

AVALON HOLDINGS CORP
 Form 10-K/A
 April 15, 2005
Table of Contents

2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment #1)

x	Annual Report "bottom">	2,675	1,917	
	Segment operating revenues	30,203	25,013	24,439
	Intersegment eliminations	(201)	(279)	(510)
	Total net operating revenues	\$ 30,002	\$ 24,734	\$ 23,929
	Income (loss) from continuing operations before taxes:			
	Waste management services	\$ 2,488		

For the fiscal year ended December 31, 2004

.. 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)

Ohio (State or other jurisdiction of incorporation or organization)	34-1863889 (I.R.S. Employer Identification No.)
One American Way, Warren, Ohio (Address of principal executive offices)	44484-5555 (Zip Code)

Registrant's telephone number, including area code: (330) 856-8800

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	\$	1,512	\$ 1,140	
Golf and related operations		24	66	(303)
Other businesses			(13)	
<hr/>				
Segment income before taxes		2,512	1,565	837
Corporate interest income		92	154	209
Corporate other income, net		(7)	30	35
General corporate expenses		(3,442)	(3,561)	(3,242)

**Name of
Each
Exchange**

on Which
Registered

Class A Common Stock, \$.01 par value

American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of Class A Common Stock held by non-affiliates of the registrant on February 13, 2005 was \$9.4 million. Assuming that the market value of Avalon Holdings Corporation's Class B Common Stock was the same as its Class A Common Stock by reason of its one-to-one conversion rights, the market value of Class B Common Stock held by non-affiliates of the registrant on February 13, 2005 was approximately \$4,400. The registrant had 3,190,786 shares of its Class A Common Stock and 612,545 shares of its Class B Common Stock outstanding as of March 3, 2005.

Documents Incorporated by Reference

1. Portions of the Avalon Holdings Corporation Annual Report to Shareholders for the year ended December 31, 2004 (Parts I and II of Form 10-K).
-

Table of Contents**AVALON HOLDINGS CORPORATION AND SUBSIDIARIES**

As used in this report, the terms Avalon, Company, and Registrant mean Avalon Holdings Corporation and its wholly owned subsidiaries, taken as a whole, unless the context indicates otherwise.

TABLE OF CONTENTS

		<u>Page</u>		
Part I				
Item 1.	<u>Business</u>	1		
Item 2.	<u>Properties</u>	4		
Item 3.	<u>Legal Proceedings</u>	5		
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	<u> </u>	<u> </u>	<u> </u>
Loss from continuing operations before taxes	\$ (845)	\$ (1,812)	\$ (2,161)	
	<u> </u>	<u> </u>	<u> </u>	
Depreciation and amortization:				
Waste management services	\$ 60	\$ 84	\$ 94	
Golf and related operations	650	524	473	
Corporate	185	243	298	
	<u> </u>	<u> </u>	<u> </u>	
Total	5			
Part II				
Item 5.	<u>Market for the Registrant's Common Equity and Related Stockholder Matters</u>	6		
Item 6.	<u>Selected Financial Data</u>	6		
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	6		
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	6		
Item 8.	<u>Financial Statements and Supplementary Data</u>	6		
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	6		
Item 9A.	<u>Controls and Procedures</u>	7		
Item 9B.	<u>Other Information</u>	7		
Part III				
Item 10.	<u>Directors and Executive Officers of the Registrant</u>	8		
Item 11.	<u>Executive Compensation</u>	10		
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management</u>	12		

Edgar Filing: AVALON HOLDINGS CORP - Form 10-K/A

Item 13.	<u>Certain Relationships and Related Transactions</u>	13		
Part IV			\$ 895	\$ 851 \$ 865
	<u>2004</u>	<u>2003</u>	<u>2002</u>	
Interest income:				
Waste management services	\$ 92	\$ 12	\$ 16	
Golf and related operations	11	2	2	
Corporate	92	154	209	
Total				
Item 14.	<u>Principal Accountant Fees and Services</u>	14		
Item 15.	<u>Exhibits, Financial Statement Schedules, and Reports on Form 8-K</u>	14		
Signatures		16		

Note on Incorporation by Reference

Throughout this report various information and data are incorporated by reference from Avalon's 2004 Annual Report to Shareholders (hereinafter referred to as the "Annual Report to Shareholders"). Any reference in this report to disclosures in the Annual Report to Shareholders shall constitute incorporation by reference of that specific material into this Form 10-K.

Table of Contents

Explanatory Note

Avalon Holdings Corporation (Avalon) is filing this Amendment No. 1 to its Form 10-K for the fiscal year ended December 31, 2004 (the Form 10-K), originally filed with the Securities and Exchange Commission on March 30, 2005, for the sole purpose of including information required by Part III, Items 10, 11 and 12, and by Part IV, Item 14, which were previously incorporated by reference to the Avalon Holdings Corporation Proxy Statement for the 2005 Annual Meeting of Shareholders. Avalon is also updating the signature page and Exhibits 31.1, 31.2, 32.1 and 32.2.

No attempt has been made in this Form 10-K/A to modify or update other disclosures presented in the original report on Form 10-K, except as required to reflect the information as indicated above.

The Form 10-K/A does not reflect events occurring after the filing of the Form 10-K or modify or update those disclosures, including the exhibits to the Form 10-K affected by subsequent events. Information not affected by the information is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-K on March 30, 2005.

Table of Contents

PART 1

ITEM 1. BUSINESS

General

Avalon Holdings Corporation (Avalon) was formed on April 30, 1998 as a subsidiary of American Waste Services, Inc. (AWS). Pursuant to the terms of a Contribution and Distribution Agreement dated as of May 7, 1998 between Avalon and AWS, AWS contributed to Avalon its transportation operations, technical environmental services operations, waste disposal brokerage and management operations, and golf course and related operations, together with certain other assets including the headquarters of AWS and certain accounts receivable. In connection with the contribution, Avalon also assumed certain liabilities of AWS. On June 17, 1998, AWS distributed, as a special dividend, all of the outstanding shares of capital stock of Avalon to the holders of AWS common stock on a pro rata and corresponding basis (the Spin-off). Avalon subsequently sold the assets of the laboratory services and remediation business and discontinued the engineering and consulting businesses which were part of the technical environmental services operations. In July 2004, Avalon sold its transportation operations.

In June 1990, AWS purchased approximately 5.6 acres of real estate located in Warren, Ohio on which it constructed Avalon s corporate headquarters. In connection with the acquisition of such property, Avalon Lakes Golf, Inc. (ALGI), a subsidiary of AWS, acquired the real and personal property associated with the Avalon Lakes Golf Course, an 18-hole golf course adjacent to the office property. Avalon s corporate headquarters building has been remodeled to include a clubhouse for the Avalon Golf and Country Club. ALGI became a subsidiary of Avalon as a result of the Spin-off.

During 1995, American Waste Management Services, Inc., a subsidiary of AWS, commenced its waste disposal brokerage and management operations. This company became a subsidiary of Avalon as a result of the Spin-off.

During the third quarter of 1997, a newly organized subsidiary of AWS, American Landfill Management, Inc., started its captive landfill management operations. This company became a subsidiary of Avalon as a result of the Spin-off.

\$195 \$168 \$227

Capital expenditures:

Waste management services

\$18 \$6 \$42

Golf and related operations

5,092 575 2,433

Corporate

44 26 13

Total

\$5,154 \$607 \$2,488

In November 2003, TBG, Inc. (TBG), a subsidiary of ALGI, entered into a long-term lease agreement with Squaw Creek Country Club to lease and operate its golf course and related facilities. As a result of the transaction, Avalon created a newly organized subsidiary, Avalon Golf and Country Club, Inc. (AGCC) which manages the two golf courses and related operations.

Business Segments Information

Avalon's business segments are waste management services and golf and related operations. The waste management services segment includes waste disposal brokerage and management services and captive landfill management operations. The captive landfill management operations had been included in the technical environmental services segment. As a result of the assets of the remediation business being sold and the environmental engineering and consulting business being discontinued, the technical environmental services segment has been eliminated. The golf and related operations segment includes the operation and management of two golf courses, dining and banquet facilities and a travel agency. The transportation services segment has been eliminated as a result of the sale of DartAmerica, Inc. in July 2004. All financial information for the current and prior year has been reclassified to reflect the changes.

Waste management services are provided to industrial, commercial, municipal and governmental customers primarily in selected northeastern and midwestern United States markets. Avalon's waste management services segment provides hazardous and nonhazardous waste brokerage and management services and captive landfill management services. For the years 2004, 2003 and 2002, the net operating revenues of the waste management services segment represented approximately 85%, 89% and 92%, respectively, of Avalon's total segments' net operating revenues.

Edgar Filing: AVALON HOLDINGS CORP - Form 10-K/A

Avalon's golf course and related operations segment operates two 18-hole golf courses and related facilities. For the years 2004, 2003 and 2002, the net operating revenues of the golf and related operations segment represented approximately

Table of Contents

15%, 11%, and 8%, respectively, of Avalon's total segments' net operating revenues. One customer, Timken Company, accounted for approximately 12% of Avalon's 2004 consolidated net operating revenues.

Waste Management Services

Avalon's waste management subsidiaries provide hazardous and nonhazardous waste brokerage and management services and captive landfill management services.

American Waste Management Services, Inc. ("AWMS") assists customers with managing and disposing of wastes at approved treatment and disposal sites based upon a customer's needs.

Because waste generators remain liable for their waste both before and after disposal, they require assurance that their waste will be safely and properly transported, treated and disposed of. To give customers this confidence, as well as to limit its own potential liability, AWMS has instituted procedures designed to minimize the risks of improper handling or disposal of waste.

Before AWMS will provide waste brokerage or management services, a potential customer must complete a detailed questionnaire setting forth the amount, chemical composition and any special characteristics for each separate waste to be handled. Representative samples of the waste are analyzed by a state or federally certified laboratory. In addition, an AWMS representative generally inspects the process generating the waste, the location where the waste may be temporarily stored or the site of the remediation project producing the waste, and interviews representatives of the generator familiar with the waste. This inspection, along with the laboratory results, allows AWMS to determine whether the waste is within acceptable parameters for disposal and, if so, what special handling and treatment procedures must be instituted. If the waste is continuously generated, new representative samples are tested on a periodic basis.

These procedures are important to both AWMS and its customers because the key to proper handling of waste is accurate identification. Hazardous waste which is not identified as such and thus improperly disposed of can result in substantial liability to the waste generator, the disposal facility, AWMS and potentially to all other waste generators that have used the disposal site. Conversely, waste that could safely and legally be disposed of in a solid waste landfill but is instead sent to a hazardous waste facility for treatment and disposal will result in substantial and unnecessary expense to the generator.

American Landfill Management, Inc. ("ALMI") is a landfill management company that provides technical and operational services to customers owning captive disposal facilities. A captive disposal facility only disposes of waste generated by the owner of such facility. ALMI provides turnkey services, including daily operations, facilities management and management reporting for its customers. Currently, ALMI manages one captive disposal facility located in Ohio.

Golf and Related Operations

Edgar Filing: AVALON HOLDINGS CORP - Form 10-K/A

Avalon Lakes Golf, Inc. (ALGI) owns and operates a Pete Dye designed championship golf course located in Warren, Ohio. ALGI generates revenue from membership dues, greens NOSHADE COLOR="#000000">

Identifiable assets at December 31:

Waste management services

\$4,609 \$5,821 \$6,100

Golf and related operations

19,574 14,825 14,376

Other businesses

731 557 566

Corporate

33,838 28,704 26,835

Discontinued operations

4,128 15,589 19,458

Sub To fees, cart rentals, merchandise sales, and food and beverage sales. TBG, a subsidiary of ALGI, 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 on November 1, 2003 has an initial term of ten (10) years with four (4) consecutive ten (10) year renewal term options unilaterally exercisable by TBG. In addition to a championship golf course, the Squaw Creek facilities include a swimming pool, tennis courts and a clubhouse that provides dining and banquet facilities. TBG generates its revenue in the same manner as ALGI. Avalon Travel, Inc. a subsidiary of ALGI owns and operates a travel agency which generates its revenue from booking travel reservations.

Edgar Filing: AVALON HOLDINGS CORP - Form 10-K/A

In November 2003, Avalon formed the Avalon Golf and Country Club to manage the two golf courses and related operations. Members of the Avalon Golf and Country Club are entitled to privileges at both facilities. Membership requires payment of a one-time initiation fee as well as annual dues. Members receive several benefits including reduced greens fees and preferential tee times. Both the

Table of Contents

Avalon Lakes Golf Course and the Squaw Creek Golf Course are also available to the general public. Although the golf courses are available to the general public, the primary source of revenues will be derived from the members of the Avalon Golf and Country Club. Avalon believes that the combination of the Squaw Creek and Avalon Lakes facilities will result in additional memberships in the Avalon Golf and Country Club. Over the past year and a half, Avalon has had a substantial increase in the number of members of the Avalon Golf and Country Club but as of December 31, 2004, Avalon still has not attained its goal. Such additional memberships, if attained, will result in increased net operating revenues; however, there can be no assurance as to when such increased membership will be attained. Failure by Avalon to attain additional members could adversely affect the future financial performance of Avalon.

The golf courses are significantly dependent upon weather conditions during the golf season as a result of being located in northeast Ohio. Avalon's financial performance is adversely affected by adverse weather conditions.

Governmental Regulations

The federal government and numerous state and local governmental bodies are increasingly considering, proposing or enacting 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 may also be affected by the trend toward laws requiring the development of waste reduction and recycling or other programs.

ALGI and TBG currently hold liquor licenses for their respective facilities. If, for some reason, either of these facilities were to lose their liquor license, the financial performance of the golf and related operations would be adversely affected.

Sales and Marketing

Avalon's sales and marketing approach is decentralized, with each operation being responsible for its own sales and marketing efforts. Each operation employs its own sales force which concentrates on expanding its business.

Competition

The hazardous and nonhazardous waste disposal brokerage and management business is highly competitive and fragmented. Avalon's waste disposal brokerage and management business competes with other brokerage companies as well as with companies which own treatment and disposal facilities. In addition to price, knowledge and service are the key factors when competing for waste disposal brokerage and management business. Avalon's waste disposal brokerage and management operations obtain and retain customers by providing service and identifying cost-efficient disposal options unique to a customer's needs. Consolidation within the solid waste industry has reduced the number of disposal options available to waste generators and has caused disposal pricing to increase. Avalon does not believe that industry pricing changes alone will have a material effect upon its waste disposal brokerage and management operations. However, consolidation has had the effect of reducing the number of competitors offering disposal alternatives.

Avalon's two golf courses are located in Warren, Ohio and Vienna, Ohio and compete with many public courses and country clubs in the area.

Insurance

Avalon carries \$5,000,000 of liability insurance coverages. This insurance includes coverage for comprehensive general liability, automobile liability and other customary coverages. In addition, Avalon carries comprehensive property damage coverage. Avalon also carries \$5,000,000 of liability insurance for the golf courses and related operations which maintains separate insurance coverage. No assurance can be given that such insurance will be available in the future or, if available, that the premiums for such insurance will be reasonable.