

AVALON HOLDINGS CORP  
Form 10-Q  
May 14, 2009  
Table of Contents

2009

**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, 2009

**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 1-14105

**AVALON HOLDINGS CORPORATION**

(Exact name of registrant as specified in its charter)

Edgar Filing: AVALON HOLDINGS CORP - Form 10-Q

<b>Ohio</b> (State or other jurisdiction of incorporation or organization)	<b>34-1863889</b> (I.R.S. Employer Identification No.)
<b>One American Way, Warren, Ohio</b> (Address of principal executive offices)	<b>44484-5555</b> (Zip Code)
<b>Registrant's telephone number, including area code: (330) 856-8800</b>	

Indicate by a 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 (§ 229.405 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 a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The registrant had 3,191,038 shares of its Class A Common Stock and 612,293 shares of its Class B Common Stock outstanding as of May 11, 2009.

**Table of Contents**

AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

INDEX

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2009 and 2008 (Unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets at March 31, 2009 (Unaudited) and December 31, 2008</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2009 and 2008 (Unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	15
Item 4. <u>Controls and Procedures</u>	15
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	17
Item 2. <u>Changes in Securities and Use of Proceeds</u>	17
Item 3. <u>Defaults upon Senior Securities</u>	17
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	17
Item 5. <u>Other Information</u>	17
Item 6. <u>Exhibits and Reports on Form 8-K</u>	17
<b><u>SIGNATURE</u></b>	18

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

## AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations (Unaudited)

(in thousands, except per share amounts)

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Net operating revenues	\$ 8,843	\$ 10,354
Costs and expenses:		
Costs of operations	7,272	8,526
Depreciation and amortization	425	319
Selling, general and administrative expenses	1,609	1,661
Loss from operations	(463)	(152)
Other income (expense):		
Interest expense	(3)	(4)
Interest income	3	29
Other income, net	59	67
Loss from operations before taxes	(404)	(60)
Provision (benefit) for income taxes		
Net loss	\$ (404)	\$ (60)
Basic net loss per share (Note 2)	\$ (.11)	\$ (.02)
Weighted average shares outstanding (Note 2)	3,803	3,803

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents**

## AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(in thousands, except per share amounts)

	March 31, 2009 (Unaudited)	December 31, 2008
<b>Assets:</b>		
Current Assets:		
Cash and cash equivalents	\$ 5,350	\$ 3,061
Accounts receivable, net	6,626	9,304
Prepaid expenses	294	309
Other current assets	679	636
<b>Total current assets</b>	<b>12,949</b>	<b>13,310</b>
Property and equipment, less accumulated depreciation and amortization of \$8,087 in 2009 and \$7,761 in 2008	29,126	29,437
Leased property under capital leases, less accumulated depreciation and amortization of \$1,483 in 2009 and \$1,384 in 2008	5,785	5,882
Noncurrent deferred tax asset	25	25
Other assets, net	59	59
<b>Total assets</b>	<b>\$ 47,944</b>	<b>\$ 48,713</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Current portion of obligations under capital leases	\$ 1	\$ 1
Accounts payable	4,537	4,831
Accrued payroll and other compensation	432	711
Accrued income taxes	6	19
Other accrued taxes	213	281
Other liabilities and accrued expenses	2,755	2,466
<b>Total current liabilities</b>	<b>7,944</b>	<b>8,309</b>
Obligations under capital leases	230	230
Shareholders' Equity:		
Class A Common Stock, \$.01 par value	32	32
Class B Common Stock, \$.01 par value	6	6
Paid-in capital	58,096	58,096
Accumulated deficit	(18,364)	(17,960)
<b>Total shareholders' equity</b>	<b>39,770</b>	<b>40,174</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 47,944</b>	<b>\$ 48,713</b>

*See accompanying notes to condensed consolidated financial statements.*



**Table of Contents**

## AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating activities:</b>		
Net loss	\$ (404)	\$ (60)
<b>Reconciliation of net loss to cash provided by operating activities:</b>		
Depreciation and amortization	425	319
Provision for losses on accounts receivable	22	
<b>Change in operating assets and liabilities:</b>		
Accounts receivable	2,656	503
Prepaid expenses	15	(22)
Other current assets	(43)	(231)
Accounts payable	(294)	(864)
Accrued payroll and other compensation	(279)	(96)
Accrued income taxes	(13)	(16)
Other accrued taxes	(68)	(78)
Other liabilities and accrued expenses	289	535
<b>Net cash provided by (used in) operating activities</b>	<b>2,306</b>	<b>(10)</b>
<b>Investing activities:</b>		
Capital expenditures	(17)	(1,123)
<b>Net cash used in investing activities</b>	<b>(17)</b>	<b>(1,123)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>2,289</b>	<b>(1,133)</b>
Cash and cash equivalents at beginning of year	3,061	5,086
<b>Cash and cash equivalents at end of period</b>	<b>\$ 5,350</b>	<b>\$ 3,953</b>

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents**

AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2009

Note 1. Basis of Presentation

The unaudited condensed consolidated financial statements of Avalon Holdings Corporation and subsidiaries (collectively "Avalon") and related notes included herein have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted consistent with such rules and regulations. The accompanying unaudited condensed consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in Avalon's 2008 Annual Report to Shareholders.

In the opinion of management, these unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position of Avalon as of March 31, 2009, and the results of its operations and cash flows for the interim periods presented.

The operating results for the interim periods are not necessarily indicative of the results to be expected for the full year.

Note 2. Basic Net Loss per Share

Basic net loss per share has been computed using the weighted average number of common shares outstanding each period, which were 3,803,331. There were no common equivalent shares outstanding and therefore, diluted per share amounts are equal to basic per share amounts for the three months ended March 31, 2009 and 2008.

Note 3. Credit Facility

On March 21, 2008, Avalon entered into a \$3.5 million unsecured line of credit agreement with The Huntington National Bank. Interest on borrowings accrues at LIBOR plus 1.75%. The agreement was amended in April 2009 to provide for a minimum interest rate of 3.25%. The line of credit contains certain financial and other covenants, customary representations, warranties and events of defaults. At March 31, 2009, there were no borrowings under the line of credit.

Note 4. Income Taxes

Avalon recorded a net loss of \$.4 million in the first quarter of 2009 compared with a net loss of \$60,000 in the first quarter of 2008. Excluding the minor effect of the state income tax provisions, Avalon's overall effective tax rate was 0% in the first quarter of 2009 and 2008. The overall effective tax rate is different than statutory rates primarily due to a change in the valuation allowance. Avalon's income tax benefit on the loss before taxes was offset by an increase in the valuation allowance. A valuation allowance is provided when it is more likely than not that deferred tax assets relating to certain federal and state loss carryforwards will not be realized. Avalon continues to maintain a valuation allowance against the majority of its deferred tax amounts until it is evident that the deferred tax asset will be utilized in the future.



**Table of Contents**

Note 5. Legal Matters

In the ordinary course of conducting its business, Avalon becomes involved in lawsuits, administrative proceedings and governmental investigations, including those related to environmental matters. Some of these proceedings may result in fines, penalties or judgments being assessed against Avalon which, from time to time, may have an impact on its business and financial condition. Although the outcome of such lawsuits or other proceedings cannot be predicted with certainty, Avalon does not believe that any uninsured ultimate liabilities, fines or penalties resulting from such pending proceedings, individually or in the aggregate, will have a material adverse effect on its liquidity, financial position or results of operations.

Note 6. Business Segment Information

In applying Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures About Segments of an Enterprise and Related Information, Avalon considered its operating and management structure and the types of information subject to regular review by its chief operating decision maker. On this basis, Avalon's reportable segments include waste management services and golf and related operations. Avalon accounts for intersegment net operating revenues as if the transactions were with third parties. The segment disclosures are presented on this basis for all periods presented.

Avalon's primary business segment, the waste management services segment, provides hazardous and nonhazardous waste disposal brokerage and management services to industrial, commercial, municipal and governmental customers and manages a captive landfill for an industrial customer. The golf and related operations segment includes the operations of golf courses, clubhouses that provide recreational, dining and banquet facilities and a travel agency. Revenue for the golf and related operations segment consists primarily of membership dues, green fees, cart rentals, merchandise, and food and beverage sales. Revenue related to membership dues are recognized proportionately over twelve months. The unrecognized or deferred revenues at March 31, 2009 and December 31, 2008 were \$2.2 million and \$2.0 million, respectively, and are included in the Condensed Consolidated Balance Sheets under the caption Other liabilities and accrued expenses. Avalon does not have significant operations located outside the United States and, accordingly, geographical segment information is not presented.

For the three months ended March 31, 2009 one customer accounted for 13% of the waste managements services segment's net operating revenues to external customers and 10.7% of Avalon's consolidated net operating revenues. For the three months ended March 31, 2008, no customer accounted for 10% or more of Avalon's consolidated net operating revenues.

**Table of Contents**

The accounting policies of the segments are consistent with those described for the consolidated financial statements in the summary of significant accounting policies. Avalon measures segment profit for internal reporting purposes as income (loss) before taxes. Business segment information including the reconciliation of segment income before taxes to income (loss) before taxes is as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Net operating revenues from:</b>		
Waste management services:		
External customers revenues	\$ 7,234	\$ 8,935
Intersegment revenues		
<b>Total waste management services</b>	<b>7,234</b>	<b>8,935</b>
Golf and related operations:		
External customers revenues	1,609	1,419
Intersegment revenues	4	5
<b>Total golf and related operations</b>	<b>1,613</b>	<b>1,424</b>
Segment operating revenues	8,847	10,359
Intersegment eliminations	(4)	(5)
<b>Total net operating revenues</b>	<b>\$ 8,843</b>	<b>\$ 10,354</b>
<b>Income (loss) before taxes:</b>		
Waste management services	\$ 596	\$ 796
Golf and related operations	(373)	(206)
Segment income before taxes	223	590
Corporate interest income	2	10
Corporate other income, net	5	7
General corporate expenses	(634)	(667)
<b>Loss before taxes</b>	<b>\$ (404)</b>	<b>\$ (60)</b>
<b>Interest income:</b>		
Waste management services	\$ 1	\$ 16
Golf and related operations		3
Corporate	2	10
<b>Total</b>	<b>\$ 3</b>	<b>\$ 29</b>

**Table of Contents**

	March 31, 2009	December 31, 2008
<b>Identifiable assets:</b>		
Waste management services	\$ 8,183	\$ 13,823
Golf and related operations	32,821	32,841
Corporate	40,467	35,444
Subtotal	81,471	82,108
Elimination of intersegment receivables	(33,527)	(33,395)
<b>Total</b>	<b>\$ 47,944</b>	<b>\$ 48,713</b>

The decrease in the identifiable assets of the waste management services segment is primarily due to a decrease in accounts receivable of the waste brokerage and management services at March 31, 2009 compared with December 31, 2008 and a decrease in intersegment transactions which are eliminated in consolidation. The increase in identifiable assets of corporate is primarily due to an increase in cash and cash equivalents at March 31, 2009 compared with December 31, 2008 and a increase in intersegment transactions which are eliminated in consolidation.

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion provides information which management believes is relevant to an assessment and understanding of the operations and financial condition of Avalon Holdings Corporation and its subsidiaries. As used in this report, the term "Avalon" means Avalon Holdings Corporation and its wholly owned subsidiaries, taken as a whole, unless the context indicates otherwise.*

*Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical in nature are intended to be, and are hereby identified as, "forward looking statements". Avalon cautions readers that forward looking statements, including, without limitation, those relating to Avalon's future business prospects, revenues, working capital, liquidity, capital needs, interest costs, and income, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward looking statements, due to risks and factors identified herein and from time to time in Avalon's reports filed with the Securities and Exchange Commission.*

**Liquidity and Capital Resources**

For the first three months of 2009, Avalon utilized existing cash and cash provided from operations to fund capital expenditures and meet operating needs.

Avalon's aggregate capital expenditures in 2009 are expected to be in the range of \$.2 million to \$.5 million. Such expenditures will principally relate to equipment purchases and building improvements for the golf and related operations. During the first three months of 2009, capital expenditures for Avalon totaled approximately \$17,000 which was principally related to such building improvements.

Avalon entered into a long-term agreement with Squaw Creek Country Club to lease and operate its golf course and related facilities. The lease, which commenced November 1, 2003, has an initial term of ten (10) years with four (4) consecutive ten (10) year renewal term options unilaterally exercisable by Avalon. Under the lease, Avalon is obligated to pay \$15,000 in annual rent and make leasehold improvements of \$150,000 per year. Amounts expended by Avalon for leasehold improvements during a given year in excess of \$150,000 will be carried forward and applied to future leasehold improvement obligations. Avalon has made approximately \$7.3 million of leasehold improvements as of March 31, 2009. Based upon the amount of leasehold improvements already made and leasehold improvements anticipated to be made in the future, Avalon expects to exercise all of its renewal options.

Working capital was \$5.0 million at both March 31, 2009 and December 31, 2008.

The decrease in accounts receivable at March 31, 2009 compared with December 31, 2008 is primarily due to lower net operating revenues of the waste management services segment in the first quarter of 2009 compared with the fourth quarter of 2008, partially offset by a small increase in accounts receivable of the golf and related operations segment. The waste management services segment recorded net operating revenues of \$7.2 million in the first quarter of 2009 compared with \$10.6 million in the fourth quarter of 2008.

## **Table of Contents**

The decrease in accounts payable at March 31, 2009 compared with December 31, 2008 is primarily a result of decreased payables due disposal facilities and transporters used by the waste brokerage and management services business as a result of lower net operating revenues in the first quarter of 2009 compared with the fourth quarter of 2008 and the timing of payments to such vendors in the ordinary course of business.

The decrease in accrued payroll and other compensation is primarily due to the payment of bonus incentives of the waste brokerage and management services business which were accrued at December 31, 2008.

The increase in other liabilities and accrued expenses at March 31, 2009 compared with December 31, 2008 is primarily due to an increase in deferred revenues relating to membership dues of the golf and related operations segment. Such deferred revenues increased to \$2.2 million at March 31, 2009 compared with \$2.0 million at December 31, 2008.

Comparing March 31, 2008 with December 31, 2007, the increase in other current assets is primarily due to an increase in inventories of the golf and related operations due to the opening of the restaurants and banquet facilities at the Sharon facility in the first quarter of 2008. The decrease of \$.7 million in accounts payable and \$.5 million in accounts receivable is primarily due to the timing of payments to vendors and the collections of receivables from customers of the waste management services segment in the ordinary course of business. The increase in other current liabilities and accrued expenses is primarily due to an increase in deferred revenues relating to membership dues of the golf and related operations segment.

Management believes that anticipated cash provided from future operations, existing working capital, as well as Avalon's ability to incur indebtedness, will be, for the foreseeable future, sufficient to meet operating requirements and fund capital expenditure programs.

Several private country clubs in the northeast Ohio area are experiencing economic difficulties. Avalon believes some of these clubs may represent an attractive investment opportunity and is giving consideration to the possibility of acquiring one or more additional golf courses. Avalon will continue to consider acquisitions that make economic sense. Such potential acquisitions could be financed by existing working capital, secured or unsecured debt, issuance of common stock, or issuance of a security with characteristics of both debt and equity, any of which could impact liquidity in the future.

## **Results of Operations**

### *Overall performance*

Net operating revenues in the first quarter of 2009 decreased to \$8.8 million from \$10.4 million in the prior year's first quarter. The decrease is primarily the result of lower net operating revenues of the waste management services segment, partially offset by an increase in the net operating revenues of the golf and related operations segment. Costs of operations decreased to \$7.3 million in the first quarter of 2009 compared with \$8.5 million in the prior year's first quarter. The decrease is primarily due to the lower net operating revenues of the waste management services segment, which resulted in lower transportation and disposal costs, as these

## **Table of Contents**

costs vary directly with the associated net operating revenues. Fixed costs relating to depreciation and amortization expense increased to \$.4 million in the first quarter of 2009 from \$.3 million in the prior year's first quarter. Due to such increased costs, the gross profit percentage declined to 13% in the first quarter of 2009 compared with 14.6% in the prior year quarter. Consolidated selling, general and administrative expenses decreased to \$1.6 million in the first quarter of 2009 compared with \$1.7 million in the first quarter of 2008 primarily due to slightly lower payroll and employee costs. Avalon recorded a net loss of \$.4 million or \$.11 per share, in the first quarter of 2009 compared with a net loss of \$60,000 or \$.02 per share, in the first quarter of 2008.

### **Performance in the First Quarter of 2009 compared with the First Quarter of 2008**

#### *Segment performance*

Segment performance should be read in conjunction with Note 6 to the Condensed Consolidated Financial Statements.

Net operating revenues of the waste management services segment decreased approximately 19% to \$7.2 million in the first quarter of 2009 compared with \$8.9 million in the first quarter of the prior year. For the first quarter of 2009, net operating revenues of the waste brokerage and management services business were \$6.6 million compared with \$8.2 million in the first quarter of 2008, while the net operating revenues of the captive landfill management operations were \$.6 million in the first quarter of 2009 compared with \$.7 million in the first quarter of 2008. The decrease in the net operating revenues of the waste brokerage and management services business was primarily due to a decrease of 32% in continuous or ongoing work, partially offset by a 5% increase in event work. Event work is defined as bid projects under contract that occurs on a one-time basis over a short period of time. Such work can fluctuate significantly from quarter to quarter. The decrease in continuous work is primarily the result of a slowdown in the economy which negatively affected the production and manufacturing of industrial customers of the waste brokerage and management services business. The decrease in net operating revenues of the captive landfill operations was primarily the result of a decrease in the volume of waste disposed of at the captive landfill. The volume of waste disposed of at the captive landfill is entirely dependent upon the amount of waste generated by the owner of the landfill for whom Avalon manages the facility.

Income before taxes for the waste management services segment decreased to \$.6 million in the first quarter of 2009 compared with \$.8 million in the first quarter of the prior year. Income before taxes of the waste brokerage and management services business was \$.5 million for the first quarter of 2009 compared with \$.6 million for the first quarter of 2008. Gross margins of the waste brokerage and management services business improved to 19.7% in the first quarter of 2009 compared with 18.4% in the prior year quarter. Income before taxes of the captive landfill operations decreased to \$.1 million in the first quarter of 2009 compared with \$.2 million in the first quarter of 2008 primarily due to the decrease in the volume of waste disposed.

Avalon's golf and related operations segment consists primarily of golf courses, clubhouses which provide dining and banquet facilities, and a travel agency. Although the golf courses will continue to be available to the general public, the primary source of revenues will arise from members of the Avalon Golf and Country Club. The golf courses, which are located in northeast Ohio and

## **Table of Contents**

western Pennsylvania, were unavailable for play during the first quarter of 2009 and 2008 due to adverse weather conditions. As such, net operating revenues were negatively affected by the adverse weather conditions. Net operating revenues for the golf and related operations were \$1.6 million in the first quarter of 2009 compared with \$1.4 million in the first quarter of the prior year. The increase in net operating revenues is primarily due to higher food and beverage sales and increased membership dues. In the first quarter of 2009 the dining and banquet facilities at the Sharon club were open for the entire quarter as compared with the first quarter of 2008 when such facilities were only open for the month of March following the completion of the renovation and construction of the Sharon club. The average number of members during the first quarter of 2009 increased to 2,633 compared with 2,398 in the prior year's first quarter. The ability to attract and retain members is very important to the success of the golf and related operations segment. Avalon is continually using different marketing strategies to attract and retain members, such as local television advertising and various membership promotions. However, due to the state of the economy, retaining members and attracting new members is becoming more difficult. A significant decline in members could adversely impact the financial results of the golf and related operations segment. The golf and related operations segment incurred a loss before taxes of \$373,000 in the first quarter of 2009 compared with a loss before taxes of \$206,000 in the first quarter of the prior year. The increased loss before taxes is primarily due to increased depreciation expense and higher operating expenses.

### *Interest income*

Interest income was \$3,000 in the first quarter of 2009 compared with \$29,000 in the first quarter of 2008. The decrease is primarily the result of lower average cash and cash equivalents invested during the first quarter of 2009 compared with the first quarter of the prior year.

### *General corporate expenses*

General corporate expenses were \$.6 million in the first quarter of 2009 compared with \$.7 million in the first quarter of 2008. The lower general corporate expenses were the result of decreases in various expense items.

### *Net income*

Avalon recorded a net loss of \$.4 million in the first quarter of 2009 compared with a net loss of \$60,000 in the first quarter of 2008. Excluding the minor effect of the state income tax provisions, Avalon's overall effective tax rate was 0% in the first quarter of 2009 and 2008. The overall effective tax rate is different than statutory rates primarily due to a change in the valuation allowance. Avalon's income tax benefit on the loss before taxes was offset by an increase in the valuation allowance. A valuation allowance is provided when it is more likely than not that deferred tax assets relating to certain federal and state loss carryforwards will not be realized. Avalon continues to maintain a valuation allowance against the majority of its deferred tax amounts until it is evident that the deferred tax asset will be utilized in the future.

## **Table of Contents**

### **Trends and Uncertainties**

In the ordinary course of conducting its business, Avalon becomes involved in lawsuits, administrative proceedings and governmental investigations, including those relating to environmental matters. Some of these proceedings may result in fines, penalties or judgments being assessed against Avalon which, from time to time, may have an impact on its business and financial condition. Although the outcome of such lawsuits or other proceedings cannot be predicted with certainty, management assesses the probability of loss and accrues a liability as appropriate. Avalon does not believe that any uninsured ultimate liabilities, fines or penalties resulting from such pending proceedings, individually or in the aggregate, will have a material adverse effect on its liquidity, financial position or results of operations.

The Board of Directors of Avalon has explored the possibility of delisting Avalon's common stock by reducing the number of shareholders of record below 300, thereby eliminating the requirements for compliance with the Sarbanes-Oxley Act (the Act). Avalon believes compliance with the requirements of the Act could be very costly. However, as a result of the Securities and Exchange Commission's (SEC) decision to extend the compliance deadline under Section 404 of the Act (SOX 404) for small public companies, the Board of Directors has decided not to pursue delisting at this time, but intends to review the situation again as future developments warrant.

The federal government and numerous state and local governmental bodies are continuing to consider legislation or regulations to either restrict or impede the disposal and/or transportation of waste. A portion of Avalon's waste brokerage and management services revenues is derived from the disposal and/or transportation of out-of-state waste. Any law or regulation restricting or impeding the transportation of waste or the acceptance of out-of-state waste for disposal could have a negative effect on Avalon.

Avalon's waste brokerage and management services business obtains and retains customers by providing services and identifying cost-efficient disposal options unique to a customer's needs. Consolidation within the solid waste industry has resulted in reducing the number of disposal options available to waste generators and may cause disposal pricing to increase. In addition, consolidation has had the effect of reducing the number of competitors offering disposal alternatives which may adversely impact the future financial performance of Avalon's waste brokerage and management services business.

A significant portion of Avalon's business is generated from waste brokerage and management services provided to customers and is not subject to long-term contracts. In light of current economic, regulatory and competitive conditions, there can be no assurance that Avalon's current customers will continue to transact business with Avalon at historical levels. Failure by Avalon to retain its current customers or to replace lost business could adversely impact the future financial performance of Avalon.

Avalon's captive landfill management business is dependent upon a single customer as its sole source of revenue. If the captive landfill management business is unable to retain this customer, Avalon's future financial performance could be adversely impacted.



## **Table of Contents**

Economic challenges throughout the industries served by Avalon have resulted in payment defaults by customers. While Avalon continuously endeavors to limit customer credit risks, customer-specific financial downturns are not controllable by management. Significant customer payment defaults would have a material adverse impact upon Avalon's future financial performance.

The Avalon Golf and Country Club has golf courses and clubhouses at each of its three facilities. The Squaw Creek and Sharon facilities each have a swimming pool, a fitness center and dining and banquet facilities. The Squaw Creek facility also has tennis courts. The Avalon Golf and Country Club competes with many public courses and country clubs in the area. Although the golf courses continue to be available to the general public, the primary source of revenues is derived from the members of the Avalon Golf and Country Club. Avalon believes that the combination of the three facilities will result in a significant increase in the number of members of the Avalon Golf and Country Club. Although Avalon has been able to increase the number of members of the Avalon Golf and Country Club year-to-year, as of March 31, 2009, Avalon has not attained its membership goals. There can be no assurance as to when such increased membership will be attained and when the golf and related operations will ultimately become profitable. Failure by Avalon to attain increased membership could adversely affect the future financial performance of Avalon.

All three of Avalon's golf course operations currently hold liquor licenses for their respective facilities. If, for some reason, any one of these facilities were to lose its liquor license, the financial performance of the golf and related operations would be adversely affected.

Avalon's operations are somewhat seasonal in nature since a significant portion of those operations are primarily conducted in selected northeastern and midwestern states. Additionally, Avalon's golf courses are located in northeast Ohio and western Pennsylvania and are significantly dependent upon weather conditions during the golf season. As a result, Avalon's financial performance is adversely affected by adverse weather conditions.

Management is currently evaluating Avalon's strategic direction for the future. While there are no specific transactions under negotiation or pending at this time, Avalon does not necessarily intend to limit itself in the future to lines of business which it has historically conducted.

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

Avalon does not have significant exposure to changing interest rates. A 10% change in interest rates would have an immaterial effect on Avalon's income before taxes for the next fiscal year. Avalon currently has no debt outstanding and invests primarily in Certificates of Deposit, U.S. Treasury notes, short-term money market funds and other short-term obligations. Avalon does not undertake any specific actions to cover its exposure to interest rate risk and Avalon is not a party to any interest rate risk management transactions. Avalon does not purchase or hold any derivative financial instruments.

### **Item 4. Controls and Procedures**

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act), Avalon's management conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2009. For purposes of the

**Table of Contents**

foregoing, the term disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Avalon's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as outlined above. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that they believe that, as of March 31, 2009 our disclosure controls and procedures were effective at a reasonable assurance level.

**Changes in Internal Controls over Financial Reporting.** There were no changes in our internal controls over financial reporting during the fiscal quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

Reference is made to Item 3. Legal Proceedings in Avalon's Annual Report on Form 10-K for the year ended December 31, 2008 for a description of legal proceedings.

**Item 2. Changes in Securities and Use of Proceeds**

None

**Item 3. Defaults upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

Avalon's Annual Meeting of Shareholders was held on April 30, 2009; however, no vote of security holders occurred with respect to any matters reportable under this Item 4.

**Item 5. Other Information**

None

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

Exhibit 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

None

**Table of Contents**

SIGNATURE

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.

AVALON HOLDINGS CORPORATION  
(Registrant)

Date: May 14, 2009

By: /s/ Timothy C. Coxson  
Timothy C. Coxson, Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer and Duly  
Authorized Officer)