

AVALON HOLDINGS CORP
Form 10-Q
November 12, 2009
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2009

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 September 30, 2009

.. **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)

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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 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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>

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

The registrant had 3,191,038 shares of its Class A Common Stock and 612,293 shares of its Class B Common Stock outstanding as of November 10, 2009.

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AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AVALON HOLDINGS CORPORATION AND SUBSIDIARIES****Condensed Consolidated Statements of Operations (Unaudited)****(in thousands, except per share amounts)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net operating revenues	\$ 9,619	\$ 14,255	\$ 26,834	\$ 36,329
Costs and expenses:				
Costs of operations	7,757	11,589	21,833	29,579
Depreciation and amortization	420	407	1,268	1,126
Selling, general and administrative expenses	1,484	1,808	4,549	5,121
Operating (loss) income	(42)	451	(816)	503
Other income (expense):				
Interest expense	(5)	(3)	(12)	(10)
Interest income	10	7	24	44
Other income, net	41	43	155	169
Income (loss) before taxes	4	498	(649)	706
Provision for income taxes	4	16	18	30
Net income (loss)	\$ 0	\$ 482	\$ (667)	\$ 676
Net income (loss) per share (Note 2)	\$ 0	\$.13	\$ (.18)	\$.18
Weighted average shares outstanding (Note 2)	3,803	3,803	3,803	3,803

See accompanying notes to condensed consolidated financial statements.

Table of Contents**AVALON HOLDINGS CORPORATION AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(in thousands, except per share amounts)**

	September 30, 2009 (Unaudited)	December 31, 2008
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 5,546	\$ 3,061
Accounts receivable, net	6,156	9,304
Prepaid expenses	248	309
Other current assets	625	636
Total current assets	12,575	13,310
Property and equipment, less accumulated depreciation and amortization of \$8,719 in 2009 and \$7,761 in 2008	28,588	29,437
Leased property under capital leases, less accumulated depreciation and amortization of \$1,678 in 2009 and \$1,384 in 2008	5,605	5,882
Noncurrent deferred tax asset	25	25
Other assets, net	58	59
Total assets	\$ 46,851	\$ 48,713
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of obligations under capital leases	\$ 1	\$ 1
Accounts payable	3,973	4,831
Accrued payroll and other compensation	586	711
Accrued income taxes	1	19
Other accrued taxes	219	281
Other liabilities and accrued expenses	2,334	2,466
Total current liabilities	7,114	8,309
Obligations under capital leases	230	230
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	(18,627)	(17,960)
Total shareholders' equity	39,507	40,174
Total liabilities and shareholders' equity	\$ 46,851	\$ 48,713

See accompanying notes to condensed consolidated financial statements.

Table of Contents**AVALON HOLDINGS CORPORATION AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows (Unaudited)**

(in thousands)

	Nine Months Ended September 30,	
	2009	2008
Operating activities:		
Net (loss) income	\$ (667)	\$ 676
Reconciliation of net (loss) income to cash provided by operating activities:		
Depreciation and amortization	1,268	1,126
Provision for losses on accounts receivable	62	1
Gain from disposal of property and equipment	(2)	(2)
Change in operating assets and liabilities:		
Accounts receivable	3,086	(1,951)
Prepaid expenses	61	(31)
Other current assets	11	(317)
Other assets		
Accounts payable	(858)	1,233
Accrued payroll and other compensation	(125)	279
Accrued income taxes	(18)	(26)
Other accrued taxes	(62)	(30)
Other liabilities and accrued expenses	(132)	302
Net cash provided by operating activities	2,624	1,260
Investing activities:		
Proceeds from disposal of property and equipment	2	6
Capital expenditures	(141)	(2,272)
Net cash used in investing activities	(139)	(2,266)
Increase (decrease) in cash and cash equivalents	2,485	(1,006)
Cash and cash equivalents at beginning of year	3,061	5,086
Cash and cash equivalents at end of period	\$ 5,546	\$ 4,080

See accompanying notes to condensed consolidated financial statements.

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AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2009

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 2008 Annual Report to Shareholders.

In the opinion of management, these unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position of Avalon as of September 30, 2009, 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 November 11, 2009, the date the financial statements were issued.

Note 2. Basic Net Income (Loss) per Share

Basic net income (loss) per share has been computed using the weighted average number of common shares outstanding each period, which were 3,803,331. There were no common equivalent shares outstanding and therefore, diluted per share amounts are equal to basic per share amounts for the three and nine months ended September 30, 2009 and 2008.

Note 3. Credit Facility

On March 21, 2008, Avalon entered into a \$3.5 million unsecured line of credit agreement with The Huntington National Bank. Interest on borrowings accrues at LIBOR plus 1.75%. The agreement was amended in April 2009 to provide for a minimum interest rate of 3.25%. The line of credit contains certain financial and other covenants, customary representations, warranties and events of defaults. At September 30, 2009, there were no borrowings under the line of credit.

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AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

September 30, 2009

Note 4. 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 5. 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. 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, a travel agency and clubhouses that provide recreational, dining and banquet facilities. 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 at both September 30, 2009 and December 31, 2008 were \$2.0 million and are included in the Condensed Consolidated Balance Sheets under the caption "Other liabilities and accrued expenses". Avalon does not have significant operations located outside the United States and, accordingly, geographical segment information is not presented.

For the nine months ended September 30, 2009 and 2008, no customer accounted for 10% or more of Avalon's consolidated net operating revenues.

Table of Contents**AVALON HOLDINGS CORPORATION AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****September 30, 2009**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net operating revenues from:				
Waste management services:				
External customers revenues	\$ 6,571	\$ 10,954	\$	