

MOD PAC CORP  
Form 10-Q  
May 03, 2011

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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: April 2, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-50063

MOD-PAC CORP.

(Exact Name of Registrant as Specified in its Charter)

New York

(State or other jurisdiction of incorporation or organization)

16-0957153

(I.R.S. Employer Identification No.)

1801 Elmwood Avenue, Buffalo, New York  
(Address of principal executive office)

14207  
(Zip Code)

(716) 873-0640

(Registrant's telephone number, including area code)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months or for such shorter period that the registrant was required to file such reports, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer [  ]

Accelerated filer [  ]

Non-accelerated filer [  ] (Do not check if a smaller reporting company)

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 each class of common stock as of April 2, 2011 was:

Common Stock, \$0.01 par value 2,739,355 shares

Class B Common Stock, \$0.01 par value 609,864 shares

MOD-PAC CORP.  
 QUARTERLY REPORT ON FORM 10-Q

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

MOD-PAC CORP.  
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	(Unaudited)	
	April 2, 2011	December 31, 2010
Current assets:		
Cash and cash equivalents	\$ 2,595	\$ 3,440
Accounts receivable	5,924	5,003
Allowance for doubtful accounts	(93 )	(96 )
Net accounts receivable	5,831	4,907
Inventories	7,062	5,234
Prepaid expenses	546	440
Total current assets	16,034	14,021
Property, plant and equipment, at cost:		
Land	1,170	1,170
Buildings and equipment	12,460	12,460
Machinery and equipment	48,875	48,697
Construction in progress	198	56
	62,703	62,383
Less accumulated depreciation	(48,835 )	(48,114 )
Net property, plant and equipment	13,868	14,269
Other assets	484	487
Totals assets	\$ 30,386	\$ 28,777
Current liabilities:		
Current maturities of long-term debt	\$ 89	\$ 110
Accounts payable	2,877	1,302
Accrued expenses	463	939
Income taxes payable	102	40
Total current liabilities	3,531	2,391
Long-term debt	1,887	1,958
Other liabilities	24	24
Deferred income taxes	54	6
Total liabilities	5,496	4,379
Shareholders' equity:		
Common stock, \$.01 par value, authorized 20,000,000 shares, issued 3,555,625 in 2011, 3,549,017 in 2010	36	35
Class B common stock, \$.01 par value, authorized 5,000,000 shares, issued 609,864 in 2011, 616,472 in 2010	6	6
Additional paid-in capital	3,366	3,232

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Retained earnings	28,482	28,125
Treasury stock at cost, 816,270 shares in 2011 and 2010	(7,000 )	(7,000 )
Total shareholders' equity	24,890	24,398
Total liabilities and shareholders' equity	\$ 30,386	\$ 28,777

See accompanying notes to financial statements

MOD-PAC CORP.  
CONSOLIDATED STATEMENTS OF INCOME

(in thousands)

	(Unaudited) Three Months Ended	
	April 2, 2011	April 3, 2010
<b>Revenue:</b>		
Net sales	\$ 13,801	\$ 11,884
Rental income	110	132
Total revenue	13,911	12,016
<b>Costs and expenses:</b>		
Cost of products sold	11,664	10,220
Selling, general and administrative expenses	1,823	1,777
Income from operations	424	19
Interest expense	(49 )	(53 )
Other income	109	64
Income before taxes	484	30
Income tax expense	127	10
Net income	\$ 357	\$ 20
<b>Income per share:</b>		
Basic	\$ 0.11	\$ 0.01
Diluted	\$ 0.10	\$ 0.01

See accompanying notes to financial statements

MOD-PAC CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	(Unaudited) Three Months Ended	
	April 2, 2011	April 3, 2010
Cash flows from operating activities:		
Net income	\$ 357	\$ 20
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	724	688
Provision for doubtful accounts	-	(26 )
Stock option compensation expense	134	135
Deferred income taxes	47	-
Gain on disposal of assets	(13 )	(38 )
Cash flows from changes in operating assets and liabilities:		
Accounts receivable	(923 )	172
Inventories	(1,828 )	168
Prepaid expenses	(106 )	(347 )
Other liabilities	-	(3 )
Accounts payable	1,575	(652 )
Income taxes payable	63	-
Accrued expenses	(476 )	(272 )
Net cash used in operating activities	(446 )	(155 )
Cash flows from investing activities:		
Proceeds from the sale of assets	13	123
Change in other assets	-	(5 )
Capital expenditures	(320 )	(263 )
Net cash used in investing activities	(307 )	(145 )
Cash flows from financing activities:		
Principal payments on long-term debt	(92 )	(150 )
Increase in restricted cash	-	(225 )
Net cash used in financing activities	(92 )	(375 )
Net decrease in cash and cash equivalents	(845 )	(675 )
Cash and cash equivalents at beginning of year	3,440	3,780
Cash and cash equivalents at end of period	\$ 2,595	\$ 3,105

See accompanying notes to financial statements





MOD-PAC CORP.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 THREE MONTHS ENDED APRIL 2, 2011

(unaudited)

1) Basis of Presentation

The Registrant, MOD-PAC CORP., is referred to in this Quarterly Report on Form 10-Q as "MOD-PAC" or "the Company" or in the nominative "we" or the possessive "our."

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. The results of operations for any interim period are not necessarily indicative of results for the full year. Operating results for the three-month period ended April 2, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The balance sheet at December 31, 2010 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted U.S. accounting principles for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in the Company's 2010 annual report on Form 10-K.

Revenue is recognized when title, ownership, and risk of loss pass to the customer, all of which occurs upon shipment or delivery of the product and is based on the applicable shipping terms.

2) Product Line Net Sales

Product line net sales are as follows:

(in thousands)

	Three months ended	
	April 2, 2011	April 3, 2010
<b>Folding cartons:</b>		
Custom folding cartons	\$ 10,489	\$ 8,679
Stock packaging	2,615	2,502
Folding cartons sub-total	13,104	11,181
Personalized print	697	703
<b>Total</b>	<b>\$ 13,801</b>	<b>\$ 11,884</b>

3) Income Per Share

The following table sets forth the computation of income per share:

(in thousands, except per share data)

	Three months ended	
	April 2, 2011	April 3, 2010
Net income	\$ 357	\$ 20
Basic income per share weighted average shares	3,349	3,432
Net effect of diluted stock options	105	143
Diluted income (loss) per share weighted average shares	3,454	3,575
Basic income per share	\$ 0.11	\$ 0.01
Diluted income per share	\$ 0.10	\$ 0.01

For the three months ended April 2, 2011 and April 3, 2010, approximately 393 thousand and 397 thousand of common shares potentially issuable from the exercise of stock options were excluded from the calculation of diluted earnings per share because the exercise price was greater than the average market price of common stock for the respective period.

#### 4) Inventories

Inventories are stated at the lower of cost or market, cost being determined in accordance with the first-in, first-out method.

Inventories are as follows:

(in thousands)

	April 2, 2011	December 31, 2010
Finished goods	\$ 3,064	\$ 2,787
Work in progress	210	227
Raw material	3,788	2,220
Total inventory	\$ 7,062	\$ 5,234

#### 5) Income Taxes

The Company's effective tax rate for the first quarter of 2011 was 26.2%. The effective tax rate was recorded at a rate lower than customary mainly due to alternative minimum tax credits. The Company's effective tax rate for the first quarter of 2010 was 33.3%.

The Company's continuing practice is not to recognize interest and/or penalties related to income tax matters in income tax expense. As of April 2, 2011, the Company had no amounts accrued related to uncertain tax positions. The tax years 2007, 2008, 2009 and 2010 remain open to examination by the major taxing jurisdictions to which the Company is subject.

#### 6) Stock-Based Compensation

MOD-PAC CORP. established a Stock Option Plan that authorized the issuance of 800,000 shares of Common Stock for the purpose of attracting and retaining executive officers and key employees, and to align management's interests with those of the shareholders of MOD-PAC CORP. The options must be exercised no more than ten years from the grant date and vest over up to a five-year period. The exercise price for the options is equal to the fair market value of the common stock at the date of grant.

MOD-PAC CORP. established the Director's Stock Option Plan that authorized the issuance of 200,000 shares of Common Stock for the purpose of attracting and retaining the services of experienced and knowledgeable outside directors, and to align their interest with those of its shareholders. The options must be exercised no more than ten years from the grant date and vest after six months. The exercise price for the options is equal to the fair market value at the date of grant.

The Company uses a straight-line method of attributing the value of stock-based compensation expense, subject to minimum levels of expense, based on vesting. Stock compensation expense recognized during the period is based on the value of the portion of shared-based payment awards that is ultimately expected to vest during the period.

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The fair value of stock options granted was estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average fair value of the options was \$3.20 and \$4.12 for options granted during the three months ended April 2, 2011 and April 3, 2010, respectively. The following table provides the range of assumptions used to value stock options granted during the three months ended April 2, 2011 and April 3, 2010.

	Three Months Ended			
	April 2, 2011		April 3, 2010	
Expected volatility	77	%	82	%
Risk-free rate	2.2	%	2.5	%
Expected dividends	0	%	0	%
Expected term (in years)	5.5		5.5	

To determine expected volatility, the Company uses historical volatility based on weekly closing prices of its Common Stock since the Company's spin-off from Astronics Corporation in March 2003. The risk-free rate is based on the United States Treasury yield curve at the time of grant for the appropriate term of the options granted. Expected dividends are based on the Company's history and expectation of dividend payouts. The expected term of stock options is based on vesting schedules, expected exercise patterns and contractual terms.

A summary of the Company's stock option activity and related information for the three months ended April 2, 2011 is as follows:

(aggregate intrinsic value in thousands)

	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at January 1, 2011	717,666	\$ 6.58	\$ 567
Options granted	20,000	4.86	
Options expired	(3,070 )	7.74	
Outstanding at April 2, 2011	734,596	\$ 6.46	\$ 942
Exercisable at April 2, 2011	557,596	\$ 6.84	\$ 654

The aggregate intrinsic value in the preceding table represents the total pretax option holder's intrinsic value, based on the Company's closing stock price of Common Stock of \$6.00 as of April 2, 2011, which would have been received by the option holders had all option holders with an exercise price less than the market price been exercised as of that date. There were no options exercised in the first three months of 2011. The Company's current policy is to issue additional new shares upon exercise of stock options.

The fair value of options vested since December 31, 2010 is \$17 thousand. At April 2, 2011, total compensation costs related to non-vested awards not yet recognized was \$349 thousand which will be recognized over a weighted average period of 1.4 years.

The following is a summary of weighted average exercise prices and contractual lives for outstanding and exercisable stock options as of April 2, 2011:

Exercise Price Range	Shares	Outstanding		Exercisable		
		Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Weighted Average Exercise Price
\$1.68 to \$5.62	397,045	7.9	\$ 3.63	238,845	7.0	\$ 3.26
\$6.03 to \$8.44	148,300	5.3	\$ 7.66	133,700	3.9	\$ 6.79
\$10.00 to \$11.73	132,474	4.8	\$ 10.79	128,274	4.8	\$ 10.82
	56,777	3.0	\$ 13.01	56,777	3.0	\$ 13.01

\$12.41 to  
\$15.54

734,596	6.5	\$ 6.46	557,596	5.3	\$ 6.84
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7) Capital Structure

The Company's Class B stock is fully convertible into Common stock on a one-for-one basis at no cost. During the first three months of 2011, 6,608 shares of Class B stock were converted to Common stock.

8) Information Regarding Industry Segments

The Company operates as one reporting segment. The Company's customer base is comprised of companies and individuals throughout the United States and North America and is diverse in both geographic and demographic terms. The format of the information used by the Company's President and CEO is consistent with the reporting format used in the Company's 2010 Form 10-K and other external information.

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## 9) Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The carrying value of the Company's accounts receivable and accounts payable approximate fair value due to the short-term nature of the instruments. The recorded amounts for long-term debt approximate fair value based on current market rates of similar instruments.

## 10) Long-Term Debt

Long-term debt includes the following:

(in thousands)

	April 2, 2011	December 31, 2010
Capital lease obligations:		
Building - due in 2023; bears interest at 10%;		
payable monthly	\$ 1,800	\$ 1,800
Equipment	48	55
	1,848	1,855
Less estimated current maturities	(27 )	(27 )
Capital lease obligations - long-term	1,821	1,828
Loans:		
Equipment loans	128	143
Other	-	70
	128	213
Less estimated current maturities	(62 )	(83 )
Loans - long-term	66	130
<b>Total long-term debt</b>	<b>\$ 1,887</b>	<b>\$ 1,958</b>

## 11) Assets Under Capital Leases Included in Property, Plant and Equipment

Assets under capital leases included in property, plant and equipment are summarized as follows:

(in thousands)

	April 2, 2011	December 31, 2010
Land	\$ 400	\$ 400
Building	4,148	4,148
Equipment	89	89
	4,637	4,637
Less accumulated depreciation	(1,156 )	(1,104 )
<b>Net assets under capital leases</b>	<b>\$ 3,481</b>	<b>\$ 3,533</b>

## 12) Long-Lived Assets



Long-lived assets, including acquired identifiable intangible assets, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. An impairment loss is recognized if the carrying amount of a long-lived asset or asset group is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. That assessment is based on the carrying amount of the asset or asset group at the date tested. An impairment loss is measured as the amount by which the carrying amount of a long-lived asset or asset group exceeds its fair value which is based upon estimated future discounted cash flows.

Based on this testing, no asset impairment charges were recognized in the first quarter of 2011 or 2010.

13) Line of Credit

The Company has access to a \$3.0 million secured line of credit with a commercial bank which expires June 9, 2013. Interest on the line of credit is based on LIBOR plus 2.75%, with an interest floor of 3.35%. At April 2, 2011, \$0.2 million was in use through a standby letter of credit and there was no balance drawn on the line. The Company was in compliance with all applicable covenants at April 2, 2011. The amount of the line of credit that was unused and available to the Company at April 2, 2011 was \$2.8 million.

14) Legal Proceedings

The Company is a third party defendant in an action filed in Supreme Court, Erie County, New York (David George, Plaintiff v. Speedways Conveyors, Incorporated and H.M. Cross & Sons, Inc., Defendants and Speedways Conveyors, Incorporated, Third-Party Plaintiff v. Mod-Pac Corporation, Third-Party Defendant. (Erie Co. Index No. 2003-8579 and 2003-8579 TP-1) by one of its employees for injuries he suffered during the course of his employment. The parties have entered into a settlement with respect to this action, and the Company expects it to be resolved without any monetary contribution from the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

In the first quarter of 2010, we continued to focus our resources on our growing custom folding carton line. We believe that we are beginning to gain some traction in our sales and marketing efforts in this product line with the more concentrated approach we have applied since rationalizing our product lines and exiting the commercial print market in the second quarter of 2009. As a result of that rationalization, we also have realized a significant improvement in our operating performance. Over the last two years, we lowered our cost structure, improved our operating efficiency and implemented sustainable improvements in every area of our business resulting in seven straight quarters of profitability.

Our custom folding carton customers are generally in the healthcare, confectionary, food and food service, and automotive industries, including private label manufacturers. Our expertise in this market is our ability to run, on-demand, the specific quantities required by our customers as opposed to doing long runs and creating inventory and obsolescence challenges. As a result, we do not require minimum print orders and are more flexible than most printers in addressing our customers' needs. This capability has served our private label customers, who may have several of the same carton requirements with varying print requirements for their customers, extremely well.

We also plan to continue developing our stock packaging and personalized print product lines. Our stock packaging line, which serves primarily private confectionaries, is seasonal in nature and driven by the economy. Nonetheless, we believe that we are a leader in this market with more than 4,000 customers that we serve around the world.

Our personalized print product line is focused on store, catalog and web sales. Because we provide products such as personalized dinner and cocktail napkins, small boxes for sundries at events, and other celebration-type items for both the retail and corporate markets, this product line is heavily impacted by economic downturns. We compete in personalized print with much larger companies, yet we have developed a strong brand as Krepe-Kraft among event planners and wedding coordinators. Our website, [www.partybasics.com](http://www.partybasics.com), has had some success, and we also provide our products to third-party web stores as well.

REVENUE

For the first quarter of 2011 total revenue was \$13.9 million compared with \$12.0 million in 2010, an increase of 15.8%. The custom folding carton product line sales were \$10.5 million compared with \$8.7 million in the first quarter of 2010. The increase was mainly due to increased business from several large existing customers and business from two new customers, offset partially by decreased business with several existing customers. Sales of the Company's stock packaging product line were \$2.6 million compared with \$2.5 million in the first quarter of 2010, up 4.5% primarily due to improved market conditions. Personalized print sales for the first quarter of 2011 were \$0.7 million, a decrease of 0.9%, mainly due to continued weakness in general business conditions.

EXPENSES AND MARGINS

Gross margin was 16.2% for the first quarter of 2011, an improvement from 14.9% in the first quarter of 2010. Improvement in gross margin is mainly due to operational leverage generated by increased product sales and graphics billings and decreased rental expense, offset partially by increased repairs expense and supplies expense.

Selling, general, and administrative costs were \$1.8 million in the first quarter of 2011, an increase of 2.6% from the same period in the prior year. This increase was driven primarily by higher employee related costs, offset partially by lower professional service costs.

TAXES

The Company's effective tax rate for the first quarter of 2011 was 26.2%. The effective tax rate was recorded at a rate lower than customary mainly due to alternative minimum tax credits. The Company's effective tax rate for the first quarter of 2010 was 33.3%.

## NET INCOME/LOSS AND INCOME/LOSS PER SHARE

The net income for the first quarter of 2011 was \$357 thousand, compared with \$20 thousand in the first quarter of 2010. The net income was due to the fluctuations discussed above. Diluted income per share was \$0.10 in the first quarter of 2011 and \$0.01 in the first quarter of 2010.

## LIQUIDITY

Cash and cash equivalents at April 2, 2011 decreased to \$2.6 million from the \$3.4 million balance at December 31, 2010.

The decrease in cash and cash equivalents during the first three months of 2011 was primarily the result of capital expenditures, pay-down of a loan and an increase in working capital requirements, offset partially by net income and other non-cash expenses.

Accounts payable increased \$1.6 million during the first three months of 2011 primarily due to the timing of payments.

Accounts receivable increased \$0.9 million during the first quarter of 2011, primarily due to the timing of payments from customers and an increase in sales volume during the first quarter of 2011.

Inventory increased by \$1.9 million due to planned forward purchasing.

Capital expenditures, driven primarily by productivity improvement and upgrade investments, for the first three months of 2011 and 2010 were \$0.3 million. Depreciation and amortization for the first three months of 2011 and 2010 was \$0.7 million.

There were no shares repurchased by the Company during the first three months of 2011. The Company has authorization to repurchase 84,930 shares at April 2, 2011. The closing price of the Company's stock at April 2, 2010 was \$6.00. At this price, the repurchase of 84,930 shares would require \$510 thousand.

The Company has access to a \$3.0 million secured line of credit with a commercial bank which expires June 9, 2013. Interest on the line of credit is based on LIBOR plus 2.75%, with an interest floor of 3.35%. At April 2, 2011, \$0.2 million was in use through a standby letter of credit and there was no balance drawn on the line. The Company was in compliance with all applicable covenants at April 2, 2011. The amount of the line of credit that was unused and available to the Company at April 2, 2011 was \$2.8 million.

The Company believes that cash and cash equivalents, which totaled \$2.6 million at April 2, 2011, in combination with cash expected to be generated from operations, will be adequate for the Company to meet its obligations, other working capital requirements and capital expenditure needs for the balance of 2011.

## COMMITMENTS

The Company has commitments for items that it purchases in the normal on-going affairs of the business. The Company is not aware of any obligations in excess of normal market conditions, or of any long-term commitments that would have a material adverse effect on its financial condition.

## MARKET RISK

There has been no significant change in market risks since December 31, 2010.

As a result of short cycle times, the Company does not have any long-term commitments to purchase production raw materials or sell products that would present significant risks due to price fluctuations. Raw paper stock is available to us from multiple domestic sources; as a result, we believe the risk of supply interruptions due to such things as strikes at the source of supply or to failures in logistics systems are limited.

Risks due to fluctuation in interest rates are not material to the Company at April 2, 2011 because of our limited exposure to floating rate debt.

Over 90% of the Company's power needs are met through natural gas. The Company has investigated supply contracts of various lengths and currently it has supply arrangements for fixed prices on approximately 80% of its estimated usage through October 2011. Historically, the price of natural gas has fluctuated widely. The Company monitors the availability of natural gas, considering such factors as amount in storage, gas production data and transportation data, so that it can take appropriate action if concerns about availability occur. The Company has investigated and tested a back-up power source in the form of a rented transportable diesel-powered generator.

We have no foreign operations, nor do we transact any business in foreign currencies. Accordingly, we have no foreign currency market risks.

The market risk that the Company was exposed to at December 31, 2010 was generally the same as described above.

#### CRITICAL ACCOUNTING POLICIES

There have been no changes in critical accounting policies in the current year from those disclosed in our 2010 Form 10-K.

#### FORWARD-LOOKING STATEMENTS

Certain statements contained in this report are "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. All forward-looking statements involve risks and uncertainties. All statements contained herein that are not clearly historical in nature are forward-looking, and the word "anticipate," "believe," "expect," "estimate," "project," and similar expressions are generally intended to identify forward-looking statements. Any forward looking statement contained herein, in press releases, written statements or other documents filed with the Securities and Exchange Commission, or in MOD-PAC's communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls and conference calls, regarding expectations with respect to sales, earnings, cash flows, operating efficiencies, product and market channel expansions, capacity utilization and expansion, and repurchase of capital stock, are subject to known and unknown risks, uncertainties and contingencies. Many of these risks, uncertainties, and contingencies are beyond our control, and may cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. Factors that might affect such forward-looking statements include, among other things:

- Overall economic and business conditions;
- The demand for MOD-PAC's goods and services;
- Customer acceptance of the products and services MOD-PAC provides;
- Competitive factors in print and print services and folding cartons industries;
- Changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations);
- Fluctuation in costs of natural gas supplies in Western New York State;
- The internal and external costs of compliance with laws and regulations such as Section 404 of the Sarbanes-Oxley Act of 2002; and
- Litigation against the Company.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Market Risk in Item 2, above.

Item 4. Controls and Procedures

(a.) Evaluation of Disclosure Controls and Procedures:

The Company's management, with the participation of the Company's President and Chief Executive Officer, and Chief Operating Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a - 15(e) and 15(d) - 15(e) of the Securities Exchange Act of 1934, as of April 2, 2011. Based on that evaluation, the Company's President and Chief Executive Officer, and Chief Operating Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of April 2, 2011.

(b.)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 2011 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

We are a third party defendant in an action filed in Supreme Court, Erie County, New York (David George, Plaintiff v. Speedways Conveyors, Incorporated and H.M. Cross & Sons, Inc., Defendants and Speedways Conveyors, Incorporated, Third-Party Plaintiff v. Mod-Pac Corporation, Third-Party Defendant. (Erie Co. Index No. 2003-8579 and 2003-8579 TP-1) by an employee for injuries he suffered during the course of his employment with us. As we are a third-party defendant, we can be held liable only if the plaintiff is first able to establish liability against the primary defendant, a manufacturer of conveyors. The parties have entered into a settlement agreement with respect to this action, and we expect it to be resolved without any monetary contribution from us.

## Item 1A. Risk Factors

There has been no significant change to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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
January 1 - January 29, 2011	-	N/A	-	84,930
January 30 - February 26, 2011	-	N/A	-	84,930
February 27 - April 2, 2011	-	N/A	-	84,930
Total	-	N/A	-	84,930

## Item 3. Defaults Upon Senior Securities

Not applicable.

## Item 4. (Removed and Reserved)

## Item 5. Other Information

Not applicable.

## Item 6. Exhibits

Exhibit 31.1 Section 302 Certification - President and Chief Executive Officer

Exhibit 31.2 Section 302 Certification – Chief Operating Officer and Chief Financial Officer

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ExhibitCertification of President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted  
32.1 pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

ExhibitCertification of Chief Operating Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as  
32.2 adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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.

(Registrant)

Date: May 3, 2011

By: /s/ David B. Lupp  
David B. Lupp  
Chief Operating Officer and Chief  
Financial Officer  
(Principal Financial Officer)