FLANDERS CORP
Form 10-Q
November 19, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002
Commission File No. 0-27958

FLANDERS CORPORATION
(Exact name of registrant as specified in its charter)

North Carolina	13-3368271
(State or other jurisdiction of incorporation or organization.)	(IRS Employer ID Number)
2399 26th Avenue North, St. Petersburg, Florida	33734
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (727) 822-4411

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock. As of November 11, 2002, the issuer had 26,033,153 shares of common stock, par value $.001 per share, outstanding.

FLANDERS CORPORATION
FORM 10-Q
FOR QUARTER ENDED September 30, 2002

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FLANDERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS	September 30, 2002	December 31, 2001
	(unaudited)	
Current assets		
Cash and cash equivalents	$ 3,614,477	$ 3,877,785
Receivables:		
Trade, less allowance for doubtful accounts: 9/30/2002 $2,023,998; 12/31/2001 $1,531,650	36,426,774	29,995,949
Other	547,656	483,941
Inventories (Note B)	30,818,536	31,391,365
Deferred taxes	1,994,964	1,994,964
Other current assets	3,677,303	4,633,848
Total current assets	77,079,710	72,377,852
Related party receivables	565,380	549,350
Other assets	2,661,682	2,715,855
Intangible assets, less accumulated amortization of 9/30/2002 $3,713,014; 12/31/2001 $3,670,891	28,290,184	28,332,307
Property and equipment, less accumulated depreciation: 9/30/2002 $38,669,147; 12/31/2001 $33,515,344	71,614,877	76,279,734
	$180,211,833	$180,255,098

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt and capital leases	$ 27,941,620	$ 32,599,894
Accounts payable	16,510,245	15,726,086
Accrued expenses	11,794,289	9,449,073
Total current liabilities	56,246,154	57,775,053
Long-term capital lease obligations, less current maturities	2,980,049	3,173,502
Long-term debt, less current maturities	15,267,263	16,271,430
Long-term liabilities, other	1,870,924	1,089,983
Deferred taxes	4,753,385	5,065,762
Commitments and contingencies		
Stockholders' equity		
Preferred stock, no par value, 10,000,000 shares authorized; none issued	-	-
Common stock, $.001 par value; 50,000,000 shares authorized; issued and outstanding: 26,033,153 shares	26,033	26,033
Additional paid-in capital	90,331,524	90,331,524
Notes receivable	(8,609,873)	(8,325,978)
Accumulated other comprehensive loss	(1,122,554)	(653,990)
Retained earnings	18,468,928	15,501,779

	99,094,058	96,879,368
	$180,211,833	$180,255,098

See Notes to Consolidated Financial Statements

FLANDERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(unaudited)

	Three Months Ended September 30,		Nine Sep
	2002	2001	2002
Net sales	$ 50,135,932	$ 49,862,475	$137,357,37
Cost of goods sold	39,248,100	38,974,568	106,517,17
Gross profit	10,887,832	10,887,907	30,840,20
Operating expenses	7,964,948	8,788,590	22,524,23
Operating income from continuing operations	2,922,884	2,099,317	8,315,97
Nonoperating expenses from continuing operations, net	(948,383)	(655,707)	(3,370,72
Earnings from continuing operations before income taxes	1,974,501	1,443,610	4,945,24
Provision for income taxes	789,800	697,423	1,978,09
Earnings from continuing operations	1,184,701	746,187	2,967,14
Loss from operations of discontinued subsidiary, (including tax benefit of $136,696 for the nine months ended September 30, 2001)	-	-	-
Net earnings	$ 1,184,701	$ 746,187	$ 2,967,14
Earnings per share from continuing operations			
Basic	$ 0.05	$ 0.03	$ 0.1
Diluted	$ 0.05	$ 0.03	$ 0.1
Loss per share from discontinued operations			

Basic	$ -	$ -	$ -
Diluted	$ -	$ -	$ -
Net earnings per share			
Basic	$ 0.05	$ 0.03	$ 0.1
Diluted	$ 0.05	$ 0.03	$ 0.1
Weighted average common shares outstanding			
Basic	26,033,153	26,033,153	26,033,15
Diluted	26,033,153	26,033,153	26,034,43

See Notes to Consolidated Financial Statements

FLANDERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Notes Receivable	Accum- ulated Other Compre- hensive Loss	Reta Earn
Balance, January 1, 2001	$ 26,380	$ 90,898,258	$ (7,891,208)	$ -	$ 15,
Interest on notes receivable secured by common shares	-	-	(434,770)	-	
Purchase and retirement of 354,000 shares of common stock	(354)	(585,527)	-	-	
Issuance of 7,520 shares of common stock upon exercise of options	7	18,793	-	-	
Comprehensive income (loss)					
Net earnings	-	-	-	-	
Transition adjustment				(579,273)	
Net loss on cash flow hedges				(74,717)	
Total comprehensive loss					
Balance, December 31, 2001	26,033	90,331,524	(8,325,978)	(653,990)	15,
Interest on notes receivable secured by common shares (unaudited)	-	-	(283,895)	-	
Comprehensive income (loss)					
Net earnings (unaudited)	-	-	-	-	2,
Net loss on cash flow					

hedges (unaudited)				(468,564)	
Total comprehensive income (unaudited)					
Balance, June September 30, 2002 (unaudited)	$ 26,033	$ 90,331,524	$ (8,609,873)	$ (1,122,554)	$ 18,

See Notes to Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Sep
	2002	2001	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash provided by continuing operations	$ 4,098,491	$ 5,636,536	$ 6,896,85
Net cash used in discontinued operations	-	-	-
Net cash provided by operating activities	4,098,491	5,636,536	6,896,85
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(393,405)	(1,693,936)	(2,887,19
Proceeds from sale of property and equipment	1,605,698	-	1,638,19
Net proceeds (payments) from notes receivable	(82,730)	51,022	(16,03
Net (increase) decrease in other assets	(32,807)	39,892	(39,24
Net cash used in investing activities of continuing operations	1,096,756	(1,603,022)	(1,304,26
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase and retirement of common stock	-	-	-
Net proceeds (payments) from revolving credit agreement	(3,635,407)	(374,418)	(4,128,22
Principal payments on long-term borrowings	(1,064,528)	(298,281)	(1,727,67
Net cash provided by (used in) financing activities	(4,699,935)	(672,699)	(5,855,89
Net increase (decrease) in cash and cash equivalents	495,312	3,360,815	(263,30
CASH AND CASH EQUIVALENTS			
Beginning of period	3,119,165	453,307	3,877,78

End of period	$ 3,614,477	$ 3,814,122	$ 3,614,47
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the period for:			
Income taxes	$ 161,428	$ 128,733	$ 244,62
Interest	$ 1,302,917	$ 1,065,790	$ 4,117,64
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
After tax impact of increase in interest rate swap liability	$ 224,554	$ 311,025	$ 339,15

See Notes to Consolidated Financial Statements

FLANDERS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note A. Nature of Business, Interim Financial Statements

Nature of business:

The Company designs, manufactures and sells air filters and related products. It is focused on providing complete environmental control systems for end users 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 Company also produces glass-based air filter media for many of its 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 cleanroom contractors. These sales are accounted for as domestic sales. The Company also sells products through foreign distributors, primarily in Europe, and a wholly owned subsidiary, which sells to customers in the Far East. Sales through foreign distributors and the Company's wholly owned foreign subsidiary total less than 5% of net sales. Assets held outside the United States are negligible.

Interim financial statements:

The interim consolidated condensed financial statements presented herein are unaudited and have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. 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, 2001. In the opinion of management the interim statements include all adjustments (consisting only of normal recurring adjustments) necessary to summarize fairly our financial position, results of operations, and cash flows. The results of operations and cash flows for the three and nine months ended September 30, 2002 may not be indicative of the results that may be expected for the year ending December 31, 2002.

Goodwill:

As of January 1, 2002, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus, effective January 1, 2002, the Company has ceased amortization of goodwill, including goodwill recorded in past business combinations. The Company does not have any intangible assets with indefinite lives other than goodwill.

In connection with the transitional goodwill impairment evaluation, SFAS 142 requires that goodwill be tested for impairment annually, or more frequently if circumstances indicate potential impairment, by comparing the fair value of the asset to its carrying amount. Such testing requires, as an initial step, that each of the Company's reporting units, as defined in SFAS 142, be identified and that the Company's assets and liabilities, including the existing goodwill and intangible assets, be assigned to those reporting units. The Company has determined that it has a single reporting unit, which consists of the manufacturing and distribution of air filters for the HVAC market.

Note A. Nature of Business, Interim Financial Statements - continued

The Company completed the first step of the transitional impairment test required by SFAS 142 during the quarter ended June 30, 2002. This required the Company to assess the fair value of the Company and compare that value to its shareholders' equity. In determining fair value, the Company considered the guidance in SFAS 142, including the Company's market capitalization, control premiums, discounted cash flows and other indicators of fair value. Based on this analysis, there is an indication that the recorded goodwill, which totaled $27,612,137 as of January 1, 2002, may be impaired.

The Company is in the process of completing the second step of the transitional impairment analysis. This step requires the Company to compare, using January 1, 2002 amounts, the implied fair value of the recorded goodwill, determined in a manner similar to a purchase price allocation in a business combination, to the carrying amount of the goodwill. This second step is required to be completed as soon as possible, but no later than December 31, 2002. Any transitional impairment will be recognized as a cumulative effect of a change in accounting principle, and the amount of that impairment will be recorded, as a non-cash charge, in the Company's statements of earnings. It is not anticipated that such a change would adversely affect the Company's business operations or cash flows.

The following table reconciles the Company's net earnings for the three months and nine months ended September 30, 2002 and 2001, adjusted to exclude goodwill amortization pursuant to SFAS 142 to amounts previously reported:

	Three Months Ended		Nine
	9/30/2002	9/30/2001	9/30/2002
Net earnings			
Reported net earnings	$ 1,184,701	$ 746,187	$ 2,967,14
Add back: Goodwill amortization	-	200,000	-
Adjusted net earnings	$ 1,184,701	$ 946,187	$ 2,967,14
Earnings per share - basic			
Reported earnings per share	$ 0.05	$ 0.03	$ 0.1
Goodwill amortization	-	0.01	-
Adjusted earnings per share	$ 0.05	$ 0.04	$ 0.1
Earnings per share - diluted			
Reported earnings per share	$ 0.05	$ 0.03	$ 0.1
Goodwill amortization	-	0.01	-
Adjusted earnings per share	$ 0.05	$ 0.04	$ 0.1

FLANDERS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note A. Nature of Business, Interim Financial Statements - continued

Other comprehensive loss:

Other comprehensive loss is defined as the change in equity during a period, from transactions and other events not included in net earnings, excluding changes resulting from investments by owners (e.g., supplement stock offerings) and distributions to owners (e.g., dividends).

As of September 30, 2002, accumulated comprehensive loss consisted of the following:

Balance at December 31, 2001	$ 653,990
Net change during the period related to cash flow hedges	468,564

Balance at September 30, 2002	$ 1,122,554

Accounts receivable:

The majority of the Company's accounts receivable 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.

Derivative financial instruments:

The Company has two interest rate swap agreements to hedge against the potential impact on earnings from increases in market interest rates of two variable rate bonds. Under the interest rate swap agreements, the Company receives or makes payments on a monthly basis, based on the differential between 5.14% and a tax exempt interest rate as determined by a remarketing agent. These interest rate swap agreements are accounted for as a cash flow hedge in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) as amended by SFAS 138, "Accounting for Certain Derivative Instruments and Hedging Activities -- an Amendment to FASB Statement No. 133." The tax effected fair market value of the interest rate swaps of $1,122,554 at September 30, 2002 is included in other comprehensive loss. The interest rate swap contracts expire in 2013 and 2015.

Note B. Inventories

Our inventories consist of the following at September 30, 2002 and December 31, 2001:

	9/30/2002	12/31/2001
Finished goods	$ 13,759,219	$ 14,530,664
Work in progress	3,589,509	3,287,288
Raw materials	14,434,643	14,723,048
	31,783,371	32,541,000
Less allowances	964,835	1,149,635
	$ 30,818,536	$ 31,391,365

FLANDERS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note C. 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, 2002 and the year ended December 31, 2001:

			Exercise Price per Share		Weighted Exercis per S
	Warrants	Stock Options	Warrants	Options	Warrants
Outstanding at January 1, 2001	540,000	4,725,720	$ 8.40 - 14.73	$ 2.50 - 9.50	$ 10.04
Granted	-	2,110,000	-	1.88 - 7.50	-
Exercised	-	(7,520)	-	2.50	-
Canceled or expired	-	(2,129,900)	-	2.50 - 9.50	-
Outstanding at December 31, 2001	540,000	4,698,300	8.40 - 14.73	1.88 - 8.50	10.04
Granted	-	130,000	-	1.71 - 2.36	-
Exercised	-	-	-	-	-
Canceled or expired	(140,000)	(339,300)	14.73	1.87 - 8.50	14.73
Outstanding at September 30, 2002	400,000	4,489,000	$ 8.40	$ 1.71 - 7.50	$ 8.40
Exercisable at September 30, 2002	400,000	4,414,000	$ 8.40	$ 1.74 - 7.50	$ 8.40

The warrants and options expire at various dates ranging from June 2003 through December 2008.

Note D. Litigation

The Company is involved in a dispute with a former workers' compensation administrator and stop-loss insurer for some of the Company's subsidiaries. The administrator has alleged that they are owed claims reimbursement and administrative fees. The Company has counter-sued, claiming that the administrator was negligent in its duties as administrator of our claims, that it made payments on the Company's behalf which were specifically disallowed, that they refused to follow instructions given to them by the Company, that they failed to meet minimal acceptable standards for administering claims, and that such failures constituted a material dereliction of their responsibilities as administrator, as well as other claims related to malfeasance and negligence. In addition, the Company is requesting reimbursement for excessive administrative fees paid but not allowed under the terms of the policy. The amount and probability of any payment or settlement is unknown at this time. Among the issues being considered is the matter of currently unresolved workers' compensation claims whose estimate of potential loss may change as a result of this litigation. While management believes it has reserved an adequate amount for settlement of these claims, there is no guarantee that the Company's actual liability will not exceed its current estimate. Accordingly, these matters, if resolved in a manner different from management's estimate, could have a material adverse effect on the operating results or cash flows in the future.

From time to time, the Company is a party as plaintiff or defendant to various legal proceedings related to 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.

FLANDERS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note E. Subsequent Events

New Financing

On October 17, 2002, we signed agreements for a new credit facility with a bank, which replaced and repaid our previous $30 million revolving credit facility, which was in default at the time. The new $40 million facility consists of a $7 million term loan and a $33 million revolving credit line, both of which expire on October 17, 2007. The term loan bears interest, at our option, at either (i) LIBOR plus between 2.5% and 3%, dependent on the Company's fixed charge coverage during the prior twelve months; or (ii) the greater of the Federal Funds Effective Rate plus 0.5% or Fleet's base rate, plus between 0.5% and 1%, dependent on the Company's fixed charge coverage during the prior twelve months. The $33 million revolving credit facility bears interest at 0.25% less than the term loan. Up to $11 million of the revolving credit facility may be used to issue letters of credit. The new facility is collateralized by substantially all of the Company's assets. The new line of credit agreement requires maintenance of certain financial ratios, and restricts capital expenditures, dividends and share repurchases.

Item 2. 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 and the notes thereto presented in "Item 1 - Financial Statements," 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, 2001. 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 "Factors That May Affect Future Results" could cause actual results to differ materially from those contained in the forward-looking statements below.

Overview

Flanders is a full-range air filtration product company engaged in designing, manufacturing and marketing high performance, mid-range and standard-grade air filtration products and related products and services. Our focus has evolved from expansion through acquisition to increasing the quality and efficiency of our high-volume replacement filtration products, and using these benefits to compete more effectively in the marketplace. We also design and manufacture much of our own production equipment and produce glass-based air filter media for many of our air filtration products.

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 at the relevant balance sheet dates. Note A of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2001 describes the significant accounting policies used in preparation of the Consolidated Condensed Financial Statements. 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 reflect 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 payments due to us. 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 one or more of our customers were to deteriorate, additional allowances may be required. We value our inventories at the lower of cost or market. We have an obsolescence and valuation reserve 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, if there are changes in customer buying patterns, or if new technology or products are developed that compete with our existing inventory, additional inventory write-downs may be required. Our insurance costs are developed by management 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. We also have recorded goodwill and intangible assets related to previous acquisitions. Goodwill is tested for impairment on an annual basis and between annual tests, if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Poor operating performance of the business activities related to goodwill, other intangible assets, or long-lived assets could result in future cash flows of these assets declining below carrying values, which could require a writedown of the carrying value of these assets, which would adversely affect operating results.

Results of Operations for Three Months Ended September 30, 2002 Compared to September 30, 2001

The following table summarizes our results of operations as a percentage of net sales for the three months ended September 30, 2002 and 2001.

	Three Months Ended September 30,			
	2002		2001	
	$ (000's omitted)			
Net sales	$ 50,136	100.0%	$ 49,862	100.0%
Gross profit	10,888	21.7	10,888	21.8
Operating expenses	7,965	15.9	8,789	17.6
Operating income from continuing operations	2,923	5.8	2,099	4.2
Provision for income taxes	790	1.6	697	1.4
Earnings from continuing operations	1,185	2.4	746	1.5

Net sales: Net sales for the third quarter of 2002 increased by $274,000, or 0.5%, to $50,136,000 from $49,862,000 for the third quarter of 2001. Sales were basically unchanged in spite of acquiring additional market share among mass-market retailers, although the air filtration market as a whole has been depressed since the fourth quarter of 2001.

Gross Profit: Gross profit for the third quarter of 2002 and 2001 was unchanged at $10,888,000 .

Operating expenses: Operating expenses for the third quarter of 2002 decreased by $824,000, or 9.4%, to $7,965,000, representing 15.9% of net sales, from $8,789,000, representing 17.6% of net sales, for the third quarter of 2001. The decrease in operating expenses was caused by a decrease of approximately $200,000 of amortization of goodwill expenses caused by the Company's adoption of SFAS 142 effective January 1, 2002, and reductions in administrative staffing and other cost containment efforts.

Provision for income taxes: Our income tax provision for the third quarter of 2002 and 2001 consisted of a blended state and federal tax rate, excluding nondeductible expenses such as amortization of goodwill of approximately $200,000 during the third quarter of 2001, of approximately 40% of earnings from continuing operations before income taxes.

Results of Operations for Nine Months Ended September 30, 2002 Compared to September 30, 2001

The following table summarizes our results of operations as a percentage of net sales for the nine months ended September 30, 2002 and 2001.

	Nine Months Ended September 30, 2002		2001	
	$ (000's omitted)			
Net sales	$ 137,357	100.0%	$ 146,869	100.0%
Gross profit	30,840	22.5	32,387	22.1
Operating expenses	22,524	16.4	26,988	18.4
Operating income from continuing operations	8,316	6.1	5,399	3.7
Provision for income taxes	1,978	1.4	1,898	1.3
Earnings from continuing operations	2,967	2.2	2,173	1.5
Loss from discontinued operations	-	-	(212)	(0.1)
Net earnings	2,967	2.2	1,960	1.3

Net sales: Net sales for the first nine months of 2002 decreased by $9,512,000, or 6.5%, to $137,357,000 from $146,869,000 for the first nine months of 2001. This decrease in net sales was due to the continuation of an unexpectedly soft market that began in the fourth quarter of 2001.

Gross Profit: Gross profit for the first nine months of 2002 decreased by $1,547,000, or 4.8%, to $30,840,000, which represented 22.5% of net sales, from $32,387,000, which represented 22.1% of net sales, for the first nine months of 2001. The increase in gross profit percentage was principally attributable to price increases, the elimination of unprofitable accounts, and increases in operating efficiency in manufacturing operations, including labor force reductions, partially balanced by smaller efficiencies of scale associated with lower sales.

Operating expenses: Operating expenses for the first nine months of 2002 decreased by $4,464,000, or 16.5%, to $22,524,000, representing 16.4% of net sales, from $26,988,000, representing 18.4% of net sales, for the first nine months of 2001. The decrease in operating expenses was caused by a decrease in sales-related expenses associated with decreased revenues, a decrease of approximately $600,000 of amortization of goodwill expenses caused by the Company's adoption of SFAS 142 effective January 1, 2002, and reductions in administrative staffing and other cost containment efforts.

Provision for income taxes: Our income tax provision for the first nine months of 2002 and 2001 consisted of a blended state and federal tax rate, excluding nondeductible expenses such as amortization of goodwill of approximately $600,000 during the first nine months of 2001, of approximately 40% of earnings from continuing operations before income taxes.

Liquidity and Capital Resources

Our working capital was approximately $20,834,000 at September 30, 2002, compared to approximately $14,603,000 at December 31, 2001. This includes cash and cash equivalents of $3,614,000, at September 30, 2002 and $3,878,000 at December 31, 2001.

Our trade receivables increased $6,431,000, or 21.4%, to $36,427,000 at September 30, 2002, from $29,996,000 at December 31, 2001. Days sales outstanding, the ratio of receivables to average daily sales during the prior three months was 67 days at September 30, 2002 and 64 days at December 31, 2001. These ratios for days sales outstanding typically vary between 60 and 70 days, depending on timing differences in shipments and payments received.

Our continuing operations generated $6,897,000 and $7,992,000 of cash during the first nine months of 2002 and 2001, respectively. This decrease in operating cash flows was primarily due to receivables, which increased $6,431,000 during the first nine months of 2002 but actually decreased $249,000 during the first nine months of 2001, partially balanced by increases in net income, accounts payable and income taxes payable, included in

accrued expenses. Historically, our business is seasonal, with our second and third quarters having higher sales than our first and fourth quarters. We attempt to moderate swings in labor requirements and product shortages due to this seasonal variance by increasing inventories in the first quarter and first part of the second quarter. Larger inventories reduce the likelihood of stock shortages during our busy season and help smooth out our labor requirements. In general, we expect operations to consume cash, or generate substantially less cash than earnings before taxes, depreciation and amortization, during our first and second quarters because of increases in inventory and trade accounts receivable. Our financing activities used $5,856,000 of cash during the first nine months of 2002, primarily consisting of payments on debt. Our investing activities consumed $1,304,000 of cash during the first nine months of 2002, primarily consisting of expenditures on property and equipment, net of sales of capital equipment.

At September 30, 2002, we were in default on our $30 million working capital credit facility from two banks, which expired in August 2002 - see "Subsequent Events." As of September 30, 2002, we had used approximately $25.5 million of the $30 million working capital facility. The working capital credit facility bears interest at LIBOR, which was 1.81% at September 30, 2002, plus 3.5%.

In connection with the working capital credit facility and notes payable to a regional development authority and bank, the Company has agreed to certain restrictive covenants which include, among other things, not paying dividends, not repurchasing its stock, 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.

At times during 2002 and 2001, including at September 30, 2002 and December 31, 2001, the Company was in violation of certain financial loan covenants. The working capital credit facility was collateralized by the pledge of all common stock of the subsidiaries owned by the Company and other assets of the Company.

In 1998, the Board of Directors authorized the repurchase of up to two million shares of our common stock, which repurchase was completed in September 2000. On September 22, 2000, the Board of Directors authorized the repurchase of up to an additional two million shares of common stock through open market or negotiated transactions. Further repurchases under this program are restricted under our new line of credit agreement unless certain financial ratios are met. As of November 8, 2002, approximately 575,000 shares had been repurchased in the open market under this authorization.

Any major increases in sales may require substantial capital investment for the manufacture of filtration products. Failure to obtain sufficient capital could materially adversely impact our growth potential.

Subsequent Events

On October 17, 2002, we signed agreements for a new credit facility with Fleet Capital Corporation, which replaced and repaid our previous $30 million revolving credit facility, which was in default at the time. The new $40 million facility consists of a $7 million term loan and a $33 million revolving credit line, both of which expire on October 17, 2007. The term loan bears interest, at our option, at either (i) LIBOR plus between 2.5% and 3%, dependent on the Company's fixed charge coverage during the prior twelve months; or (ii) the greater of the Federal Funds Effective Rate plus 0.5% or Fleet's base rate, plus between 0.5% and 1%, dependent on the Company's fixed charge coverage during the prior twelve months. The $33 million revolving credit facility bears interest at 0.25% less than the term loan. Up to $11 million of the revolving credit facility may be used to issue letters of credit. The new facility is collateralized by substantially all of the Company's assets. The new line of credit agreement requires maintenance of certain financial ratios, and restricts capital expenditures, dividends and share repurchases.

Outlook

We recently announced that we had 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 interest in these products, and additional orders for these products were received in the third quarter of 2002 for shipment during the next six months. We do not know whether this interest will be sustained for a long period of time. We also do not have any reliable data upon the potential size of this developing market. Any significant trend towards requiring hardening of these types of facilities against airborne bioweapons could have a significant impact on our business.

We are currently introducing new products for the retail marketplace, primarily our Airia indoor air cleaners and WholeHouse residential air cleaning systems. In contrast to our standard retail filters, the bulk of which sell for unit prices between $0.50 and $10, these new products will sell for substantially more (between $200 and $5,000, with replacement packs ranging from $3 to $15 per month). These are new products which are substantially different in features, appearance and performance from competing products. We have no actual market data on how successful they will be, and hence have no way of estimating their impact on the financial results of the Company. Any sales of these units in significant quantities will require additional financial resources, either through equity or debt financing, to meet working capital requirements for production and sale of these products.

Sales of air filtration products for semiconductor facilities, historically a major market, are expected to be slow through the rest of 2002, with most analysts pushing recovery for this sector out to at least 2003. The current weak economy is also expected to have a dampening effect on sales of air filtration products across all product lines and end-user categories. As long as the current weakness in the economy continues, in individual market segments or the marketplace as a whole, our results will be negatively affected.

Our most common products, in terms of both 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. If our residential air cleaners are successful, we believe replacement filter sales, and the increased awareness of indoor air quality engendered by the simple presence of the air cleaners, will help to create and/or accelerate this trend.

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 below under the heading "Factors That May Affect Future Results" as well as:

* the shortage of reliable market data regarding the air filtration market,

* changes in external competitive market factors or in our internal budgeting process which might impact trends in our results of operations,

* anticipated working capital or other cash requirements,

* changes in our business strategy or an inability to execute our strategy due to unanticipated changes in the market,

* product obsolescence due to the development of new technologies, and

* various competitive factors that may prevent us from competing successfully in the marketplace.

In light of these risks and uncertainties, there can be no assurance that the events contemplated by the forward-looking statements contained in this Form 10-Q will in fact occur.

Factors That May Affect Future Results

Failure to Manage Future Growth Could Adversely Impact Our Business Due to the Strain on Our Management, Financial and Other Resources

Due to acquisitions and expansions, our net sales increased by approximately 400% from 1995 through 2001, (a compound annual growth rate of 25%). We have not continued to expand at this rate during 2002. Future growth could place a strain on our management and financial capabilities. Our ability to compete effectively and manage future growth depends on our ability to:

* recruit, train and manage our work force, particularly in the areas of corporate management, accounting, research and development and operations,

* manage production and inventory levels to meet product demand,

* manage and improve production quality,

* expand both the range of customers and the geographic scope of our customer base, and

* improve financial and management controls, reporting systems and procedures.

Any failure to manage growth effectively could have a material adverse effect on our business, financial condition and results of operations.

Any Delay in Procuring Financing for New Products or Failure to Adequately Ramp-Up Production Capacity to Meet Demand Could Adversely Impact Our Business Due to Strain on Financial Resources.

During 2002 we are introducing new products which, if successfully mass-marketed, will require large amounts of additional financing and/or capital. This financing may need to be available on short notice. Any failure to obtain such financing, or delay in financing, could cause the failure of the new products due to inability to deliver on time, and could adversely impact relationships with current major accounts. In addition, delays in an untried supply chain, new production chains, mass manufacturing difficulties with new products, and other delays common to the launch of a new product line could also adversely impact the success of the products, as well as current relationships with major accounts.

Our Plan to Centralize Overhead Functions May Not Produce the Anticipated Benefits to Our Operating Results

We are currently implementing plans to centralize and eliminate duplication of efforts between our subsidiaries in the following areas:

* purchasing,
* production planning,
* shipping coordination,
* marketing,
* accounting,
* personnel management,
* risk management, and
* benefit plan administration.

We have no assurance that cutting overhead in this fashion will have the anticipated benefits to our operating results. Additionally, we have no assurance that these reorganizations will not significantly disrupt the operations of the affected subsidiaries.

The preceding discussion should be read in conjunction with our annual report on Form 10-K, which also includes additional "Factors That May Affect Future Results" which are still applicable during the current period. Because of the foregoing factors, as well as other variables affecting our operating results, past financial performance should not be considered a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks and interest rate risks. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. For Flanders, these exposures are primarily related to the sale of product to foreign customers and changes in interest rates. We do not have any derivatives or other financial instruments for trading or speculative purposes.

The fair value of the Company's total long-term debt, including capital leases, at September 30, 2002 was approximately $48,060,000. Market risk was estimated as the potential decrease (increase) in future earnings and cash flows resulting from a hypothetical 10% increase (decrease) in the Company's estimated weighted average borrowing rate at September 30, 2002. Although most of the interest on the Company's debt is indexed to a market rate, there would be no material effect on the future earnings or cash flows related to the Company's total debt for such a hypothetical change.

We have only a limited involvement with derivative financial instruments. We have two interest rate swap agreements to hedge against the potential impact on earnings from increases in market interest rates of two variable rate bonds. Under the interest rate swap agreements, we receive or make payments on a monthly basis, based on the differential between 5.14% and a tax exempt interest rate as determined by a remarketing agent. These agreements are accounted for as a cash flow hedge in accordance with SFAS 133 and SFAS 138. Gains or losses related to ineffectiveness of the cash flow hedge are included in net income during the appropriate period related to hedge ineffectiveness. The tax effected fair market value of the interest rate swap of $1,123,000 is included in other comprehensive income. The interest rate swap contracts expire in 2013 and 2015.

The Company's financial position is not materially affected by fluctuations in currencies against the U.S. dollar, since assets held outside the United States are negligible. Risks due to changes in foreign currency exchange rates are negligible, as the preponderance of our foreign sales occur over short periods of time or are demarcated in U.S. dollars.

Item 4. Controls and Procedures

(a) Under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, the Company conducted an evaluation of its disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange

Act"), within 90 days of the filing date of this report. Based on their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective.

(b) The Company has evaluated its inventory accounting procedures and developed additional accounting control processes related to these transactions to ensure they are recorded timely and accurately in the financial statements. The Company has also developed and is currently implementing new processes and procedures to ensure that its reports under the Exchange Act are completed in a timely and accurate manner.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved in a dispute with a former benefit plan administrator (U.S. District Court, Middle District of Florida, Tampa Division, Case No. CIV 1971-T-17-F, Liberty Mutual v. Flanders Corporation et al). Liberty Mutual was the Workers' Compensation administrator and stop-loss insurer for some of the Company's subsidiaries. They have alleged that they are owed claims reimbursement and administrative fees. We have counter-sued, claiming that Liberty Mutual was negligent in its duties as administrator of our claims, that it made payments on our behalf which were specifically disallowed, that they refused to follow instructions given to them by us, that they failed to meet minimal acceptable standards for administering claims, and that such failures constituted a material dereliction of their responsibilities as administrator, as well as other claims related to malfeasance and negligence. In addition, we are requesting reimbursement of excessive administrative fees paid but not allowed under the terms of the policy. The amount and probability of any settlement or award related to this litigation is unknown at this time. Among the issues being considered is the matter of currently unresolved workers' compensation claims whose estimate of potential loss may change as a result of this litigation. While management believes it has reserved an adequate amount for settlement of these claims, there is no guarantee that the Company's actual liability will not exceed its current estimate. Accordingly, these matters, if resolved in a manner different from management's estimate, could have a material adverse effect on the operating results or cash flows in any one future accounting period.

Additionally, from time to time, we are 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.

Item 2. Changes in Securities and the Use of Proceeds - None.

Item 3. Defaults Upon Senior Securities - None.

Item 4. Submission of Matters to a Vote of Security Holders - None.

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
99.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
99.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

October 17, 2002 - Report on 8-K - Item 5 describing new credit facility.

SIGNATURES

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

Dated this 19th day of November, 2002.

FLANDERS CORPORATION

/s/ Robert R. Amerson

By:
Robert R. Amerson
President, Chief Executive Officer and Director

/s/ Steven K. Clark

By:
Steven K. Clark
Chief Operating Officer, Vice President/Chief
Financial Officer, Principal Accounting Officer
and Director

CERTIFICATION PURSUANT TO RULE 13A-14
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert R. Amerson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Flanders Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 19th, 2002.

/s/ Robert R. Amerson
____
Robert R. Amerson
President and Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13A-14
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven K. Clark, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Flanders Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 19th, 2002.

/s/ Steven K. Clark

Steven K. Clark
Chief Financial Officer