

AVALON HOLDINGS CORP
Form 10-Q
May 11, 2007

2007

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 March 31, 2007

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 May 9, 2007.

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 March 31,	
	2007	2006
Net operating revenues	\$ 11,310	\$ 8,924
Costs and expenses:		
Costs of operations	9,472	7,540
Selling, general and administrative expenses	1,691	1,547
Operating income (loss) from continuing operations	147	(163)
Other income (expense):		
Interest expense	(5)	(4)
Interest income	152	123
Other income, net	58	53
Income from continuing operations before income taxes	352	9
Provision (benefit) for income taxes		
Income from continuing operations	352	9
Discontinued operations:		
Loss from discontinued operations before income taxes		(7)
Provision (benefit) for income taxes		
Loss from discontinued operations		(7)
Net income	\$ 352	\$ 2
Net income per share from continuing operations	\$.09	\$
Net income (loss) per share from discontinued operations	\$	\$
Net income per share (Note 2)	\$.09	\$
Weighted average shares outstanding (Note 2)	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)

	March 31, 2007 (Unaudited)	December 31, 2006
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 12,775	\$ 13,251
Accounts receivable, net	8,021	7,672
Prepaid expenses	286	223
Other current assets	308	224
Total current assets	21,390	21,370
Property and equipment, less accumulated depreciation and amortization of \$6,036 in 2007 and \$5,854 in 2006	20,051	18,696
Leased property under capital leases, less accumulated depreciation and amortization of \$782 in 2007 and \$698 in 2006	5,755	5,816
Other assets, net	69	69
Total assets	\$ 47,265	\$ 45,951
Liabilities and Shareholders' Equity:		
Current Liabilities:		
Current portion of obligations under capital leases	\$ 40	\$ 40
Accounts payable	5,549	4,723
Accrued payroll and other compensation	550	561
Accrued income taxes	18	24
Other accrued taxes	176	252
Other liabilities and accrued expenses	2,294	2,056
Total current liabilities	8,627	7,656
Obligations under capital leases	308	317
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	(19,804)	(20,156)
Total shareholders' equity	38,330	37,978
Total liabilities and shareholders' equity	\$ 47,265	\$ 45,951

See accompanying notes to condensed consolidated financial statements.

AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	Three Months Ended March 31,	
	2007	2006
Operating activities:		
Income from continuing operations	\$ 352	\$ 9
Reconciliation of income from continuing operations to cash provided by operating activities:		
Depreciation and amortization	270	257
Amortization of investments	1	(1)
Gain on disposal of property and equipment	(1)	
Provision for losses on accounts receivable		6
Change in operating assets and liabilities:		
Accounts receivable	(349)	(726)
Prepaid expenses	(63)	2
Other current assets	(85)	(71)
Other assets		1
Accounts payable	(78)	433
Accrued payroll and other compensation	(11)	(59)
Accrued income taxes	(6)	(28)
Other accrued taxes	(76)	(78)
Other liabilities and accrued expenses	238	171
Other noncurrent liabilities		(4)
Net cash provided by (used in) operating activities from continuing operations	192	(88)
Net cash used in operating activities from discontinued operations		(6)
Net cash provided by (used in) operating activities	192	(94)
Investing activities:		
Proceeds from the maturity/sale of available-for-sale investments		(32)
Capital expenditures	(660)	(124)
Proceeds from disposal of property and equipment	1	
Net cash used in investing activities from continuing operations	(659)	(156)
Net cash provided by investing activities from discontinued operations		
Net cash used in investing activities	(659)	(156)
Financing activities:		
Payments on capital leases obligations		(9)
Net cash used by financing activities		(9)
Decrease in cash and cash equivalents	(476)	(250)
Cash and cash equivalents at beginning of year	13,251	7,759
Cash and cash equivalents at end of period	\$ 12,775	\$ 7,509

Non cash investing activities:

Capital expenditures of \$904 are included in accounts payable at March 31, 2007.

See accompanying notes to condensed consolidated financial statements.

AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2007

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 2006 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 March 31, 2007, 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 months ended March 31, 2007 and 2006.

Note 3. Comprehensive Income

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

	Three Months Ended	
	March 31,	
	2007	2006
Net income	\$ 352	\$ 2
Unrealized gain on available-for-sale securities		3
Comprehensive income	\$ 352	\$ 5

Note 4. Discontinued Operations

In January 2004, Avalon sold all of the fixed assets of the remediation business and discontinued the operations of the engineering and consulting business. All income and expenses relating to these operations are included in discontinued operations.

On July 15, 2004, Avalon sold all of the common stock of DartAmerica, Inc., Avalon's transportation operations. As a result, all income and expenses relating to the transportation operations are included in discontinued operations.

Note 5. 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 6. 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 golf courses and related facilities and a travel agency. Avalon does not have significant operations located outside the United States and, accordingly, geographical segment information is not presented.

For the three months ended March 31, 2007, no customer individually accounted for 10% or more of Avalon's consolidated net operating revenues. For the three months ended March 31, 2006, one customer and its affiliates accounted for approximately 10% of the waste management services segment's net operating revenues to external customers and approximately 9% 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 March 31,	
	2007	2006
Net operating revenues from:		
Waste management services:		
External customers revenues	\$ 10,181	\$ 8,062
Intersegment revenues		
Total waste management services	10,181	8,062
Golf and related operations:		
External customers revenues	1,129	862
Intersegment revenues	7	7
Total golf and related operations	1,136	869
Segment operating revenues	11,317	8,931
Intersegment eliminations	(7)	(7)
Total net operating revenues	\$ 11,310	\$ 8,924
Income (loss) from continuing operations before taxes:		
Waste management services	\$ 986	\$ 747
Golf and related operations	(171)	(224)
Segment income before taxes	815	523
Corporate interest income	123	98
Corporate other income, net	2	2
General corporate expenses	(588)	(614)
Income from continuing operations before taxes	\$ 352	\$ 9