AVALON HOLDINGS CORP
Form 10-Q
August 11, 2011

2011

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, 2011

[ ] 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

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 X No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ 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 þ

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

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, 2011.

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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net operating revenues	$11,375	$12,051	$21,269	$20,381
Costs and expenses:				
Costs of operations	9,354	9,842	17,589	16,827
Depreciation and amortization	416	422	835	842
Selling, general and administrative expenses	1,691	1,851	3,323	3,419
Operating loss	(86)	(64)	(478)	(707)
Other income (expense):				
Interest expense	(4)	(4)	(7)	(7)
Interest income	1	8	3	16
Other income, net	177	61	243	116
Income (loss) before income taxes	88	1	(239)	(582)
Provision for income taxes	11	13	24	14
Net income (loss)	$77	$(12)	$(263)	$(596)
Net Income (loss) per share – basic	$.02	$(.01)	$(.07)	$(.16)
Net Income (loss) per share – diluted	$.02	$(.01)	$(.07)	$(.16)
Weighted average shares outstanding –basic	3,803	3,803	3,803	3,803
Weighted average shares outstanding – diluted	3,869	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)

	June 30, 2011 (Unaudited)	December 31, 2010
Assets:		
Current Assets:		
Cash and cash equivalents	$ 6,165	$ 5,565
Accounts receivable, net	7,846	8,202
Prepaid expenses	244	341
Refundable income taxes	14	14
Other current assets	822	600
Total current assets	15,091	14,722
Property and equipment, less accumulated depreciation and amortization of $10,685 in 2011 and $10,223 in 2010	26,580	27,265
Leased property under capital leases, less accumulated depreciation and amortization of $2,355 in 2011 and $2,167 in 2010	6,060	5,314
Noncurrent deferred tax asset	8	8
Other assets, net	27	28
Total assets	$ 47,766	$ 47,337
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of obligations under capital leases	$ 1	$ 1
Accounts payable	4,976	5,173
Accrued payroll and other compensation	685	383
Accrued income taxes	2	—
Other accrued taxes	214	269
Deferred revenues	2,481	1,988
Other liabilities and accrued expenses	372	318
Total current liabilities	8,731	8,132
Obligations under capital leases	228	228
Shareholders' Equity:		
Class A Common Stock, $.01 par value	32	32
Class B Common Stock, $.01 par value	6	6
Paid-in capital	58,309	58,216
Accumulated deficit	(19,540)	(19,277)
Total shareholders' equity	38,807	38,977
Total liabilities and shareholders' equity	$ 47,766	$ 47,337

See accompanying notes to condensed consolidated financial statements.

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AVALON HOLDINGS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Six Months Ended June 30, 2011	2010
Operating activities:		
Net loss	$ (263)	$ (596)
Reconciliation of loss to cash provided by (used in) operating activities:		
Depreciation and amortization	835	842
Compensation costs – stock options	93	87
Provision for losses on accounts receivable	8	1
Gain from disposal of property and equipment	(106)	—
Change in operating assets and liabilities:		
Accounts receivable	348	(1,359)
Prepaid expenses	97	21
Other current assets	(222)	(169)
Accounts payable	(317)	473
Accrued payroll and other compensation	302	247
Accrued income taxes	2	7
Other accrued taxes	(55)	(113)
Deferred revenues	493	405
Other liabilities and accrued expenses	54	128
Net cash provided by (used in) operating activities	1,269	(26)
Investing activities:		
Capital expenditures	(1,024)	(173)
Proceeds from disposal of property and equipment	355	—
Net cash used in investing activities	(669)	(173)
Increase (decrease) in cash and cash equivalents	600	(199)
Cash and cash equivalents at beginning of year	5,565	5,862
Cash and cash equivalents at end of period	$ 6,165	$ 5,663
Non-cash investing activities:		
Capital expenditures of $120 are included in Accounts payable at June 30, 2011.		

See accompanying notes to condensed consolidated financial statements.

AVALON HOLDINGS CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)
June 30, 2011

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 2010 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, 2011, 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. Net Income (Loss) per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the periods presented, which was 3,803,331 for each period.

Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding plus any weighted common equivalent shares determined to be outstanding during the period using the treasury method. The weighted common equivalent shares included in the calculation are related to the stock options granted by Avalon where the weighted average market price of Avalon's common stock for the period presented is greater than the option exercise price of the stock option. For the three months ended June 30, 2011, the dilutive weighted average number of shares outstanding was 3,868,557. Although there were common equivalent shares outstanding for the three months ended June 30, 2010 and six months ended June 30, 2011 and 2010, the diluted per share amounts reported are equal to basic per share amounts because Avalon was in a net loss position and as a result, such dilution would be considered anti-dilutive. Assuming dilution, the weighted average number of common shares outstanding for the three months ended June 30, 2010 and six months ended June 30, 2011 and 2010 were 3,972,143, 3,885,157 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. Avalon has never borrowed monies under the line of credit. On April 26, 2011 the line of credit was reduced to $1 million. Interest on borrowings accrues at LIBOR plus 1.75%. The agreement provides 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, 2011 and December 31, 2010, there were no borrowings under the line of credit.

Note 4. Income Taxes

Avalon recorded net income of $77,000 in the second quarter of 2011 compared with net loss of $12,000 in the second quarter of 2010. Avalon recorded a state income tax provision in both the second quarter of 2011 and 2010, which was related entirely to the waste management and brokerage operations. Excluding the effect of this state tax provision, Avalon’s overall effective tax rate was 0% in the second quarter of 2011 and 2010. The income tax provision recorded for the second quarter of 2011 and 2010 was 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 $.3 million for the first six months of 2011 compared with net loss of $.6 million for the first six months of 2010. Excluding the effect of the state income tax provisions relating to the waste management and brokerage operations, Avalon’s overall effective tax rate was 0% in the first six months of 2011 and 2010. The income tax benefits recorded for the first six months of 2011 and 2010 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, 980,000 stock options were granted under the Plan. Of these options granted, 450,000 were forfeited in February 2011 and 50,000 cancelled in March 2011. In March 2011, 280,000 stock options were granted under the Plan. The 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.

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 that no options have been exercised as of yet, 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. 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 61.7% with a weighted average expected volatility of 61.2%.

There were no expected dividends and the risk-free interest rate(s), which ranged from 2.06% to 2.28%, were based on yield data for U. S. Treasury securities over a period consistent with the expected term.

The following information is a summary of the stock option activity:

Options outstanding at January 1, 2011	980,000
Options forfeited	(450,000)
Options cancelled	(50,000)
2011 Options granted	280,000
Total options outstanding at June 30, 2011	760,000
Options Vested	96,000
Options Exercisable	-0-

Number of Options Granted	Weighted Average Exercise Price	Weighted Average Fair Value at Grant Date
760,000	$2.63	$1.09

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.

	Begins Vesting	Ends Vesting	Predetermined Vesting Price
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
Block 5	60 mo. after Grant Dates	96 mo. after Grant Dates	$ 12.07

Compensation cost was approximately $52,000 and $65,000 for the three months ended June 30, 2011 and 2010 respectively and $93,000 and $88,000 for the six months ended June 30, 2011 and 2010, respectively, based upon the estimated fair value calculation. The associated deferred tax benefit recorded was offset by an increase to the valuation allowance. As of June 30, 2011, there was $.6 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 3.79 years. Although the first block of options associated with the options granted in the first quarter of 2010 have met the contract vesting term, as of June 30, 2011, none of the options were exercisable due to the fact that Avalon’s common stock price has not reached the predetermined vesting price of $3.43 in order for the options to be exercisable.

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, 2011 and December 31, 2010 were $2.5 million and $2.0 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, 2011 one customer accounted for 14% of the waste management services segment's net operating revenues to external customers and 11% of Avalon's consolidated net operating revenues. 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. In addition, Avalon's captive landfill management business is dependent upon a single customer as its sole source of revenue.

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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net operating revenues from:				
Waste management services:				
External customers revenues	$8,402	$9,294	$16,609	$15,971
Intersegment revenues	—	—	—	—
Total waste management services	8,402	9,294	16,609	15,971
Golf and related operations:				
External customers revenues	2,973	2,757	4,660	4,410
Intersegment revenues	25	19	33	30
Total golf and related operations	2,998	2,776	4,693	4,440
Segment operating revenues	11,400	12,070	21,302	20,411
Intersegment eliminations	(25)	(19)	(33)	(30)
Total net operating revenues	$11,375	$12,051	$21,269	$20,381
Income (loss) before taxes:				
Waste management services	$690	$798	$1,374	$1,261
Golf and related operations	(114)	(98)	(508)	(507)
Segment income before taxes	576	700	866	754
Corporate interest income	1	8	3	16
Corporate other income, net	115	2	124	4
General corporate expenses	(604)	(709)	(1,232)	(1,356)
Income (loss) before taxes	$88	$1	$(239)	$(582)
Interest income:				
Waste management services	$—	$—	$—	$—
Golf and related operations	—	—	—	—
Corporate	1	8	3	16
Total	$1	$8	$3	$16

	June 30, 2011	December 31, 2010
Identifiable assets:		
Waste management services	$ 10,986	$ 11,648
Golf and related operations	31,344	30,233
Corporate	40,451	40,006
Subtotal	82,781	81,887
Elimination of intersegment receivables	(35,015)	(34,550)
Total	$ 47,766	$ 47,337

In comparing the identifiable assets at June 30, 2011 with those at December 31, 2010, the increase in identifiable assets of the golf and related operations of $1.1 million is primarily due to capital expenditures. The decrease in the

identifiable assets of $.7 million of the waste management services segment is primarily due to a decrease in accounts receivable as a result of lower net operating revenues in the second quarter of 2011 compared with the fourth quarter of 2010. The increase in identifiable assets of corporate is primarily due to an increase in cash and cash equivalents, partially offset by a decrease in property and equipment as a result of the sale of an asset.

Note 8. Recently Issued Financial Accounting Standards

In May 2011, the Financial Accounting Standards Board ("FASB") issued ASU No. 2011-04, Amendments to achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS"), which amends ASC 820, Fair Value Measurement. This ASU modifies the existing standard to include disclosure of all transfers between Level 1 and Level 2 asset and liability fair value categories. In addition, The ASU provides guidance on measuring the fair value of financial instruments managed within a portfolio and the application of premiums and discounts on fair value measurements. The ASU requires additional disclosure for Level 3 measurements regarding the sensitivity of fair value changes in unobservable inputs and any interrelationship between those inputs. This guidance is effective for interim and annual reporting periods beginning after December 15, 2011, with early adoption prohibited. Avalon does not expect such adoption will have a material impact on the results of operations, financial condition or its disclosures.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. This standard eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Under this new ASU, an entity can elect to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive , statements. This guidance is effective for publicly traded companies as of the beginning of a fiscal year that begins after December 15, 2011 and interim and annual periods thereafter. Early adoption is permitted, but full retrospective adoption application is required. Currently, Avalon does not have any other comprehensive income.

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 2011, Avalon utilized existing cash and cash provided from operations to fund capital expenditures and meet operating needs.

Avalon's aggregate capital expenditures in 2011 are expected to be in the range of $1.2 million to $1.5 million. Such expenditures will principally relate to building improvements, expanding and resurfacing the patio area surrounding the pool at the Squaw Creek facility and equipment purchases. During the first six months of 2011, capital expenditures for Avalon totaled approximately $1.1 million which principally related to such items.

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. 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 $6.4 million at June 30, 2011 and $6.6 million at December 31, 2010.

The decrease in accounts receivable at June 30, 2011 compared with December 31, 2010 is primarily due to lower net operating revenues of the waste management services segment in the second quarter of 2011 compared with the fourth quarter of 2010, partially offset by an increase in accounts receivable of the golf and related operations segment. The waste management services segment recorded net operating revenues of $8.4 million in the second quarter of 2011 compared with $9.2 million in the fourth quarter of 2010.

The increase in other current assets at June 30, 2011 compared with December 31, 2010 is primarily a result of higher inventories of the golf and related operations segment during the golf season.

The decrease of accounts payable at June 30, 2011 compared with December 31, 2011 is primarily due to a decrease in accounts payable of the waste segment due to lower net operating revenues in the second quarter of 2011 compared with the fourth quarter of 2010. Such decrease resulted in less amounts due disposal facilities and transportation carriers. This decrease was partially offset by an increase in accounts payable of the golf and related operations as a result of an increase in inventory purchases.

The increase in accrued payroll and other compensation is primarily due to an increase in accrued payroll of the golf and related operations due to an increase in the number of days accrued for at June 30, 2011 compared with December 31, 2010 and an increase in accrued bonuses.

The increase in deferred revenues at June 30, 2011 compared with December 31, 2010 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: Our growth strategy for the waste management services segment will focus on increasing revenue, gaining market share and enhancing shareholder value through internal growth. Although we are a waste management services company, we do not own any landfills or provide waste collection services. However, because of our many relationships with various disposal facilities and transporters, we are able to be more flexible and provide alternative solutions to a customer's waste disposal or recycling needs. We intend to capitalize on our management and sales staff which has extensive experience in all aspects of the waste business. As such, we intend to manage our internal growth as follows:

- Sales and Marketing Activities. We will focus on retaining existing customers and obtaining new business through our well-managed 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 particular needs. We accomplish this 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. We intend to hire additional qualified professional sales personnel to expand into different geographical areas.

• Pricing Activities. We seek to secure price increases necessary to offset increased costs, and when possible, to increase prices to improve our operating margins.

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

• Development Activities. We will seek to identify opportunities to further position us as an integrated service provider in markets where we provide services. In addition, we will continue to utilize the extensive experience of our management and sales staff to bid on significant one-time projects and those that require special expertise. 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.

For the golf and related operations, 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. 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 2011 decreased to $11.4 million from $12.1 million in the prior year's second quarter. The decrease is primarily the result of a decrease in the net operating revenues of the waste management services segment, partially offset by an increase in the net operating revenues of the golf and related operations. Costs of operations decreased to $9.4 million in the second quarter of 2011 compared with $9.8 million in the prior year's second quarter. The decrease is primarily due to the decrease in net operating revenues of the waste management services segment, which resulted in lower 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 2011 and 2010. Consolidated selling, general and administrative expenses decreased to $1.7 million in the second quarter of 2011 compared with $1.8 million in the second quarter of 2010 primarily due to a decrease in sales and management bonus incentives of the waste management services segment. Avalon recorded net income of $77,000, or $.02 per share, in the second quarter of 2011 compared with a net loss of $12,000 or $.01 per share, in the second quarter of 2010.

For the first six months of 2011, net operating revenues increased to $21.3 million from $20.4 million for the first six months of 2010. The increase is primarily the result of an increase in the net operating revenues of the waste management services segment and to a lesser extent, the golf and related operations segment. Costs of operations were $17.6 million for the first six months of 2011 compared with $16.8 million for the first six months of 2010. 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 2011 and 2010. Consolidated selling, general and administrative expenses decreased to $3.3 million for the first six months of 2011 compared with $3.4 million for the first six months of 2010. Avalon incurred a net loss of $.3 million, or $.07 per share, for the first six months of 2011 compared with a net loss of $.6 million, or $.16 per share, for the first six months of 2010.

Performance in the Second Quarter of 2011 compared with the Second Quarter of 2010

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 decreased approximately 10% to $8.4 million in the second quarter of 2011 compared with $9.3 million in the second quarter of the prior year. For the second quarter of 2011, net operating revenues of the waste brokerage and management services business were $7.7 million compared with $8.6 million in the second quarter of 2010, while the net operating revenues of the captive landfill management operations were $.7 million in both the second quarter of 2011 and 2010. The decrease in the net operating revenues of the waste brokerage and management services business was primarily due to a decrease of 51% in event or one-time projects, partially offset by a 39% increase in continuous work. The decrease in event work was due to a decrease in the number of projects won in the second quarter of 2011 compared with the second quarter of 2010. 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 net operating revenues of the captive landfill operations were flat and are entirely dependent upon the amount of waste generated by the owner of the landfill for whom Avalon manages the facility.

Due to the decrease in net operating revenues, income before taxes for the waste management services segment decreased to $.7 million in the second quarter of 2011 compared with $.8 million in the second quarter of the prior year. Income before taxes of the waste brokerage and management services business was $.5 million for the second quarter of 2011 compared with $.7 million for the second quarter of 2010. Income before taxes of the captive landfill operations was $.2 million in the second quarter of 2011 compared with $.1 million in the prior year quarter.

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 $3.0 million in the second quarter of 2011 compared with $2.8 million in the second quarter of the prior year. The average number of members during the second quarter of 2011 increased to 2,962 compared with 2,790 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 increased only 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 2011 and 2010.

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Interest income

Interest income was $1,000 in the second quarter of 2011 compared with $8,000 in the second quarter of 2010. The decrease is primarily the result of lower average investment rates.

Other income, net

Other income, net was $177,000 in the second quarter of 2011 compared with $61,000 in the second quarter of 2010. The increase was primarily attributable to the sale of an asset in which Avalon recognized a gain of $106,000.

General corporate expenses

General corporate expenses were $.6 million in the second quarter of 2011 compared with $.7 million in the second quarter of 2010. The decrease was primarily the result of a decrease in employee costs and less compensation expense related to stock options.

Net income

Avalon recorded net income of $77,000 in the second quarter of 2011 compared with a net loss of $12,000 in the second quarter of 2010. Avalon recorded a state income tax provision in both the second quarter of 2011 and 2010, which was related entirely to the waste management and brokerage operations. Excluding the effect of this state tax provision, Avalon’s overall effective tax rate was 0% in the second quarter of 2011 and 2010. The income tax provision recorded for the second quarter of 2011 and 2010 was 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 2011 compared with the first six months of 2010

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 $16.6 million in the first six months of 2011 compared with $16.0 million in the first six months of the prior year. For the first six months of 2011, net operating revenues of the waste brokerage and management services business were $15.3 million compared with $14.7 million for the first six months of 2010, while the net operating revenues of the captive landfill management operations were $1.3 million for both the first six months of 2011 and 2010. The increase in net operating revenues of the waste brokerage and management services business was primarily the result of a 41% increase in continuous or on going work , partially offset by a decrease of 30% in event or one-time work. The increase in continuous work was primarily the result of an increase in waste generated by industrial accounts, such as steel mills and chemical plants. The decrease in event work was primarily due to a decrease in the number of projects won for the first six months of 2011 compared with the same period in 2010. The net operating revenues of the captive landfill operations were flat and are entirely dependent upon the amount of waste generated by the owner of the landfill for whom Avalon manages the facility. Income from operations before taxes for the waste management services segment increased to $1.4 million in the first six months of 2011 compared with $1.3 million in the first six months of the prior year. The increase is primarily due to the 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 $1.1 million for the first six months of 2011 compared with $1.0 million for the first six months of 2010. Income before taxes of the captive landfill operations was $.3 million in both the first six months of 2011 and 2010.

Net operating revenues of the golf and related operations segment were $4.7 million in the first six months of 2011 compared with $4.4 million in the first six months of 2010. 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 2011 and 2010. Net operating revenues associated with golfing activities decreased while those related to merchandise and food and beverage increased. The average number of members during the first six months of 2011 increased to 2,916 compared with 2,770 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 increased only slightly. The golf and related operations segment incurred a loss before taxes of $.5 million in both the first six months of 2011 and 2010. 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 $3,000 in the first six months of 2011 compared with $16,000 in the first six months of 2010. The decrease is primarily due to lower average investment rates.

Other income, net

Other income, net was $243,000 in the first six months of 2011 compared with $116,000 in the first six months of 2010. The increase was primarily attributable to the sale of an asset during the second quarter of 2011 in which Avalon recognized a gain of $106,000.

General corporate expenses

General corporate expenses were $1.2 million in the first six months of 2011 compared with $1.4 million in the first six months of 2010. The decrease was primarily due to a decrease in employee costs.

Net income

Avalon incurred a net loss of $.3 million in the first six months of 2011 compared with a net loss of $.6 million in the first six months of the prior year. Avalon recorded a state income tax provision in the first six months of 2011 and 2010, which was related entirely to the waste management and brokerage operations. Excluding the effect of this state tax provision, Avalon's overall effective tax rate was 0% in both the first six months of 2011 and 2010. The income tax benefit for the first six months of 2011 and 2010 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.

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.

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 increase the number of members of the Avalon Golf and Country Club, as of June 30, 2011, 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, 2011. 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 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, 2011 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, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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, 2010 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 April 29, 2011, Avalon reported the voting results for the election of directors from the Annual Meeting.

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, 2011

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