

AVALON HOLDINGS CORP
Form DEF 14A
March 26, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No. __)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to 167;240.14a-12

AVALON HOLDINGS CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**AVALON HOLDINGS
CORPORATION**

Notice of Annual Meeting of Shareholders

April 27, 2007

and

Proxy Statement

Avalon Holdings Corporation • One American Way • Warren, Ohio 44484-5555

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 27, 2007

To the Shareholders of Avalon Holdings Corporation:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Avalon Holdings Corporation will be held at the Avalon Golf and Country Club at Squaw Creek, located at 761 Youngstown-Kingsville Road, Vienna, Ohio, on Friday, April 27, 2007, at 10:00 A.M., local time, for the following purposes:

1. To elect five Directors, two of whom will be Class A Directors elected by the holders of Class A Common Stock, and three of whom will be Class B Directors elected by the holders of Class B Common Stock, such Directors to hold office until the next Annual Meeting of Shareholders and until their successors are elected and qualified; and
2. To transact such other business as may properly come before the meeting and any adjournment thereof; all in accordance with the accompanying Proxy Statement.

The Board of Directors has fixed the close of business on Friday, March 2, 2007, as the record date for the determination of the shareholders entitled to notice of and to vote at such meeting or any adjournment thereof. Only those shareholders of record at the close of business on such date will be entitled to vote at the meeting or any adjournment thereof.

Your prompt action in sending in your proxy will be greatly appreciated. An envelope is provided for your use which requires no postage if mailed in the United States. If you have more than one shareholder account, you are receiving a proxy for each account. Please vote, date, sign and mail all proxies you receive.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Timothy C. Coxson
Timothy C. Coxson
Assistant Secretary

Warren, Ohio

March 20, 2007

IMPORTANT:

PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY IN THE RETURN ENVELOPE FURNISHED FOR THAT PURPOSE, WHICH ENVELOPE REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES, AS PROMPTLY AS POSSIBLE, WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING. IF YOU LATER DESIRE TO REVOKE YOUR PROXY FOR ANY REASON, YOU MAY DO SO IN THE MANNER DESCRIBED IN THE ENCLOSED PROXY STATEMENT.

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

APRIL 27, 2007

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Avalon Holdings Corporation (the Company) of proxies in the form enclosed herewith to be voted at the Annual Meeting of Shareholders to be held at the Avalon Golf and Country Club at Squaw Creek, located at 761 Youngstown-Kingsville Road, Vienna, Ohio, on Friday, April 27, 2007, at 10:00 A.M., local time, and at any adjournment thereof (the Annual Meeting), for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. This Proxy Statement is being sent to each holder of the issued and outstanding shares of Class A Common Stock, \$.01 par value, (Class A Common Stock) and Class B Common Stock, \$.01 par value, (Class B Common Stock, and together with the Class A Common Stock, the Common Stock) of the Company entitled to vote at the meeting in order to furnish information relating to the business to be transacted at the meeting. The Company's Annual Report to Shareholders for the fiscal year ended December 31, 2006, including financial statements, is being mailed to shareholders, together with this Proxy Statement and the accompanying form of proxy, beginning on or about March 26, 2007.

Any shareholder giving a proxy will have the right to revoke it at any time prior to the voting thereof by giving written notice to the Secretary of the Company, by voting in person at the Annual Meeting, or by execution of a subsequent proxy provided that such action is taken in sufficient time to permit the necessary examination and tabulation of the subsequent proxy or revocation before the vote is taken. Shares of Common Stock represented by the proxies in the form enclosed, properly executed, will be voted in the manner designated, or if no applicable instructions are indicated, in favor of the Directors named therein. The persons named in the enclosed form of proxy are authorized to vote, in their discretion, upon such other business as may properly come before the meeting and any adjournment thereof. Only those shares represented at the Annual Meeting in person or by proxy shall be counted for purposes of determining the number of votes required for any proposals upon which shareholders of the Company shall be called upon to vote. Abstentions and broker non-votes shall not be counted as votes for or against any matter upon which shareholders of the Company shall be called upon to vote. The Articles of Incorporation of the Company do not permit cumulative voting in the election of Directors.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The Board of Directors has fixed the close of business on March 2, 2007, as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting. Only shareholders of record at the close of business on that date will be entitled to vote at the meeting or any adjournment thereof. At the Annual Meeting, the holders of Class A Common Stock will be entitled, as a class, to elect two Directors (Class A Directors) and the holders of Class B Common Stock will be entitled, as a class, to elect three Directors (Class B Directors, and together with the Class A Directors, the Directors).

Except for the election of Directors and as otherwise required by the provisions of the Company's Articles of Incorporation or by law, holders of the Class A Common Stock and Class B Common Stock will vote or consent as a single class on all matters with each share of Class A Common Stock having one vote per share and each share of Class B Common Stock having ten votes per share. In the event that the outstanding shares of Class B Common Stock constitute less than 50% of the total voting power of the issued and outstanding shares of Class A Common Stock and Class B Common Stock, the holders of the Class A Common Stock (one vote per share) and Class B Common Stock (ten votes per share) will vote as a single class for the election of Directors. At the close of business on March 2, 2007, the Company had outstanding 3,190,786 shares of Class A Common Stock entitling the holders thereof to 3,190,786 votes in the aggregate and 612,545 shares of Class B Common Stock entitling the holders thereof to 6,125,450 votes in the aggregate.

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Each share of Class B Common Stock is convertible at any time, at the option of the shareholder, into one share of Class A Common Stock. Shares of Class B Common Stock are also automatically converted into shares of Class A Common Stock on the transfer of such shares to any person other than the Company, another holder of Class B Common Stock or a Permitted Transferee as defined in the Company's Articles of Incorporation. The Class A Common Stock is not convertible.

The following table sets forth information with respect to beneficial ownership of the Class A Common Stock and Class B Common Stock by each person known to the Company to be the beneficial owner of more than five percent of either class of Common Stock. This information is as of February 20, 2007, unless noted that it is based upon Schedules 13-D or 13-G filed with the Securities and Exchange Commission (the Commission).

Name	Beneficially Owned as of February 20, 2007					
	Class A Common Stock		Class B Common Stock		Percent of all Common Stock	Percent of Total Voting Power
	Number of Shares	Percent of Class	Number of Shares	Percent of Class		
Ronald E. Klinge (1)(2)	170,417	5.3%	611,133	99.8%	20.5%	67.4%
Advisory Research, Inc. (3)(5)	474,700	14.9			12.5	5.1
180 North Stetson St., Suite 5500						
Chicago, IL 60601						
Anil C. Nalluri, M.D., Inc.	405,668	12.7			10.7	4.4
Profit Sharing Plan and Trust (3)(4)						
c/o Anil C. Nalluri, M.D., Inc.						
5500 Market Street, Suite 128						
Youngstown, OH 44512						
Raffles Associates, L.P. (3)	199,400	6.2			5.2	2.1
450 Fashion Avenue, Suite 509						
New York, New York 10123						
Dimension Fund Advisors LP (7)	185,311	5.8			4.9	2.0
1299 Ocean Avenue, 11 th Floor						
Santa Monica, California 90401						
Moloco Capital Partners LLC (6)	167,629	5.3			4.4	1.8
Moloco Value Fund, L.P. (6)						
346 Rheem Boulevard, Suite 210						
Moraga, California 94556						

- (1) Includes 14,296 shares of Class B Common Stock owned by Mr. Klinge's spouse, the beneficial ownership of which is disclaimed. Includes 1,067 shares of Class A Common Stock held by Mr. Klinge in the Avalon Holdings Corporation Participating Companies Profit Sharing Plan and Trust (including 397 shares held by Mr. Klinge's spouse, the beneficial ownership of which Mr. Klinge disclaims). Mr. Klinge has sole voting power and sole investment power over 170,020 shares of Class A Common Stock and 596,837 shares of Class B Common Stock.

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- (2) Ronald E. Klinge is an employee, executive officer and director of the Company. The address for Mr. Klinge is c/o Avalon Holdings Corporation, One American Way, Warren, Ohio 44484-5555.

- (3) Each named security holder has sole voting power and sole investment power over all of the shares listed.

- (4) Based upon information contained in Schedule 13-D filed with the Commission on January 25, 2007.
- (5) Based upon information contained in Schedule 13-G filed with the Commission on February 20, 2007.
- (6) Moloco Value Fund, L.P.'s sole power to vote or dispose of the Avalon Holdings Corporation shares owned by the Moloco Value Fund, L.P. (Moloco) is solely exercised by Moloco Capital Partners LLC (MCP), the general partner of Moloco, at the direction of the managing members of MCP, Mr. Darryl B. Chan and Mr. Kevin J. Lyons. To this extent and solely in their capacity as managing members of MCP, Mr. Chan and Mr. Lyons may be deemed to have shared power to vote or direct the vote and the shared power to dispose or direct the disposition of the 167,629 Avalon Holdings Corporation shares owned by Moloco.
- (7) Dimensional Fund Advisors LP (Dimensional), an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts. These investment companies, trust and accounts are the Funds. In its role as investment advisor or manager, Dimensional possesses investment and/or voting power over the securities of the Issuer that are owned by the Funds, and may be deemed to be the beneficial owner of the shares of the Company held by the Funds. This information is contained in Schedule 13G/A filed with the Commission on February 9, 2007.

ELECTION OF DIRECTORS

It is intended that the proxies will be voted for the election of the five nominees named below to hold office as Directors until the next succeeding annual shareholders meeting and until their respective successors are duly elected and qualified. Specifically, the holders of Class A Common Stock are entitled, as a class, to elect two Class A Directors and the holders of Class B Common Stock are entitled, as a class, to elect three Class B Directors. It is the intention of the persons named in the enclosed forms of proxy to vote such proxies as specified and if no specification is made, to vote such proxies for the election as Directors of the nominees for Class A Directors and Class B Directors listed below. All such nominees have consented to serve if elected. While management has no reason to believe that any of the nominees will not be available to serve as a Director, if for any reason any of them should become unavailable, the proxies will be voted for such substitute nominees as may be designated by the Board of Directors. The two nominees for Class A Directors receiving the greatest number of votes from the holders of shares of Class A Common Stock eligible to be cast at the meeting will be elected Class A Directors; and, the three nominees for Class B Directors receiving the greatest number of votes from the holders of shares of Class B Common Stock eligible to be cast at the meeting will be elected Class B Directors.

Three of the Company's current Directors, whose terms are expiring, are not standing for re-election. The Company has made a significant investment in its golf operations in northeast Ohio and western Pennsylvania, and believes it would be better served by having a higher number of its directors from the local communities.

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Set forth below is certain information about the nominees for Class A Directors and Class B Directors:

Name	Age	Director Since	Title	Term
Nominees for Class A Directors:				
Kurtis D. Gramley	44		Director	1 year
Stephen L. Gordon	65	1998	Director	1 year
Nominees for Class B Directors:				
Ronald E. Klinge	59	1998	Chairman of the Board, Chief Executive Officer and a Director	1 year
Timothy C. Coxson	56		Chief Financial Officer, Treasurer, Assistant Secretary and Director	1 year
David G. Bozanich	49		Director	1 year

Set forth below is information concerning each nominee for election as a director, including such nominee's principal occupation.

Kurtis D. Gramley has been Chairman of the Board of Directors and Chief Executive Officer of Edgewood Surgical Hospital located in Transfer, Pennsylvania since 2004. From 2002 to present, Mr. Gramley has served as President and Chief Executive Officer of Kapital Development, LLC which is the founding entity of Edgewood Surgical Hospital. Mr. Gramley has been involved in the development and management of healthcare related facilities and the medical profession since 1992. He was President of Shenango Inn Enterprises, Inc. and David Mead Inn Enterprises, Inc. from 1992 to 2000. Mr. Gramley received his Bachelor of Science degree in Accounting and Finance from the University of Virginia in 1985 and has been a Certified Public Accountant since 1986.

Stephen L. Gordon has been a director of the Company since June 1998. He has been a partner in the law firm of Beveridge & Diamond, P.C. since 1982. Mr. Gordon received his Bachelor of Arts degree from Rutgers University and his Doctor of Jurisprudence degree from the University of Pennsylvania.

Ronald E. Klinge has been a director and Chairman of the Board of the Company since June 1998. He was Chief Executive Officer from June 1998 until December 2002. He resumed the position of Chief Executive Officer on March 15, 2004. Mr. Klinge has over 30 years of environmental experience and received his Bachelor of Engineering degree in Chemical Engineering from Youngstown State University. Mr. Klinge is the spouse of Frances R. Klinge who is the Chief Administrative Officer of the Company.

Timothy C. Coxson has been Chief Financial Officer, Treasurer and Assistant Secretary since March 2006. Mr. Coxson had been Chief Financial Officer and Treasurer of Avalon from June 1998 until he resigned in August 2004 to relocate to Florida. From September 2004 to March 2006, Mr. Coxson was Director of Corporate Services of Avalon. Mr. Coxson had been Executive Vice president, Finance, Treasurer, Chief Financial Officer and a director of American Waste services, Inc. from May 1995 to June 1998. He received a Bachelor of Business Administration degree in Accounting from The Ohio State University.

David A. Bozanich has been Director of Finance for the City of Youngstown since 2002. Prior to the position of Director of Finance, Mr. Bozanich was Deputy Director of Finance for the City of Youngstown overseeing economic development. Mr. Bozanich received his Bachelor of Science degree in Business from the Youngstown State University.

STOCK OWNERSHIP OF MANAGEMENT

The following table sets forth information as of February 20, 2007, with respect to beneficial ownership of the Class A Common Stock and Class B Common Stock by: (i) the Company's directors, including nominees, and certain named officers of the Company, and (ii) all executive officers and directors, including nominees, as a group. See Voting Securities and Principal Holders Thereof.

Name	Beneficially Owned as of February 20, 2007					
	Class A Common Stock		Class B Common Stock		Percent of all Common Stock	Percent of Total Voting Power
	Number of Shares	Percent of Class	Number of Shares	Percent of Class		
Ronald E. Klingle (1)(3)(4)	170,417	5.3%	611,133	99.8%	20.5%	67.4%
Timothy C. Coxson (2)(4)	399	*				*
Kurtis D. Gramley (4)						
David G. Bozanich (4)						
Thomas C. Kniss						
Robert M. Arnoni	25					
Stephen L. Gordon (4)						
Ted Wesolowski						
Frank Lamanna (5)	12	*			*	*
Frances R. Klingle (2)	397	*	14,296	2.3	*	1.5
All executive officers, directors and nominees for directors as a group (11 persons) (6)	170,853	5.4%	611,133	99.8%	20.6%	67.4%

* Less than one percent.

- (1) Mr. Klingle is an employee, executive officer and director of the Company.
- (2) Each of these individuals is an employee and executive officer of the Company.
- (3) Includes 14,296 shares of Class B Common Stock owned by Mr. Klingle's spouse, the beneficial ownership of which is disclaimed. Includes 1,067 shares of Class A Common Stock held in the Avalon Holdings Corporation Participating Companies Profit Sharing Plan and Trust (including 397 shares held by Mr. Klingle's spouse, the beneficial ownership of which Mr. Klingle disclaims). Mr. Klingle has sole voting power and sole investment power over 170,020 shares of Class A Common Stock and 596,837 shares of Class B Common Stock.
- (4) Each of these individuals is a nominee for Director.
- (5) Mr. Lamanna resigned as Chief Financial Officer, Treasurer and Assistant Secretary on March 24, 2006.
- (6) In determining the number of shares held by executive officers and directors as a group, shares beneficially owned by more than one executive officer or director have been counted only once.

MEETINGS AND COMMITTEES OF THE BOARD

The Board of Directors has established four standing committees to assist in the discharge of its responsibilities. These are the Executive, Audit, Option Plan and Compensation Committees. The Board as a whole nominates directors for election. During 2006, the Board of Directors had 4 meetings.

Each incumbent Director acted pursuant to all written consents without formal meeting and attended at least 75% of the total number of meetings of the Board of Directors and the committees of the Board on which the respective Directors served during 2006.

The Executive Committee, subject to the restrictions of the Ohio General Corporation Law, may exercise the authority of the Board of Directors in the management of the business and affairs of the Company during intervals between meetings of the Board. During 2006, the Executive Committee held no meetings. The Executive Committee consists of three members, as follows: Messrs. Klingle (Chairman), Wesolowski and Gordon.

The Audit Committee is responsible for recommending the firm of independent accountants to be engaged to audit the Company's financial statements, reviewing the scope and results of the audit with the independent accountants, reviewing with management and the independent accountants the Company's interim and year-end operating results, considering the adequacy of the internal accounting controls and procedures of the Company and reviewing the non-audit services to be performed by the independent accountants. During 2006, the Audit Committee held five meetings. The Audit Committee consists of three members, as follows: Messrs. Kniss (Chairman), Arnoni and Gordon. The Board of Directors has determined that each member of the Audit Committee is independent as defined by the Securities and Exchange Commission and American Stock Exchange. The Board of Directors has identified Mr. Kniss as the Audit Committee financial expert. The Company has adopted a formal written Audit Committee Charter. The Audit Committee reviews and reassesses the adequacy of the formal written charter on an annual basis.

The Compensation Committee is responsible for reviewing and establishing the compensation arrangements for employees of the Company, including the salaries and bonuses of top management. During 2006, the Compensation Committee took action by unanimous written consent in lieu of a meeting on two occasions. The Compensation Committee consists of three members, as follows: Messrs. Klingle (Chairman), Wesolowski and Arnoni.

The Option Plan Committee determines grants of options to purchase shares under the Company's 1998 Long-Term Incentive Plan (the Plan) based on recommendations made by the Company's Compensation Committee. During 2006, the Option Plan Committee held no meetings. The Option Plan Committee consists of three members, as follows: Messrs. Kniss (Chairman), Arnoni and Gordon.

Avalon Holdings Corporation is a controlled company as defined by the American Stock Exchange company guide because over 50% of the voting power of the Company is held by Mr. Klingle. As such, the Company does not have a Nominating Committee and the members of the Company's Compensation Committee are not all independent.

Compensation Committee Interlocks and Insider Participation

Ronald E. Klingle served as Chairman of the Compensation Committee and was an executive officer of the Company during 2006. Furthermore, during 2006, Mr. Klingle was Chief Executive Officer and/or director of various directly or indirectly wholly owned subsidiaries of the Company.

No members of the Compensation Committee serve on a compensation committee or other board committees performing equivalent functions for any other entity other than a directly or indirectly wholly owned subsidiary of the Company.

AUDIT COMMITTEE REPORT

The Audit Committee reviews the Company's financial reporting process on behalf of the Board of Directors. In fulfilling its responsibilities, the Audit Committee has reviewed and discussed the audited financial statements contained in the 2006 Annual Report on SEC Form 10-K with the Company's management and independent auditors. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The independent auditors are responsible for expressing an opinion on the conformity of those audited financial statements with accounting principals generally accepted in the United States of America.

The Audit Committee discussed with the Company's independent auditors, Grant Thornton LLP, the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended. In addition, the Audit Committee has discussed with Grant Thornton LLP, their independence from the Company and its management, including the matters in the written disclosures required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors (and the Board approved) that the audited financial statements be included in the Company's Annual Report on SEC Form 10-K for the year ended December 31, 2006, for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

Thomas C. Kniss (Chairman)

Stephen L. Gordon

Robert M. Arnoni

Executive Compensation

Compensation Discussion and Analysis.

Avalon is a controlled company as defined by the American Stock Exchange company guide because over 50% of the voting power is held by Mr. Klinge. Mr. Klinge is the Chairman of the Board, Chief Executive Officer and Chairman of the Compensation Committee. As such, the members of the Company's Compensation Committee are not all independent. Although the Company's executive compensation program is established by the Compensation Committee, from time to time, the Compensation Committee and the Board of Directors, as a whole, discuss the reasonableness of the amounts of compensation received by the Chief Executive Officer and the other executive officers.

The Company maintains a cash compensation program which is designed to motivate, retain and attract management and is comprised of base salary and bonuses. The purpose of the base salary is to create a secure base of cash compensation for executives that is competitive with the market. Executive salaries do not follow a preset schedule or formula. Since 2001, the base salaries of the Chief Executive Officer, the Chief Administrative Officer and the Chief Executive Officer of American Waste Management Services, Inc. (AWMS), a wholly owned subsidiary of the Company, have not changed. For the most part, increases in compensation of the Chief Executive Officer and other executive officers are dependent upon discretionary bonuses, with the exception of Mr. McMahon, Chief Executive Officer of AWMS. In order to provide an incentive for Mr. McMahon to grow and increase the profitability of AWMS, Mr. McMahon receives, as a bonus, ten percent of the income before taxes of AWMS.

Mr. Klinge, Chairman of the Compensation Committee, provides recommendations to the Compensation Committee for changes in base salaries and discretionary bonuses for all of the executive officers, including himself, based upon an evaluation of each individual's performance, any change in responsibilities and their potential to contribute to the success of the Company. No specific weights have been assigned to those factors. With regard to individual performance of executive officers, other than the Chief Executive Officer, the Compensation Committee relies to a large extent on the Chief Executive Officer's evaluation of each individual executive officer's performance.

Effective July 1, 1998, the Company adopted the 1998 Long-term Incentive Plan which provides for the granting of stock options which are intended to be non-qualified stock options for federal income tax purposes, except for those options designated as incentive stock options which qualify under Section 422 of the Internal Revenue Code. Based upon recommendations from Mr. Klinge or the Compensation Committee, the Option Plan Committee or the Board of Directors may grant stock options to executive officers and non-employee directors. The stock options granted are discretionary and are not based on specific performance goals. To date, no options have been granted under the 1998 Long-term Incentive Plan.

The Compensation Committee recommended and the Board of Directors approved a discretionary contribution to the Company's 401(k) Profit Sharing Plan for 2006 in the amount of two percent of each participant's cash compensation subject to Internal Revenue Code limitations.

Section 162(m) of the Internal Revenue Code addresses the nondeductibility for federal income tax purposes of certain compensation in excess of \$1 million paid to an employee during the taxable year. As it is highly unlikely that any executive officer or other employee of the Company will be awarded compensation in excess of \$1 million in the foreseeable future, the Compensation Committee has not established a policy with respect to the nondeductibility of such employee compensation.

The Compensation Committee believes that the Chief Executive Officer, as well as, the other executive officers of the Company, are dedicated to achieving significant improvements in the Company's long-term financial performance and that the compensation policies, plans and programs implemented by the Company contribute to achieving those results.

Board Committee Reports on Executive Compensation

Compensation Committee Report. We have received and reviewed the above Compensation Discussion and Analysis provisions to be included in the Company's 2007 Shareholder Meeting Schedule 14A Proxy Statement, filed pursuant to Section 14(a) of the Securities Exchange Act of 1934 (The Proxy). Based on the reviews referred to above, we recommend to the Board of Directors that the Compensation Discussion and Analysis referred to above be included in the Company's Proxy and Annual Report on Form 10-K for the year ended December 31, 2006, for filing with the Securities and Exchange Commission.

COMPENSATION COMMITTEE

Ronald E. Klinge (Chairman)

Ted Wesolowski

Robert M. Aroni

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS
Compensation of Executive Officers

The following information sets forth the compensation of the Company's Principal Executive Officer, Principal Financial Officer and the Company's three most highly compensated executive officers other than the Chief Executive Officer who were serving as executive officers as of December 31, 2006; in each case for services rendered in all capacities to the Company and its subsidiaries during the fiscal year ended December 31, 2006. The Company had only two executive officers in 2006 who met the reporting requirement for disclosure in the Summary Compensation Table.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation (1)			Total
		Salary	Bonus	All Other Compensation (2)	
Ronald E. Klingle Chairman of the Board, and Chief Executive Officer	2006	\$ 160,000	\$ 15,000	\$ 3,500	\$ 178,500
	2005	160,000	10,000	3,400	173,400
	2004	160,000	260,000	4,100	424,100
Timothy C. Coxson(4) Chief Financial Officer, Treasurer and Assistant Secretary	2006	135,000	10,000	2,900	147,900
	2004	124,000	75,000	3,320	202,320
Frances R. Klingle Chief Administrative Officer	2006	95,000	10,000	2,100	107,100
	2005	95,000	8,000	2,060	105,060
	2004	95,000	57,500	3,050	155,550
Frank Lamanna (3) Ex-Chief Financial Officer, Ex-Treasurer and Ex-Assistant Secretary	2006	25,000			25,000
	2005	100,000	8,000	2,160	110,160
	2004	92,500	7,500	2,000	102,000
Kenneth J. McMahon Chief Executive Officer, American Waste Management Services, Inc.	2006	130,000	245,068	4,400	379,468
	2005	130,000	239,342	4,200	373,542
	2004	130,000	97,535	4,100	231,635

(1) Includes salary and/or bonuses deferred pursuant to Section 401(k) of the Internal Revenue Code.

(2) Reflects contributions to be made on behalf of the named executive officer pursuant to the provisions of the Company's 401(k) Profit Sharing Plan.

(3) Mr. Lamanna resigned from his position as Chief Financial Officer, Treasurer and Assistant Secretary on March 24, 2006.

(4) Mr. Coxson became Chief Financial Officer, Treasurer and Assistant Secretary on March 24, 2006. Mr. Coxson had been Chief Financial Officer and Treasurer from June 18, 1998 until August 31, 2004.

Option Grants in Last Fiscal Year

There were no options granted during 2006.

Compensation of Directors

Each of the Company's directors who is not an officer or employee of the Company is entitled to receive a retainer fee of \$20,000 per year for Board of Directors membership and a fee of \$1,000 for attendance at each Board of Directors meeting (or committee meeting held on a separate day). Officers and employees who serve as directors are not compensated for their services as directors. In accordance with the Avalon Holdings Corporation 1998 Long-Term Incentive Plan, non-employee directors are entitled to receive grants of options to purchase shares of Class A Common Stock as determined by the Board of Directors. All directors are reimbursed for expenses incurred in attending Board of Directors meetings and committee meetings.

Name	Fees Earned or Paid In Cash
Thomas C. Kniss	\$ 23,000
Stephen L. Gordon	23,000
Ted Wesolowski	23,000
Robert M. Arnoni	23,000

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

INDEPENDENT PUBLIC ACCOUNTANTS

The appointment of an independent public accountant is approved annually by the Board of Directors based on the recommendation of the Audit Committee. Grant Thornton LLP has served as independent public accountant of the Company since 1999. Representatives of Grant Thornton LLP will be present at the Annual Meeting of Shareholders and will be given an opportunity to make a statement if they desire to do so and will respond to appropriate questions from shareholders.

The aggregate fees billed to the Company for the year ended December 31, 2006 and 2005 by Grant Thornton LLP are as follows:

	Year Ended December 31,	
	2006	2005
Audit fees	\$ 82,475	\$ 68,900
Audit-related fees	\$	\$
Tax fees	\$	\$
All other fees	\$ 6,500	\$ 7,700

The amount shown for Audit fees also includes fees relating to quarterly reviews of unaudited financial statements, and the amount shown for All other fees in 2006 relates to the audit of the Company's 401(k) profit sharing plan.

PRE-APPROVAL POLICY REGARDING INDEPENDENT AUDITORS

It is the Audit Committee's policy to pre-approve all audit and non-audit services performed by Avalon's independent auditors, Grant Thornton LLP. The Audit Committee pre-approved all services provided by Grant Thornton LLP in 2006.

COMPLIANCE WITH SECTION 16(a) OF

THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, its executive officers and persons holding more than 10 percent of a class of the Company's equity securities, to file with the Commission, the American Stock Exchange and the Company, initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. These officers, directors and greater than 10 percent shareholders are required by the Commission's regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company, all such Section 16(a) reports are filed.

ANNUAL REPORT TO SHAREHOLDERS