

AVALON HOLDINGS CORP  
Form 10-Q  
August 11, 2010  
Table of Contents

2010

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended June 30, 2010

“ **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 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  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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 August 10, 2010.

**Table of Contents**

**AVALON HOLDINGS CORPORATION AND SUBSIDIARIES**

**INDEX**

	<b>Page</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2010 and 2009 (Unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets at June 30, 2010 (Unaudited) and December 31, 2009</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2010 and 2009 (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>	12
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	20
Item 4. <u>Controls and Procedures</u>	20
<b>PART II. OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	22
Item 2. <u>Changes in Securities and Use of Proceeds</u>	22
Item 3. <u>Defaults upon Senior Securities</u>	22
Item 4. <u>Removed and Reserved</u>	22
Item 5. <u>Other Information</u>	22
Item 6. <u>Exhibits and Reports on Form 8-K</u>	22
<u>SIGNATURE</u>	23

**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 June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net operating revenues	\$ 12,051	\$ 8,372	\$ 20,381	\$ 17,215
Costs and expenses:				
Costs of operations	9,842	6,804	16,827	14,076
Depreciation and amortization	422	423	842	848
Selling, general and administrative expenses	1,851	1,456	3,419	3,065
Operating loss	(64)	(311)	(707)	(774)
Other income (expense):				
Interest expense	(4)	(4)	(7)	(7)
Interest income	8	11	16	14
Other income, net	61	55	116	114
Income (loss) before income taxes	1	(249)	(582)	(653)
Provision for income taxes	13	14	14	14
Net loss	\$ (12)	\$ (263)	\$ (596)	\$ (667)
Net loss per share basic and diluted	\$ (.01)	\$ (.07)	\$ (.16)	\$ (.18)
Weighted average shares outstanding basic and diluted	3,803	3,803	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)**

	<b>June 30, 2010 (Unaudited)</b>	<b>December 31, 2009</b>
<b>Assets:</b>		
Current Assets:		
Cash and cash equivalents	\$ 5,663	\$ 5,862
Accounts receivable, net	8,452	7,094
Prepaid expenses	270	291
Refundable income taxes	25	25
Other current assets	737	568
Total current assets	15,147	13,840
Property and equipment, less accumulated depreciation and amortization of \$9,643 in 2010 and \$9,042 in 2009	27,695	28,277
Leased property under capital leases, less accumulated depreciation and amortization of \$1,971 in 2010 and \$1,774 in 2009	5,487	5,574
Noncurrent deferred tax asset	8	8
Other assets, net	58	58
Total assets	\$ 48,395	\$ 47,757
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Current portion of obligations under capital leases	\$ 1	\$ 1
Accounts payable	5,592	5,119
Accrued payroll and other compensation	792	545
Accrued income taxes	7	
Other accrued taxes	161	274
Deferred revenues	2,348	1,943
Other liabilities and accrued expenses	374	246
Total current liabilities	9,275	8,128
Obligations under capital leases	229	229
Shareholders' Equity:		
Class A Common Stock, \$.01 par value	32	32
Class B Common Stock, \$.01 par value	6	6
Paid-in capital	58,183	58,096
Accumulated deficit	(19,330)	(18,734)
Total shareholders' equity	38,891	39,400
Total liabilities and shareholders' equity	\$ 48,395	\$ 47,757

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>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Operating activities:		
Net loss	\$ (596)	\$ (667)
Reconciliation of loss to cash provided by (used in) operating activities:		
Depreciation and amortization	842	848
Compensation costs stock options	87	
Provision for losses on accounts receivable	1	55
Change in operating assets and liabilities:		
Accounts receivable	(1,359)	3,529
Prepaid expenses	21	30
Other current assets	(169)	(72)
Accounts payable	473	(680)
Accrued payroll and other compensation	247	(175)
Accrued income taxes	7	(8)
Other accrued taxes	(113)	(118)
Deferred revenues	405	187
Other liabilities and accrued expenses	128	7
Net cash (used in) provided by operating activities	(26)	2,936
Investing activities:		
Capital expenditures	(173)	(71)
Net cash used in investing activities	(173)	(71)
(Decrease) Increase in cash and cash equivalents	(199)	2,865
Cash and cash equivalents at beginning of year	5,862	3,061
Cash and cash equivalents at end of period	\$ 5,663	\$ 5,926

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

**AVALON HOLDINGS CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**June 30, 2010**

**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 2009 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 June 30, 2010, 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.

Avalon evaluated subsequent events through the date the financial statements were issued.

**Note 2. Basic Net Income (Loss) per Share**

Basic net income (loss) per share has been computed using the weighted average number of common shares outstanding each period, which were 3,803,331. Although there are common equivalent shares outstanding, no diluted per share amounts are reported because Avalon was in a net loss position for the second quarter and six months ended June 30, 2010 and 2009 and therefore, such dilution would be considered anti-dilutive. As a result, diluted per share amounts are equal to basic per share amounts for the three and six months ended June 30, 2010 and 2009.

The weighted average number of common shares outstanding assuming dilution for the three and six months ended June 30, 2010 was 3,972,143 and 3,901,181, respectively.

**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 June 30, 2010 and December 31, 2009, there were no borrowings under the line of credit.



**Table of Contents**

**AVALON HOLDINGS CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

**June 30, 2010**

**Note 4. Income Taxes**

Avalon incurred a net loss of \$12,000 in the second quarter of 2010 compared with net loss of \$.3 million in the second quarter of 2009. Excluding the minor effect of the state income tax provisions, Avalon's overall effective tax rate was 0% in the second quarter of 2010 and 2009. The income tax provision for the second quarter of 2010 and the income tax benefit for the second quarter of 2009 were offset by a change in the valuation allowance. The overall effective tax rate is different than statutory rates primarily due to a change 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.

Avalon incurred a net loss of \$.6 million for the first six months of 2010 compared with net loss of \$.7 million for the first six months of 2009. Excluding the minor effect of the state income tax provisions, Avalon's overall effective tax rate was 0% in the first six months of 2010 and 2009. The income tax benefits for the first six months of 2010 and 2009 were offset by a change in the valuation allowance. The overall effective tax rate is different than statutory rates primarily due to a change 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.

**Note 5. Long-term Incentive Plan**

The purpose of the Avalon Holdings Corporation 2009 Long-term Incentive Plan (the Plan) is (a) to improve individual employee performance by providing long-term incentives and rewards to employees of Avalon, (b) to assist Avalon in attracting, retaining and motivating employees and non-employee directors with experience and ability, and (c) to associate the interests of such employees and directors with those of the Avalon shareholders. Under the Plan, 1,300,000 shares have been reserved for the issuance of stock options. During the first quarter of 2010, Avalon granted 980,000 stock options, which were the first stock options granted under the Plan. These stock options, vest ratably over a five year period and have a contractual term of ten years from the date of grant. At the end of each contractual vesting period, the share price of the Avalon common stock, traded on a public stock exchange (NYSE Amex), must reach a predetermined price within three years following such contractual vesting period before the stock options are exercisable (See table below). If the Avalon common stock price does not reach the predetermined price, the stock options will either be cancelled or the period will be extended at the discretion of the Board of Directors.

The Monte Carlo Simulation was selected to determine the fair value because it incorporates six minimum considerations; 1) the exercise price of the option, 2) the expected term of the option, taking into account both the contractual term of the option, the effects of employees' expected exercise and post-vesting employment termination behavior, as well as the possibility of change in control events during the contractual term of the option agreements, 3) the current fair value of the underlying equity, 4) the expected volatility of the value of the underlying share for the expected term of the option, 5) the expected dividends on the underlying share for the expected term of the option and 6) the risk-free interest rate(s) for the expected term of the option.

**Table of Contents****AVALON HOLDINGS CORPORATION AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****June 30, 2010**

The expected term, or time until the option is exercised is typically based on historical exercising behavior of previous option holders of a company's stock. Due to the fact there were no options previously granted and, therefore no historical exercising behavior available, an alternative method was used. Because of the nature of the vesting as described above, the options were separated into five blocks, with each block having its own vesting period and expected term. Assuming the vesting occurs ratably over the vesting period for each option block, the average vesting term (requisite service period) for each option block was calculated to be 2.54, 3.54, 4.54, 5.54 and 6.54 years for option blocks 1 through 5, respectively. Because there is no historical activity, the Simplified Method was used to determine the expected term. The expected term under the Simplified Method is equal to the average vesting term plus the original contractual term divided by two. As such, the expected terms were calculated to be 6.27, 6.77, 7.27, 7.77 and 8.27 years, for option blocks 1 through 5, respectively.

The current fair value of the underlying equity was determined to be equal to Avalon's publicly traded stock price as of the grant dates times the sum of the Class A and Class B common shares outstanding.

The expected volatility was based on the observed volatility of Avalon common stock for a five year period prior to the grant dates. The expected volatility that was used ranged from 60.9% to 61.5% with a weighted average expected volatility of 60.9%.

There were no expected dividends and the risk-free interest rate(s) which ranged from 2.28% to 2.44% were based on yield data for U. S. Treasury securities over a period consistent with the expected term.

The following table is a summary of the stock options granted during the first quarter of 2010:

<b>Number of Options Granted</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Fair Value at Grant Date</b>
980,000	\$ 2.52	\$ 3.56

The stock options vest and become exercisable based upon achieving two critical metrics as follows:

- 1) Contract Vesting Term: The stock options vest ratably over a five year period.
- 2) The Avalon common stock price traded on a public stock exchange (NYSE Amex) must reach the predetermined vesting price within three years after the options become vested under the Contract Vesting Term.

The table below represents the period and predetermined stock price needed for vesting.

	<b>Begins Vesting</b>	<b>Ends Vesting</b>	<b>Predetermined Vesting Price</b>
Block 1	12 mo. after Grant Dates	48 mo. after Grant Dates	\$ 3.43
Block 2	24 mo. after Grant Dates	60 mo. after Grant Dates	\$ 4.69
Block 3	36 mo. after Grant Dates	72 mo. after Grant Dates	\$ 6.43
Block 4	48 mo. after Grant Dates	84 mo. after Grant Dates	\$ 8.81

Edgar Filing: AVALON HOLDINGS CORP - Form 10-Q

Block 5	60 mo. after Grant Dates	96 mo. after Grant Dates	\$	12.07
---------	--------------------------	--------------------------	----	-------

**Table of Contents**

**AVALON HOLDINGS CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

**June 30, 2010**

Compensation cost was approximately \$65,000 for the three months ended June 30, 2010 and \$87,000 for the six months ended June 30, 2010 based upon the estimated fair value calculation. The deferred tax benefit recorded was offset by an increase to the valuation allowance. As of June 30, 2010, there was approximately \$.9 million of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 4.47 years.

**Note 6. 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 7. Business Segment Information**

Avalon's reportable segments include waste management services and golf and related operations. In determining the segment 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 to third parties. The segment disclosures are presented on this basis for all years 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, manages a captive landfill for an industrial customer and sells construction mats. 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 relating to membership dues at June 30, 2010 and December 31, 2009 were \$2.3 million and \$1.9 million, respectively. Avalon does not have significant operations located outside the United States and, accordingly, geographical segment information is not presented.

For the six months ended June 30, 2010 one customer accounted for 11% of the waste management services segment's net operating revenues to external customers and 9% of Avalon's consolidated net operating revenues. For the six months ended June 30, 2009 one customer accounted for 14% of the waste management services segment's net operating revenues to external customers and 10% of Avalon's consolidated net operating revenues. In addition, Avalon's captive landfill management business is dependent upon a single customer as its sole source of revenue.

**Table of Contents****AVALON HOLDINGS CORPORATION AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****June 30, 2010**

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 June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Net operating revenues from:</b>				
Waste management services:				
External customers revenues	\$ 9,294	\$ 5,636	\$ 15,971	\$ 12,870
Intersegment revenues				
<b>Total waste management services</b>	<b>9,294</b>	<b>5,636</b>	<b>15,971</b>	<b>12,870</b>
Golf and related operations:				
External customers revenues	2,757	2,736	4,410	4,345
Intersegment revenues	19	20	30	24
<b>Total golf and related operations</b>	<b>2,776</b>	<b>2,756</b>	<b>4,440</b>	<b>4,369</b>
Segment operating revenues	12,070	8,392	20,411	17,239
Intersegment eliminations	(19)	(20)	(30)	(24)
<b>Total net operating revenues</b>	<b>\$ 12,051</b>	<b>\$ 8,372</b>	<b>\$ 20,381</b>	<b>\$ 17,215</b>
<b>Income (loss) before taxes:</b>				
Waste management services	\$ 798	\$ 415	\$ 1,261	\$ 1,011
Golf and related operations	(98)	(132)	(507)	(505)
Segment income before taxes	700	283	754	506
Corporate interest income	8	11	16	13
Corporate other income, net	2	2	4	7
General corporate expenses	(709)	(545)	(1,356)	(1,179)
<b>Income (loss) before taxes</b>	<b>\$ 1</b>	<b>\$ (249)</b>	<b>\$ (582)</b>	<b>\$ (653)</b>
<b>Interest income:</b>				
Waste management services	\$	\$	\$	\$ 1
Golf and related operations				
Corporate	8	11	16	13

Edgar Filing: AVALON HOLDINGS CORP - Form 10-Q

Total	\$	8	\$	11	\$	16	\$	14
-------	----	---	----	----	----	----	----	----

	June 30, 2010	December 31, 2009
<b>Identifiable assets:</b>		
Waste management services	\$ 11,437	\$ 10,300
Golf and related operations	31,414	31,443
Corporate	39,780	40,160
Subtotal	82,631	81,903
Elimination of intersegment receivables	(34,236)	(34,146)
Total	\$ 48,395	\$ 47,757

**Table of Contents**

**AVALON HOLDINGS CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

**June 30, 2010**

The increase in the identifiable assets of the waste management services segment is primarily due to an increase in accounts receivable of the waste brokerage and management services at June 30, 2010 compared with December 31, 2009. The decrease in identifiable assets of corporate is primarily due to a decrease 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 six months of 2010, Avalon utilized existing cash and cash provided from operations to fund capital expenditures and meet operating needs.

Avalon's aggregate capital expenditures in 2010 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 six months of 2010, capital expenditures for Avalon totaled approximately \$.2 million 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 \$7.5 million of leasehold improvements as of June 30, 2010. 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 \$5.9 million at June 30, 2010 and \$5.7 million at December 31, 2009.

The increase in accounts receivable at June 30, 2010 compared with December 31, 2009 is primarily due to higher net operating revenues of the waste management services segment in the second quarter of 2010 compared with the fourth quarter of 2009 and an increase in accounts receivable of the golf and related operations segment. The waste management services segment recorded net operating revenues of \$9.3 million in the second quarter of 2010 compared with \$8.1 million in the fourth quarter of 2009.



## **Table of Contents**

The increase in other current assets and accounts payable at June 30, 2010 compared with December 31, 2009 is primarily a result of higher inventory purchases of the golf and related operations segment during the golf season. Accounts payable also increase due to the timing of payments to vendors in the ordinary course of business.

The increase in accrued payroll and other compensation is primarily due to an increase in bonus incentives accrued at June 30, 2010 compared with December 31, 2009.

The decrease in other accrued taxes at June 30, 2010 compared with December 31, 2009 is primarily due to the payment of accrued real estate taxes during 2010.

The increase in deferred revenues at June 30, 2010 compared with December 31, 2009 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.

### *Growth Strategy*

The waste industry is a local and highly competitive business, requiring substantial labor and capital resources. The participants compete for accounts primarily on the basis of price and quality of service, and compete for disposal and processing business on the basis of tipping fees, geographic location and quality of operations. The waste industry has been consolidating and continues to consolidate as a result of a number of factors, including the increasing costs and complexity associated with waste management operations, lower volumes, and regulatory compliance. Many small independent operators and municipalities lack the capital resources, management, operating skills and technical expertise necessary to operate effectively in such an environment. Avalon believes that this pressure will continue to fuel the consolidation within the waste industry and has positioned itself well to capitalize on these opportunities in the future, either through acquisitions or strategic partnerships.

Our growth strategy will focus on increasing revenue, gaining market share and enhancing shareholder value through internal growth and acquisitions. We will manage our growth strategy as follows:

**Internal Growth:** Our internal growth strategy focuses on retaining existing customers and obtaining new business through our well-managed sales and marketing activities.

***Pricing Activities.*** We seek to secure price increases necessary to offset increased costs, to improve our operating margins and to obtain adequate returns on our investments in assets.

***Long-Term Contracts.*** We seek to obtain long-term contracts with all of our customers. By obtaining such long-term agreements, we will have the opportunity to grow our contracted revenue base at the same rate as the underlying revenue growth of these customers. We believe that this positions us to eliminate further revenue deterioration and experience internal growth rates that are generally higher than our industry's overall growth rate. Additionally, we believe

## **Table of Contents**

that by securing a base of long-term recurring revenue, we are better able to protect our market position from competition and our business may be less susceptible to downturns in economic conditions.

***Sales and Marketing Activities.*** We seek to manage our sales and marketing activities to enable us to capitalize on our position in many of the markets in which we operate. We provide a tailored program to all of our customers in response to their needs by centralizing services to effectively manage their needs, such as minimizing their procurement costs. We currently have a number of professional sales and marketing employees in the field who are compensated using a commission structure that is focused on generating high levels of quality revenue. For the most part, these employees directly solicit business from existing and prospective customers. We emphasize our rate and cost structures when we train new and existing sales personnel.

***Development Activities.*** We will seek to identify opportunities to further position us as an integrated service provider in markets where we provide services. Where appropriate, we may seek to obtain permits that would provide vertically integrated waste services or expand the service offerings or leverage our existing volumes with current vendors to provide for long term, cost competitive strategic positioning within our existing markets. Development projects, while generally less capital intensive than acquiring such projects, typically require extensive permitting efforts that can take years to complete with no assurance of success. We may undertake development projects when we believe there is a reasonable probability of success and where reasonably priced acquisition opportunities are not available.

**Acquisition Growth:** We will look to acquire businesses that complement our existing business platform. Our acquisition growth strategy will focus primarily on privately held companies and the waste operations of municipal and other local governmental authorities. We believe that our ability to acquire privately held companies is enhanced by increasing competition in the waste industry, increasing capital requirements as a result of changes in waste regulatory requirements, and the limited number of exit strategies for these privately held companies' owners. We also seek to acquire operations and facilities from municipalities that are privatizing, as they seek to increase available capital and reduce risk. In addition, we will continue to evaluate opportunities to acquire operations and facilities that are being divested by other publicly owned waste companies. In sum, our acquisition growth strategy will focus primarily on the following:

acquiring privately held businesses that position us for growth in existing markets;

acquiring well-managed companies and, when appropriate, retaining local management; and

acquiring operations and facilities from municipalities that are privatizing and/or from publicly owned companies that are divesting assets.

Our primary focus will be to acquire facilities that operate in markets that we are already servicing in order to fully integrate our operations. We believe these activities allow us to increase our revenue and market share, lower our cost of operations as a percentage of revenue, and maximize cost efficiencies and economies of scale.

In addition, 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 Avalon may consider acquiring one or more additional golf courses.

## **Table of Contents**

While Avalon has not entered into any pending agreements for acquisitions, it may do so at any time and will continue to consider acquisitions that make economic sense. Such potential acquisitions could be financed by existing working capital, utilizing its line of credit, 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 second quarter of 2010 increased to \$12.1 million from \$8.4 million in the prior year's second quarter. The increase is primarily the result of a significant increase in the net operating revenues of the waste management services segment. Costs of operations increased to \$9.8 million in the second quarter of 2010 compared with \$6.8 million in the prior year's second quarter. The increase is primarily due to the increase in net operating revenues of the waste management services segment, which resulted in higher transportation and disposal costs, as these costs vary directly with the associated net operating revenues. Fixed costs relating to depreciation and amortization expense were \$.4 million in both the second quarter of 2010 and 2009. Consolidated selling, general and administrative expenses increased to \$1.8 million in the second quarter of 2010 compared with \$1.5 million in the second quarter of 2009 primarily due to an increase in sales and management bonus incentives of the waste management services segment and compensation costs relating to stock options granted. Avalon incurred a net loss of \$12,000, or \$.01 per share, in the second quarter of 2010 compared with net loss of \$.3 million or \$.07 per share, in the second quarter of 2009.

For the first six months of 2010, net operating revenues increased to \$20.4 million from \$17.2 million for the first six months of 2009. The increase is primarily the result of a significant increase in the net operating revenues of the waste management services segment. Costs of operations were \$16.8 million for the first six months of 2010 compared with \$14.1 million for the first six months of 2009. The increase is primarily due to the increase in net operating revenues of the waste management services segment, which resulted in higher transportation and disposal costs as these costs vary directly with the associated net operating revenues. Fixed costs relating to depreciation and amortization expense were \$.8 million for both the first six months of 2010 and 2009. Consolidated selling, general and administrative expenses increased to \$3.4 million for the first six months of 2010 compared with \$3.1 million for the first six months of 2009 primarily due to an increase in sales and management bonus incentives of the waste management services segment and compensation costs relating to stock options granted in the first quarter of 2010. Avalon incurred a net loss of \$.6 million, or \$.16 per share, for the first six months of 2010 compared with a net loss of \$.7 million, or \$.18 per share, for the first six months of 2009.

---

**Table of Contents**

*Performance in the Second Quarter of 2010 compared with the Second Quarter of 2009*

***Segment performance***

Segment performance should be read in conjunction with Note 7 to the Condensed Consolidated Financial Statements.

Net operating revenues of the waste management services segment increased approximately 65% to \$9.3 million in the second quarter of 2010 compared with \$5.6 million in the second quarter of the prior year. For the second quarter of 2010, net operating revenues of the waste brokerage and management services business were \$8.6 million compared with \$5.1 million in the second quarter of 2009, while the net operating revenues of the captive landfill management operations were \$.7 million compared with \$.5 million. The increase in the net operating revenues of the waste brokerage and management services business was primarily due to an increase of 152% in event or one-time projects and a 15% increase in continuous work. The increase in event work was due to an increase in the number of projects won in the second quarter of 2010 compared with the second quarter of 2009. Event work is defined as bid projects under contract that occurs on a one-time basis over a short period of time and can fluctuate significantly from quarter to quarter. The increase in net operating revenues of the captive landfill operations was primarily due to an increase in the sales of construction mats and an increase in the volume of waste disposed of at the landfill during the second quarter of 2010 compared to the prior year second quarter. 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.

Due to the significant increase in net operating revenues, income before taxes for the waste management services segment increased to \$.8 million in the second quarter of 2010 compared with \$.4 million in the second quarter of the prior year. Income before taxes of the waste brokerage and management services business was \$.7 million for the second quarter of 2010 compared with \$.3 million for the second quarter of 2009. Income before taxes of the captive landfill operations was \$.1 million in both the second quarter of 2010 and 2009.

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 for use by the general public, the primary source of revenues for golf will be generated by the members of the Avalon Golf and Country Club. Net operating revenues for the golf and related operations were \$2.8 million in both the second quarter of 2010 and second quarter of the prior year. The average number of members during the second quarter of 2010 increased to 2,790 compared with 2,614 in the prior year's second quarter. Although the average number of members increased, due to the mix between social and golf members, net operating revenues from membership dues decreased slightly. 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 has been 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 approximately \$.1 million in both the second quarter of 2010 and 2009.

## **Table of Contents**

### ***Interest income***

Interest income was \$8,000 in the second quarter of 2010 compared with \$11,000 in the second quarter of 2009. The decrease is primarily the result of lower average investment rates.

### ***General corporate expenses***

General corporate expenses were \$.7 million in the second quarter of 2010 compared with \$.5 million in the second quarter of 2009. The increase is primarily due to compensation costs associated with the stock options granted during the first quarter of 2010, higher employee costs and higher building repair and maintenance expense.

### ***Net income***

Avalon incurred a net loss of \$12,000 in the second quarter of 2010 compared with net loss of \$.3 million in the second quarter of 2009. Excluding the minor effect of the state income tax provisions, Avalon's overall effective tax rate was 0% in the second quarter of 2010 and 2009. The income tax provision for the second quarter of 2010 and the income tax benefit for the second quarter of 2009 were offset by a change in the valuation allowance. The overall effective tax rate is different than statutory rates primarily due to a change 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.

### ***Performance in the first six months of 2010 compared with the first six months of 2009***

### ***Segment performance***

Segment performance should be read in conjunction with Note 7 to the Condensed Consolidated Financial Statements.

Net operating revenues of the waste management services segment increased to \$16.0 million in the first six months of 2010 compared with \$12.9 million in the first six months of the prior year. For the first six months of 2010, net operating revenues of the waste brokerage and management services business were \$14.7 million compared with \$11.8 million for the first six months of 2009, while the net operating revenues of the captive landfill management operations were \$1.3 million for the first six months of 2010 compared with \$1.1 million for the prior year period. The increase in net operating revenues of the waste brokerage and management services business was primarily the result of a 60% increase in event or one-time work. Net operating revenues from continuous work were flat for the first six months of 2010 compared with the first six months of the prior year. The increase in event work was primarily due to an increase in the number of projects won for the first six months of 2010 compared with the same period in 2009. Net operating revenues of the captive landfill management operations increased in the first six months of 2010 compared with the first six months of 2009 primarily as a result of an increase in the sales of construction mats and to a lesser extent an increase in the amount of waste disposed.

## **Table of Contents**

of at the landfill and an increase in additional work performed on miscellaneous projects. Income from operations before taxes for the waste management services segment increased to \$1.3 million in the first six months of 2010 compared with \$1.0 million in the first six months of the prior year. The increase is primarily due to the significant increase in net operating revenues of the waste brokerage and management services business. Income before taxes of the waste brokerage and management services business was \$1.0 million for the first six months of 2010 compared with \$.7 million for the first six months of 2009. Income before taxes of the captive landfill operations was \$.3 million in both the first six months of 2010 and 2009.

Net operating revenues of the golf and related operations segment were \$4.4 million in both the first six months of 2010 and 2009. Due to adverse weather conditions, net operating revenues relating to the golf courses, which are located in northeast Ohio and western Pennsylvania, were minimal during the first three months of 2010 and 2009. The average number of members during the first six months of 2010 increased to 2,770 compared with 2,623 in the prior year's first six months. Although the average number of members increased, due to the mix between social and golf members, net operating revenues from membership dues decreased slightly. Net operating revenues associated with golfing activities decreased while food and beverage net operating revenues increased. The golf and related operations segment incurred a loss before taxes of \$.5 million in both the first six months of 2010 and 2009. 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 has been difficult. A significant decline in members could adversely impact the financial results of the golf and related operations segment.

### ***Interest income***

Interest income was \$16,000 in the first six months of 2010 compared with \$14,000 in the first six months of 2009. The increase is primarily due to higher average cash and cash equivalents invested during the first six months of 2010 compared with the first six months of 2009.

### ***General corporate expenses***

General corporate expenses were \$1.4 million in the first six months of 2010 compared with \$1.2 million in the first six months of 2009. The increase is primarily due to compensation costs associated with the stock options granted during the first quarter of 2010, higher employee costs and higher building repair and maintenance expenses.

### ***Net income***

Avalon incurred a net loss of \$.6 million in the first six months of 2010 compared with a net loss of \$.7 million in the first six months of the prior year. Avalon's overall effective tax rate, excluding the effect of some minor state income tax provisions, was 0% in both the first six months of 2010 and 2009. The income tax benefit for the first six months of 2010 and 2009 was offset by a change 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. The overall effective tax rate differs from statutory rates primarily due to the change in the valuation allowance.

## **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 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. Avalon's waste brokerage and management services business may not be able to pass these price increases onto some of its customers, which, in turn, may adversely impact Avalon's future financial performance.

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.

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.

## **Table of Contents**

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 for use by the general public, the primary source of revenues will be generated by the members of the Avalon Golf and Country Club. Avalon believes that the combination of these three facilities will result in additional memberships in the Avalon Golf and Country Club. Due to the state of the economy, the ability to retain current members and attract new members has been difficult. Although Avalon has been able to retain and slightly increase the number of members of the Avalon Golf and Country Club, as of June 30, 2010, Avalon has not attained its membership goals. There can be no assurance as to when such goals will be attained and when the golf and related operations will ultimately become profitable. Avalon is continually using different marketing strategies to attract new members, such as local television advertising and various membership promotions. A significant decline in members 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.

### **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 June 30, 2010. For purposes of the 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



**Table of Contents**

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 June 30, 2010 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 June 30, 2010 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, 2009 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. Removed and Reserved**

**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

On May 12, 2010, Avalon reported the voting results for the election of directors from the Annual Meeting.

**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: August 11, 2010

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

23