

FLANDERS CORP
Form DEF 14A
November 13, 2007

Schedule 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

FLANDERS CORPORATION

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

November 14, 2007

Dear Shareholders:

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You are cordially invited to attend the annual meeting of the shareholders of Flanders Corporation (the Company) to be held at 2399 26th Avenue North, St. Petersburg, Florida 33713 on Monday, December 17, 2007, at 10:00 a.m. local time. The purposes of the annual meeting are:

1. To elect five (5) directors of the Company;
2. To approve the adoption of the 2007 Equity Incentive Plan; and
3. To transact any other business that may properly be presented at the annual meeting.

If you were a shareholder of record at the close of business on October 19, 2007, you may vote at the annual meeting. The foregoing items of business are more fully described in the proxy statement attached to this notice.

Whether or not you expect to attend the annual meeting, and regardless of the number of shares you own, we urge you to read the attached proxy statement and to promptly date, sign and mail the enclosed proxy card in the envelope provided.

Sincerely,

/s/ Robert R. Amerson
Robert R. Amerson
Chairman of the Board of Directors
President and Chief Executive Officer

FLANDERS CORPORATION

2399 26th Avenue North, Saint Petersburg, Florida 33713

NOTICE OF

ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of the shareholders of Flanders Corporation will be held at 2399 26th Avenue North, St. Petersburg, Florida 33713 on Monday, December 17, 2007, at 10:00 a.m. local time. At the annual meeting, you will be asked to:

1. Elect five (5) directors of the Company;
2. Approve the adoption of the 2007 Equity Incentive Plan; and
3. Transact any other business that may properly be presented at the annual meeting.

If you were a shareholder of record at the close of business on October 19, 2007, you may vote at the annual meeting and at any postponements or adjournments thereof.

You are cordially invited to attend the annual meeting. Your vote is important. If you plan to attend the annual meeting, please notify me so that I can prepare identification for you.

Whether you plan to attend or not, please mark, sign, date, and promptly return the enclosed proxy card. A return envelope, which requires no postage, if mailed in the United States, has been provided for your use.

Thank you for your participation,

/s/ Cully Bohush
Cully Bohush
Chief Accounting Officer
Flanders Corporation

November 14, 2007

FLANDERS CORPORATION

2399 26th Avenue North

Saint Petersburg, Florida 33713

PROXY STATEMENT

GENERAL INFORMATION

Flanders Corporation, a North Carolina corporation (the Company), is soliciting this proxy on behalf of its Board of Directors for use at the 2006 Annual Meeting of shareholders to be held on Monday, December 17, 2007, at 10:00 a.m. local time, at 2399 26th Avenue North, St. Petersburg, Florida 33713, and at any adjournments thereof. This proxy statement, the proxy card, the Company's 2006 Annual Report on Form 10-K and the Company's 2007 Quarterly Report for the period ended September 30, 2007 will be mailed to shareholders beginning on or about November 14, 2007.

VOTING PROCEDURES

Record holders of shares of the Company's common stock, par value \$.001 per share, at the close of business on October 19, 2007, may vote at the meeting. Each shareholder has one vote for each share of common stock the shareholder owns. At the close of business on November 1, 2007, there were approximately 25,896,729 shares of common stock outstanding and entitled to vote at the meeting.

Votes cast by proxy or in person at the annual meeting will be tabulated by the inspectors of election appointed for the meeting who will also determine whether or not a quorum is present. The Company's Bylaws provide that the holders of a majority of the issued and outstanding shares of the Company entitled to vote, represented in person or by proxy, constitute a quorum at any shareholders' meeting. Abstentions and broker non-votes are counted as present for establishing a quorum, but as unvoted for determining the approval of any matter submitted to the shareholders for vote. A broker non-vote occurs when a broker votes on some matters on the proxy card but not on others because he does not have the authority to do so.

You may vote in the following ways:

Vote Over the Internet

If your shares are held in the name of a broker, bank or other nominee: Vote your Company shares over the Internet by accessing the website given on the proxy card you received from such broker, bank, or other nominee. You will need the control number that appears on your proxy card when you access the web page.

Vote by Returning Your Proxy Card

You may vote by signing and returning your proxy card. The proxy holders will vote your shares according to your directions. If you sign and return your proxy card without specifying choices, your shares will be voted as recommended by the Board of Directors. If you wish to give a proxy to someone other than those designated on the proxy card, you may do so by crossing out the names of the designated proxies and inserting the name of another person. The person representing you should then present your signed proxy card at the meeting.

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Vote by Ballot at the Meeting

You may also attend the meeting and vote by a ballot that you will receive at the meeting.

If You Change Your Mind After Voting

You can revoke your proxy at any time before it is voted. Proxies are voted at the Annual Meeting. You can write to the Corporate Secretary, 2399 26th Avenue North, Saint Petersburg, Florida 33713, stating that you wish to revoke your proxy and that you need another proxy card. More simply, you can vote again over the Internet. Your last vote is the vote that will be counted. If you attend the meeting, you may vote by ballot, which will cancel your previous proxy vote.

INFORMATION ABOUT THE ANNUAL MEETING

Who is entitled to vote?

The record date for the meeting is October 19, 2007. Only stockholders of record at the close of business on that date are entitled to vote at the meeting.

Am I entitled to vote if my shares are held in street name ?

Yes, if a bank or brokerage firm holds your shares in street name for you, you are considered the beneficial owner of the shares. If your shares are held in street name, these proxy materials are being forwarded to you by your bank or brokerage firm (the record holder), along with a voting instruction card. As the beneficial owner, you have the right to direct the record holder how to vote your shares, and the record holder is required to vote your shares in accordance with your instructions.

What if I do not give my bank or brokerage firm voting instructions for my shares held in street name ?

If you do not give instructions to your bank or brokerage firm, it will nevertheless be entitled to vote your shares in its discretion on routine matters. For purposes of this annual meeting, the Company has determined that the election of directors (Proposal 1), is a routine matter. However, absent your instructions, the record holder will not be permitted to vote your shares on non-routine matters, which are referred to as broker non-votes, including the proposal to approve the 2007 Equity Incentive Plan (Proposal 2) and any other non-routine matter properly brought before the meeting. Broker non-votes (shares held by brokers that do not have discretionary authority to vote on the matter and have not received voting instructions from their clients) are not counted or deemed to be present or represented for the purpose of determining whether stockholders have approved that proposal.

May I attend the annual meeting if I hold my shares in street name ?

As the beneficial owner of shares, you are invited to attend the annual meeting. If you are not a record holder, however, you may not attend the meeting or vote your shares in person at the meeting unless you obtain a proxy, executed in your favor, from the record holder of your shares. See Who can attend the meeting? below.

How many shares must be present to hold the meeting?

A quorum must be present at the meeting for any business to be conducted. The presence at the meeting, in person or by proxy, of the holders of a majority of our outstanding shares as of the record date, will constitute a quorum. Proxies received but marked as abstentions or treated as broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting for quorum purposes.

What if a quorum is not present at the meeting?

If a quorum is not present or represented at the meeting, the holders of a majority of the shares entitled to vote at the meeting who are present in person or represented by proxy or the chairman of the meeting may adjourn the meeting until a quorum is present or represented. The time and place of the adjourned meeting will be announced at the time the adjournment is taken, and no other notice may be given.

How do I vote if I am a registered stockholder?

1. You may vote by mail. If you are a registered stockholder (that is, if you hold your stock directly and not in street name), you may vote by mail by completing, signing and dating the accompanying proxy card and returning it in the enclosed postage prepaid envelope. Your proxy will then be voted at the annual meeting in accordance with your instructions.

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2. You may vote by Internet. *If your shares are held in the name of a broker, bank or other nominee:* Vote your Company shares over the Internet by accessing the website given on the proxy card you received from such broker, bank or other nominee. You will need the control number that appears on your proxy card when you access the web page.

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NOTE: If you vote on the Internet, you may elect to have next year's proxy statement and annual report to stockholders delivered to you via the Internet. We strongly encourage you to enroll in Internet delivery. It is a cost-effective way for us to send you proxy materials and annual reports.

3. You may vote in person at the meeting. If you are a registered stockholder and attend the meeting you may deliver your completed proxy card in person.

What materials should I be receiving in connection with the meeting?

You will receive this proxy statement and the accompanying form of proxy. The proposed 2007 Equity Incentive Plan is attached as Appendix A to this proxy statement. In addition you will receive a copy of our Form 10-K for December 30, 2006 and our Form 10-Q for the nine months ended September 30, 2007.

In order to reduce printing and postage costs, ADP Investor Communication Services, or ADP, which handles the mailing of our proxy materials to those who hold our shares through a broker or bank or in street name, has undertaken an effort to deliver only one proxy statement to multiply stockholders who hold their shares in street name and who share the same address. This delivery method, called householding, is not being used, however, if ADP has received contrary instructions from one or more of our stockholders who share an address. We do not provide for householding directly for stockholders of record.

If your household has received only one proxy statement, we will promptly deliver a separate copy of the proxy statement at no charge to any stockholder who sends a written request to us at 2399 26th Avenue North, St. Petersburg, Florida 33713, Attn: Cully Bohush. You may also notify ADP that you would like to receive separate copies of our proxy statements in the future by writing or calling your bank or broker. Even if your household has received only one proxy statement, a separate proxy card should have been provided for each stockholder account. Each proxy card should be signed, dated, and returned in the enclosed self-addressed envelope. If your household has received multiple copies of our proxy statement, you may request the delivery of a single copy in the future by completing the enclosed consent, if applicable, or writing or calling ADP directly.

How do I vote if I hold my shares in street name ?

If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received a voting card and voting instructions with these proxy materials from that organization rather than from Flanders. Your bank or broker may permit you to vote your shares electronically by telephone or on the Internet. A large number of banks and brokerage firms participate in programs that offer telephone and Internet voting options. If your shares are held in an account at a bank or brokerage firm that participates in such a program, you may vote those shares electronically by telephone or on the Internet by following the instructions set forth on the voting form provided to you by your bank or brokerage firm.

These Internet and telephone voting procedures, are designed to authenticate stockholders' identities, allow stockholders to vote their shares and confirm that stockholders' votes have been recorded properly. Stockholders voting via either telephone or the Internet should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies that must be borne by the stockholder using such services. Also, please be aware that Flanders is not involved in the operation of these voting procedures and cannot take responsibility for any access, Internet or telephone service interruptions that may occur or any inaccuracies, erroneous or incomplete information that may appear.

Who can attend the meeting?

Only stockholders eligible to vote or their authorized representatives will be admitted to the meeting.

If your shares are held in street name and you wish to attend the meeting and/or vote in person, you must bring your broker or bank voter instruction card and a proxy, executed in your favor, from the record holder of your shares. In addition, you must bring a valid government-issued photo identification, such as a driver's license or a passport.

Security measures will be in place at the meeting and briefcases, handbags and packages are subject to inspection. No cameras or recording devices of any kind, or signs, placards, banners or similar materials, may be brought into the meeting. Anyone who refuses to comply with these requirements will not be admitted or, if admitted, will be required to leave.

Can I change my vote after I submit my proxy?

Yes, you may revoke your proxy and change your vote any time before your vote is cast at the meeting:

by submitting another properly completed proxy card with a later date;

by voting by telephone or on the Internet (your latest telephone or Internet vote is counted); or

if you are a registered stockholder, by giving written notice of such revocation to the Secretary of Flanders prior to or at the meeting. If notice is to be given prior to the meeting, please send it to: Flanders Corporation, 2399 26th Avenue North, St. Petersburg, Florida 33713, Attention: Robert R. Amerson, CEO. Your attendance at the meeting itself will not revoke your proxy unless you give written notice of revocation to the Secretary before your proxy is voted or you vote in person at the meeting.

Who will count the votes?

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Our transfer agent, OTC Stock Transfer, will tabulate and certify the votes. A representative of the transfer agent will serve as the inspector of election.

How does the board of directors recommend that I vote on the proposals?

The board recommends that you vote **FOR** each proposal in this proxy statement.

What if I do not specify how my shares are to be voted?

If you submit a proxy but do not indicate any voting instructions, your shares will be voted:

FOR the election of the five nominees to the board of directors; and

FOR the 2007 Equity Incentive Plan.

Will any other business be conducted at the meeting?

We are not aware of any other business that will be presented at the meeting. If any other matter properly comes before the stockholders for a vote at the meeting, however, your proxy (one of the individuals named on your proxy card) will vote your shares in accordance with his best judgment if you so authorize.

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How many votes are required to elect the director nominees (Proposal 1)?

The affirmative vote of a plurality of the shares present in person or represented by proxy at the meeting and entitled to vote is required to elect the five nominees as directors. This means that the five nominees will be elected if they receive more affirmative votes than any other person. If you vote **Withheld** with respect to one or more nominees, your shares will not be voted with respect to the person or persons indicated, although they will be counted for purposes of determining whether there is a quorum.

What happens if a nominee is unable to stand for election?

If a nominee is unable to stand for election, the board of directors may either reduce the number of directors to be elected or select a substitute nominee. If a substitute nominee is selected, the proxy holder will vote your shares for the substitute nominee, unless you have withheld authority.

How many votes are required to approve the 2007 Equity Incentive Plan (Proposal 2)?

Proposal 2 requires the affirmative vote of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote to approve the 2007 Equity Incentive Plan.

How will abstentions and broker non-votes be treated?

Shares voting abstain have no effect on the election of directors. For the proposals to approve the 2007 Equity Incentive Plan (Proposal 2) abstentions are treated as shares present or represented and voting, so abstaining has the same effect as a negative vote. Broker non-votes will be treated as shares present for quorum purposes, but not entitled to vote.

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PROPOSAL ONE ELECTION OF DIRECTORS

General

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The Board of Directors currently consists of five (5) directors and our Board pursuant to recommendations of our Nominating Committee has nominated five (5) directors for election at the 2007 Annual Meeting. Harry L. Smith, Jr., Jeffrey G. Korn, and Kirk Dominick are new nominees to our board of directors. Robert Kelly Barnhill, Sr., Peter Fredericks, and William D. Mitchum, Jr. will not be standing for re-election at this shareholders meeting. If you elect them, they will hold office until the next annual meeting and their successors are elected and qualified, or until they retire, die, or are removed. Cumulative voting is not permitted in the election of directors. Unless you specify otherwise, your returned signed proxy will be voted in favor of each of the nominees. If any of the nominees is unable to serve as a director, your proxy may be voted for another person nominated by the Board to fill that vacancy, or the Board may reduce the number of directors to be elected. The following information concerning each nominee is as of November 1, 2007.

Information Regarding Nominees for Directors

The nominees for directors of the Company are as follows:

Robert R. Amerson. Mr. Amerson, age 57, has been President and Chief Executive Officer of the Company since 1987 but retired from these positions in December 2004 and served as Chairman of the Board of Directors until August 13, 2007, when he assumed the additional positions of Chief Executive Officer and President. Mr. Amerson has been a director since 1988. Mr. Amerson has a Bachelor of Science degree in Business Administration from Atlantic Christian College.

Harry L. Smith, Jr. Mr. Smith, age 37, is a new nominee for director. Mr. Smith has a long history in the air filtration industry. He has worked at Flanders since 1997, holding roles of increasing responsibility including working with the Flanders direct offices; ARW Wholesale Division; FSS-Filter Sales and Service; FFI-Flanders Filters, Inc.; CSC-Charcoal Services, Inc., and AirSeal Filter Housings. Mr. Smith received his Bachelor of Science degree in Business Administration from East Carolina University in 1992. Mr. Smith was appointed our Chief Operating Officer in August 2007.

David M. Mock. Mr. Mock, age 62, has served as an independent director of the Company since August 2003. He serves on both the Compensation Committee and Audit Committee. Mr. Mock is a General Partner with GMG Capital Partners, a New York-based investment firm, which he co-founded in 1997. Prior to joining GMS/GMG Partners, Mr. Mock was a private investor pursuing an investment strategy similar to that of GMG. Mr. Mock has extensive operations and private investment experience with respect to technology companies. He is currently Chairman of the Board of Captus Networks as well as serving as Director or Officer to several other companies including Alloptic, Inc., Forum Systems, and Connecting Point, Inc. Mr. Mock holds an Accounting degree from the University of Utah.

Kirk Dominick, age 40, is a new nominee for director. We believe he qualifies as an independent director under our NASDAQ listing standards. Mr. Dominick serves as President of DNS Associates, a full-service consulting firm that specializes in strategy development, organizational restructuring, management consulting, and board and resource development. Prior to joining DNS, Mr. Dominick enjoyed a seventeen-year career with Boys & Girls Clubs of America, most recently in the Office of Government Relations in Washington, D.C. In addition, Mr. Dominick is a partner in InnerBanks Capital, a private equity firm focused on real estate development in emerging growth markets. Mr. Dominick holds a Bachelor of Science in Criminal Justice from East Carolina University.

Jeffrey G. Korn, age 50, is a new nominee for director. We believe he qualifies as an independent director under our NASDAQ listing standards. He has been a corporate attorney since 1982. He was originally in private practice in Jacksonville, Florida from 1982-1999 in a commercial litigation and business practice. He was general counsel and a member of the board of directors of Prosoft Training (formerly a NASDAQ company now sold) from 1987-2005. Since 2003, Mr. Korn has served as general counsel in iMergent, Inc. (IIG, AMEX). Since 2001, Mr. Korn has maintained a private legal and corporate consulting practice.

Vote Required

A plurality of the shares represented at the meeting after a quorum is established is required to elect a director.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS
VOTE FOR EACH OF THE NOMINEES FOR DIRECTOR.**

PROPOSAL TWO APPROVAL OF 2007 EQUITY INCENTIVE PLAN

Reasons for the Proposal

In order to attract, hire, and retain the caliber of executives that management and the Board believe will be required to help us position ourselves for growth, we will need to have the flexibility to grant restricted stock, stock options, and other equity instruments. The Board of Directors believes that equity incentive compensation is also an important component of our overall compensation and incentive strategy for employees, directors, officers and consultants. Without a broad based equity plan, we believe that we will be impaired in our efforts to hire new executives of the caliber that we believe is required, and will not be able to offer competitive packages to retain such executives. We are requesting approval of the 2007 Equity Incentive Plan in part because our 1996 Long-Term Incentive Plan expired after ten (10) years.

Background of the Proposal

You are being asked to approve the adoption of the 2007 Equity Incentive Plan (the 2007 Plan). A copy of the 2007 Plan is attached hereto as Appendix A. Capitalized terms used herein will have the same meaning as the capitalized terms and definitions set forth in the 2007 Plan. Under the 2007 Plan, two million (2,000,000) shares of common stock of the Company are authorized to be issued. This will allow us the continuing ability to award and motivate participants with awards.

The Board of Directors believes that equity incentive compensation is an important component of our overall compensation and incentive strategy for employees, directors, officers and consultants. We are committed to broad-based participation in the equity incentive grants by employees at all levels and by directors, officers and consultants. We believe that the equity incentive program is important in order to maintain our culture, employee ownership, employee motivation and continued success.

DESCRIPTION OF THE 2007 EQUITY INCENTIVE PLAN

Structure. The 2007 Plan allows for the grant of options, restricted stock and stock appreciation rights (awards) at the discretion of the Plan Administrator. The principal features of the program are described below.

Administration. Authority to control and manage the operation and administration of the 2007 Plan will be vested in a committee consisting of two (2) or more independent members of the Board (the Committee). We anticipate that our Compensation Committee will undertake the administration of the 2007 Plan. The Committee will serve as the Plan Administrator with respect to the 2007 Plan. The Plan Administrator has the authority to interpret the 2007 Plan and the rights underlying any grants or awards made subject to the 2007 Plan. Any decision or action of the Plan Administrator in connection with the 2007 Plan is final and binding.

No director shall be liable for any action, excepting willful misconduct and gross negligence, arising out of or related to the 2007 Plan provided the director was acting in good faith and for a purpose believed to have been in the best interests of the Company or its shareholders.

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Eligibility. Employees, directors, officers and consultants in the service of the Company or any subsidiary corporation (whether now existing or subsequently established) are eligible to participate in the 2007 Plan. Determinations as to which eligible persons shall be granted awards shall be made by the Plan Administrator.

Limitations on Awards. The maximum number of shares of stock that may be granted with respect to one or more options and/or SARs during any one fiscal year under the Plan to any one participant shall be One Million (1,000,000) (all of which may be granted as incentive stock options subject to the \$100,000 limitation with regard to incentive stock options first exercisable). Determinations will be made in a manner that is consistent with Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) and regulations promulgated thereunder. These limitations will not apply in any circumstance in which the Plan Administrator determines that compliance with Section 162(m) of the Code is not necessary.

Payment for Shares. Payment for shares purchased pursuant to the 2007 Plan may be made in cash, or, where approved by the Plan Administrator, at its sole discretion, by one or more of the following methods: (i) by cancellation of indebtedness to the participant, (ii) by surrender of shares of the Company owned by the participant for more than six (6) months or a lesser period if exempt from Section 16 of the Securities Exchange Act, (iii) by deemed net-stock exercise in which the participant exercises by forfeiting shares equal to exercise price and (iv) by broker-assisted payment in which a broker has irrevocable instructions to deliver the amount of sale proceeds necessary to pay the exercise price and tax withholding obligations.

Stock Options. Stock options may be issued as incentive stock options (ISOs) or non-qualified stock options. One or more options may be granted to each eligible person. The options granted under the 2007 Plan will be evidenced by an award agreement. The Plan Administrator shall

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specify the grant date, exercise price, terms and conditions for the exercise of the options. No option under the 2007 Plan shall terminate later than ten (10) years after the date of grant.

Options may be exercised by delivery to us of a written stock option exercise agreement together with payment in full of the exercise price for the number of shares being purchased. The exercise price shall be at least one hundred percent (100%) of the fair market value of the shares on the date of grant.

No option shall be transferable other than by will or by the laws of descent and distribution and during the lifetime of the participant, only the participant, his or her guardian or legal representative may exercise an option. Notwithstanding the foregoing, an ISO may be transferred pursuant to a domestic relations order that would satisfy Section 414(p)(1)(A) of the Code if applicable to an award under the 2007 Plan and non-qualified options may be transferred to a participant's former spouse pursuant to a property settlement made part of an agreement or court order incident to the divorce. Also, the Plan Administrator may provide for transfer of a non-qualified stock option without payment of consideration to designated family members and certain other entities specified in the 2007 Plan. The terms applicable to any assigned option shall be the same as those in effect for the option immediately prior to such assignment. A request to assign an option may be made only by delivery to us of a written stock option assignment request.

Restricted Stock Awards. The Plan Administrator shall determine all terms and conditions of the restricted stock award. Unless the Plan Administrator provides otherwise, holders of restricted stock shall have the right to vote such restricted stock and the right to receive any dividends declared or paid with respect to such restricted stock. Except as otherwise determined by the Plan Administrator at the time of the grant of the award or thereafter, (i) upon failure to affirmatively accept the grant of a restricted stock award by execution of a restricted stock award agreement, (ii) termination of employment during the applicable restriction period, (iii) failure to satisfy the restriction period or (iv) failure to satisfy a performance goal during the applicable restriction period, restricted stock that is at that time subject to restrictions will immediately be forfeited and returned to the Company. Notwithstanding the foregoing, the Plan Administrator may provide in any award agreement that restrictions or forfeiture conditions relating to restricted stock will be waived in whole or in part in the event of terminations resulting from specified causes, and the Plan Administrator may in other cases waive in whole or in part restrictions or forfeiture conditions relating to restricted stock. The Company also has the right to require the return of all dividends paid on such shares, whether by termination of any escrow arrangement under which such dividends are held or otherwise.

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Unless otherwise provided in the award agreement, prior to the vesting of restricted stock, restricted stock awards, granted under the Plan, and any rights and interests therein, including the restricted stock itself, will not be transferable or assignable by the participant, and may not be made subject to execution, attachment or similar process, otherwise than by will or by the laws of descent and distribution or as consistent with the award agreement. Unless otherwise provided in the 2007 Plan, during the lifetime of the participant, a restricted stock award and any rights and interests therein, will be exercisable only by the participant, and any election with respect thereto may be made only by the participant. Any attempt to transfer a restricted stock award will be void and the award and the restricted stock will be forfeited by the participant unless the attempted transfer is found to be unintentional.

Stock Appreciation Rights (SAR). A SAR is an award to receive a number of shares (which may consist of restricted stock), or cash, or a combination of shares and cash. A SAR will be awarded pursuant to an award agreement the terms of which need not be the same for each participant and the terms of which may be based upon performance objectives as provided for in the 2007 Plan.

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The Plan Administrator will specify the grant date, exercise price and determine the time period during which a SAR may be exercised. The exercise price per share of an SAR will in no event be less than the Fair Market Value of a share of Company stock on the date of grant. No SAR under the 2007 Plan shall terminate later than ten (10) years after the date of grant.

Exercise of a SAR shall be by written notice and will state the proportion of shares and cash that the participant desires to receive pursuant to the SAR exercised. Subject to the discretion of the Plan Administrator to substitute cash for shares, or some portion of the shares for cash, the amount of shares that may be issued pursuant to the exercise of a SAR will be determined by dividing: (i) the total number of shares as to which the SAR is exercised, multiplied by the amount by which the Fair Market Value of the Shares on the exercise date exceeds the Fair Market Value of a share on the date of grant of the SAR, by (ii) the Fair Market Value of a share on the exercise date; provided, however, that fractional shares will not be issued and in lieu thereof, a cash adjustment will be paid. The Plan Administrator may elect to pay the cash equivalent of the Fair Market Value of the shares on the exercise date for any or all of the Shares that would otherwise be issuable upon exercise of the SAR.

Except as otherwise determined by the Plan Administrator at the time of the grant of the award or thereafter, upon failure to affirmatively accept the grant of a SAR by execution of an award agreement, or an event of forfeiture pursuant to the award agreement including failure to satisfy any restriction period or a performance objective, any SAR that has not vested prior to the date of termination will automatically expire. As a result, all of the rights, title and interest of the participant will be forfeited. The Plan Administrator may provide in any award agreement that restrictions or forfeiture conditions relating to the SAR will be waived in whole or in part in the event of termination resulting from specified causes, and the Plan Administrator may in other cases waive in whole or in part restrictions or forfeiture conditions relating to the SAR.

During the lifetime of a participant each SAR granted to a participant will be exercisable only by the participant and no SAR will be assignable or transferable otherwise than by will or by the laws of descent and distribution. In no event may a SAR be transferred for consideration. Notwithstanding the foregoing, to the extent permissible, SARs may be transferred to a participant's former spouse pursuant to a property settlement made part of an agreement or court order incident to the divorce.

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Vote Required

A plurality of the shares represented at the meeting after a quorum is established is required to approve our 2007 Equity Incentive Plan.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS
VOTE FOR THE ADOPTION OF THE 2007 EQUITY INCENTIVE PLAN**

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth all individuals known by us to beneficially own 5% or more of our common stock, and all executive officers and directors with the amount and percentage of stock beneficially owned, as of November 1, 2007. Except as indicated in the following footnotes, each listed beneficial owner has sole voting and investment power over the shares of common stock held in their names.

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percentage of Outstanding Shares of Common Stock ⁽¹⁾
Robert R. Amerson ⁽²⁾ 531 Flanders Filters Road Washington, NC 27889	7,815,053	30.18%
Harry L. Smith, Jr. ⁽³⁾ 531 Flanders Filters Road Washington, NC 27889	1,365,183	5.27%
Cully Bohush ⁽⁴⁾ 2399 26th Avenue North St. Petersburg, FL 33713		
William D. Mitchum ^{(5) (11)}	79,900	*
David Mock ⁽⁶⁾	102,700	*
James L. Buddy Mercer ⁽⁷⁾	120,000	*
Robert Kelly Barnhill, Sr. ^{(8) (11)}	65,000	*
Peter Fredericks ^{(9) (11)}	82,810	*
Heartland Advisors ⁽¹⁰⁾ 789 North Water Street Milwaukee, WI 53202	2,889,367	11.16%

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Atlas Master Fund, Ltd ⁽¹⁰⁾

PO Box 908 GT	1,317,997	5.09%
George Town, Grand Cayman		
Cayman Islands, British West Indies		
Officers and Directors as a group (8 persons)	9,705,646	37.48%

* Represents less than 1% of the total issued and outstanding shares of common stock.

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- (1) Applicable percentage of ownership is based on approximately 25,896,729 shares of common stock outstanding as of October 15, 2007, together with all applicable options for unissued securities for such shareholders exercisable within 60 days. Shares of common stock subject to options exercisable within 60 days are deemed outstanding for computing the percentage ownership of the person holding such options, but are not deemed outstanding for computing the percentage of any other person.
- (2) Mr. Amerson's beneficial ownership consists of the following: (i) 4,809,870 shares of common stock, (ii) options to acquire 1,000,000 shares of common stock with an exercise price of \$2.50, which expire on December 22, 2009, (iii) options to acquire 1,000,000 shares of common stock with an exercise price of \$7.50, which expires on March 7, 2011, (iv) 250,000 shares assigned from Mr. Clark to Mr. Amerson in consideration of payment of a previous settlement, and (v) the acquisition of 755,183 shares of common stock at a price of \$4.60 per share from Mr. Clark.
- (3) Mr. Smith is a new nominee to our board of directors. Mr. Smith's beneficial ownership of the Issuer's equity securities consists of the following: (i) options to acquire 20,000 of common stock at an exercise price of \$5.00 per share, which expire on October 3, 2009, (ii) options to acquire 20,000 shares of common stock at an exercise price of \$5.21, which expires on March 15, 2009, (iii) options to acquire 20,000 of common stock at an exercise price of \$8.60, which expires on August 24, 2009, (iv) options to acquire 50,000 shares of the Issuer's Common Stock at an exercise price of \$8.85, which expires on July 1, 2010, (v) options to acquire 500,000 shares of common stock at an exercise price of \$4.99, which vest over five (5) years at an exercise price which expires October 2016, and (vi) the acquisition of 755,183 shares of common stock at a price of \$4.60 from Mr. Clark.
- (4) Represents (i) 5,000 shares of common stock, (ii) options to acquire 20,000 shares of common stock at an exercise price of \$5.21 expiring March 15, 2009, and (iii) options to acquire 50,000 shares of common stock at an exercise price of \$11.10 expiring on December 2010.
- (5) Includes 55,000 shares which are subject to an option to purchase such shares from the Company at \$11.01 per share. These options expire in 2010. Also includes 5,000 shares which are subject to an option to purchase such shares from the Company at \$11.72 per share. These options expire in 2011. Also includes 5,000 shares which are subject to an option to purchase shares from the Company at \$9.52. These options expire in January 2016.
- (6) Includes 50,000 shares which are subject to an option to purchase such shares from the Company at \$4.37 per share. These options expire in 2008. Also includes 5,000 shares which are subject to an option to purchase such shares from the Company at \$11.01 per share. These options expire in 2010. Also includes 5,000 shares which are subject to an option to purchase such shares from the Company at \$11.72 per share. These options expire in 2011. Also includes 5,000 shares which are subject to an option to purchase shares from the Company at \$9.52. These options expire in January 2016.
- (7) Includes 60,000 shares which are subject to an option to purchase such shares from the Company at \$2.52 per share. Also includes 20,000 shares which are subject to an option to purchase such shares from the Company at \$5.00 per share. These options expire in 2008. Also includes 20,000 shares which are subject to an option to purchase such shares from the Company at \$5.21 per share. Also includes 20,000 shares which are subject to an option to purchase such shares from the Company at \$8.60 per share. These options expire in 2009.

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- (8) Includes 55,000 shares which are subject to an option to purchase such shares from the Company at \$11.01 per share. These options expire in 2010. Also includes 5,000 shares which are subject to an option to purchase such shares from the Company at \$11.72 per share. These options expire in 2011. Also includes 5,000 shares which are subject to an option to purchase shares from the Company at \$9.52. These options expire in January 2016.
- (9) Includes 27,000 shares which are subject to an option to purchase such shares from the Company at \$1.74 per share. These options expire in 2012. Also includes 5,000 shares which are subject to an option to purchase such shares from the Company at \$1.77 per share. These options expire in 2013. Also includes 5,000 shares which are subject to an option to purchase such shares from the Company at \$6.49 per share. These options expire in 2014. Also includes 5,000 shares which are subject to an option to purchase such shares from the Company at \$11.01 per share. These options expire in 2015. Also includes 5,000 shares which are subject to an option to purchase such shares from the Company at \$11.72 per share. These options expire in 2016. Also includes 5,000 shares which are subject to an option to purchase shares from the Company at \$9.52. These options expire in January 2016.
- (10) Based upon most recent Schedule 13Gs.
- (11) Will not be standing for re-election at this shareholders meeting.

EXECUTIVE OFFICERS

Set forth below is information regarding the current executive officers of the Company (in addition to Mr. Amerson, Mr. Smith and Mr. Bohush) who are not also nominees as directors of the Company as of November 1, 2007.

James L. Buddy Mercer. Mr. Mercer, age 64, has been Vice President Operations since December 2001. He has direct responsibility for all plant manufacturing operations. Prior to December 2001, beginning in 1998, he was a general manager for Precisionaire, Inc., a subsidiary. From 1967 through 1997, Mr. Mercer worked at Purolator Air Products, a competitor, working in several positions culminating in plant manager.

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Cully Bohush. Mr. Bohush, age 36, was appointed interim Chief Accounting Officer in August 2007. He has been the Corporate Controller of Flanders Corporation for over 5 years. From 1997 to 2002, Mr. Bohush worked in public accounting for a couple of CPA firms, including Deloitte & Touche, LLP. He is a Certified Public Accountant in the State of Florida and has a Bachelor's Degree in Accounting from the University of Buffalo as well as a Master of Accountancy Degree from the University of South Florida. His current salary is \$115,000.

OTHER INFORMATION REGARDING THE BOARD OF DIRECTORS

Board Meetings and Committees General

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During 2006, the Board of Directors met five (5) times and also executed various resolutions and written actions in lieu of meetings. The Board of Directors has an Audit Committee, a Compensation Committee and a Nominating Committee.

The Audit Committee reviews the results and scope of the audit and other services provided by the Company's independent auditors, reviews and evaluates the Company's internal audit and control functions, and monitors transactions between the Company and its employees, officers and directors. The Audit Committee is required to review and approve all related party transactions including those transactions that are required to be disclosed under Item 404 of Regulation S-K promulgated by the SEC. If such transaction relates to compensation, it must be approved by the Compensation Committee as well. All related party transactions must also be approved by the disinterested members of the board. The Audit Committee met five (5) times during 2006.

The Compensation Committee administers the Company's equity incentive plans and designates compensation levels for officers and directors of the Company. The Compensation Committee met one (1) time during 2006. The Nominating Committee oversees the qualification and nomination process for potential director candidates, reviews the continued qualification of existing directors and is responsible for corporate governance oversight. The Nominating Committee met one (1) time during 2006.

Currently, the Audit Committee consists of Messrs. Mock, Fredericks, Barnhill, and Mitchum with Mr. Mock serving as Chairman. The Compensation Committee consists of Messrs. Amerson, Fredericks, Barnhill, and Mitchum with Mr. Mitchum serving as Chairman. The Nominating Committee consists of Messrs. Mitchum, Fredericks, Mock, and Barnhill, with Mr. Barnhill serving as Chairman, each of whom is independent as such term