

AVALON HOLDINGS CORP
Form 10-Q
May 14, 2015
2015

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, 2015

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)

34-1863889
(I.R.S.
Employer)

of incorporation or organization) Identification
No.)

One American Way, Warren, Ohio 44484-5555
(Address of principal executive offices) (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 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 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

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 3,191,100 shares of its Class A Common Stock and 612,231 shares of its Class B Common Stock outstanding as of May 8, 2015.

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, 2015 2014	
Net operating revenues	\$10,700	\$9,983
Costs and expenses:		
Costs of operations	9,307	8,514
Depreciation and amortization expense	638	428
Selling, general and administrative expenses	2,034	1,800
Operating loss	(1,279)	(759)
Other income (expense):		
Interest expense	(5)	(5)
Other income, net	72	72
Loss before income taxes	(1,212)	(692)
Provision for income taxes	7	8
Net loss	(1,219)	(700)
Less net loss attributable to non-controlling interest in subsidiary	(179)	(1)
Net loss of Avalon Holdings Corporation common shareholders	\$(1,040)	\$(699)
Loss per share attributable to Avalon Holdings Corporation common shareholders:		
Basic and dilutive net loss per share	\$(0.27)	\$(0.18)
Weighted average shares outstanding - basic and diluted	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, 2015	December 31, 2014
	Unaudited	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,543	\$ 4,329
Accounts receivable, net	7,958	8,750
Inventories	1,032	947
Prepaid expenses	492	474
Refundable income taxes	18	8
Other current assets	45	45
Total current assets	12,088	14,553
Property and equipment, less accumulated depreciation and amortization of \$15,647 in 2015 and \$15,172 in 2014	38,978	35,954
Leased property under capital leases, less accumulated depreciation and amortization of \$3,981 in 2015 and \$3,867 in 2014	6,334	6,418
Noncurrent deferred tax asset	8	8
Other assets, net	91	911
Total assets	\$ 57,499	\$ 57,844
Liabilities and Equity		
Current liabilities:		
Current portion of obligations under capital leases	\$ 58	\$ 58
Accounts payable	6,050	6,429
Accrued payroll and other compensation	645	714
Accrued income taxes	-	8
Other accrued taxes	270	379
Deferred revenues	2,578	2,256
Other liabilities and accrued expenses	644	707
Total current liabilities	10,245	10,551
Revolving line of credit	5,000	3,800
Obligations under capital leases	319	333
Asset retirement obligation	100	100
Deferred rental income	115	138

Equity:

Avalon Holdings Corporation Shareholders' Equity:

Class A Common Stock, \$.01 par value	32	32
Class B Common Stock, \$.01 par value	6	6
Paid-in capital	58,885	58,868
Accumulated deficit	(20,509)	(19,469)
Total Avalon Holdings Corporation Shareholders' Equity	38,414	39,437
Non-controlling interest in subsidiary	3,306	3,485
Total equity	41,720	42,922
Total liabilities and equity	\$ 57,499	\$ 57,844

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,	
	2015	2014
Operating activities:		
Net loss	\$(1,219)	\$(700)
Reconciliation of net loss to cash used in operating activities:		
Depreciation and amortization expense	638	428
Compensation costs - stock options	17	21
Deferred rental income	(23)	-
Provision for losses on accounts receivable	3	4
Change in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	789	2,197
Inventories	(85)	(164)
Prepaid expenses	(18)	(51)
Refundable income taxes	(10)	-
Other assets, net	2	-
Accounts payable	(1,263)	(2,850)
Accrued payroll and other compensation	(69)	6
Accrued income taxes	(8)	(1)
Other accrued taxes	(109)	(80)
Deferred revenues	322	294
Other liabilities and accrued expenses	(63)	47
Net cash used in operating activities	(1,096)	(849)
Investing activities:		
Capital expenditures	(1,876)	(1,972)
Net cash used in investing activities	(1,876)	(1,972)
Financing activities:		
Proceeds from subsidiary private placement offering	-	350
Borrowings under line of credit facility	1,200	-
Principal payments on capital lease obligations	(14)	(13)
Contribution to paid-in capital	-	17
Net cash provided by financing activities	1,186	354
Decrease in cash and cash equivalents	(1,786)	(2,467)
Cash and cash equivalents at beginning of year	4,329	9,798
Cash and cash equivalents at end of year	\$2,543	\$7,331

Supplemental disclosure of cash flow information:

Significant non-cash operating and investing activities:

Capital expenditures included in accounts payable	\$884	\$906
Cash paid during the year for interest	\$38	\$5

See accompanying notes to condensed consolidated financial statements.

AVALON HOLDINGS CORPORATION AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2015

Note 1. Basis of Presentation

The unaudited condensed consolidated financial statements of Avalon Holdings Corporation and subsidiaries (collectively “Avalon” or the “Company”) 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 2014 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, 2015, 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.

Certain reclassifications of prior year amounts have been made to the Consolidated Statement of Cash Flows to conform to current year classification.

Note 2. Subsequent Events

Avalon evaluated subsequent events through the date the financial statements were issued.

Note 3. Acquisition

In August 2014, Avalon, through a newly created subsidiary, The Avalon Resort and Spa LLC, completed the acquisition of The Magnuson Grand Hotel (formerly The Avalon Inn) in Howland, Ohio for approximately \$3.1 million in cash and the assumption of certain operating leases and some rental payment relief. The acquisition was primarily funded from borrowings under our line of credit facility of \$2.9 million and cash on hand of approximately \$0.2 million. Subsequent to the acquisition, The Magnuson Grand Hotel was renamed and will operate as The Avalon Inn (formerly renamed The Avalon Resort and Spa in August 2014). The primary assets of The Avalon Inn include the 144 room hotel, indoor swimming pool and adjoining tennis center. The Avalon Inn is located adjacent to Avalon's corporate headquarters and the Avalon Lakes Golf Course.

The acquisition is consistent with the Company's business strategy in that The Avalon Inn will provide guests with a self-contained vacation experience, offering hotel guests golf packages to all of the golf courses of the Avalon Golf and Country Club and allow its guests to utilize the facilities at each of the clubhouses. Members of the Avalon Golf and Country Club will also have access to all of the amenities offered by The Avalon Inn. The Avalon Inn earns revenues through room rentals and from tennis activities. Upon completion of the expansion and renovation, other revenue-generating amenities will include restaurants, bars and extensive banquet and conference facilities. The operating results of The Avalon Inn have been included within the Company's Condensed Consolidated Statement of Operations and within Avalon's golf and related operations segment since the date of acquisition. The Consolidated Statement of Operations for the three months ended March 31, 2015 includes net operating revenues of \$0.2 million and a loss before income taxes of \$0.2 million related to The Avalon Inn.

The Company accounted for the acquisition of The Avalon Inn using the acquisition method of accounting, which requires among other things, the recognition of the assets acquired and the liabilities assumed at their respective fair values as of the acquisition date. As of March 31, 2015, the entire purchase price allocation is preliminary. The Company has received a preliminary third-party valuation of the acquired property, buildings, furniture and fixtures of The Avalon Inn and, therefore, the values attributed to those acquired assets in the condensed consolidated financial statements are subject to adjustment. During the three months ended March 31, 2015, the Company reclassified approximately \$0.8 million of other intangible assets to property and equipment to reflect an updated preliminary valuation of the acquired property, building, furniture and fixtures of The Avalon Inn. As the Company finalizes the fair value of assets acquired and liabilities assumed, additional adjustments will be recorded during the measurement period.

The Avalon Inn's assets and liabilities are recorded at fair value as of the date of acquisition. The purchase consideration and related preliminary estimated allocations are as follows (in thousands):

Assets acquired:

Property and equipment \$3,388

Liabilities assumed:

Deferred rental income 266

Total consideration \$3,122

Pro forma net operating revenues and results of operations for the acquisition of The Avalon Inn, had the acquisition occurred at the beginning of the three month period ended March 31, 2014, are not significant and, accordingly, are not provided.

Note 4. 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 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 March 31, 2015 and 2014, the diluted per share amount is equal to the basic per share amount because Avalon was in a net loss position and as a result, such dilution would be considered anti-dilutive. However, assuming dilution, the diluted weighted average number of common shares outstanding for the three months ended March 31, 2015 and 2014 was 3,896,798 and 4,200,427, respectively.

Note 5. Credit Facility

During July 2014, Avalon increased its unsecured line of credit agreement with The Huntington National Bank from \$1 million to \$5 million. Interest on borrowings accrues at LIBOR plus 2.70% and has a .25% nonuse fee. In March 2015 the maturity date on the line of credit agreement was extended to April 30, 2016. The line of credit agreement contains certain financial and other covenants, customary representations, warranties and events of defaults. Avalon was in compliance with the debt covenants at March 31, 2015. At March 31, 2015, the outstanding borrowings under

the line of credit agreement were \$5.0 million. Amounts borrowed under the line of credit agreement were utilized to fund the acquisition of The Avalon Inn and related renovation and expansion. As of March 31, 2015, no borrowings were available under the line of credit agreement. At March 31, 2014, there were no borrowings under the line of credit agreement. The weighted average interest rate on outstanding borrowings under the line of credit agreement was 2.87% during the three months ended March 31, 2015. At March 31, 2014, the interest rate was 2.87%. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 835-20, *Capitalization of Interest*, Avalon capitalized approximately \$33,000 of interest costs on borrowings incurred related to construction on The Avalon Inn.

Note 6. Income Taxes

Avalon recorded a net loss of \$1.0 million in the first quarter of 2015 compared with a net loss of \$0.7 million in the first quarter of 2014. Avalon recorded a state income tax provision in both the first quarter of 2015 and 2014, 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 first quarter of 2015 and 2014. The overall effective tax rate is different than statutory rates primarily due to a change in the valuation allowance. Avalon’s income tax benefit on the loss before taxes was offset by an increase in the valuation allowance. A valuation allowance is provided when it is more likel