at September 30, 2010

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	9/30/2010	50,000,000	27,132,838	19,568,935	1,555	204
Preferred	9/30/2010	10,000,000	-	-	-	-

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

Item 3. Interim Financial Statements

UNAUDITED FINANCIAL STATEMENT AS OF SEPTEMBER 30, 2010
FLANDERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands)

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 371	\$ 260
Receivables:		
Trade, net of allowance for doubtful accounts: \$2,131 in 2010 and \$2,172 in 2009	44,729	33,159
Other	408	407
Inventories	29,957	29,415
Deferred income taxes	2,984	2,566
Restricted cash	301	-
Other current assets	11,541	8,134
Total current assets	90,291	73,941
Property and equipment, net	73,638	71,263
Intangible assets, net	252	280
Deferred income taxes	2,730	-
Notes receivable and other assets	17,724	17,511
Total assets	\$ 184,635	\$ 162,995
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt and capital lease obligation	\$ 1,056	\$ 1,051
Accounts payable	36,778	26,856
Accrued expenses	7,603	5,831
Revolving credit agreement	20,058	-
Current portion of exit cost liability	1,051	-
Other current liabilities	498	498
Total current liabilities	67,044	34,236
Long-term capital lease obligation, less current maturities	73	150
Long-term debt, less current maturities	16,892	33,662
Long-term liabilities, other	3,190	3,085
Deferred income taxes	-	158
Long-term exit cost liabilities	7,087	-
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; and outstanding: 27,132,838 at September 2010 and 26,132,838 at December 2009	27	26
Additional paid-in capital	92,767	88,902
Accumulated other comprehensive loss	(1,009)	(908)
Retained earnings (accumulated deficit)	(1,436)	3,684
Total stockholders equity	90,349	91,704
	\$ 184,635	\$ 162,995

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

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	(unaudited)		(unaudited)	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Net sales	\$ 71,141	\$ 60,426	\$ 183,035	\$ 167,173
Cost of goods sold	58,467	49,445	149,868	133,689
Gross profit	12,674	10,981	33,167	33,484
Operating expenses	8,861	8,034	30,297	24,128
Plant consolidation and exit costs	755	-	10,912	-
Operating income (loss)	3,058	2,947	(8,042)	9,356
Nonoperating income (expense):				
Other income, net	38	451	212	1,353
Interest income (expense), net	(404)	(291)	(1,180)	(876)
Nonoperating income (expense), net	(366)	160	(968)	477
Earnings (loss) before income taxes & extraordinary items	2,692	3,107	(9,010)	9,833
Provision (benefit) for income taxes	1,047	1,337	(3,505)	3,825
Net income (loss) before extraordinary items	1,645	1,770	(5,505)	6,008
Extraordinary gain, net of taxes	-	-	385	-
Net income (loss)	<u>\$ 1,645</u>	<u>\$ 1,770</u>	<u>\$ (5,120)</u>	<u>\$ 6,008</u>
Basic earnings per share:				
Income (loss) before extraordinary item	\$ 0.06	\$ 0.07	\$ (0.20)	\$ 0.23
Extraordinary item	-	-	0.01	-
Net earnings per share	<u>\$ 0.06</u>	<u>\$ 0.07</u>	<u>\$ (0.19)</u>	<u>\$ 0.23</u>
Diluted earnings per share:				
Income before extraordinary item	\$ 0.06	\$ 0.07	\$ (0.20)	\$ 0.23
Extraordinary item	-	-	0.01	-
Net earnings per share	<u>\$ 0.06</u>	<u>\$ 0.07</u>	<u>\$ (0.19)</u>	<u>\$ 0.23</u>
Weighted average common shares outstanding				
Basic	<u>27,133</u>	<u>25,928</u>	<u>26,679</u>	<u>25,660</u>
Diluted	<u>27,133</u>	<u>25,994</u>	<u>26,679</u>	<u>25,687</u>

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

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

FLANDERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	<u>Shares</u>	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Retained Earnings (Deficit)</u>	<u>Total</u>
Balance, January 1, 2009	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 earnings						
Net earnings	-	-	-	-	6,964	6,964
Gain on cash flow hedges	-	-	-	323	-	323
Total comprehensive earnings, net of tax						<u>7,287</u>
Balance, December 31, 2009	<u>\$26,133</u>	<u>\$ 26</u>	<u>\$ 88,902</u>	<u>\$ (908)</u>	<u>\$ 3,684</u>	<u>\$ 91,704</u>
Purchase of 312 shares of common stock, (unaudited)	(312)	-	(1,000)	-	-	(1,000)
Issuance of 1,312 shares of common stock	1,312	1	4,865	-	-	4,866
Comprehensive earnings						
Net loss (unaudited)	-	-	-	-	(5,120)	(5,120)
Loss on cash flow hedges	-	-	-	(101)	-	(101)
Total comprehensive earnings, net of tax						<u>(5,221)</u>
Balance, September 30, 2010 (unaudited)	<u>27,133</u>	<u>\$ 27</u>	<u>\$ 92,767</u>	<u>\$ (1,009)</u>	<u>\$ (1,436)</u>	<u>\$ 90,349</u>

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

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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

	Three Months Ended September 30, (unaudited)		Nine Months Ended September 30, (unaudited)	
	2010	2009	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	\$ 1,645	\$ 1,770	\$ (5,120)	\$ 6,008
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Depreciation and amortization expense	1,991	1,419	5,040	4,150
Provision for bad debts	190	552	1,311	2,011
Extraordinary gain	-	-	(385)	-
Stock compensation expense	-	-	4,866	45
Tax impact of stock options exercised	-	(1,645)	-	(1,645)
Amortization of deferred gain	(18)	(18)	(54)	(42)
(Gain) loss on disposal of property and equipment	(40)	(96)	851	(219)
Proceeds from Business Interruption Insurance claim	-	-	-	1,135
Deferred income taxes	257	166	(3,238)	455
Change in working capital components:				
(Increase) decrease in accounts receivable	(1,429)	1,765	(12,881)	(7,656)
(Increase) decrease in other receivables	(59)	309	(1)	(308)
(Increase) decrease in inventory	2,959	6,305	(542)	2,239
(Increase) decrease in other current assets	(1,891)	(125)	(4,468)	1,565
(Increase) decrease in other assets	(160)	(2)	(769)	(1)
Increase (decrease) in accounts payable	2,199	(4,413)	9,922	742
Increase (decrease) in exit cost liability	(255)	-	8,138	-
Increase (decrease) in accrued expenses	1,025	(1,392)	1,772	(1,137)
Net cash provided by operating activities	<u>6,414</u>	<u>4,595</u>	<u>4,442</u>	<u>7,342</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(4,120)	(2,888)	(10,999)	(15,047)
Proceeds from sale of property and equipment	-	5	1,799	2,509
Proceeds from insurance claim on building and equipment	-	-	1,885	466
Proceeds from notes receivable	716	490	1,609	1,914
Loans made to notes receivable	(240)	(172)	(531)	(1,032)
Net cash used in investing activities	<u>(3,644)</u>	<u>(2,565)</u>	<u>(6,237)</u>	<u>(11,190)</u>

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	(unaudited)		(unaudited)	
	2010	2009	2010	2009
CASH FLOWS FROM FINANCING				
ACTIVITIES				
Increase in restricted cash	\$ (28)	\$ -	\$ (301)	\$ -
Principal payments on long-term borrowings	(326)	(351)	(1,697)	(1,484)
Proceeds from revolving credit agreement	65,417	60,861	176,027	163,810
Payments on revolving credit agreement	(67,975)	(62,927)	(171,123)	(158,489)
Payment of debt issuance costs	-	-	-	(90)
Tax impact of stock options exercised	-	1,645	-	1,645
Purchase and retirement of common stock	-	-	(1,000)	-
Net cash provided by (used in) financing activities	<u>(2,912)</u>	<u>(772)</u>	<u>1,906</u>	<u>5,392</u>
Net increase (decrease) in cash and cash equivalents	(142)	1,258	111	1,544
CASH AND CASH EQUIVALENTS				
Beginning of period	<u>513</u>	<u>690</u>	<u>260</u>	<u>404</u>
End of period	<u>\$ 371</u>	<u>\$ 1,948</u>	<u>\$ 371</u>	<u>\$ 1,948</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period for:				
Income taxes	<u>\$ 810</u>	<u>\$ 592</u>	<u>\$ 2,392</u>	<u>\$ 833</u>
Interest, net of amounts capitalized	<u>\$ 654</u>	<u>\$ 306</u>	<u>\$ 1,559</u>	<u>\$ 1,013</u>
Interest capitalized to property, and equipment	<u>\$ 83</u>	<u>\$ 242</u>	<u>\$ 254</u>	<u>\$ 603</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCIAL ACTIVITIES				
Sale of building/equipment for note receivable	<u>\$ -</u>	<u>\$ 249</u>	<u>\$ 400</u>	<u>\$ 864</u>
Purchase of building with debt	<u>\$ -</u>	<u>\$ 4,600</u>	<u>\$ -</u>	<u>\$ 6,080</u>
Sale of equipment for accounts payable offset	<u>\$ 581</u>	<u>\$ -</u>	<u>\$ 581</u>	<u>\$ -</u>
Cashless exercise of common stock	<u>\$ -</u>	<u>\$ (2,500)</u>	<u>\$ -</u>	<u>\$ (2,500)</u>

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

**FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

**FLANDERS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

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 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.

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 on Form 10-K for the year ended December 31, 2009. The results of operations and cash flows for the nine months ended September 30, 2010 may not be indicative of the results that may be expected for the year ending December 31, 2010.

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 \$7,503 from "Accrued expenses" to "Accounts payable."

For the three and nine months ended September 30, 2009, the Company reclassified various items related to the consolidated condensed cash flow statements. These included the reclassification of "(Increase) decrease in other assets" 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.

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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.

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.

Derivative financial instruments

The Company has three interest-rate swap agreements to hedge against the potential impact on earnings from increases in market interest rates of two variable rate bonds and one variable rate note. Under the interest rate swap agreements for the bonds, we receive or make payments on a monthly basis, based on the differential between 5.49% and a tax exempt interest rate as determined by a remarketing agent. 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%. 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 \$1,009 is included in "Accumulated other comprehensive loss" on the balance sheet. 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. 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. For long-term contracts we use 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.

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.

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

Impact of recently issued accounting pronouncements

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 Company is currently assessing the impact of ASU No. 2010-17 on its financial position and results of operations.

In August 2010, the FASB issued ASU 2010-22, Accounting for Various Topics. This ASU amends various SEC paragraphs in the FASB Accounting Standards Codification based on external comments received and the issuance of Staff Accounting Bulletin (SAB) No. 112, which amended or rescinded a portion of certain SAB topics. SAB 112 was issued to bring existing SEC guidance into conformity with ASC 805, Business Combination, and ASC 810, Consolidation. The adoption of ASU 2010-22 did not have any impact on our financial position, results of operations, or cash flows.

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

Note B. Inventories

Inventories consist of the following at September 30, 2010 and December 31, 2009 (in thousands):

	<u>9/30/2010</u>	<u>12/31/2009</u>
Finished goods	\$ 12,322	\$ 12,027
Work in progress	1,482	1,373
Raw materials	<u>16,153</u>	<u>16,015</u>
	<u>\$ 29,957</u>	<u>\$ 29,415</u>

Note C. Notes Receivable and Other Assets

Notes receivable and other assets consist of the following at September 30, 2010 and December 31, 2009 (in thousands):

	<u>9/30/2010</u>	<u>12/31/2009</u>
Other assets	\$ 1,730	\$ 1,081
Notes receivable	<u>15,994</u>	<u>16,430</u>
	<u>\$ 17,724</u>	<u>\$ 17,511</u>

The carrying value of the notes receivable approximate fair market value and the company believes that all notes are collectible as of September 30, 2010.

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

Note D. Accrued Expenses

The following table summarizes accrued expense balances as of September 30, 2010 and December 31, 2009 (in thousands):

	9/30/2010	12/31/2009
Payroll – wages & vacation	\$ 3,162	\$ 1,441
Customer rebates	2,281	2,068
Payroll – benefits & taxes	1,215	833
Taxes – other	563	229
Other accrued expense	382	1,261
	\$ 7,603	\$ 5,832

In 2010, the company reclassified uninvoiced receipt of goods to accounts payable.

Note E. Debt

Revolving credit agreement:

As of September 30, 2010, the Company's total obligations under a revolving credit agreement with Bank of America (BOA) were approximately \$20 million. During September 2009, the Company entered into an amendment to this credit facility. The current revolving credit agreement with the bank 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 September 30, 2010, there was approximately \$5.1 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 September 30, 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. These events of default remain uncured but the lender has not accelerated or demanded payment of the debt. The Company is in the process of refinancing the credit facility. If we are unable to refinance or restructure this credit facility, or if BOA were to accelerate obligations under this credit facility, we will be forced to reduce and delay capital expenditures and business acquisitions, sell assets, restructure or refinance our indebtedness, sell additional equity securities, which could result in dilution to existing shareholders, and decline certain business opportunities from customers. Our failure to refinance or restructure our arrangements with BOA could have a material adverse impact on our future operations.

Other long-term debt:

The Company also has debt to a regional development authority with certain restrictive covenants. As of September 30, 2010, the Company is in violation of one of its financial ratio covenants. The loan agreement stipulates a cure period during which time the Company is proceeding with reasonable diligence to remedy the violation. Therefore, in accordance with ASC 470-10-45-11, the Company has classified the debt with the regional development authority as non-current.

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

As of September 30, 2010 and December 31, 2009, debt was comprised of the following (in thousands):

	9/30/2010	12/31/2009
Capital leases	\$ 175	\$ 498
Bonds	11,821	11,821
Line of credit	20,058	15,154
Notes payable	6,025	7,390
Total debt	\$ 38,079	\$ 34,863
Current portion of debt	\$ 21,114	\$ 1,051

Note F. Other Comprehensive Loss

As of September 30, 2010, accumulated other comprehensive loss consisted entirely of cash flow hedges (in thousands):

Balance at December 31, 2009	\$ (908)
Loss related to cash flow hedges	(101)
Balance at September 30, 2010	\$ (1,009)

Note G. 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.

As of September 30, 2010 and December 31, 2009, the Company had net current deferred tax assets of \$2.6 million and \$2.6 million, respectively, and a net noncurrent deferred income tax asset of \$2.7 million and a net noncurrent deferred tax liability of \$0.2 million, respectively.

As of September 30, 2010 and December 31, 2009 the Company had no federal net operating loss carry forward deductions or credits available. As of September 30, 2010 and December 31, 2009 the Company has \$3.7 million of state net operating loss deductions or credits available which will expire at various points in time between 2015 and 2021.

During 2009, the Company settled Internal Revenue Service (“IRS”) audits for the years 2002 to 2006. The settlement of these audits resulted in a \$4.7 million decrease of the Company’s federal unrecognized tax benefits. In addition, the Company’s unrecognized tax benefit for state tax decreased by \$.5 million due to the settlement of the IRS audits.

The Company is under examination, or may be subject to examination, by the IRS for calendar years 2006 through 2008. The Company is under examination, or may be subject to examination, in the following major jurisdictions for the years specified: Mexico for 2004 through 2008, Singapore for 2002 through 2008, Florida for 2002 through 2008, and North Carolina for 2002 to 2008. These liabilities have been included in the Company’s FIN 48 (included in ASC 740) liability which is included in other current liabilities.

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

Note H. 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.

Note I. 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 24.34% of our outstanding common shares as of September 30, 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 rent expense over the lease term of 10 years.

During the third quarter 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 2009, the Company purchased a building in Rosenberg, Texas from Wal-Pat III, LLC by assuming a note payable for \$3.4 million from Wal-Pat III, LLC and by providing a note payable to Wal-Pat III, LLC for \$1.2 million.

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 8.76% of the Company's outstanding common shares as of September 30, 2010. This facility is intended to replace the Company's manufacturing capacity previously located in four separate facilities in Texas and Mexico.

Note J. Stock Options and Warrants

The following table summarizes the activity related to all Company stock options and warrants for the nine months ended September 30, 2010 and the year ended December 31, 2009:

	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	\$ 4.69-4.69	\$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 - 4.69	4.37 - 11.72	4.69	6.71
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Canceled or expired	-	(30)	-	9.03 - 11.01	-	9.36
Outstanding at September 30, 2010	15	1,830	\$ 4.69-4.69	\$4.37-11.72	\$ 4.69	\$ 6.67

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

The options expire at various dates ranging through January 2019. The weighted average remaining contractual term for options outstanding at September 30, 2010 was 3.5 years.

Share-Based Compensation

As of September 30, 2010, there was no unrecognized stock-based compensation expense related to non-vested stock options.

The aggregate intrinsic value of options outstanding at September 30, 2010, based on the Company's closing stock price of \$3.05 as of the last business day of the period ended September 30, 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 nine months ended September 30, 2010. Intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of the options.

Options on 1,830,000 shares of common stock were not included in computing diluted EPS for the periods ended September 30, 2010, because their effects were anti-dilutive.

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.

Note K. 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 is expected to be 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 offices 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.

As a result of these actions, the Company recorded net plant consolidation and exit costs charges of \$10.9 million through September 30, 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.

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

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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. When we commit 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.

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 2010 charges taken for plant restructuring, exit and impairment charges related to actions initiated in 2010. The accrued amounts remaining as of September 30, 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 September 30, 2010
Employee termination and other benefits	\$ 384	\$ 384	\$ -
Consolidation of manufacturing footprint	1,410	1,410	-
Asset Dispositions	445	445	-
Operating Lease Liability	8,673	535	8,138
	<u>\$ 10,912</u>	<u>\$ 2,774</u>	<u>\$ 8,138</u>

Note L. Fair Value of Financial Instruments

The Company measures certain assets and liabilities at fair value as discussed throughout the notes to its quarterly and 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 and trade payables approximates fair value at September 30, 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, hedging instruments, and long-term debt approximates the carrying amounts at September 30, 2010 and December 31, 2009.

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

Liabilities measured at fair value on a recurring basis included the following as of September 30, 2010:

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
Long-term liabilities — Interest Rate Swaps	\$ —	\$ 1,648	\$ —

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 M. Subsequent Events

On November 1, 2010, it was announced that the company was taking additional actions to further streamline its operations and reduce its ongoing fixed costs by shutting down its manufacturing operations in Rosenberg, Texas and relocating the equipment and the related manufacturing capacity to its facility in Washington, North Carolina. As part of the shutdown and cease of the use of the facility, the Company does expect to incur incremental consolidation and exit costs.

Item 4. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussions should be read in conjunction with our Consolidated Condensed Financial Statements presented in "Item 3 – Interim Financial Statements" 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 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 financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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 fall 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.

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

Results of Operations for Three Months Ended September 30, 2010 Compared to September 30, 2009 (thousands omitted)

The following table summarizes our results of operations as a percentage of net sales for the three months ended September 30, 2010 and 2009.

	Three Months Ended			
	September 30,			
	2010		2009	
Net sales	\$ 71,141	100.0%	\$ 60,426	100.0%
Gross profit	12,674	17.8	10,981	18.2
Operating expenses	8,861	12.5	8,034	13.3
Plant consolidation and exit costs	755	1.1	-	-
Operating income	3,058	4.3	2,947	4.9
Nonoperating income (expense), net	(366)	(0.5)	160	0.3
Provision for income taxes	(1,047)	(1.5)	(1,337)	(2.2)
Net earnings	1,645	2.3	1,770	2.9

Net sales: Net sales for the third quarter of 2010 increased by \$10,715 million, or 17.7%, to \$71,141 from \$60,426 for the third quarter of 2009. Sales were up during the third quarter of 2010 compared to the third quarter of 2009 due primarily to increased sales of our Retail and High Purity products.

Gross profit: Gross profit for the third quarter of 2010 increased by \$1,693 million, or 15.4%, to \$12,674 which represented 17.8% of net sales, from \$10,981, which represented 18.2% of net sales for the third quarter of 2009. The gross profit increased during the third quarter of 2010 due to higher net sales, as discussed above while gross margin was negatively impacted by product mix as retail products were a higher percentage of the Company's sales during the third quarter of 2010 than in the third quarter of 2009.

Operating expenses: Operating expenses for the third quarter of 2010 increased by \$827 or 10.3%, to \$8,861, representing 12.5% of net sales, from \$8,034, representing 13.3% of net sales, for the third quarter of 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 third quarter were \$755 which included \$123 for severance costs and \$632 for ongoing costs and expenses such as rents, property taxes, insurance and utilities.

Non-operating income (expense, net): Net non-operating income for the third quarter of 2010 decreased by \$526, to a loss of \$366 representing (0.5%) of net sales, from income of \$160 representing (0.3%) of net sales, for the third quarter of 2009 due primarily to higher interest expense resulting primarily 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.

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

Nine Months Ended September 30, 2010 Compared to September 30, 2009 (thousands omitted)

The following table summarizes our results of operations as a percentage of net sales for the first nine months ended September 30, 2010 and 2009.

	Nine Months Ended			
	September 30,			
	2010		2009	
(In thousands)				
Net sales	\$ 183,035	100.0%	\$167,173	100.0%
Gross profit	33,167	18.1	33,484	20.0
Operating expenses	30,297	16.6	24,128	14.4
Plant consolidation and exit costs	10,912	6.0	-	-
Operating income (loss)	(8,042)	(4.4)	9,356	5.6
Nonoperating income (expense), net	(968)	(0.5)	477	0.3
Provision (benefit) for income taxes	(3,505)	(1.9)	3,825	2.3
Extraordinary gain, net of taxes	385	0.2	-	-
Net income (loss)	(5,120)	(2.8)	6,008	3.6

Net sales: Net sales for the first nine months of 2010 increased by \$15,862, or 9.5%, to \$183,035 from \$167,173 for the first nine months in 2009. The increase is due to improved volume performance of the High Purity and Retail product lines.

Gross profit: Gross profit for the first nine months of 2010 decreased by \$317, or (0.9%), to \$33,167, which represented 18.1% of net sales, from \$33,484, which represented 20.0% of net sales for the first nine months of 2009. The gross profit decreased during the first nine months of 2010 due to start up costs associated with a long-term project to build several nuclear related glove boxes, and unabsorbed start up costs associated with the new Ardmore, Oklahoma facility.

Operating expenses: Operating expenses for the first nine months of 2010 increased \$6,169 or 25.6%, to \$30,297, representing 16.6% of net sales, from \$24,128, representing 14.4% of net sales, for the first nine months of 2009. The increase in operating expenses is primarily attributable to higher commission expense from the increase in sales, an increase in freight expenses due to changes in shipping arrangements with customers where we are incurring more freight charges compared to the prior periods where more customers paid for freight and \$4.9 million in stock compensation incurred in the nine months of 2010.

Nonoperating income (expense), net: Net nonoperating income (expense) for the first nine months of 2010 changed by \$1,445, to (\$968) representing (0.5%) of net sales, from \$477 representing 0.3% of net sales, for the first nine months of 2009 due primarily to higher interest expense as a result of higher interest rates and higher other income from sale of assets in 2009.

Plant consolidation and exit costs: Plant consolidation and exit costs for the first nine months of 2010 were \$10,912 which included \$384 for severance costs, \$445 for write down of property and equipment, \$1,410 for ongoing costs and expenses such as rents, property taxes, insurance and utilities, and \$8,673 for operating lease liabilities related to the exited facilities.

Provision (benefit) 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. The change in the estimated effective tax rate is due to increases and decreases for any known or anticipated permanent income tax timing differences such as non deductible expenses and foreign earnings impacting the statutory income tax rates.

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

Extraordinary gain, net of taxes: In September of 2008, a manufacturing facility in Pennsylvania was damaged by fire. The extraordinary gain for the period ended September 30, 2010 of \$385 was due to costs attributable to the fire of \$1,375 being less than the insurance proceeds of \$2,005, net of taxes of \$245.

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 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 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.

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:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net earnings (loss)	\$ 1,645	\$ 1,770	\$ (5,120)	\$ 6,008
Noncash stock compensation expense	-	-	4,866	-
Loss on sale of real estate	-	-	578	-
Interest expense, net	404	291	1,180	876
Extraordinary gain, net of taxes	-	-	(385)	-
Income taxes	1,047	1,337	(3,505)	3,825
Plant consolidation and exit costs	755	-	10,912	-
Depreciation and amortization	1,991	1,419	5,040	4,150
Adjusted EBITDA	<u>\$ 5,842</u>	<u>\$ 4,817</u>	<u>\$ 13,566</u>	<u>\$ 14,859</u>

Liquidity and Capital Resources (thousands omitted)

Our working capital was approximately \$23,247 at September 30, 2010, compared to approximately \$39,705 at December 31, 2009. This includes cash and cash equivalents of \$371, at September 30, 2010 and \$260 at December 31, 2009.

Our trade receivables increased \$11,570, or 34.9% to \$44,729 at September 30, 2010, from \$33,159 at December 31, 2009 due to the seasonal nature of our business, growing as sales increased approaching peak season.

Inventories increased \$542, or 1.8%, to \$29,957 at September 30, 2010 from \$29,415 at December 31, 2009. The slight increase in inventories once again reflects the seasonality of our business.

Our operating activities generated \$4,442 and \$7,537 of cash during the nine months ended September 30, 2010 and

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

2009, respectively. The decrease in cash generated by operating activities during 2010 is primarily attributable to growth in the working capital accounts related to increased sales activity in 2010 over 2009.

Our financing activities generated \$1,906 of cash during the nine months ended September 30, 2010, primarily consisting of proceeds from revolving credit agreement. Our investing activities consumed \$6,237 of cash during the nine months ended September 30, 2010, primarily due to purchase of property and equipment, partially offset by proceeds from insurance claims and sales of property and equipment.

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 ratio of total liabilities to tangible net worth and a minimum fixed charge coverage ratio. As of September 30, 2010, the Company is in violation of one of its financial ratio covenants in regard to the note payable to a regional development authority, and is currently in the cure period during which time the Company is proceeding with reasonable diligence to remedy the violation. As of September 30, 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. These events of default remain uncured but the current lender has not accelerated or demanded payment of the obligations. We are attempting to refinance our obligations under the revolving credit agreement. If we are unable to refinance or restructure this credit facility, or if obligations under this credit facility were to accelerate, we will be forced to reduce and delay capital expenditures and business acquisitions, sell assets, restructure or refinance our indebtedness, sell additional equity securities, which could result in dilution to existing shareholders, and decline certain business opportunities from customers. Our failure to refinance or restructure our existing arrangements could have a material adverse impact on our future operations.

Off Balance Sheet Arrangements

As of September 30, 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.

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

Sales of air filtration products for semiconductor facilities, historically a major market, are expected to begin recovery during 2010 with 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.

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.

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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.

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 on Senior Securities

None.

Item 7. Other Information

None.

Item 8. Exhibits

None.

Item 9. Issuer's Certifications

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

FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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 September 30, 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.

December 16, 2010

/s/ Harry Smith

Harry Smith

Chief Executive Officer and Chairman of the Board of Directors

**FLANDERS CORPORATION
INFORMATION AND DISCLOSURE STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

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 September 30, 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.

December 16, 2010

/s/ John Oakley

John Oakley

Chief Financial Officer, President, and Director