

AVALON HOLDINGS CORP
Form 10-Q
November 13, 2006

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 September 30, 2006

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 | |

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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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer
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 3,190,786 shares of its Class A Common Stock and 612,545 shares of its Class B Common Stock outstanding as of November 9, 2006.

AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

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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)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| Net operating revenues | \$ 11,130 | \$ 9,517 | \$ 29,284 | \$ 25,686 |
| Costs and expenses: | | | | |
| Costs of operations | 9,211 | 7,821 | 24,549 | 21,404 |
| Selling, general and administrative expenses | 1,633 | 1,480 | 4,709 | 4,316 |
| Operating income (loss) from continuing operations | 286 | 216 | 26 | (34) |
| Other income (expense): | | | | |
| Interest expense | (4) | (3) | (11) | (10) |
| Interest income | 173 | 88 | 437 | 230 |
| Other income, net | 48 | 55 | 170 | 137 |
| Income from continuing operations before income taxes | 503 | 356 | 622 | 323 |
| Provision (benefit) for income taxes | | | | |
| Income from continuing operations | 503 | 356 | 622 | 323 |
| Discontinued operations: | | | | |
| (Loss) income from discontinued operations before income taxes | (2) | (336) | 362 | (266) |
| Provision (benefit) for income taxes | | | | |
| (Loss) income from discontinued operations | (2) | (336) | 362 | (266) |
| Net income | \$ 501 | \$ 20 | \$ 984 | \$ 57 |
| Net income per share from continuing operations (Note 2) | \$.13 | \$.09 | \$.16 | \$.08 |
| Net income (loss) per share from discontinued operations (Note 2) | \$ | \$ (.09) | \$.10 | \$ (.07) |
| Net income per share (Note 2) | \$.13 | \$ | \$.26 | \$.01 |
| Weighted average shares outstanding (Note 2) | 3,803 | 3,803 | 3,803 | 3,803 |

See accompanying notes to condensed consolidated financial statements.

AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(in thousands, except per share amounts)

| | September 30, 2006 (Unaudited) | December 31, 2005 |
|---|--------------------------------------|----------------------|
| Assets: | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 14,111 | \$ 7,759 |
| Short-term investments | | 4,433 |
| Accounts receivable, net | 7,683 | 5,639 |
| Prepaid expenses | 345 | 220 |
| Other current assets | 229 | 255 |
| Current assets discontinued operations | | 29 |
| Total current assets | 22,368 | 18,335 |
| Property and equipment, less accumulated depreciation and amortization of \$5,669 in 2006 and \$5,139 in 2005 | 17,237 | 17,571 |
| Leased property under capital leases, less accumulated depreciation and amortization of \$616 in 2006 and \$385 in 2005 | 5,692 | 5,740 |
| Other assets, net | 62 | 61 |
| Noncurrent assets discontinued operations | | 1,881 |
| Total assets | \$ 45,359 | \$ 43,588 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities: | | |
| Current portion of obligations under capital leases | \$ 1 | \$ 1 |
| Accounts payable | 4,908 | 3,837 |
| Accrued payroll and other compensation | 625 | 469 |
| Accrued income taxes | 107 | 145 |
| Other accrued taxes | 179 | 239 |
| Other liabilities and accrued expenses | 1,671 | 1,623 |
| Current liabilities discontinued operations | | 391 |
| Total current liabilities | 7,491 | 6,705 |
| Obligations under capital leases | 233 | 233 |
| Other noncurrent liabilities | | 9 |
| 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 | (20,499) | (21,483) |
| Accumulated other comprehensive loss | | (10) |
| Total shareholders' equity | 37,635 | 36,641 |
| Total liabilities and shareholders' equity | \$ 45,359 | \$ 43,588 |

See accompanying notes to condensed consolidated financial statements.

AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

| | Nine Months Ended September 30, | |
|---|------------------------------------|----------|
| | 2006 | 2005 |
| Operating activities: | | |
| Income from continuing operations | \$ 622 | \$ 323 |
| Reconciliation of income from continuing operations to cash provided by operating activities: | | |
| Depreciation and amortization | 785 | 736 |
| Amortization of investments | (15) | (3) |
| Provision (benefit) for losses on accounts receivable | 6 | (113) |
| Loss (gain) from disposal of property and equipment | 3 | (2) |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (2,050) | (614) |
| Prepaid expenses | (125) | (109) |
| Other current assets | 26 | 57 |
| Other assets | (2) | |
| Accounts payable | 1,071 | (276) |
| Accrued payroll and other compensation | 156 | 45 |
| Accrued income taxes | (38) | |
| Other accrued taxes | (60) | (63) |
| Other liabilities and accrued expenses | 48 | 105 |
| Other noncurrent liabilities | (9) | (9) |
| Net cash provided by operating activities from continuing operations | 418 | 77 |
| Net cash provided by operating activities from discontinued operations | | 1,361 |
| Net cash provided by operating activities | 418 | 1,438 |
| Investing activities: | | |
| Purchases of investment securities | (94) | (4,408) |
| Proceeds from the maturity/sale of investment securities | 4,552 | 1,600 |
| Capital expenditures | (405) | (801) |
| Proceeds from disposal of property and equipment | | 5 |
| Payments received on note from the sale of DartAmerica, Inc. | | 1,000 |
| Net cash provided by (used in) investing activities from continuing operations | 4,053 | (2,604) |
| Net cash provided by investing activities from discontinued operations | 1,881 | 298 |
| Net cash provided by (used in) investing activities | 5,934 | (2,306) |
| Increase (decrease) in cash and cash equivalents | 6,352 | (868) |
| Cash and cash equivalents at beginning of year | 7,759 | 7,861 |
| Cash and cash equivalents at end of period | \$ 14,111 | \$ 6,993 |

See accompanying notes to condensed consolidated financial statements.

AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2006

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 2005 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 September 30, 2006, 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 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 was 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 and nine months ended September 30, 2006 and 2005.

Note 3. Investment Securities

Avalon held available-for-sale securities of \$4,433,000 at December 31, 2005. Such securities are included in the Condensed Consolidated Balance Sheets under the caption "Short-term investments." During the third quarter of 2006, as these investments matured, Avalon invested these monies in shorter term investments and, as such, these investments were reclassified to cash and cash equivalents. As a result of the classification of these securities as available-for-sale during the first nine months of 2006, Avalon recognized unrealized gains, net of applicable income taxes, of \$2,000 during the three month period ended September 30, 2006 and \$10,000 during the nine month period ended September 30, 2006, as a component of comprehensive income. Avalon recognized unrealized losses, net of applicable income taxes, of \$4,000 during the three month period ended September 30, 2005, and \$9,000 during the nine month period ended September 30, 2005, as a component of comprehensive income (loss). Accumulated other comprehensive income (loss) was \$-0- at September 30, 2006.

Information regarding investment securities consists of the following (in thousands):

| | September 30, 2006 | | | December 31, 2005 | | |
|-------------------------|--------------------|-------------------------|----------------------|-------------------|-------------------------|----------------------|
| | Amortized Cost | Gross Unrealized Losses | Estimated Fair Value | Amortized Cost | Gross Unrealized Losses | Estimated Fair Value |
| Available-for-Sale: | | | | | | |
| Certificates of Deposit | \$ | \$ | \$ | \$ 1,397 | \$ (10) | \$ 1,387 |
| U.S. Treasury Notes | | | | 3,046 | | 3,046 |
| Total | \$ | \$ | \$ | \$ 4,443 | \$ (10) | \$ 4,433 |

Note 4. Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of two components: net income (loss) and other comprehensive income (loss). Comprehensive income (loss) is the change in equity during a period from transactions and other events and circumstances from non-owner sources. The unrealized gains and losses, net of applicable taxes, related to available-for-sale securities is the only component of Accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets for Avalon. Comprehensive income (loss), net of related tax effects, is as follows (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2006 | September 30, 2005 | September 30, 2006 | September 30, 2005 |
| Net income | \$ 501 | \$ 20 | \$ 984 | \$ 57 |
| Unrealized (loss) gain on available-for-sale securities | 2 | (4) | 10 | (9) |
| Comprehensive income | \$ 503 | \$ 16 | \$ 994 | \$ 48 |

Note 5. Discontinued Operations

Recognizing that the continuing losses incurred by the environmental remediation business would adversely impact Avalon's future financial performance, in the fourth quarter of 2003, management determined that it was in Avalon's best interest to sell or discontinue the operation of the environmental remediation business. In January 2004, Avalon sold all of the fixed assets of the remediation business. As part of the transaction, the purchaser assumed all of the remediation business obligations relating to ongoing projects. The remediation business retained all of its other liabilities and assets, including cash and accounts receivable. The results of operations of the remediation business have been included in discontinued operations.

In the fourth quarter of 2001, the remediation business recorded a pretax charge of \$2.2 million to the provision for losses on accounts receivable as a result of IT Group, Inc., and most of its subsidiaries, including IT Corporation (IT), having filed for protection under Chapter 11 of the United States Bankruptcy Code on January 16, 2002. The remediation business had performed services as a subcontractor to IT for which it had not received payment. In the fourth quarter of 2002, the remediation business purchased from IT, for a nominal amount, the receivable relating to the contract under which it had performed services. The remediation business subsequently filed for binding arbitration under the provisions of the contract for payment of such receivable. On October 25, 2004,

as a result of such arbitration, the remediation business was awarded, after offsets for counterclaims, the net amount of \$1.4 million, plus interest of \$.1 million for its claim. Such amount was recorded as income in discontinued operations in the third quarter of 2004. The monies were received in February 2005 and are included in the Condensed Consolidated Statements of Cash Flows under the caption Net cash provided by operating activities from discontinued operations for the nine months ended September 30, 2005. In the second quarter of 2006, Avalon determined that the remediation business was no longer obligated to pay the remaining accounts payable associated with this project. Therefore, Avalon wrote off approximately \$.4 million of accounts payable and such amount is included in discontinued operations in the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2006.

On July 15, 2004, Avalon completed the sale of DartAmerica, Inc. for a selling price of approximately \$4.2 million. At the closing, BMC International, Inc. (BMC) delivered to Avalon \$3 million in cash and a secured promissory note of \$1 million payable in 6 monthly installments of interest only and 54 equal monthly installments of \$21,583 commencing February 15, 2005. The balance of the selling price, \$.2 million, was based upon changes in certain of DartAmerica, Inc.'s balance sheet items from March 31, 2004 to June 30, 2004 and was paid in September 2004. On June 30, 2005, BMC paid Avalon the remaining balance of the promissory note which amounted to approximately \$.9 million and is included in the Condensed Consolidated Statements of Cash Flows under the caption Payments received on note for sale of facility for the nine months ended September 30, 2005.

In January 2004, Avalon discontinued the operations of the engineering and consulting business because the business began to experience losses and Avalon believed that the losses were likely to continue in the future. The results of these operations are included in discontinued operations.

Concurrent with the decision to discontinue the technical environmental engineering and consulting business, Avalon decided to sell the building associated with the technical environmental services operations. As a result, the building was classified as held-for-sale and the expenses related to the maintenance and operations of the building were included in discontinued operations. In October 2005, Avalon reached an agreement in principal with a third party to sell the building for \$2.0 million. In December 2005, Avalon and the third party signed an agreement for the sale of the building. Avalon completed the sale of the building in May, 2006 and received \$1.8 million which represented the selling price less the costs to sell the building and is included in the Condensed Consolidated Statements of Cash Flows under the caption Net cash provided by investing activities from discontinued operations for the nine months ended September 30, 2006. Avalon incurred a loss of approximately \$20,000 on the sale of the building which is included in discontinued operations.

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 financial position or results of operations.

Note 7. 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 two golf courses, a travel agency and a clubhouse that provides dining and banquet facilities. Revenue for the golf and related operations segment consists primarily of membership dues, merchandise, food and beverage sales. Revenue related to membership dues are recognized proportionately over twelve months. The unrecognized or deferred revenue at both September 30, 2006 and December 31, 2005 was \$1.2 million and is 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 nine months ended September 30, 2006, no customer accounted for ten percent or more of Avalon's consolidated net operating revenues. For the nine months ended September 30, 2005, one customer and its affiliates accounted for approximately 12% of the waste management services segment's net operating revenues to external customers and approximately 10% of Avalon's consolidated net operating revenues.

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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) from continuing operations before taxes. Business segment information including the reconciliation of segment income (loss) to consolidated income (loss) from continuing operations before taxes is as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------------|------------------------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net operating revenues from: | | | | |
| Waste management services: | | | | |
| External customers revenues | \$ 9,036 | \$ 7,601 | \$ 24,658 | \$ 21,476 |
| Intersegment revenues | | | | 4 |
| Total waste management services | 9,036 | 7,601 | 24,658 | 21,480 |
| Golf and related operations: | | | | |
| External customers revenues | 2,094 | 1,916 | 4,626 | 4,210 |
| Intersegment revenues | 17 | 14 | 42 | 36 |
| Total golf and related operations | 2,111 | 1,930 | 4,668 | 4,246 |
| Segment operating revenues | 11,147 | 9,531 | 29,326 | 25,726 |
| Intersegment eliminations | (17) | (14) | (42) | (40) |
| Total net operating revenues | \$ 11,130 | \$ 9,517 | \$ 29,284 | \$ 25,686 |
| Income (loss) from continuing operations before taxes: | | | | |
| Waste management services | \$ 863 | \$ 701 | \$ 2,274 | \$ 2,191 |
| Golf and related operations | 112 | 166 | (183) | (155) |
| Other business | | (1) | | (2) |
| Segment income before taxes | 975 | 866 | 2,091 | 2,034 |
| Corporate interest income | 149 | 65 | 365 | 159 |
| Corporate other income, net | 5 | 13 | 10 | 36 |
| General corporate expenses | (626) | (588) | (1,844) | (1,906) |
| Income from continuing operations before taxes | \$ 503 | \$ 356 | \$ 622 | \$ 323 |
| Interest income: | | | | |
| Waste management services | \$ 22 | \$ 21 | \$ 65 | \$ 64 |
| Golf and related operations | 2 | 2 | 7 | 7 |
| Corporate | 149 | 65 | 365 | 159 |
| Total | \$ 173 | \$ 88 | \$ 437 | \$ 230 |

| | September 30, 2006 | December 31, 2005 |
|-----------------------------|-----------------------|----------------------|
| Identifiable assets: | | |
| Waste management services | \$ 9,524 | \$ 6,165 |
| Golf and related operations | 19,732 | 19,822 |
| Other businesses | | 828 |
| Corporate | 35,171 | 33,369 |
| Discontinued operations | | 1,909 |

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| | | |
|---|-----------|-----------|
| Subtotal | 64,427 | 62,093 |
| Elimination of intersegment receivables | (19,068) | (18,505) |
| Total | \$ 45,359 | \$ 43,588 |

The increase in the identifiable assets of the waste management services segment of \$3.4 million is primarily as a result of an increase in accounts receivable of \$1.9 million and an increase in intersegment transactions of \$1.5 million which are eliminated in consolidation. The \$1.8 million increase in corporate identifiable assets is principally related to an increase in cash and cash equivalents.

Note 8. Recently Issued Financial Accounting Standards

In July 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 requires recognition of tax benefits that satisfy a greater than 50% probability threshold. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for Avalon beginning January 1, 2007. Avalon is currently assessing the potential impact that the adoption of FIN No. 48 will have on its financial statements.

In September 2006, the SEC Staff issued Staff Accounting Bulletin No. 108 (*SAB 108*), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. *SAB 108* was issued to provide consistency between how registrants quantify financial statement misstatements. The provisions of *SAB 108* are effective for the annual period ending after November 15, 2006. Avalon is currently determining the effect, if any, the adoption of *SAB 108* will have on its financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for Avalon beginning January 1, 2008. Avalon is currently assessing the potential impact that the adoption of SFAS No. 157 will have on its financial statements.

Note 9. Subsequent Event

On October 23, 2006, Avalon completed the acquisition of the Sharon Country Club assets for approximately \$1 million in cash and the assumption of certain leases and accounts payable. The primary assets of the Sharon Country Club include the golf course and clubhouse. The Sharon Country Club is located in Sharon, Pennsylvania which is approximately 25 miles from the corporate headquarters of Avalon.

Avalon intends to operate the Sharon Country Club facilities as part of its Avalon Golf and Country Club. Avalon also plans to renovate the clubhouse and construct additional banquet and recreational facilities. Such renovation and construction is expected to cost between \$5 million and \$6 million and is expected to be completed in the second quarter of 2007.

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 nine months of 2006, Avalon utilized existing cash and cash provided from operations to fund capital expenditures and meet operating needs.

Avalon's aggregate capital expenditures in 2006 are expected to be in the range of \$.5 million to \$.7 million. Such expenditures will principally relate to building improvements, the purchase of golf equipment and the development of software for Avalon's golf and restaurant operations. This estimate does not include any expenditures related to the Sharon Country Club acquisition discussed below. During the first nine months of 2006, capital expenditures for Avalon totaled approximately \$.4 million which was principally related to the purchase of golf equipment and the development of software for Avalon's golf and restaurant operations.

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 \$6.3 million of leasehold improvements as of September 30, 2006. 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.

On October 23, 2006, Avalon completed the acquisition of the Sharon Country Club assets for approximately \$1 million in cash and the assumption of certain leases and accounts payable. The primary assets of the Sharon Country Club include the golf course and clubhouse. Avalon intends to operate the Sharon Country Club facilities as part of its Avalon Golf and Country Club. Avalon also plans to renovate the clubhouse and construct additional banquet and recreational facilities. Such renovation and construction is expected to cost between \$5 million and \$6 million and is expected to be completed in the second quarter of 2007.

In May 2006, Avalon completed the sale of the building located in Export, Pennsylvania and received \$1.8 million which represented the selling price less the costs to sell the building. The building had been used by the technical environmental services operations which have been discontinued.

Working capital was \$14.9 million at September 30, 2006 compared with \$11.6 million at December 31, 2005. The increase is primarily the result of increased cash and cash equivalents and accounts receivable, partially offset by a decrease in short-term investments and an increase in accounts payable.

The increase in cash and cash equivalents was primarily due to receiving approximately \$1.8 million from the sale of the building in Export, Pennsylvania and investing the monies from short-term investments, which matured in the third quarter of 2006, in shorter term investments. As a result, such shorter term investments were classified as cash and cash equivalents instead of short-term investments.

The increase in accounts receivable of \$2.0 million at September 30, 2006 compared with December 31, 2005 is primarily due to increased net operating revenues of the waste management services segment in the third quarter of 2006 compared with the fourth quarter of 2005.

The increase in accounts payable of \$1.1 million at September 30, 2006 compared with December 31, 2005 is primarily a result of increased payables due transporters and disposal facilities used by the waste brokerage and management services operations. Such increase resulted from increased net operating revenues of the waste brokerage waste management operations in the third quarter of 2006 compared with the fourth quarter of 2005 and the timing of payments to disposal facilities and transporters in the ordinary course of business.

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. Avalon does not currently have a credit facility.

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 third quarter of 2006 increased to \$11.1 million compared with \$9.5 million in the prior year's third quarter. The increase is primarily the result of higher net operating revenues of the waste management services segment and, to a lesser extent, an increase in the net operating revenues of the golf and related operations segment. Costs of

operations increased to \$9.2 million in the third quarter of 2006 compared with \$7.8 million in the prior year quarter. The increase is primarily the result of an increase in transportation and disposal costs which are directly associated with higher net operating revenues of the waste management services segment. Consolidated selling, general and administrative expenses increased to \$1.6 million in the third quarter of 2006 compared with \$1.5 million in the third quarter of 2005. Avalon recorded income from continuing operations of \$.5 million or \$.13 per share, in the third quarter of 2006 compared with income from continuing operations of \$.4 million or \$.09 per share, in the third quarter of 2005.

For the first nine months of 2006, net operating revenues increased to \$29.3 million compared with \$25.7 million for the first nine months of 2005. The increase is primarily the result of higher net operating revenues of the waste management services segment and, to a lesser extent, an increase in the net operating revenues of the golf and related operations segment. Costs of operations were \$24.5 million for the first nine months of 2006 compared with \$21.4 million for the first nine months of 2005. The increase is primarily the result of an increase in transportation and disposal costs which are directly associated with higher net operating revenues of the waste management services segment. Consolidated selling, general and administrative expenses increased to \$4.7 million for the first nine months of 2006 compared with \$4.3 million for the first nine months of 2005. For the first nine months of 2005, consolidated selling, general and administrative expenses included a decrease in the provision for losses on accounts receivable of approximately \$.2 million primarily as a result of recoveries of accounts receivable from two customers which had previously filed bankruptcy. Avalon recorded income from continuing operations of \$.6 million or \$.16 per share, for the first nine months of 2006 compared with income from continuing operations of \$.3 million or \$.08 per share, for the prior year period.

Performance in the Third Quarter of 2006 compared with the Third Quarter of 2005

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 \$9.0 million in the third quarter of 2006 compared with \$7.6 million in the third quarter of the prior year. The increase in net operating revenues is primarily the result of an increase in the level of waste brokerage and management services provided. Net operating revenues of the captive landfill management operations also increased in the third quarter of 2006 compared with the third quarter of the prior year primarily due to an increase in the volume of waste disposed of at the landfill. Income from continuing operations before taxes for the waste management services segment increased to \$.9 million in the third quarter of 2006 compared with \$.7 million in the third quarter of the prior year, primarily as a result of an increase in the level of business of the waste brokerage and management business. Income from continuing operations before taxes of the captive landfill operations increase slightly in the third quarter of 2006 compared with the third quarter of the prior year as a result of the increase in the volume of waste disposed.

Net operating revenues of the golf and related operations were \$2.1 million in the third quarter of 2006 compared with \$1.9 million in the third quarter of the prior year. The increase in net operating revenues is primarily due to an increase in membership dues as a result of a higher

average number of members in the third quarter of 2006 compared with the third quarter of 2005 and increased merchandise, food and beverage sales. The golf and related operations segment recorded income from continuing operations before taxes of \$.1 million in the third quarter of 2006 compared with \$.2 million in the third quarter of 2005. The decrease is primarily the result of increased maintenance costs of the golf courses, increased depreciation, employee and operating costs associated with operating the Squaw Creek facilities in which the dining and banquet facilities are located.

Interest income

Interest income was \$.2 million in the third quarter of 2006 compared with \$.1 million in the third quarter of 2005. The increase is primarily the result of additional cash invested in short-term investments and higher average investment rates.

General corporate expenses

General corporate expenses were \$.6 million in both the third quarter of 2006 and 2005.

Net income

Avalon recorded net income of \$.5 million in the third quarter of 2006 compared with net income of \$20,000 in the third quarter of the prior year. Avalon's overall effective tax rate, including the effect of state income tax provisions, was 0% in the third quarter of 2006 and 2005. The income tax provision in both the third quarter of 2006 and 2005 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 is different than statutory rates primarily due to a change in the valuation allowance.

Performance in the first nine months of 2006 compared with the first nine months of 2005

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 \$24.7 million in the first nine months of 2006 compared with \$21.5 million in the first nine months of the prior year. The increase in net operating revenues is primarily the result of an increase in the level of waste brokerage and management services provided. Net operating revenues of the captive landfill management operations also increased in the first nine months of 2006 compared with the first nine months of 2005 primarily due to an increase in the volume of waste disposed of at the landfill. Income from continuing operations before taxes for the waste management services segment increased to \$2.3 million in the first nine months of 2006 compared with \$2.2 million in the first nine months of the prior year, primarily as a result of an increase in the level of the waste brokerage and management services provided. For the first nine months of 2005, income from continuing operations before taxes included a decrease in the provision for losses on accounts receivable as a result of recoveries of approximately \$142,000 of accounts receivable from two customers which had previously filed bankruptcy. Income from continuing operations before taxes of the captive landfill management operations increased slightly in the first nine months of 2006 compared with the first nine months of 2005 as a result of an increase in the volume of waste disposed.

Net operating revenues of the golf and related operations segment were \$4.7 million in the first nine months of 2006 compared with \$4.2 million in the first nine months of the prior year. The golf courses, which are located in Warren, Ohio and Vienna, Ohio, were unavailable for play during the first three months of 2006 and 2005 due to adverse weather conditions. The increase in net operating revenues is primarily due to an increase in membership dues as a result of a higher average number of members during the first nine months of 2006 compared with the first nine months of 2005 and increased merchandise, food and beverage sales. The golf and related operations segment incurred a loss from continuing operations before taxes of \$.2 million in the both first nine months of 2006 and 2005. Although net operating revenues increased in the first nine months of 2006 compared with the first nine months of 2005, the golf and related operations segment incurred higher maintenance costs at the golf courses, in addition to, increased depreciation, employee and operating costs associated with operating the Squaw Creek facilities in which the dining and banquet facilities are located.

Interest income

Interest income was \$.4 million in the first nine months of 2006 compared with \$.2 million in the first nine months of 2005. The increase is primarily the result of a higher amount of average cash invested during the first nine months of 2006 compared with the first nine months of the prior year and higher average investment rates.

General corporate expenses

General corporate expenses were \$1.8 million in the first nine months of 2006 compared with \$1.9 million in the first nine months of 2005. The decrease is primarily the result of decreased legal fees in the first nine months of 2006 compared with the first nine months of 2005.

Net income

Avalon recorded net income of \$1 million in the first nine months of 2006 compared with net income of \$57,000 in the first nine months of the prior year. Avalon's overall effective tax rate, including the effect of state income tax provisions, was 0% in both the first nine months of 2006 and 2005. The income tax provision for the first nine months of 2006 and 2005 were 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.

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 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 and the ongoing review by the SEC of how to minimize the costly impact of SOX 404 on small 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 disposal brokerage and management operations obtain and retain 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 disposal brokerage and management operations.

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 customers' 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 two championship golf courses and a clubhouse at both the Avalon Lakes and Squaw Creek facilities. In addition, the Squaw Creek facility has a swimming pool, tennis courts, a fitness center and dining and banquet facilities. 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 Squaw Creek and Avalon Lakes facilities will result in a significant increase in the number of members of the Avalon Golf and Country Club. Although Avalon has had an increase in the number of members of the Avalon Golf and Country Club, as of September 30, 2006, Avalon has not attained its membership goals. There can be no assurance as to when such increased membership will be attained. Failure by Avalon to attain increased membership could adversely affect the future financial performance of Avalon.

In addition, on October 23, 2006, Avalon acquired the assets of the Sharon Country Club. The primary assets of the Sharon Country Club include the golf course and clubhouse. Avalon plans to renovate the clubhouse and construct additional banquet and recreational facilities. Avalon intends to operate the Sharon Country Club as part of its Avalon Golf and Country Club. The primary source of revenues will be derived from additional members and current members of the Avalon Golf and Country Club. Avalon believes that with the addition of the Sharon Country Club, it will be able to significantly increase the membership. There can be no assurance as to when such increased membership will be attained. Failure by Avalon to attain the increased membership could adversely affect the future financial performance of Avalon.

Squaw Creek and Avalon Lakes 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.

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 Warren, Ohio and Vienna, Ohio 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 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. Avalon recently completed the acquisition of the Sharon Country Club assets discussed elsewhere in this report.

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

Avalon's management, including the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

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, 2005 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

None

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 July 21, 2006 Avalon announced a verbal agreement to acquire the Sharon Country Club assets.

On October 23, 2006 Avalon announced the completion of the acquisition of the Sharon Country Club assets.

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: November 10, 2006

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