

AVALON HOLDINGS CORP  
Form 10-Q  
May 13, 2008  
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2008

**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, 2008

**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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<b>Ohio</b> (State or other jurisdiction of incorporation or organization)	<b>34-1863889</b> (I.R.S. Employer Identification No.)
<b>One American Way, Warren, Ohio</b> (Address of principal executive offices)	<b>44484-5555</b> (Zip Code)
<b>Registrant's telephone number, including area code: (330) 856-8800</b>	

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 check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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 checked="" type="checkbox"/>	Smaller reporting company <input 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 3,190,786 shares of its Class A Common Stock and 612,545 shares of its Class B Common Stock outstanding as of May 9, 2008.

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## Condensed Consolidated Statements of Operations (Unaudited)

(in thousands, except per share amounts)

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Net operating revenues	\$ 10,354	\$ 11,310
Costs and expenses:		
Costs of operations	8,845	9,472
Selling, general and administrative expenses	1,661	1,691
Operating (loss) income	(152)	147
Other income (expense):		
Interest expense	(4)	(5)
Interest income	29	152
Other income, net	67	58
(Loss) income before taxes	(60)	352
Provision (benefit) for income taxes		
Net (loss) income	\$ (60)	\$ 352
Basic net (loss) income per share (Note 2)	\$ (.02)	\$ .09
Weighted average shares outstanding (Note 2)	3,803	3,803

*See accompanying notes to condensed consolidated financial statements.*

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## AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(in thousands, except per share amounts)

	March 31, 2008 (Unaudited)	December 31, 2007
<b>Assets:</b>		
Current Assets:		
Cash and cash equivalents	\$ 3,953	\$ 5,086
Accounts receivable, net	7,201	7,704
Prepaid expenses	309	287
Other current assets	597	366
<b>Total current assets</b>	<b>12,060</b>	<b>13,443</b>
Property and equipment, less accumulated depreciation and amortization of \$6,829 in 2008 and \$6,595 in 2007	29,588	28,568
Leased property under capital leases, less accumulated depreciation and amortization of \$1,119 in 2008 and \$1,035 in 2007	5,702	5,759
Noncurrent deferred tax asset	19	19
Other assets, net	60	60
<b>Total assets</b>	<b>\$ 47,429</b>	<b>\$ 47,849</b>
<b>Liabilities and Shareholders' Equity:</b>		
Current Liabilities:		
Current portion of obligations under capital leases	\$ 1	\$ 1
Accounts payable	4,308	5,013
Accrued payroll and other compensation	498	594
Accrued income taxes	27	43
Other accrued taxes	182	260
Other liabilities and accrued expenses	2,806	2,271
<b>Total current liabilities</b>	<b>7,822</b>	<b>8,182</b>
Obligations under capital leases	231	231
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	(18,758)	(18,698)
<b>Total shareholders' equity</b>	<b>39,376</b>	<b>39,436</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 47,429</b>	<b>\$ 47,849</b>

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)

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating activities:</b>		
Net (loss) income	\$ (60)	\$ 352
<b>Reconciliation of net (loss) income to cash provided by operating activities:</b>		
Depreciation and amortization	319	270
Amortization of investments		1
Gain on disposal of property and equipment		(1)
<b>Change in operating assets and liabilities:</b>		
Accounts receivable	503	(349)
Prepaid expenses	(22)	(63)
Other current assets	(231)	(85)
Accounts payable	(864)	(78)
Accrued payroll and other compensation	(96)	(11)
Accrued income taxes	(16)	(6)
Other accrued taxes	(78)	(76)
Other liabilities and accrued expenses	535	238
Net cash (used in) provided by operating activities	(10)	192
<b>Investing activities:</b>		
Capital expenditures	(1,123)	(660)
Proceeds from disposal of property and equipment		1
Net cash used in investing activities	(1,123)	(659)
<b>Financing activities:</b>		
Payments on capital leases obligations		(9)
Net cash used by financing activities		(9)
Decrease in cash and cash equivalents	(1,133)	(476)
Cash and cash equivalents at beginning of year	5,086	13,251
Cash and cash equivalents at end of period	\$ 3,953	\$ 12,775

**Non cash investing activities:**

Capital expenditures of \$159 and \$904 are included in accounts payable at March 31, 2008 and March 31, 2007, respectively.

*See accompanying notes to condensed consolidated financial statements.*

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## AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

## 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 2007 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, 2008, 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, 2008 and 2007.

## 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. During the first quarter of 2008 and 2007, there were no transactions from non-owner sources. Comprehensive income, net of related tax effects, is as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Net income	\$ (60)	\$ 352
Other comprehensive income		
Comprehensive income	\$ (60)	\$ 352

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### Note 4. 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 line of credit contains certain financial and other covenants, customary representations, warranties and events of defaults. At March 31, 2008, there were no borrowings under the line of credit.

### Note 5. 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.

There was no income or expenses included in discontinued operations in the first quarter of 2008 or 2007.

### Note 6. Legal Matters

In the ordinary course of conducting its business, Avalon becomes involved in lawsuits, administrative proceedings and governmental investigations, including those related to environmental matters. Some of these proceedings may result in fines, penalties or judgments being assessed against Avalon which, from time to time, may have an impact on its business and financial condition. Although the outcome of such lawsuits or other proceedings cannot be predicted with certainty, Avalon does not believe that any uninsured ultimate liabilities, fines or penalties resulting from such pending proceedings, individually or in the aggregate, will have a material adverse effect on its financial position or results of operations.

### Note 7. Business Segment Information

In applying Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, Avalon considered its operating and management structure and the types of information subject to regular review by its chief operating decision maker. On this basis, Avalon's reportable segments include waste management services and golf and related operations. Avalon accounts for intersegment net operating revenues as if the transactions were with third parties. The segment disclosures are presented on this basis for all periods presented.

Avalon's primary business segment, the waste management services segment, provides hazardous and nonhazardous waste disposal brokerage and management services to industrial, commercial, municipal and governmental customers and manages a captive landfill for an industrial customer. The golf and related operations segment includes the operations of 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, 2008, one customer of the waste management services segment accounted for approximately 13% of the segments net operating revenues and 11% of Avalon's consolidated net operating revenues. For the three months ended March 31, 2007, no customer individually accounted for 10% or more 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) before taxes. Business segment information including the reconciliation of segment income (loss) to consolidated income (loss) before taxes is as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Net operating revenues from:</b>		
Waste management services:		
External customers revenues	\$ 8,935	\$ 10,181
Intersegment revenues		
<b>Total waste management services</b>	<b>8,935</b>	<b>10,181</b>
Golf and related operations:		
External customers revenues	1,419	1,129
Intersegment revenues	5	7
<b>Total golf and related operations</b>	<b>1,424</b>	<b>1,136</b>
Segment operating revenues	10,359	11,317
Intersegment eliminations	(5)	(7)
<b>Total net operating revenues</b>	<b>\$ 10,354</b>	<b>\$ 11,310</b>
<b>Income (loss) before taxes:</b>		
Waste management services	\$ 796	\$ 986
Golf and related operations	(206)	(171)
Segment income before taxes	590	815
Corporate interest income	10	123
Corporate other income, net	7	2
General corporate expenses	(667)	(588)
<b>Income (loss) before taxes</b>	<b>\$ (60)</b>	<b>\$ 352</b>
<b>Interest income:</b>		
Waste management services	\$ 16	\$ 25
Golf and related operations	3	4
Corporate	10	123
<b>Total</b>	<b>\$ 29</b>	<b>\$ 152</b>

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## Business Segment Information (continued)

	March 31, 2008	December 31, 2007
<b>Identifiable assets:</b>		
Waste management services	\$ 9,592	\$ 9,978
Golf and related operations	32,998	31,472
Corporate	36,970	37,386
Subtotal	79,560	78,836
Elimination of intersegment receivables	(32,131)	(30,987)
<b>Total</b>	<b>\$ 47,429</b>	<b>\$ 47,849</b>

The decrease in identifiable assets of the waste management services segment is primarily a result of a decrease in accounts receivable. The increase in identifiable assets of the golf and related operations segment is primarily due to capital expenditures for the construction and renovation of the Sharon facility.

## Note 8. Recently Issued Financial Accounting Standards

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

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**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 three months of 2008, Avalon utilized existing cash to fund capital expenditures and meet operating needs.

On March 21, 2008, Avalon entered into an unsecured \$3.5 million line of credit agreement with The Huntington National Bank. Interest on borrowings accrues at LIBOR plus 1.75%. At March 31, 2008, there were no borrowings under the line of credit.

Avalon's aggregate capital expenditures in 2008 are expected to be in the range of \$1 million to \$2 million, which will relate principally to the construction costs of renovating and building additional banquet and recreational facilities at the Sharon Country Club, which was purchased in October 2006. During the first three months of 2008, capital expenditures for Avalon totaled approximately \$1.1 million which principally related to such construction costs.

Avalon entered into a long-term agreement with Squaw Creek Country Club to lease and operate its golf course and related facilities. The lease, which commenced November 1, 2003, has an initial term of ten (10) years with four (4) consecutive ten (10) year renewal term options unilaterally exercisable by Avalon. Under the lease, Avalon is obligated to pay \$15,000 in annual rent and make leasehold improvements of \$150,000 per year. Amounts expended by Avalon for leasehold improvements during a given year in excess of \$150,000 will be carried forward and applied to future leasehold improvement obligations. Avalon has made \$6.8 million of leasehold improvements as of March 31, 2008. 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 \$4.2 million at March 31, 2008 compared with \$5.3 million at December 31, 2007. The decrease is primarily due to the utilization of cash for the construction and renovation of the Sharon Country Club and a decrease in accounts payable, partially offset by a decrease in accounts receivable and an increase in other current liabilities and accrued expenses. The decrease in

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accounts payable and accounts receivable is primarily due to the timing of payments to vendors and collections from customers of the waste management services segment in the ordinary course of business.

The increase in other current liabilities and accrued expenses at March 31, 2008 compared with December 31, 2007 is primarily due to an increase in deferred revenues relating to membership dues of the golf and related operations segment. Such deferred revenues increased from \$1.9 million at December 31, 2007 to \$2.2 million at March 31, 2008.

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.

Several private country clubs in the northeast Ohio area are experiencing economic difficulties. Avalon believes some of these clubs may represent an attractive investment opportunity and is giving consideration to the possibility of acquiring one or more additional golf courses. 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, 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 first quarter of 2008 decreased to \$10.4 million compared with \$11.3 million in the prior year's first quarter. The decrease is primarily the result of lower net operating revenues of the waste management services segment, partially offset by increased net operating revenues of the golf and related operations segments. Costs of operations decreased to \$8.9 million in the first quarter of 2008 compared with \$9.5 million in the prior year first quarter. The decrease in costs of operations is primarily due to lower transportation and disposal costs of the waste management services segment, in which costs vary directly with the decrease in net operating revenues. Avalon recorded a net loss of \$60,000 for the first quarter of 2008 compared with net income of \$352,000 for the first quarter of 2007.

### **Performance in the First Quarter of 2008 compared with the First Quarter of 2007**

#### *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 to \$8.9 million in the first quarter of 2008 compared with \$10.2 million in the first quarter of the prior year. The decrease in net operating revenues is primarily due to a decrease in the number of large one-time projects of the waste brokerage and management operations in the first quarter of 2008 compared with the first quarter of 2007. Net operating revenues of the captive landfill management operations increased slightly in the first quarter of 2008 compared with the first quarter of the prior year. Income before

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taxes for the waste management services segment decreased to \$.8 million in the first quarter of 2008 compared with \$1 million in the first quarter of 2007. The decrease is primarily due to the decline in net operating revenues of the waste brokerage and management operations. Income before taxes of the captive landfill operations increased slightly in the first quarter of 2008 compared with the first quarter of the prior year.

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 to the general public, the primary source of revenues will arise from members of the Avalon Golf and Country Club. Net operating revenues for the golf and related operations were \$1.4 million in the first quarter of 2008 compared with \$1.1 million in the first quarter of the prior year. The golf courses, which are located in northeast Ohio and western Pennsylvania, were unavailable for play during the first quarter of 2008 and 2007 due to adverse weather conditions. The increase in net operating revenues is primarily due to an increase in the average number of members during the first quarter of 2008 compared with the prior year first quarter and increased food and beverage sales as a result of opening the dining and banquet facilities at the Avalon Golf and Country Club at Sharon in March 2008. The golf and related operations segment incurred a loss before taxes of \$206,000 in the first quarter of 2008 compared with a loss before taxes of \$171,000 in the first quarter of the prior year. The increased loss before taxes is primarily due to increased depreciation expense and higher expenses of the Sharon facility during the first two months of 2008, while the facility was still under construction and renovation.

### *Interest income*

Interest income was \$29,000 in the first quarter of 2008 compared with \$152,000 in the first quarter of 2007. The decrease is primarily due to a significantly lower average amount of cash invested during the first quarter of 2008 compared with the first quarter of 2007.

### *General corporate expenses*

General corporate expenses increased to \$.7 million in the first quarter of 2008 compared with \$.6 million in the first quarter of 2007 primarily due to increased accounting fees.

### *Net Income*

Avalon recorded a net loss of \$60,000 in the first quarter of 2008 compared with net income of \$352,000 in the first quarter of the prior year. Avalon's overall effective tax rate, including the effect of state income tax provisions, was 0% in the first quarter of 2008 and 2007. The income tax benefit in the first quarter of 2008 and the provision in the first quarter of 2007 were offset by a change in the valuation allowance. Avalon recorded a valuation allowance because Avalon believes it is more likely than not that deferred tax assets relating to certain federal and state loss carryforwards will not be realized. The overall effective tax rate is different than statutory rates primarily due to a change in the valuation allowance.

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### **Trends and Uncertainties**

In the ordinary course of conducting its business, Avalon becomes involved in lawsuits, administrative proceedings and governmental investigations, including those relating to environmental matters. Some of these proceedings may result in fines, penalties or judgments being assessed against Avalon which, from time to time, may have an impact on its business and financial condition. Although the outcome of such lawsuits or other proceedings cannot be predicted with certainty, management assesses the probability of loss and accrues a liability as appropriate. Avalon does not believe that any uninsured ultimate liabilities, fines or penalties resulting from such pending proceedings, individually or in the aggregate, will have a material adverse effect on its financial position or results of operations.

The Board of Directors of Avalon has explored the possibility of delisting Avalon's common stock by reducing the number of shareholders of record below 300, thereby eliminating the requirements for compliance with the Sarbanes-Oxley Act (the "Act"). Avalon believes compliance with the requirements of the Act could be very costly. The Board of Directors has decided not to pursue delisting at this time, but intends to review the situation again as future developments warrant.

The federal government and numerous state and local governmental bodies are continuing to consider legislation or regulations to either restrict or impede the disposal and/or transportation of waste. A portion of Avalon's waste brokerage and management services revenues is derived from the disposal and/or transportation of out-of-state waste. Any law or regulation restricting or impeding the transportation of waste or the acceptance of out-of-state waste for disposal could have a negative effect on Avalon.

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 waste disposal brokerage and management operations obtain and retain customers by providing services and identifying cost-efficient disposal options unique to a customer's needs. Consolidation within the solid waste industry has resulted in reducing the number of disposal options available to waste generators and may cause disposal pricing to increase. Avalon's waste brokerage and management operations may not be able to pass these price increases onto its customers, which, in turn, may adversely impact Avalon's future financial performance. In addition, consolidation has had the effect of reducing the number of competitors offering disposal alternatives, which, also, reduces the alternatives Avalon's waste brokerage and management operations can offer its customers. This, too, may 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.

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The Avalon Golf and Country Club has golf courses and clubhouses at each of its 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. During the first quarter of 2008, Avalon opened the dining and banquet facilities and fitness center at the Sharon club. The Avalon Golf and Country Club competes with many public courses and country clubs in the area. Although the golf courses continue to be available to the general public, the primary source of revenues is derived from the members of the Avalon Golf and Country Club. Avalon believes that the combination of the facilities will result in a significant increase in the number of members of the Avalon Golf and Country Club. Although there has been a continual increase in the number of members of the Avalon Golf and Country Club, as of March 31, 2008, Avalon has not attained its membership goals. There can be no assurance as to when such increased membership will be attained and when the golf and related operations will ultimately become profitable. Failure by Avalon to attain increased membership could adversely affect the future financial performance of Avalon.

All three of Avalon's clubhouse/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 Deposits, U.S. Treasury Notes, short-term money market funds and other short-term obligations. Avalon does not undertake any specific actions to cover its exposure to interest rate risk and Avalon is not a party to any interest rate risk management transactions.

Avalon does not purchase or hold any derivative financial instruments.

### **Item 4. Controls and Procedures**

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

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**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, 2007 for a description of legal proceedings.

**Item 2. Changes in Securities and Use of Proceeds**

None

**Item 3. Defaults upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

Avalon's Annual Meeting of Shareholders was held on May 6, 2008; however, no vote of security holders occurred with respect to any matters reportable under this Item 4.

**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

None



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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: May 9, 2008

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