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Total

$4,476 $4,469

Note 4. Comprehensive Income (Loss)

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

	Three Months Ended March 31,	
	2006	**2005**
Net income	$ 2	$ 112
Unrealized gain (loss) on available-for-sale securities	3	(9)
Comprehensive income	$ 5	$ 103

Note 5. Discontinued Operations

Recognizing that the continuing losses incurred by the environmental remediation business would adversely impact Avalon s future financial performance, in the fourth quarter of 2003, management determined that it was in Avalon s best interest to sell or discontinue the operation of the environmental remediation business. In January 2004, Avalon sold all of the fixed assets of the remediation business. As part of the transaction, the purchaser assumed all of the remediation business obligations relating to ongoing projects. The remediation business retained all of its other liabilities and assets, including cash and accounts receivable. The results of operations of the remediation business have been included in discontinued operations.

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In the fourth quarter of 2001, the remediation business recorded a pretax charge of $2.2 million to the provision for losses on accounts receivable as a result of IT Group, Inc., and most of its subsidiaries, including IT Corporation (IT), having filed for protection under Chapter 11 of the United States Bankruptcy Code on January 16, 2002. The remediation business had performed services as a subcontractor to IT for which it had not received payment. In the fourth quarter of 2002, the remediation business purchased from IT, for a nominal amount, the receivable relating to the contract under which it had performed services. The remediation business subsequently filed for binding arbitration under the provisions of the contract for payment of such receivable. On October 25, 2004, as a result of such arbitration, the remediation business was awarded, after offsets for counterclaims, the net amount of $1.4 million, plus interest of $.1 million for its claim. Such amount was recorded as income in discontinued operations in the third quarter of 2004. The monies were received in February 2005 and are included in the Condensed Consolidated Statements of Cash Flows under the caption Net cash (used in) provided by operating activities from discontinued operations for the three months ended March 31, 2005.

In January 2004, Avalon discontinued the operations of the engineering and consulting business because the business began to experience losses and Avalon believed that the losses were likely to continue in the future. The results of these operations are included in discontinued operations.

Concurrent with the decision to discontinue the technical environmental engineering and consulting business, Avalon decided to sell the building associated with the technical environmental services operations. As a result, the building is classified as held-for-sale and the expenses related to the maintenance and operations of the building are included in discontinued operations. In October 2005, Avalon reached an agreement in principal with a third party to sell the building for $2.0 million. In December 2005, Avalon and the third party signed an agreement for the sale of the building. Avalon completed the sale of the building in May, 2006. The carrying value of the building reflects the purchase price less the costs to sell the building, and is included in the Condensed Consolidated Balance Sheets under the caption Noncurrent assets discontinued operations.

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.

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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 two golf courses 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, 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. For the three months ended March 31, 2005, one customer and its affiliates accounted for approximately 16% of the waste management services segment s net operating revenues to external customers and approximately 14% 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,	
	2006	**2005**
Net operating revenues from:		
Waste management services:		
External customers revenues	$ 8,062	$ 6,682
Intersegment revenues		4
Total waste management services	8,062	6,686
Golf and related operations:		
External customers revenues	862	748
Intersegment revenues	7	7
Total golf and related operations	869	755
Segment operating revenues	8,931	7,441
Intersegment eliminations	(7)	(11)
Total net operating revenues	$ 8,924	$ 7,430
Income (loss) from continuing operations before taxes:		
Waste management services	$ 747	$ 802
Golf and related operations	(224)	(205)
Other business		(1)
Segment income before taxes	523	596
Corporate interest income	98	40
Corporate other income, net	2	22
General corporate expenses	(614)	(626)
Income from continuing operations before taxes	$ 9	$ 32
Interest income:		
Waste management services	$ 23	$ 21
Golf and related operations	2	3
Corporate	98	40
Total	$ 123	$ 64

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Business Segment Information (continued)

	March 31, 2006	December 31, 2005
Identifiable assets:		
Waste management services	$ 7,606	$ 6,165
Golf and related operations	19,784	19,822
Other businesses	828	828
Corporate	32,611	33,369
Discontinued operations	1,909	1,909
Subtotal	62,738	62,093
Elimination of intersegment receivables	(18,710)	(18,505)
Total	$ 44,028	$ 43,588

Note 8. Recently Issued Financial Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123-R). This statement revises FASB Statement No. 123, Accounting for Stock-Based Compensation , and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees . SFAS No. 123-R focuses primarily on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123-R requires companies to recognize in the statement of operations the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). The provisions for this statement are effective as of the first interim or annual reporting period that begins after December 15, 2005. As of March 31, 2006, Avalon has not entered into any share-based transactions for employee services and, as such, the adoption of SFAS No. 123-R had no impact on Avalon s financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of AFB No. 20 and FASB Statement No. 3 (SFAS No. 154). SFAS No. 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is deemed impracticable. APB No. 20 Accounting Changes , previously required that voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. The statement is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have a material impact on Avalon s consolidated 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 2006, Avalon utilized existing cash to fund capital expenditures and meet operating needs.

Avalon s aggregate capital expenditures in 2006 are expected to be in the range of $.5 million to $1.0 million, which relate principally to building improvements, the purchase of golf equipment, computer equipment and the development of software for Avalon s golf and restaurant operations. During the first three months of 2006, capital expenditures for Avalon totaled approximately $.1 million which was principally related to building improvements, the purchase of golf equipment and computer equipment.

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 $6.2 million of leasehold improvements as of March 31, 2006. 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 $11.8 million at March 31, 2006 compared with $11.6 million at December 31, 2005. The increase is primarily due to an increase in accounts receivable of the waste management services segment as a result of higher net operating revenues in the first quarter of 2006 compared with the fourth quarter of 2005, partially offset by an increase in accounts payable and a decrease in cash and cash equivalents.

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The increase in accounts payable of $.4 million at March 31, 2006 compared with December 31, 2005 is primarily due to an increase in accounts payable of the waste brokerage and management service operations as a result of the timing of payments to disposal facilities and transporters in the ordinary course of business.

The increase in other current liabilities and accrued expenses at March 31, 2006 compared with December 31, 2005 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 $1.2 million at December 31, 2005 to $1.3 million at March 31, 2006.

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. Avalon does not currently have a credit facility.

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 2006 increased to $8.9 million compared with $7.4 million in the prior year s first quarter. The increase is primarily the result of higher net operating revenues of the waste management services segment and, to a lesser extent, increased net operating revenues of the golf and related operations segments. Costs of operations increased to $7.5 million in the first quarter of 2006 compared with $6.2 million in the prior year quarter. The increase in costs of operations is primarily due to higher net operating revenues of the waste management services segment in which costs have a direct relationship to revenues. Avalon recorded income from continuing operations of $9,000 for the first quarter of 2006 compared with income from continuing operations of $32,000 for the first quarter of 2005.

Performance in the First Quarter of 2006 compared with the First Quarter of 2005

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 $8.1 million in the first quarter of 2006 compared with $6.7 million in the first quarter of the prior year. The increase in net operating revenues is primarily the result of an increase in the level of waste brokerage and

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management services provided. Net operating revenues of the captive landfill management operations increased slightly in the first quarter of 2006 compared with the first quarter of the prior year. Income from continuing operations before taxes for the waste management services segment was $747,000 in the first quarter of 2006 compared with $802,000 in the first quarter of 2005. The first quarter of 2005 included a decrease in the provision for losses on accounts receivable of approximately $142,000 as a result of recoveries of accounts receivable from two customers which had previously filed bankruptcy. Excluding the decrease in the provision for losses on accounts receivable in the first quarter of 2005, income from continuing operations before taxes increased in the first quarter of 2006 compared with the first quarter of 2005. The increase is primarily as a result of an increase in the level of business of the waste management and brokerage operations, although average gross margins were slightly lower during the first quarter of 2006 compared with the prior year quarter. Income from continuing operations of the captive landfill operations increased slightly in the first quarter of 2006 compared with the first quarter of the prior year.

Avalon s golf and related operations segment consists primarily of two golf courses, two clubhouses that provides 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 $869,000 in the first quarter of 2006 compared with $755,000 in the first quarter of the prior year. The golf courses, which are located in Warren, Ohio and Vienna, Ohio, were unavailable for play during the first quarter of 2006 and 2005 due to adverse weather conditions. The increase in net operating revenues is primarily due to increased food and beverage sales and an increase in membership dues during the first quarter of 2006 compared with the first quarter of 2005. The golf and related operations segment incurred a loss from continuing operations before taxes of $224,000 in the first quarter of 2006 compared with a loss from continuing operations before taxes of $205,000 in the first quarter of the prior year. The increased loss from continuing operations before taxes is primarily due to increased depreciation expense.

Interest income

Interest income was $123,000 in the first quarter of 2006 compared with $64,000 in the first quarter of 2005. The increase is primarily due to an increase in investment rates.

General corporate expenses

General corporate expenses were $.6 million in both the first quarter of 2006 and 2005.

Net Income

Including discontinued operations, Avalon recorded net income of $2,000 in the first quarter of 2006 compared with net income of $112,000 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 2006 and 2005. The income tax provision in the first quarter of 2006 and 2005 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. However, as a result of the Securities and Exchange Commission s (SEC) decision to extend the compliance deadline under Section 404 of the Act (SOX 404) for small public companies and the ongoing review by the SEC of how to minimize the costly impact of SOX 404 on small companies, 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.

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. In addition, consolidation has had the effect of reducing the number of competitors offering disposal alternatives which may adversely impact the future financial performance of Avalon s waste disposal brokerage and management operations.

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 customers 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 two championship golf courses and a clubhouse at both the Avalon Lakes and Squaw Creek facilities. In addition, the Squaw Creek facility has a swimming pool, tennis courts, a fitness center and dining and banquet facilities. 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 Squaw Creek and Avalon Lakes facilities will result in an increase in the number of members of the Avalon Golf and Country Club. Such increased membership, if attained, will result in increased net operating revenues; however, there can be no assurance as to when such increased membership will be attained. Failure by Avalon to attain increased membership could adversely affect the future financial performance of Avalon. Although Avalon has had an increase in the number of members of the Avalon Golf and Country Club, as of March 31, 2006, Avalon has not attained its membership goals.

Squaw Creek and Avalon Lakes currently hold liquor licenses for their respective facilities. If, for some reason, either of these facilities were to lose their 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 Warren, Ohio and Vienna, Ohio 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.

Management is currently evaluating Avalon s strategic direction for the future. While there are no specific transactions under negotiation or pending at this time, Avalon does not necessarily intend to limit itself in the future to lines of business which it has historically conducted.

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 from continuing operations before income 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, 2005 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 April 27, 2006; 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

On March 17, 2006, Avalon disclosed the resignation of Frank Lamanna as Chief Financial Officer and Treasurer.

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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 12, 2006

By: /s/ Timothy C. Coxson
Timothy C. Coxson,

Chief Financial Officer and

Treasurer (Principal Financial and

Accounting Officer and Duly Authorized Officer)