

FLANDERS CORP  
Form 10-Q  
May 02, 2008

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

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13  
OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2008  
Commission File Number. 000-27958

**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

33713

(Address of principal executive offices)

(Zip Code)

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

Indicate by check mark whether the issuer (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  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer      Accelerated filer       Non-accelerated filer      Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

The number of shares outstanding of the registrant's common stock, as of March 31, 2008 was 25,726,673.

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FORM 10-Q  
FOR QUARTER ENDED March 31, 2008

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**Item 1. Financial Statements**  
**FLANDERS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**  
(In thousands)

<b>ASSETS</b>	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	<b>(unaudited)</b>	
<b>Current assets</b>		
Cash and cash equivalents	\$ 922	\$ 498
Receivables:		
Trade, less allowance:		
3/31/2008 \$3,046; 12/31/2007 \$3,663	37,274	49,094
Other	1,179	1,260
Inventories	49,692	47,236
Deferred taxes	3,775	4,197
Income Taxes	7,468	8,549
Other current assets	3,164	2,672
<b>Total current assets</b>	<b>103,474</b>	<b>113,506</b>
<b>Property and equipment</b> , less accumulated depreciation: 3/31/2008 \$55,537; 12/31/2007 \$54,232	61,701	61,468
<b>Intangible assets</b> , less accumulated amortization: 3/31/2008 \$935; 12/31/2007 \$903	3,251	3,872
<b>Other assets</b>	6,038	4,709
	\$ 174,464	\$ 183,555
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Current maturities of long-term debt and capital lease obligations	\$ 2,768	\$ 2,736
Accounts payable	28,583	30,046
Accrued expenses	15,966	24,593
Other Current Liabilities	5,880	5,880
<b>Total current liabilities</b>	<b>53,197</b>	<b>63,255</b>
<b>Long-term capital lease obligations, less current maturities</b>	<b>772</b>	<b>943</b>
<b>Long-term debt, less current maturities</b>	<b>27,661</b>	<b>28,669</b>
<b>Long-term liabilities, other</b>	<b>2,195</b>	<b>2,112</b>
<b>Deferred taxes</b>	<b>1,105</b>	<b>1,174</b>
<b>Commitments and contingencies</b>		
<b>Stockholders equity</b>		
Preferred stock, \$.001par value, 10,000 shares authorized; none issued		
Common stock, \$.001 par value; 50,000 shares authorized; issued and outstanding:25,727 and 25,691 shares in March 31, 2008 and December 2007, respectively	26	26
Additional paid-in capital	87,195	87,305
Accumulated other comprehensive loss	(924)	(782)
Retained earnings	3,237	853
	89,534	87,402
	\$ 174,464	\$ 183,555

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
Net sales	\$ 49,194	\$ 60,248
Cost of goods sold	40,470	51,226
<b>Gross profit</b>	8,724	9,022
Operating expenses	9,276	10,983
<b>Operating loss</b>	(552)	(1,961)
Nonoperating income (expense):		
Other income	2,603	973
Interest expense	(633)	(626)
	1,970	347
<b>Earnings (Losses) before income taxes and extraordinary item</b>	1,418	(1,614)
Provision (Benefit) for income taxes	567	(641)
Income (Loss) before extraordinary item	851	(973)
Extraordinary gain on Fire (net of taxes)	1,533	962
<b>Net Earnings (Loss)</b>	\$ 2,384	\$ (11)
Income (Loss) before extraordinary item Basic earnings per share	\$ 0.03	\$ (0.04)
Extraordinary item	\$ 0.06	\$ 0.04
Net earnings (loss) per share	\$ 0.09	\$ (0.00)
Income (Loss) before extraordinary item Diluted earnings per share	\$ 0.03	\$ (0.04)
Extraordinary item	\$ 0.06	\$ 0.04
Net earnings (loss) per share	\$ 0.09	\$ (0.00)
Weighted average common shares outstanding		
Basic	25,723	26,408
Diluted	26,124	27,477

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

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Notes Receivable</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Retained Earnings</b>	<b>Total</b>
<b>Balance, January 1, 2007</b>	\$ 26	\$ 90,872	\$ (7,441)	\$ (698)	\$ 24,620	\$ 107,379
Stock option award compensation		859				859
Accrued interest on notes receivable secured by common shares			(360)			(360)
Proceeds from notes receivable secured by common stock			2,355			2,355
Purchase and retirement of 826 shares of common stock	(1)	(4,327)				(4,328)
Issuance of 1,159 shares of common stock upon exercise of options	1	2,958				2,959
Common shares issued for satisfaction of trade accounts payable		1,454				1,454
Common shares received in lieu of Equity note receivable		(5,445)	5,446			1
Loss of controlling interest in affiliate					(4,080)	(4,080)
Tax Benefit from Stock Options		934				934
Comprehensive earnings Net earnings					(19,687)	(19,687)
Gain on cash flow hedges				(84)		(84)
Total Comprehensive earnings, net of tax						(19,771)
<b>Balance, December 31, 2007</b>	\$ 26	\$ 87,305	\$ (0)	\$ (782)	\$ 853	\$ 87,402
Accrued interest on notes receivable secured by common shares						
Stock Option Award Compensation		115				115
Proceeds from notes receivable secured by common stock						
Purchase and retirement of 83 shares of common stock		(551)				(551)
Issuance of 218 shares of common stock upon exercise of options		326				326
Comprehensive earnings Net earnings					2,384	2,384
Gain on cash flow hedges				(142)		(142)
Total Comprehensive earnings, net of tax						2,242
<b>Balance, March 31, 2008</b>	\$ 26	\$ 87,195	\$ (0)	\$ (924)	\$ 3,237	\$ 89,534

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net cash provided by operating activities	\$ 3,650	\$ 4,461
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposal, net of cash disposed	(11)	-
Purchase of property and equipment	(2,045)	(2,231)
Proceeds from sale of property and equipment	3	455
Proceeds from insurance claim	-	3,000
(Increase) Decrease in notes receivables	-	(2)
(Increase) Decrease in other assets	199	(5)
Net cash provided by (used in) investing activities	(1,854)	1,217
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term borrowings	(145)	(814)
Net payments on revolving credit agreement	(1,002)	(4,345)
Purchase and Retirement of Common Stock	(281)	-
Proceeds from Sales of Common Stock	56	-
Net cash used in financing activities	(1,372)	(5,159)
Net increase in cash and cash equivalents	424	519
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of period	498	568
End of period	\$ 922	\$ 1,087
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the period for:		
Income taxes	\$ 51	\$ 46
Interest	\$ 564	\$ 607
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Sale of equipment for note receivable	\$ 83	\$ -
Cashless exercise of common stock (Net)	\$ (270)	\$ -
Offset of accrued expenses against trade accounts receivable	\$ 7,211	\$ -
Stock issued in lieu of trade accounts payable	\$ -	\$ 1,454
<b>DISPOSAL OF COMPANIES</b>		
Working Capital surplus disposed, net of cash and cash equivalents disposed	466	-

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Fair value of other assets disposed, principally property and equipment	119	-
Goodwill disposed	589	-
Minority interest	141	-
	\$ 1,315	\$ -

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**Note A. Nature of Business and Interim Financial Statements**

Nature of business:

The Company designs, manufactures and markets air filters and related products, and is focused on providing environmental filtration systems for end uses ranging from controlling contaminants in residences and commercial office buildings through specialized manufacturing environments for semiconductors, pharmaceuticals and nuclear related activities. 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 various fiber based air filter media for many of its products. These medias include various grades of HEPA media and pleat media. 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 clean room contractors. These sales are accounted for as domestic sales. The Company also sells products through foreign distributors, primarily in Europe, the Pacific Rim and the Far East. 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.

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, 2007. 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 months ended March 31, 2008 may not be indicative of the results that may be expected for the year ending December 31, 2008.

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., supplemental stock offerings) and distributions to owners (e.g., dividends).

As of March 31, 2008, accumulated comprehensive loss consisted of the following:

Balance at December 31, 2007	\$ (782)
Net change during the period related to cash flow hedges	(142)
Balance at March 31, 2008	\$ (924)

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.

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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.

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Prior to February 1, 2008, Air Filter Sales and Service, Inc. was 39% owned by Flanders Corporation and 61% was owned by other shareholders unrelated to the Company or any of its officers and directors. As of February 1, 2008, Air Filter Sales and Service, Inc. ceased to be consolidated, due to the Stock Purchase Agreement dated February 1, 2008. The accompanying financial statements present the consolidated result including Air Filter Sales and Service, Inc. up until February 1, 2008 with all intercompany transactions eliminated. After that date the financial statements do not include the financial results of Air Filter Sales and Service, Inc. The revenues and expense of Air Filter Sales and Service, Inc. through February 1, 2008 were \$254 and \$216, respectively. The revenues and expense for the quarter ended March 31, 2007 were \$731 and \$714, respectively.

### 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 affected fair market value of the interest rate swaps of \$924 at March 31, 2008 is included in other comprehensive loss. This fair value was determined using level 1 inputs as defined in SFAS No. 157. The interest rate swap contracts expire in 2013 and 2015.

### 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; specifically SAB Topic 13A.

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.

### Advertising costs:

Advertising costs are charged to operations when incurred and are included in operating expenses. Advertising costs for the quarters ended March 31, 2008 and 2007 were \$1,280 and \$1,007, respectively.

### Impact of Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 157 Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expanded disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. We have adopted SFAS No. 157 on January 1, 2008. The adoption of SFAS No. 157 did not have a



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material impact on the Company's financial statements or condition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities - Including an Amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities at fair value. Unrealized gains and losses, arising subsequent to adoption, are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. SFAS No. 159 was effective for us in the first quarter of 2008. The adoption of SFAS No. 159 did not have a material impact on our financial statements or condition.

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### Stock Options and Warrants:

The following table summarizes the activity related to all Company stock options and warrants for the three months ended March 31, 2008 and the year ended December 31, 2007:

	Stock		Exercise Price		Weighted Average	
	Warrants	Options	Warrants	Options	Warrants	Options
				per Share		per Share
Outstanding at January 1, 2007	-	5,752	-	\$ 1.50 - 11.72	-	\$ 6.08
Granted	-	620	-	4.99 - 9.52	-	5.23
Exercised	-	(1,105)	-	1.50 - 5.21	-	2.55
Canceled or expired	-	(2,000)	-	7.50 - 11.10	-	8.68
Outstanding at December 31, 2007	-	3,267	-	1.74 - 11.72	-	5.53
Granted	-	11	-	5.71 - 5.71	-	5.71
Exercised	-	(118)	-	1.74 - 5.21	-	2.76
Canceled or expired	-	(265)	-	3.93 - 11.72	-	9.23
Outstanding at March 31, 2008	-	2,895	-	2.50 - 11.72	-	\$ 5.30
Exercisable at March 31, 2008	-	2,520	-	2.50 - 11.72	-	\$ 5.34

The options expire at various dates ranging from August 2008 through December 2017.

### Share-Based Compensation

As of March 31, 2008, total unrecognized stock-based compensation expense related to non-vested stock options was \$1,031.

The following table represents our non-vested stock option activity for the three months ended March 31, 2008:

	Number of	Weighted Average
	Options	Grant Date
		Fair Value
Nonvested options - December 31, 2007	400	\$ 4.99
Granted	-	\$ -

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Vested	(25)	\$	(4.99)
Forfeited	-	\$	-
Nonvested options - March 31, 2008	375	\$	-

The aggregate intrinsic value of options outstanding at March 31, 2008, based on the Company's closing stock price of \$6.09 as of the last business day of the period ended March 31, 2008, which would have been received by the optionees had all options been exercised on that date was \$4,343. The aggregate intrinsic value of options exercisable at March 31, 2008, based on the Company's closing stock price of \$6.09 as of the last business day of the period ended March 31, 2008, which would have been received by the optionees had all options exercisable been exercised on that date was \$3,931. The aggregate intrinsic value of options exercised during the three months ended March 31, 2008 was \$402. Intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of the options.

Options on 1,180 shares of common stock were not included in computing diluted EPS for the quarter period ended March 31, 2008, because their effects were anti-dilutive.

**Note B. Inventories**

Inventories consist of the following at March 31, 2008 and December 31, 2007:

	3/31/2008	12/31/2007
Finished goods	\$ 28,294	\$ 27,209
Work in progress	3,107	3,254
Raw materials	20,624	19,631
	52,025	50,094
Less allowances	2,333	2,858
	\$ 49,692	\$ 47,236

**Note C. Pledged Assets and Debt**

As of March 31, 2008 the Company's total obligations to Bank of America were approximately \$15,016. All obligations to Bank of America mature in October 2009. The Company is in compliance with its debt covenants on all notes as of March 31, 2008.

**Note D. Extraordinary Loss on Fire**

In April 2006, a manufacturing facility in Texas was destroyed by fire and in June of 2006, another manufacturing facility was damaged by flood. In July 2007 another manufacturing facility in Florida was destroyed by fire. The extraordinary gain of \$1,533 was calculated as the gain on the costs that were attributable to these natural disasters (\$975) that were less than the insurance proceeds (\$3,529), net of taxes of \$1,021. This extraordinary item will be subject to change as the insurance claims process progresses for the claim.

**Note E. Income Taxes**

The IRS is currently examining the Company's federal income tax returns of 2002, 2003, 2004, 2005, and 2006. To date the IRS has not proposed any material adjustments for the 2004 through 2006, however, for the 2002 and 2003 examination, the IRS has proposed certain changes, resulting in additional liabilities due. The Company has submitted a petition to the IRS for a redetermination of the changes with the U.S. Tax Court. These liabilities have been included in the Company's FIN 48 liability which is included in other current liabilities.

**Note F.           Litigation**

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.

**Note G.           Subsequent Events**

*Bartow Fire Settlement*

On April 29, 2008, the Company received a check in the amount of \$12 million representing the final payment in full settlement of the Bartow fire claim.

*Sale of Clarkton Media*

On April 30, 2008, the Company sold its Clarkton Media plant for approximately \$9.7 million.

**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 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, 2007. 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 and Outlook 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 various grades of HEPA media and pleat media for many of our air filtration products.

**Critical Accounting Policies**

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

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We maintain allowances 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. Actual results could differ materially from this estimate, making it reasonably possible that a change in this estimate could occur in the near term.

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

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completion. Sales and gross profit are adjusted prospectively for revisions in estimated total contract costs and contract values. Estimated losses are recorded when identified.

### Results of Operations for Three Months Ended March 31, 2008 Compared to March 31, 2007

The following table summarizes our results of operations as a percentage of net sales for the three months ended March 31, 2008 and 2007.

	Three Months Ended March 31,			
	2008		2007	
Net sales	\$ 49,194	100.0%	\$ 60,248	100.0%
Gross profit	8,724	17.7	9,022	15.0
Operating expenses	9,276	18.9	10,983	18.2
Operating loss	(552)	(1.1)	(1,961)	(3.3)
Nonoperating income (expense)	1,970	4.0	347	0.6
Provision (Benefit) for income taxes	567	1.2	(641)	(1.1)
Extraordinary gain on Fire and Flood (net of taxes)	1,533	3.1	962	1.6
Net earnings (loss)	2,384	4.8	(11)	(0.0)

*Net sales:* Net sales for the first quarter of 2008 decreased by \$11,054, or 18.3%, to \$49,194 from \$60,248 for the first quarter of 2007. Sales were down during the first quarter of 2008 compared to the first quarter of 2007 due to the release of our EnergyAire and nested products during the first quarter of 2007 as well as a general downturn in the economy. Additionally, our ability to produce enough product and ship to our customers was negatively impacted by the fire which destroyed our Florida manufacturing facility in 2007.

*Gross Profit:* Gross profit for the first quarter of 2008 increased by \$298, or 3.3%, to \$8,724, which represented 17.7% of net sales, from \$9,022, which represented 15% of net sales, for the first quarter of 2007. The Company continued to evaluate cost saving measures and consolidated certain locations which resulted in cost savings. Additionally there were certain direct sales offices that were sold which contributed to better

margins during the first quarter of 2008.

*Operating expenses:* Operating expenses for the first quarter of 2008 decreased by \$1,707, or 15.5%, to \$9,276, representing 18.9% of net sales, from \$10,983, representing 18.2% of net sales, for the first quarter of 2007. The increase in operating expenses as a percentage of sales is up slightly from 18.2% as of the first quarter 2007 to 18.9% as of the first quarter 2008 due mainly to increased fuel costs and settlement of certain workers compensation claims.

*Nonoperating income (expense):* Net nonoperating income (expense) for the first quarter of 2008 increased by \$1,623, to \$1,970 representing 4.0% of net sales, from \$347, representing 0.6 % of net sales, for the first quarter of 2007 due to the Company settling trade accounts payable with Superior Diecutting, Inc. for less than what was owed combined with the sale of two direct offices for a gain.

*Provision for income taxes:* The IRS is currently examining the Company's federal income tax returns of 2004, 2005, and 2006. To date the IRS has not proposed any material adjustments for the 2004 through 2006. For the 2002 and 2003 examination, the IRS has proposed certain changes, resulting in additional liabilities due. The Company has submitted a petition for a redetermination of the changes with the U.S. Tax Court. Our provision for the three months of 2008 and 2007 were a blended state and federal rate of approximately 40% of pretax earnings and losses.

*Extraordinary gain on Fire (net of taxes):* The extraordinary gain of \$1,533 was calculated as the gain on the costs that were attributable to these natural disasters (\$975) that were less than the insurance proceeds (\$3,529), net of taxes of \$1,021.

### **Liquidity and Capital Resources**

Our working capital was approximately \$50,277 at March 31, 2008, compared to approximately \$50,251 at December 31, 2007. This

includes cash and cash equivalents of \$922, at March 31, 2008 and \$498 at December 31, 2007.

Our trade receivables decreased \$11,820, or 24.1% to \$37,274 at March 31, 2008, from \$49,094 at December 31, 2007. Receivable levels decreased during the first quarter due to offsetting an accrued rebate expense for one of our large customers against the open trade receivables from that same customer. Additionally, the sales decrease during the first quarter of 2008 has resulted in a reduced trade receivables balance. Trade receivables are typically higher during the second and third quarters due to higher sales volume however, our sales volume typically decreases during the fourth and first quarters. This typical swing in trade receivables was impacted by the transactions discussed above.

Inventories increased \$2,457, or 5.2%, to \$49,692 at March 31, 2008 from \$47,236 at December 31, 2007. The increase in inventory was primarily due to the increase in the reserve estimate for bad inventory during the fourth quarter of 2007 offset by the Company typically carrying higher inventory levels at year end due to delayed orders and lower sales volume than expected at the end of the previous year.

Our continuing operations provided \$3,650 and \$4,461 of cash during the first quarter of 2008 and 2007, respectively. The decrease in cash flows from operating activities was primarily due to an increase in inventory levels offset by a decrease in accrued expenses.

Our financing activities consumed \$1,372 of cash during the first quarter of 2008, primarily consisting of payments on the line of credit and payments on other long term borrowings from the cash generated from the Company's operating activities. Our investing activities consumed \$1,854 of cash during the first quarter of 2008, primarily due to purchase of property and equipment.

Our current revolving credit agreement with a bank provides a maximum line of credit of \$36 million (subject to availability) and bears interest at either (i) LIBOR plus between 1.75% and 2.25%, dependent on the Company's fixed charge coverage during the prior twelve months; or (ii) the bank's base rate, plus between 0% and .5%, dependent on the Company's fixed charge coverage during the prior twelve months. Up to \$11 million of this credit facility may be used to issue letters of credit. The revolving credit agreement is part of a combined facility with a bank that also includes an \$11 million facility to guarantee letters of credit. The line of credit is due in 2009. The combined facility is collateralized by substantially all of the Company's assets, is guaranteed by the Company's majority stockholder and restricts capital expenditures, payment of dividends and share repurchases. As of March 31, 2008 the Company is in compliance with its financial covenants.

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 March 31, 2008 the financial covenants of the Company have are in compliance.

We believe that our cash on hand, cash generated by operations, and cash available from our existing credit facilities is sufficient to meet the capital demands of our current operations during the 2008 fiscal year. Any major increases in sales, particularly in new products, may require substantial capital investment for the manufacture of filtration products. Failure to obtain sufficient capital could materially adversely impact our growth potential.

## Outlook

Global Containment Systems, Inc. (GCS), which manufactures critical environments for the nuclear, pharmaceutical and semi conductor industries, was rolled into Charcoal Services Corporation, Inc., a wholly-owned subsidiary of Flanders Corporation during the first quarter of 2008. Our expansion related to these industries is currently on hold until demand for these critical products exceeds our current capacity.

Additionally, during the first quarter of 2008, the Company closed down Flanders Complete Service Division (Flanders CSD), an air filtration service provider. Flanders CSD offered weekly, monthly and quarterly service contracts for clean room and glove box certification; commercial, industrial, retail and residential surveys; and complete filtration management.

During the past three years, we have captured additional market share among big box retailers like The Home Depot and Wal-Mart, capitalizing on our ability to service national accounts from regional distribution centers and our improved on-time delivery performance. 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 bio-containment products for use as part of a system for hardening government buildings, commercial office complexes and public venues against airborne bio-weapons such as anthrax and smallpox. Any interest towards hardening these types of facilities against airborne bio-weapons could have a significant impact on our business.

Sales of air filtration products for semiconductor facilities, historically a major market, are expected to be slow again during 2008, with most analysts pushing recovery for this sector out until 2009.

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 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, and our Arm&Hammer® co-branded product, 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

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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 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 are expected to significantly reduce our labor related costs.

The Company has secured a contract with Lowe's to sell its fiberglass and pleat filters. The Company will begin shipping this account in May 2008.

This Outlook section, and other portions of this Form 10-Q, 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 Factors That May Affect Future Results in our Form 10-K for 2007 and in Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes to Consolidated Financial Statements in our 2007 Annual Report and in this Form 10-Q 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,

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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.  
catastrophic losses due to fire, floods or other factors beyond our control.

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.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to various market risks, primarily changes in interest rates. Market risk is the potential loss arising from adverse change in market rates and prices, such as foreign currency exchange and interest rates. For Flanders, these exposures are primarily related to changes in interest rates. We do not hold 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 and current maturities of long-term debt, at March 31, 2008 was approximately \$31,201. 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 March 31, 2008. 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.

The Company has only a limited involvement with 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 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. The tax effected fair market value of the interest rate swap of \$924 is included in Accumulated other comprehensive loss on the balance sheet. 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**

*Evaluation of Disclosure Controls and Procedures*

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 the effectiveness of the design and operations of its disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report. Based on their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective such that the material information required to be included in our Securities and Exchange Commission (SEC) reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

*Changes in Internal Control Over Financial Reporting*

There were no changes in the Company's internal control over financial reporting during the first quarter of 2008, which were identified in connection with management's evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings.**

From time to time, we are a party to various legal proceedings incidental to our business. None of the current proceedings in which we are involved are material to our business, operations or financial condition.

**Item 1A. Risk Factors**

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, including, but not limited to those set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results. For a discussion identifying additional risk factors and important factors that could cause actual results to differ materially from those anticipated, see the discussion in *Factors That May Affect Future Results* in our Form 10-K for 2007 and in *Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Notes to Consolidated Financial Statements* in our 2007 Annual Report and in this Form 10-Q.

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

If our business expands in the future, the additional growth will place burdens on management to manage such growth while maintaining profitability. 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.

*Failure to Adequately Ramp-Up Production Capacity to Meet Demand Could Adversely Impact Our Business Due to Strain on Financial Resources.*

Any delays in an untried supply chain, new production chains, 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 Business May Suffer If Our Competitive Strategy is Not Successful*

Our continued success depends on our ability to compete in an industry that is highly competitive. This competition may increase as new competitors enter the market. Several of our competitors may have longer operating histories and greater financial, marketing and other resources than we do. Additionally, our competitors may introduce new products or enhancements to products that could cause a decline in sales or loss of market acceptance of our existing products. Under our current competitive strategy, we endeavor to remain competitive by:

increasing our market share,  
expanding our market through the introduction of new products which require periodic replacement, and  
improving operating efficiencies.

Although our executive management team continues to review and monitor our strategic plans, we have no assurance that we will be able to follow our current strategy or that this strategy will be successful.

*Our Business May Suffer if Our Strategy to Increase the Size and Customer Base of the Air Filtration Market is Unsuccessful*

We are developing new products as part of our strategy to increase the size and customer base of the air filtration market. We have no assurance that this strategy will be successful. We have no guarantee that any new products we develop will gain acceptance in the

marketplace, or that these products will be successful. Additionally, we have no assurance we will be able to recoup the expenditures associated with the development of these products. To succeed in this area we must:

increase public awareness of the issues surrounding indoor air quality,  
adequately address the unknown requirements of the potential customer base,  
develop new products that are competitive in terms of price, performance and quality, and  
avoid significant increases in current expenditure levels in development, marketing and consumer education.

*We May Experience Critical Equipment Failure Which Could Have a Material Adverse Effect on Our Business*

If we experience extended periods of downtime due to the malfunction or failure of our automated production equipment, our business, financial condition and operations may suffer. We design and manufacture much of the automated production equipment used in our facilities. We also use other technologically advanced equipment for which manufacturers may have limited production capability or service experience. If we are unable to quickly repair our equipment or quickly obtain new equipment or parts from outside manufacturers, we could experience extended periods of downtime in the event of malfunction or equipment failure.

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

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We are currently completing the implementation of plans to centralize overhead functions 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.

### *Our Success Depends on Our Ability to Retain and Attract Key Personnel*

Our success and future operating results depend in part upon our ability to retain our executives and key personnel, many of whom would be difficult to replace. Our success also depends on our ability to attract highly qualified engineering, manufacturing, technical, sales and support personnel for our operations. Competition for such personnel, particularly qualified engineers, is intense, and there can be no assurance that we will be successful in attracting or retaining such personnel. Our failure to attract or retain such persons could have a material adverse effect on our business, financial condition and results of operations.

### *Our Current Distribution Channels May be Unavailable if Our Manufacturers' Representatives Decide to Work Primarily With One of Our Competitors*

We provide our manufacturers' representatives with the ability to offer a full product line of air filtration products to existing and new customers. Some of our competitors offer similar arrangements. We do not have exclusive relationships with all of our representatives. Consequently, if our representatives decide to work primarily with one of our competitors, our current distribution channels, and hence, our sales, could be significantly reduced.

### *We May be Required to Issue Stock in the Future That Will Dilute the Value of Our Existing Stock*

We have granted options to purchase a total of 2,895,000 shares of common stock to various parties with exercise prices ranging from \$2.50 to \$11.72 per share. The majority of these options are currently exercisable. Additionally, if the option holders exercise their options, the interests of current shareholders may be diluted.

### *Our Shareholders May Not Realize Certain Opportunities Because of Our Charter Provisions and North Carolina Law*

Our Articles of Incorporation and Bylaws contain provisions that are designed to provide our Board of Directors with time to consider

whether a hostile takeover offer is in our best interest and the best interests of our shareholders. These provisions may discourage potential acquisition proposals and could delay or prevent a change of control in our business. Additionally, we are subject to the Control Shares Acquisition Act of the State of North Carolina. This act provides that any person who acquires control shares of a publicly held North Carolina corporation will not have voting rights with respect to the acquired shares unless a majority of the disinterested shareholders of the corporation vote to grant such rights. This could deprive shareholders of opportunities to realize takeover premiums for their shares or other advantages that large accumulations of stock would typically provide.

### *Our Business Can be Significantly Affected by Environmental Laws*

The constantly changing body of environmental laws and regulations may significantly influence our business and products. These laws and regulations require that various environmental standards be met and impose liability for the failure to comply with such standards. While we

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endeavor at each of our facilities to assure compliance with environmental laws and regulations, and are currently not aware of any ongoing issues of this nature, we cannot be certain that our operations or activities, or historical operations by others at our locations, will not result in civil or criminal enforcement actions or private actions that could have a materially adverse effect on our business. We have, in the past, and may, in the future, purchase or lease properties with unresolved potential violations of federal or state environmental regulations. In these transactions, we have been successful in obtaining sufficient indemnification and mitigating the impact of the issues without recognizing significant expenses associated with litigation and cleanup. However, purchasing or leasing these properties requires us to weigh the cost of resolving these issues and the likelihood of litigation against the potential economic and business benefits of the transaction. If we fail to correctly identify, resolve and obtain indemnification against these risks, they could have a material adverse impact on our financial position.

### *Fire disruptions may adversely affect our business*

Our raw materials and manufacturing process involves a risk of fire loss or disruption. We have recently experienced two fires. In April 2006, a manufacturing facility in Texas was destroyed by fire. In July 2007, a manufacturing facility in Bartow, Florida was destroyed by fire. To date we have been able to mitigate the effects of fires and floods by transferring manufacturing, warehousing and shipping to other facilities. Our management has advised us that to date we have been insured against the losses caused by such fires. Although we intend to increase security and increase fire protection equipment at our facilities, another major fire could occur and materially affect our operations. Furthermore, there is no assurance that we will be able to maintain business interruption, loss of income and physical damage insurance in sufficient amounts to fully recoup losses caused by fire or other natural disasters. It is an event of default under our credit facility with Bank of America if we are not fully insured for any loss, theft, damage or destruction to our assets, subject to agreeable insurance deductibles, that exceeds \$200.

### *Covenants in our credit facilities could restrict our ability to borrow additional funds, which could impair the improvement and expansion of our operations*

Certain covenants in our credit facility with Bank of America restrict the types and amounts of additional indebtedness that we may incur. In addition, the credit facility contains specific financial covenants. These restrictions could inhibit our ability to improve and expand our operations. Our credit facility with Bank of America matures in October 2009. There is no assurance that we will be able to maintain covenant compliance, negotiate extensions to this credit facility or find a replacement credit facility on comparable terms. We pledged substantially all of our assets as security for the Bank of America credit facility.

### *A significant amount of our leased physical facilities are owned by Mr. Amerson.*

We are the lessee under a series of six (6) real estate operating leases for approximately 1,006,000 square feet of warehousing, shipping and manufacturing facilities, expiring in 2025, 2026 or 2027 with Wal-Pat II, LLC ( Wal-Pat ), an entity owned by Robert R. Amerson. Mr. Amerson is our CEO and Chairman of our Board of Directors and beneficially owned approximately 29.6% of our outstanding common shares as of December 31, 2007.

Our aggregate monthly base lease payment obligation to Wal-Pat is approximately \$221. Our total remaining aggregate obligation under the Wal-Pat operating leases is approximately \$47,859. These amounts exclude any obligations for payment of real estate taxes and repairs and maintenance, which are our responsibility as the lessee.

In September 2007, we entered into a Master Lease Modification Agreement with Wal-Pat, which requires Wal-Pat to notify us at least thirty (30) days in advance of any future proposed sale of any of the premises or a proposed sale of a majority of the equity interests in

Wal-Pat. In such event, we have the right to accept, renegotiate or terminate the leases. We were granted a future right of first refusal in connection with a sale of any of the leased Wal-Pat facilities. In the event of a future sale of Flanders, which includes a merger, sale of substantially all of our assets or acquisition of greater than 50% of our shares, by a party other than Mr. Amerson, then Flanders is granted the right to terminate or renegotiate the terms of the Wal-Pat leases. We also have a fair market value purchase option for the facilities we lease from Wal-Pat.

A default by us under the terms of any of these leases or a default by Wal-Pat, or Mr. Amerson, as guarantor on their obligations to BB&T, the financial institution which holds mortgages and deeds of trust on these properties, could adversely affect our leasehold interests in these properties. Mr. Amerson has pledged 5,128,103 of our common shares as security to BB&T in order to facilitate the financings to Wal-Pat, other personal loans, and the acquisition of Mr. Clark's shares.

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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.

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.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs *	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Jan 1 Jan 31, 2008				1,397,346
Feb 1 Feb 29, 2008	41,881	6.70	41,881	1,355,465
Mar 1 Mar 31, 2008				1,355,465
Total				1,355,465

\* The Plan announced September 22, 2000 authorized the repurchase of up to 2 million shares of common stock. This table excludes the repurchase of 2,959 shares during the first quarter related to cashless exercise of options.

**Item 3. Defaults Upon Senior Securities - None.**

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

**Item 5. Other Information Subsequent Events**

*Bartow Fire Settlement*

On April 29, 2008, the Company received a check in the amount of \$12 million representing the final payment in full settlement of the Bartow fire claim.

*Sale of Clarkton Media*

On April 30, 2008, the Company sold its Clarkton Media plant for approximately \$9.7 million.

**Item 6. Exhibits**

**Exhibit No. Description**

3.1 Articles of Incorporation for Flanders Corporation, filed with Form 8-A dated March 8, 1996, incorporated herein by reference.

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- 3.2 Bylaws of Flanders Corporation, filed with Form 8-A dated March 8, 1996, incorporated herein by reference.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 32 Certification of the Chief Executive Officer and Chief Accounting Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- 99.1 Separation Agreement and Mutual Release with Steve Clark effective September 30, 2007 (see Form 8-K filed on October 5, 2007).

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**SIGNATURES**

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

Dated this 2nd day of May, 2008.

**FLANDERS CORPORATION**

By: /s/ Robert Amerson

Robert Amerson  
Chief Executive Officer

By: /s/ Cully Bohush

Cully Bohush  
Chief Accounting Officer/Principal Accounting Officer

