
**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

September 29, 2007

OR

☐ **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 **000-11917**

THE DAVEY TREE EXPERT COMPANY

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of
incorporation or organization)

34-0176110

(I.R.S. Employer Identification Number)

1500 North Mantua Street

P.O. Box 5193

Kent, Ohio 44240

(Address of principal executive offices) (Zip code)

(330) 673-9511

(Registrant's telephone number, including area code)

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

There were 7,254,497 Common Shares outstanding as of October 30, 2007.

The Davey Tree Expert Company
Quarterly Report on Form 10-Q
September 29, 2007

INDEX

	<u>Page</u>
Part I. Financial Information	
Item 1. Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Operations	3
Condensed Consolidated Statements of Cash Flows	4
Note A – Basis of Financial Statement Presentation	5
Note B – Seasonality of Business	6
Note C – Accounts Receivable, Net	6
Note D - Supplemental Balance Sheet Information	6
Note E – Long-Term Debt	7
Note F – Stock-Based Compensation	8
Note G – Net Periodic Benefit Cost—Defined Benefit Plans	10
Note H – Income Taxes	11
Note I – Comprehensive Income (Loss)	11
Note J – Net Income Per Share and Common Shares Outstanding	12
Note K – Segment Information	13
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	14
Results of Operations	15
Liquidity and Capital Resources	18
Off-Balance Sheet Arrangements	20
Contractual Obligations Summary	20
Capital Resources	20
New Accounting Pronouncements	21
Critical Accounting Policies and Estimates	21
Note Regarding Forward-Looking Statements	23
Item 3. Quantitative and Qualitative Disclosures about Market Risk	24
Item 4. Controls and Procedures	24
Part II. Other Information	
Item 1A. Risk Factors	25
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 6. Exhibits	26
Signatures	27
Exhibit Index	28

“We”, “Us”, “Our”, “Davey” and “Davey Tree” unless the context otherwise requires, means The Davey Tree Expert Company and its subsidiaries.

THE DAVEY TREE EXPERT COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands, except per share dollar amounts)

	September 29, 2007	December 31, 2006
Assets		
Current assets:		
Cash	\$ 974	\$ 2,101
Accounts receivable, net	86,515	70,429
Operating supplies	3,874	3,878
Other current assets	<u>15,298</u>	<u>13,453</u>
Total current assets	106,661	89,861
Property and equipment	340,150	314,884
Less accumulated depreciation	<u>229,130</u>	<u>218,362</u>
	111,020	96,522
Other assets	14,632	13,181
Identified intangible assets and goodwill, net	<u>11,905</u>	<u>9,113</u>
	<u>\$ 244,218</u>	<u>\$ 208,677</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 19,142	\$ 19,528
Accrued expenses	26,153	21,900
Other current liabilities	<u>20,553</u>	<u>22,611</u>
Total current liabilities	65,848	64,039
Long-term debt	46,938	31,951
Self-insurance accruals	36,096	25,716
Other noncurrent liabilities	<u>5,097</u>	<u>4,895</u>
	153,979	126,601
Common shareholders' equity:		
Common shares, \$1.00 par value, per share; 24,000 shares authorized; 10,728 shares issued	10,728	10,728
Additional paid-in capital	7,434	5,453
Common shares subscribed, unissued	7,709	8,369
Retained earnings	133,743	121,624
Accumulated other comprehensive loss	<u>(1,249)</u>	<u>(3,025)</u>
	158,365	143,149
Less: Cost of Common shares held in treasury; 3,437 shares at September 29, 2007 and 3,218 shares at December 31, 2006	65,935	57,654
Common shares subscription receivable	<u>2,191</u>	<u>3,419</u>
	<u>90,239</u>	<u>82,076</u>
	<u>\$ 244,218</u>	<u>\$ 208,677</u>

See notes to condensed consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS *(Unaudited)*
(In thousands, except per share dollar amounts)

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Revenues	\$ 134,300	\$ 122,897	\$ 381,521	\$ 356,601
Costs and expenses:				
Operating	85,532	80,735	245,108	234,788
Selling	22,094	19,517	60,942	55,175
General and administrative	9,946	8,438	29,224	25,380
Depreciation and amortization	7,565	7,405	21,421	20,908
Gain on sale of assets, net	(414)	(45)	(417)	(251)
	<u>124,723</u>	<u>116,050</u>	<u>356,278</u>	<u>336,000</u>
Income from operations	9,577	6,847	25,243	20,601
Other income (expense):				
Interest expense	(947)	(749)	(2,875)	(2,190)
Interest income	115	107	334	231
Other, net	<u>(147)</u>	<u>(547)</u>	<u>(491)</u>	<u>(1,190)</u>
Income before income taxes	8,598	5,658	22,211	17,452
Income tax	<u>2,948</u>	<u>1,909</u>	<u>8,189</u>	<u>6,614</u>
Net income	<u>\$ 5,650</u>	<u>\$ 3,749</u>	<u>\$ 14,022</u>	<u>\$ 10,838</u>
Net income per share:				
Basic	<u>\$.76</u>	<u>\$.48</u>	<u>\$ 1.78</u>	<u>\$ 1.34</u>
Diluted	<u>\$.71</u>	<u>\$.45</u>	<u>\$ 1.69</u>	<u>\$ 1.26</u>
Weighted-average shares outstanding:				
Basic	<u>7,466</u>	<u>7,766</u>	<u>7,883</u>	<u>8,070</u>
Diluted	<u>7,986</u>	<u>8,299</u>	<u>8,313</u>	<u>8,593</u>
Dividends declared per share	<u>\$.08</u>	<u>\$.075</u>	<u>\$.24</u>	<u>\$.225</u>

See notes to condensed consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(Unaudited)*
(In thousands)

	Nine Months Ended	
	September 29, 2007	September 30, 2006
Operating activities		
Net income	\$ 14,022	\$ 10,838
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	21,421	20,908
Other	(1,656)	709
Changes in operating assets and liabilities:		
Accounts receivable	(16,086)	(11,157)
Operating liabilities	12,987	7,186
Other	619	(4,951)
	<u>17,285</u>	<u>12,695</u>
Net cash provided by operating activities	31,307	23,533
Investing activities		
Capital expenditures:		
Equipment	(27,822)	(28,655)
Land and buildings	(4,741)	(357)
Purchases of businesses	(2,441)	(546)
Other	(713)	(406)
	<u>(35,717)</u>	<u>(29,964)</u>
Net cash used in investing activities	(35,717)	(29,964)
Financing activities		
Revolving credit facility proceeds, net	13,500	8,100
Borrowings of notes payable	184	100
Payments of long-term debt and capital leases	(1,644)	(1,588)
Purchase of common shares for treasury	(14,269)	(7,470)
Sale of common shares from treasury	7,415	6,052
Dividends	(1,903)	(1,868)
	<u>3,283</u>	<u>3,326</u>
Net cash provided by financing activities	3,283	3,326
Decrease in cash	(1,127)	(3,105)
Cash, beginning of period	<u>2,101</u>	<u>3,445</u>
Cash, end of period	<u>\$ 974</u>	<u>\$ 340</u>
Supplemental cash flow information follows:		
Interest paid	\$ 2,739	\$ 2,119
Income taxes paid	<u>10,639</u>	<u>9,496</u>
Detail of acquisitions:		
Assets acquired:		
Equipment	\$ 798	\$ 161
Intangibles	3,744	835
Liabilities assumed	316	-
Debt issued for purchases of businesses	<u>1,785</u>	<u>450</u>
Cash paid	<u>\$ 2,441</u>	<u>\$ 546</u>

See notes to condensed consolidated financial statements.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 29, 2007

(Amounts in thousands, except share data)

A. Basis of Financial Statement Preparation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. The consolidated financial statements include all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal, recurring nature.

Certain information and disclosures required by U.S. GAAP for complete financial statements have been omitted in accordance with the rules and regulations of the SEC. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2006 (the “2006 Annual Report”).

Use of Estimates in Financial Statement Preparation--The preparation of financial statements in accordance with U.S. GAAP requires the use of estimates and assumptions that affect reported amounts. The Company’s consolidated financial statements include amounts that are based on management’s best estimates and judgments. Actual results could differ from those estimates.

New Accounting Pronouncement Adopted-- Effective January 1, 2007, the Company adopted Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes,” an interpretation of FASB Statement No. 109, “Accounting for Income Taxes” (“FIN 48”). FIN 48 applies to all “tax positions” accounted for under FASB Statement No. 109. FIN 48 refers to “tax positions” as positions taken in a previously-filed tax return or positions expected to be taken in a future tax return that are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 had no effect on the results of operations or financial position.

New Accounting Pronouncement Requiring Adoption in 2008-- In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements” (“FAS 157”). FAS 157 establishes a common definition for fair value to be applied to U.S. GAAP requiring use of fair value, establishes a framework for measuring fair value, and expands presentations about such fair value measurements. The Company is required to adopt FAS 157 in 2008 and is currently assessing the impact of FAS 157 on its consolidated financial statements.

Financial Statement Presentation-Changes--Certain amounts have been reclassified to conform to the current interim period presentation.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 29, 2007

(Amounts in thousands, except share data)

B. Seasonality of Business

Operating results for the nine months ended September 29, 2007 are not indicative of results that may be expected for any other interim period or for the year ending December 31, 2007 because of business seasonality. Business seasonality results in higher revenues during the second and third quarters as compared with the first and fourth quarters of the year, while the methods of accounting for fixed costs, such as depreciation expense, are not significantly impacted by business seasonality.

C. Accounts Receivable, Net

Accounts receivable, net, consisted of the following:

	September 29, 2007	December 31, 2006
Accounts receivable	\$ 78,856	\$ 68,370
Receivables under contractual arrangements	9,997	6,151
	88,853	74,521
Less allowances for doubtful accounts	2,338	4,092
	<u>\$ 86,515</u>	<u>\$ 70,429</u>

Receivables under contractual arrangements consist of work-in-process in accordance with the terms of contracts, primarily with utility services customers.

D. Supplemental Balance Sheet Information

The following items comprise the amounts included in the balance sheets:

	September 29, 2007		December 31, 2006	
	Cost	Net of Amortization	Cost	Net of Amortization
Identified intangibles and goodwill, net				
Customer lists	\$ 8,433	\$ 2,039	\$ 7,229	\$ 1,354
Noncompete agreements	2,749	662	2,449	603
Tradenames	1,485	656	1,082	407
Goodwill	10,260	8,548	8,461	6,749
	22,927	<u>\$ 11,905</u>	19,221	<u>\$ 9,113</u>
Less accumulated amortization	11,022		10,108	
Total	<u>\$ 11,905</u>		<u>\$ 9,113</u>	

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 29, 2007

(Amounts in thousands, except share data)

D. Supplemental Balance Sheet Information (continued)

	September 29, 2007	December 31, 2006
Accrued expenses		
Employee compensation	\$ 12,918	\$ 10,743
Accrued vacation	4,215	3,476
Self-insured medical claims	3,325	2,750
Income taxes payable	-	351
Taxes, other than income	2,063	1,275
Other	3,632	3,305
Total	<u>\$ 26,153</u>	<u>\$ 21,900</u>

E. Long-Term Debt

Long-term debt consisted of the following:

	September 29, 2007	December 31, 2006
Revolving credit facility		
Prime rate borrowings	\$ 10,000	\$ 4,500
LIBOR borrowings	<u>35,000</u>	<u>27,000</u>
	45,000	31,500
Term loans	<u>5,849</u>	<u>3,312</u>
	50,849	34,812
Less current portion	<u>3,911</u>	<u>2,861</u>
	<u>\$ 46,938</u>	<u>\$ 31,951</u>

Revolving Credit Facility--The Company has a \$147,000 revolving credit facility with a group of banks, which will expire in December 2011 and permits borrowings, as defined, up to \$147,000 with a letter of credit sublimit of \$100,000. The revolving credit facility contains certain affirmative and negative covenants customary for this type of facility and includes financial covenant ratios, as defined, with respect to funded debt to EBITDA (earnings before interest, taxes, depreciation and amortization), and funded debt to capitalization.

As of September 29, 2007, the Company had unused commitments under the facility approximating \$51,375, with \$95,625 committed, consisting of borrowings of \$45,000 and issued letters of credit of \$50,625. Borrowings outstanding bear interest, at the Company's option, at the agent bank's prime rate or LIBOR plus a margin adjustment ranging from .65% to 1.45%, based on a ratio of funded debt to EBITDA. A commitment fee ranging from .11% to .19% is also required based on the average daily unborrowed commitment.

Interest Rate Contracts--The Company uses interest rate contracts to effectively convert a portion of variable-rate revolving credit borrowings to a fixed rate, thus reducing the impact of interest-rate changes on future interest expense. The fair value of these contracts is the amount quoted by the financial institution that the Company would pay or receive to terminate the agreements, a liability of \$215 at September 29, 2007.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 29, 2007

(Amounts in thousands, except share data)

F. Stock-Based Compensation

The Davey Tree Expert Company 2004 Omnibus Stock Plan (the "Stock Plan") was approved by the Company's shareholders at its annual shareholders' meeting in May 2004. The Stock Plan is administered by the Compensation Committee of the Board of Directors, with the maximum number of common shares that may be granted to or purchased by all employees and directors under the Stock Plan being 5,000,000. In addition to the maintenance of the Employee Stock Purchase Plan, the Stock Plan provides for the grant of stock options, restricted stock, stock appreciation rights, stock purchase rights, stock equivalent units, cash awards, and other stock or performance-based incentives. These awards are payable in cash or common shares, or any combination thereof, as established by the Compensation Committee.

Stock-based compensation expense under all share-based payment plans -- our Employee Stock Purchase Plan, stock option plans, and performance-based restricted stock units -- included in the results of operations follows:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>September 29,</u>	<u>September 30,</u>	<u>September 29,</u>	<u>September 30,</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Compensation expense, all share-based payment plans	\$ 412	\$ 476	\$ 1,123	\$ 797

Stock-based compensation consisted of the following:

Employee Stock Purchase Plan--Under the Employee Stock Purchase Plan, all full-time employees with one year of service are eligible to purchase, through payroll deduction, common shares. Employee purchases under the Employee Stock Purchase Plan are at 85% of the fair market value of the common shares--a 15% discount. Compensation costs are recognized as payroll deductions are made. The 15% discount of total shares purchased under the plan resulted in compensation cost of \$192 being recognized during the nine months ended September 29, 2007 and of \$179 during the nine months ended September 30, 2006.

Stock Option Plans--Since adopting FASB Statement No. 123 (revised), "Share-Based Payment" ("FAS 123R") on January 1, 2006 and through the end of the third quarter, September 29, 2007, there were 246,000 stock option awards granted. The stock option awards were granted at an exercise price equal to the fair market value of the Company's common shares at the dates of grant. The stock options were awarded under a graded vesting schedule and have a term of ten years. Compensation costs for stock options are recognized over the requisite service period on the straight-line recognition method. Compensation expense for stock options was \$252 during the nine months ended September 29, 2007 and was \$98 during the nine months ended September 30, 2006.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 29, 2007

(Amounts in thousands, except share data)

F. Stock-Based Compensation (continued)

Performance-Based Restricted Stock Units--During February 2007, the Compensation Committee of the Board of Directors awarded 24,193 Performance-Based Restricted Stock Units to certain management employees. Similar awards were made in prior periods. The awards vest over specified periods. The following table summarizes Performance-Based Restricted Stock Units as of September 29, 2007.

<u>Unvested Performance-Based Restricted Stock Units</u>	<u>Number of Stock Units</u>	<u>Weighted- Average Grant Date Value</u>	<u>Unrecognized Compensation Cost</u>	<u>Aggregate Intrinsic Value</u>
Unvested, January 1, 2007	118,648			
Granted	24,193			
Forfeited	-			
Vested	-			
Unvested, September 29, 2007	<u>142,841</u>	<u>\$ 20.05</u>	<u>\$ 1,102</u>	<u>\$ 4,100</u>

The fair value of the restricted stock units for awards made prior to January 1, 2006 is based on the market price of the Company's common shares on the date of award and is recognized as compensation cost on the straight-line recognition method over the vesting period. Under the provisions of FAS 123R, compensation cost for awards made after December 31, 2005 is determined using a fair-value method and amortized over the requisite service period. Compensation expense on restricted stock awards totaled \$679 for the nine months ended September 29, 2007 and \$520 for the nine months ended September 30, 2006.

For stock-based awards issued on or after January 1, 2006, the fair value of each award was estimated on the date of grant using a binomial option-pricing model. The binomial model considers a range of assumptions related to volatility, risk-free interest rate and employee exercise behavior. Expected volatilities utilized in the binomial model are based on historical volatility of the Company's stock prices and other factors. Similarly, the dividend yield is based on historical experience and expected future changes. The binomial model also incorporates exercise and forfeiture assumptions based on an analysis of historical data. The expected life of the stock-based awards is derived from the output of the binomial model and represents the period of time that awards granted are expected to be outstanding.

General Stock Option Information--The following table summarizes activity under the stock option plans for the nine months ended September 29, 2007.

	<u>Number of Options Outstanding</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Life</u>	<u>Aggregate Intrinsic Value</u>
Outstanding, January 1, 2007	767,525	\$ 16.34		
Granted	8,000	25.90		
Exercised	(39,700)	13.26		
Forfeited	<u>(20,500)</u>	14.02		
Outstanding, September 29, 2007	<u>715,325</u>	16.68	6.9 years	<u>\$ 8,598</u>
Exercisable, September 29, 2007	<u>318,325</u>	15.14	6.3 years	<u>\$ 4,316</u>

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 29, 2007

(Amounts in thousands, except share data)

F. Stock-Based Compensation (continued)

“Intrinsic value” is defined as the amount by which the market price of a common share exceeds the exercise price of an option. Information regarding the stock options outstanding at September 29, 2007 is summarized below:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Weighted- Average Remaining Contractual Life</u>	<u>Weighted- Average Exercise Price</u>	<u>Number Exercisable</u>	<u>Weighted- Average Exercise Price</u>
Employee options:					
\$ 13.50	451,425	6.2 years	\$ 13.50	246,425	\$ 13.50
22.50	<u>228,300</u>	8.7 years	22.50	<u>44,300</u>	22.50
	679,725	7.0 years	16.52	290,725	14.87
Director options:					
\$11.00 to \$25.90	<u>35,600</u>	3.7 years	19.78	<u>27,600</u>	18.00
	<u>715,325</u>	6.9 years	16.68	<u>318,325</u>	15.14

The Company issues common shares from treasury upon the exercise of stock options, restricted stock units or purchases under the Employee Stock Purchase Plan.

G. Net Periodic Benefit Cost--Defined Benefit Plans

The results of operations included the following net periodic benefit cost recognized related to the defined benefit pension plans.

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 29, 2007</u>	<u>September 30, 2006</u>	<u>September 29, 2007</u>	<u>September 30, 2006</u>
Components of pension cost				
Service costs--increase in benefit obligation earned	\$ 396	\$ 353	\$ 1,187	\$ 1,060
Interest cost on projected benefit obligation	397	369	1,191	1,107
Expected return on plan assets	(537)	(544)	(1,610)	(1,633)
Amortization of net actuarial loss	64	55	192	165
Amortization of prior service cost	8	17	24	53
Amortization of transition asset	(18)	(17)	(54)	(53)
Net pension cost of defined benefit pension plans	<u>\$ 310</u>	<u>\$ 233</u>	<u>\$ 930</u>	<u>\$ 699</u>

Employer Contributions--Contributions of \$93 were made to the defined-benefit plans during the nine-months ended September 29, 2007. The Company expects, as of September 29, 2007, to make additional defined-benefit plan contributions totaling \$24 before December 31, 2007.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 29, 2007

(Amounts in thousands, except share data)

H. Income Taxes

The Company adopted FIN 48 effective January 1, 2007. At that date, the Company had \$3,152 of unrecognized tax benefits, of which \$1,088 would affect the Company's effective tax rate if recognized. Also as of the adoption date, the Company had accrued interest expense related to the unrecognized tax benefits of \$406.

As of September 29, 2007, the Company had unrecognized tax benefits of \$ 2,728, of which \$899 would affect the Company's effective tax rate if recognized and accrued interest related to the unrecognized tax benefits of \$310. The Company recognizes interest accrued related to unrecognized tax benefits in income tax expense. Penalties, if incurred, would be recognized as a component of income tax expense.

The Company does not anticipate that total unrecognized tax benefits will change significantly prior to September 29, 2008, based on tax years open to examination. The tax years from 2002 to 2006 remain open to examination by the major tax jurisdictions to which the Company and its subsidiaries are subject.

I. Comprehensive Income

The components of comprehensive income (loss) follow:

	Three Months Ended		Nine Months Ended	
	September 29,	September 30,	September 29,	September 30,
	2007	2006	2007	2006
Comprehensive income				
Net income	\$ 5,650	\$ 3,749	\$ 14,022	\$ 10,838
Other comprehensive income (loss)				
Currency translation adjustments	831	(22)	1,921	383
Interest rate contracts, change in fair value	(329)	(109)	(234)	74
Other comprehensive income (loss), before income taxes	502	(131)	1,687	457
Income tax expense, related to items of other comprehensive income (loss)	125	41	89	(28)
Other comprehensive income (loss)	627	(90)	1,776	429
Comprehensive income	\$ 6,277	\$ 3,659	\$ 15,798	\$ 11,267

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 29, 2007

(Amounts in thousands, except share data)

J. Net Income Per Share and Common Shares Outstanding

Net income per share is computed as follows:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 29,</u>	<u>September 30,</u>	<u>September 29,</u>	<u>September 30,</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Income available to common shareholders:				
Net income	\$ <u>5,650</u>	\$ <u>3,749</u>	\$ <u>14,022</u>	\$ <u>10,838</u>
Weighted-average shares:				
Basic:				
Outstanding	7,303,600	7,586,390	7,402,395	7,544,664
Partially-paid share subscriptions	<u>161,932</u>	<u>179,730</u>	<u>480,515</u>	<u>525,227</u>
Basic weighted-average shares	<u>7,465,532</u>	<u>7,766,120</u>	<u>7,882,910</u>	<u>8,069,891</u>
Diluted:				
Basic from above	7,465,532	7,766,120	7,882,910	8,069,891
Incremental shares from assumed:				
Exercise of stock subscription purchase rights	159,366	139,509	139,964	122,155
Exercise of stock options	<u>360,925</u>	<u>393,728</u>	<u>289,680</u>	<u>400,862</u>
Diluted weighted-average shares	<u>7,985,823</u>	<u>8,299,357</u>	<u>8,312,554</u>	<u>8,592,908</u>
Net income per share:				
Basic	\$ <u>.76</u>	\$ <u>.48</u>	\$ <u>1.78</u>	\$ <u>1.34</u>
Diluted	\$ <u>.71</u>	\$ <u>.45</u>	\$ <u>1.69</u>	\$ <u>1.26</u>

Common Shares Outstanding--A summary of the activity of the common shares outstanding for the nine months ended September 29, 2007 follows:

Shares outstanding at December 31, 2006	7,510,381
Shares purchased	(493,615)
Shares sold	184,945
Stock subscription offering -- cash purchases	50,170
Options exercised	<u>39,700</u>
	<u>(218,800)</u>
Shares outstanding at September 29, 2007	<u>7,291,581</u>

On September 29, 2007, the Company had 7,291,581 common shares outstanding, options exercisable to purchase 318,325 common shares, partially-paid subscriptions for 642,447 common shares and purchase rights outstanding for 247,932 common shares.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 29, 2007

(Amounts in thousands, except share data)

J. Net Income Per Share and Common Shares Outstanding (continued)

The partially-paid subscriptions relate to common shares purchased at \$12.00 per share, in connection with the stock subscription offering completed in August 2002, whereby some employees opted to finance their subscription with a down-payment of at least 10% of their total purchase price and a seven-year promissory note for the balance due, with interest at 4.75% per year. Promissory note payments, of both principal and interest, are made either by payroll deduction or annual lump-sum payment. The promissory notes are collateralized with the common shares subscribed and the common shares are only issued when the related promissory note is paid-in-full. Dividends are paid on all unissued subscribed shares.

The purchase rights outstanding were granted to nonofficer employees to purchase one additional common share at the price of \$12.00 per share for every two common shares purchased in connection with the stock subscription offering completed in August 2002. Each right may be exercised at the rate of one-seventh per year and will expire seven years after the date that the right was granted. Employees may not exercise a right should they cease to be employed by the Company.

K. Segment Information

The Company's operating results are reported in two segments: Residential and Commercial Services, and Utility Services.

Residential and Commercial Services provides for the treatment, preservation, maintenance, cultivation, planting and removal of trees, shrubs and other plant life; its services also include the practice of landscaping, tree surgery, tree feeding, and tree spraying, as well as the application of fertilizer, herbicides and insecticides. Utility Services is principally engaged in the practice of line clearing for investor-owned and municipal utilities, including the clearing of tree growth from power lines, clearance of rights-of-way and chemical brush control. Davey Resource Group, which provides services related to natural resource management and consulting, forestry research and development, and environmental planning and also maintains research, technical support and laboratory diagnostic facilities, is a nonreportable segment and, along with other operating activities, are included in "All Other."

Measurement of Segment Profit and Loss and Segment Assets--The Company evaluates performance and allocates resources based primarily on operating income and also actively manages business unit operating assets. Segment information, including reconciling adjustments, is presented consistently with the basis described in the 2006 Annual Report.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 29, 2007

(Amounts in thousands, except share data)

K. Segment Information (continued)

Segment information reconciled to consolidated external reporting information follows:

	<u>Utility Services</u>	<u>Residential Commercial Services</u>	<u>All Other</u>	<u>Reconciling Adjustments</u>	<u>Consolidated</u>
Three Months Ended September 29, 2007					
Revenues	\$ 63,480	\$ 61,810	\$ 9,010	\$ -	\$ 134,300
Income (loss) from operations	<u>3,550</u>	<u>6,873</u>	<u>175</u>	(1,021)	9,577
Interest expense				(947)	(947)
Interest income				115	115
Other income (expense), net				<u>(147)</u>	<u>(147)</u>
Income before income taxes					<u>\$ 8,598</u>
Three Months Ended September 30, 2006					
Revenues	\$ 58,409	\$ 58,634	\$ 5,854	\$ -	\$ 122,897
Income (loss) from operations	<u>651</u>	<u>6,163</u>	<u>1,388</u>	(1,355)	6,847
Interest expense				(749)	(749)
Interest income				107	107
Other income (expense), net				<u>(547)</u>	<u>(547)</u>
Income before income taxes					<u>\$ 5,658</u>
Nine Months Ended September 29, 2007					
Revenues	\$ 182,607	\$ 170,900	\$ 28,014	\$ -	\$ 381,521
Income (loss) from operations	<u>11,884</u>	<u>16,585</u>	<u>(439)</u>	(2,787)	25,243
Interest expense				(2,875)	(2,875)
Interest income				334	334
Other income (expense), net				<u>(491)</u>	<u>(491)</u>
Income before income taxes					<u>\$ 22,211</u>
Nine Months Ended September 30, 2006					
Revenues	\$ 176,112	\$ 160,149	\$ 20,340	\$ -	\$ 356,601
Income (loss) from operations	<u>6,934</u>	<u>14,175</u>	<u>1,951</u>	(2,459)	20,601
Interest expense				(2,190)	(2,190)
Interest income				231	231
Other income (expense), net				<u>(1,190)</u>	<u>(1,190)</u>
Income before income taxes					<u>\$ 17,452</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(Amounts in thousands, except share data)

We provide a wide range of horticultural services to residential, commercial, utility and institutional customers throughout the United States and Canada.

Our operating results are reported in two segments: Residential and Commercial Services and Utility Services for operations in the United States and Canada. Residential and Commercial Services provides for the treatment, preservation, maintenance, cultivation, planting and removal of trees, shrubs and other plant life; its services also include the practice of landscaping, tree surgery, tree feeding and tree spraying, as well as the application of fertilizer, herbicides and insecticides. Utility Services is principally engaged

in the practice of line clearing for investor-owned and municipal utilities, including the clearing of tree growth from power lines, clearance of rights-of-way and chemical brush control.

Davey Resource Group, which provides services related to natural resource management and consulting, forestry research and development, and environmental planning and also maintains research, technical support and laboratory diagnostic facilities, is a nonreportable segment and, along with other operating activities, are included in "All Other."

RESULTS OF OPERATIONS

The following table sets forth our consolidated results of operations as a percentage of revenues.

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Revenues	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Operating	63.7	65.7	64.2	65.8
Selling	16.5	15.9	16.0	15.5
General and administrative	7.4	6.9	7.7	7.1
Depreciation and amortization	5.6	6.0	5.6	5.9
Gain on sale of assets, net	<u>(.3)</u>	<u>-</u>	<u>(.1)</u>	<u>(.1)</u>
Income from operations	7.1	5.5	6.6	5.8
Other income (expense):				
Interest expense	(.7)	(.6)	(.8)	(.6)
Interest income	.1	.1	.1	-
Other, net	<u>(.1)</u>	<u>(.4)</u>	<u>(.1)</u>	<u>(.3)</u>
Income before income taxes	6.4	4.6	5.8	4.9
Income taxes	<u>2.2</u>	<u>1.5</u>	<u>2.1</u>	<u>1.9</u>
Net income	<u>4.2%</u>	<u>3.1%</u>	<u>3.7%</u>	<u>3.0%</u>

Results of Operations--Third Quarter--Three Months Ended September 29, 2007 Compared to Three Months Ended September 30, 2006

Revenues--Consolidated revenues of \$134,300 increased \$11,403 compared with \$122,897 in the third quarter 2006. Utility Services increased \$5,071 or 8.7% compared with the third quarter 2006. Increases in existing contracts and new contracts primarily in our western and Canadian utility operations were partially offset by reductions in an existing contract in the southeastern United States and customer-imposed budget restrictions on another contract within our eastern utility operations. Residential and Commercial Services increased \$3,176 or 5.4% from the comparable period last year. Increased consumer demand for our services coupled with new and expanded operations and favorable weather conditions account for the increase. The remaining change between consolidated revenues and segment revenues, an increase of \$3,156, occurred in all other.

Operating Expenses--Consolidated operating expenses of \$85,532 increased \$4,797 compared with the third quarter 2006 but, as a percentage of revenues, decreased to 63.7% from 65.7%, primarily due to better margins. Utility Services increased \$1,737 or 3.8% compared with the third quarter 2006. Increases in labor, equipment, crew travel and subcontractor expense in our western and Canadian utility operations were partially offset by reductions in labor and crew expenses in our eastern utility operations, the result of contract reductions and customer-imposed budget restrictions. Residential and Commercial Services increased \$591 or 1.9% compared with 2006. Labor, equipment and subcontractor expense associated with the increased revenue account for the increase. The remaining change between consolidated operating expenses and segment operating expenses was an increase of \$2,469.

Utility Services costs, in all categories including operating expenses, were higher because of the negative impact of one contract in California. Initially, operating results on this contract were negatively affected by weather factors giving rise to excess vegetation and tree growth. In prior periods, operating losses included provision for anticipated loss. The original three-year term of this contract ended June 30, 2007, with the customer exercising the first of three one-year options. The extension period terminates on June 30, 2008 with two one-year options remaining thereafter. Because of managerial and production efforts and changes in subcontracting, operating results on this contract improved by approximately \$400 during the third quarter 2007, over the third quarter 2006 operating results. In addition, third quarter 2007 operating results on this contract have been favorably affected, most recently, by weather and resultant tree growth patterns. Presently, management believes that future losses on this contract will be minimized.

Selling Expenses--Consolidated selling expenses of \$22,094 for the third quarter increased \$2,577 over the third quarter 2006 and as a percentage of revenues increased .6% to 16.5%. Utility Services experienced an increase of \$592 or 11.4% over the same period last year, primarily for field management wages and travel. Residential and Commercial Services experienced an increase of \$1,625 or 11.1% over the third quarter 2006. The increase is attributable to increased field management wages and incentives expense, travel and office rent and utility expense associated with the expanded operations and increased revenues. The remaining change between consolidated selling expenses and segment selling expenses was an increase of \$360.

General and Administrative Expenses--General and administrative expenses of \$9,946 increased \$1,508 from \$8,438 in the third quarter 2006 and as a percentage of revenues, increased .5% to 7.4%. The increase is attributable to an increase in salary and incentive expense, professional services, travel expense and employee education and training.

Depreciation and Amortization Expense--Depreciation and amortization expense of \$7,565 increased \$160 from \$7,405 in the third quarter 2006, but as a percentage of revenues decreased .4% to 5.6%. The increase is attributable to additional capital expenditures for buildings, purchases of businesses and equipment necessary to support the increase in business levels.

Gain on the Sale of Assets, Net--Gain on the sale of assets of \$414 increased \$369 from the \$45 experienced in the third quarter of 2006. The increase is the result of additional units disposed of in the third quarter of 2007 as compared to the third quarter of 2006.

Interest Expense--Interest expense of \$947 increased \$198 from the \$749 incurred in the third quarter 2006. The increase is the result of higher debt levels and higher interest rates on our bank borrowings as compared to the third quarter 2006.

Income Taxes--Income tax expense for the third quarter was \$2,948, as compared to \$1,909 for the third quarter 2006, with the increase arising primarily from higher pretax income. The effective tax rate was 34.3% for the third quarter 2007, as compared to 33.7% for third quarter 2006.

Net Income--Net income for the third quarter of \$5,650 was \$1,901 more than the \$3,749 in the third quarter 2006 and as a percentage of revenues, increased 1.1% to 4.2%.

Results of Operations--Nine Months Ended September 29, 2007 Compared to Nine Months Ended September 30, 2006

Revenues--Consolidated revenues of \$381,521 increased \$24,920 compared with \$356,601 in the first nine months of 2006. Utility Services increased \$6,495 or 3.7% compared with the first nine months of 2006. Increases in existing contracts and new contracts primarily in our western and Canadian utility operations were partially offset by reductions in an existing contract in the southeastern United States and customer-imposed budget restrictions on another contract within our eastern utility operations. Residential and Commercial Services increased \$10,751 or 6.7% from the comparable period last year. Increased consumer demand for our services coupled with new and expanded operations, favorable weather conditions and storm-related work in the northwestern and northeastern parts of the United States account for the increase. The remaining change between consolidated revenues and segment revenues, an increase of \$7,674, occurred in all other.

Operating Expenses--Consolidated operating expenses of \$245,108 increased \$10,320 compared with the first nine months of 2006 and, as a percentage of revenues, decreased 1.6% to 64.2%. Utility Services decreased \$324 or .2% compared with the first nine months of 2006. Reductions in labor expense, the result of contract reductions and customer-imposed budget restrictions in our eastern utility operations, were partially offset by increases in labor, subcontractor and crew travel expense in our western and Canadian utility operations. Residential and Commercial Services increased \$4,505 or 5.2% compared with the first nine months of 2006. Labor, equipment, tool, and subcontractor expense associated with the increased revenue account for the increase. The remaining change between consolidated operating expenses and segment operating expenses was an increase of \$6,139.

Utility Services costs, in all categories including operating expenses, were higher because of the negative impact of one contract in California. Initially, operating results on this contract were negatively affected by weather factors giving rise to excess vegetation and tree growth. In prior periods, operating losses included provision for anticipated loss. The original three-year term of this contract ended June 30, 2007, with the customer exercising the first of three one-year options. The extension period terminates on June 30, 2008 with two one-year options remaining thereafter. Because of managerial and production efforts and changes in subcontracting, operating results on this contract improved during the first nine months of 2007 as compared with the first nine months of 2006. In addition, operating results on this contract have been favorably affected, most recently, by weather and resultant growth patterns. Presently, management believes that future losses on this contract will be minimized.

Selling Expenses--Consolidated selling expenses of \$60,942 increased \$5,767 over the first nine months of 2006 and as a percentage of revenues increased .5% to 16.0%. Utility Services experienced an increase of \$1,324 or 8.4% over the same period last year, primarily for field management wages and incentives, travel expense and employee development and training expense. Residential and Commercial Services experienced an increase of \$3,176 or 7.9% over the first nine months of 2006. The increase is attributable to increased field management wages and incentives expense, auto expense, rent and marketing expenses. The remaining change between consolidated selling expenses and segment selling expenses was an increase of \$1,267.

General and Administrative Expenses--General and administrative expenses of \$29,224 increased \$3,844 from \$25,380 in the first nine months of 2006 and as a percentage of revenues, increased .6% to 7.7%. The increase is attributable to an increase in salary and incentive expense, stock-based compensation expense and pension expense as compared to the first nine months of 2006.

Depreciation and Amortization Expense--Depreciation and amortization expense of \$21,421 increased \$513 from \$20,908 in the first nine months of 2006, but as a percentage of revenues decreased .3% to 5.6%. The increase is attributable to additional capital expenditures for buildings, purchases of businesses and equipment necessary to support the increase in business levels.

Gain on the Sale of Assets, Net--Gain on the sale of assets of \$417 increased \$166 from the \$251 experienced in the first nine months of 2006. The increase is the result of additional units disposed of in the third quarter of 2007 as compared to the third quarter of 2006.

Interest Expense--Interest expense of \$2,875 increased \$685 from the \$2,190 incurred in the first nine months of 2006. The increase is the result of higher debt levels and higher interest rates on our bank borrowings as compared to the first nine months of 2006.

Income Taxes--Income tax expense of \$8,189 increased \$1,575 from the \$6,614 in the first nine months of 2006. The effective tax rate for the first nine months of 2007 was 36.9% as compared to 37.9% for the first nine months of 2006.

Net Income--Net income for the first nine months of 2007 of \$14,022 was \$3,184 more than the \$10,838 experienced in the first nine months of 2006.

Canadian Dollar Translation Adjustments and Rate-Change Effects

Currency Translation Adjustments--All assets and liabilities of the Company's Canadian operations are translated into United States dollars at balance-sheet date exchange rates while revenues and expenses are translated at weighted-average exchange rates in effect during the interim periods of operations reported. Currency translation adjustments are a component of other comprehensive income or loss and are recorded as accumulated other comprehensive loss in shareholders' equity.

Canadian Dollar Rate-Change Effects--During the first nine months of 2007, the Canadian dollar strengthened in relation to the United States dollar. As a result, the weighted-average exchange rate for the first nine months of 2007 compared favorably with the exchange rates that existed for the comparable period of 2006.

It is not possible to precisely measure the impact on operating results from Canadian dollar exchange rate changes. However, if Canadian operating results for the nine-months ended September 29, 2007 were translated at the exchange rates in effect during the comparable period of 2006, revenues would have been approximately \$1,250 lower and income from operations would have been approximately \$150 lower.

The effect of exchange rate changes on cash balances held in Canadian dollars was not significant.

LIQUIDITY AND CAPITAL RESOURCES

Our principal financial requirements are for capital spending, working capital and business acquisitions.

Cash Flow Summary

Our cash flows from operating, investing and financing activities, as reflected in the Condensed Consolidated Statements of Cash Flows for the nine months ended September 29, 2007 and September 30, 2006, are summarized as follows:

	<u>2007</u>	<u>2006</u>
Cash provided by (used in):		
Operating activities	\$ 31,307	\$ 23,533
Investing activities	(35,717)	(29,964)
Financing activities	<u>3,283</u>	<u>3,326</u>
Decrease in cash	<u>\$ (1,127)</u>	<u>\$ (3,105)</u>

Cash Provided by Operating Activities--Cash provided by operating activities for the first nine months of 2007 increased \$7,774 as compared to the first nine months of 2006. The increase was primarily attributable to a \$3,184 net income increase, \$4,077 less cash used by changes in operating assets and liabilities and a \$513 increase in depreciation and amortization.

Accounts receivable increased \$16,086 during the first nine months of 2007. The increase arises primarily from business seasonality. With respect to the change in accounts receivable, the "days-sales-outstanding" in accounts receivable ("DSO") at the end of the third quarter 2007 decreased one day to 59 days, as compared with the third quarter 2006. The DSO at September 30, 2006 was 60 days.

Accounts payable and accrued expenses increased \$3,867 during the first nine months of 2007 as compared with the first nine months of 2006. Increases in employee compensation, self-insured medical claims, vacation accruals and tax liabilities were partially offset by decreases in trade payables. Self-insurance accruals increased \$9,120 in the first nine months of 2007, which was \$1,931 less than the increase of \$11,051 experienced in the first nine months of 2006. The increase occurred in all classifications -- workers' compensation, general liability and vehicle liability--and resulted primarily from an overall increase in deductible amounts under commercial insurance or the self-insured risk retention.

Operating assets, net decreased \$619 during the first nine months of 2007. The increase is attributable to increases in prepaid expenses and deposits related to insurance coverage.

Cash Used In Investing Activities--Cash used in investing activities increased by \$5,753 during the first nine months of 2007 as compared with the first nine months of 2006, primarily due to higher expenditures for the purchase of businesses as well as additional purchases of land and buildings necessary to support our operations. We anticipate that capital expenditures in 2007 will exceed that of 2006.

Cash Provided by Financing Activities--Cash provided by financing activities decreased by \$43 during the first nine months of 2007 as compared with the first nine months of 2006. Our revolving credit facility provided \$5,400 more in the first nine months of 2007 compared with the first nine months of 2006. We use the credit facility primarily for capital expenditures and payments of notes payable, primarily related to acquisitions completed in prior periods. Treasury share transactions (purchases and sales) used \$5,436 more than the \$1,418 used in the first nine months of 2006. Dividends paid increased to \$1,903 as compared with \$1,868 paid in the first nine months of 2006.

Revolving Credit Facility--We have a \$147,000 revolving credit facility with a group of banks, which will expire in December 2011 and permits borrowings, as defined, up to \$147,000 with a letter of credit sublimit of \$100,000. The revolving credit facility contains certain affirmative and negative covenants customary for this type of facility and includes financial covenant ratios, as defined, with respect to

funded debt to EBITDA (earnings before interest, taxes, depreciation and amortization), and funded debt to capitalization.

As of September 29, 2007, our unused commitments under the facility approximated \$51,375, with \$95,625 committed, consisting of borrowings of \$45,000 and issued letters of credit of \$50,625. Borrowings outstanding bear interest, at the Company's option, at the agent bank's prime rate or LIBOR plus a margin adjustment ranging from .65% to 1.45%, based on a ratio of funded debt to EBITDA. A commitment fee ranging from .11% to .19% is also required based on the average daily unborrowed commitment.

Off-Balance Sheet Arrangements

There are no "off-balance sheet arrangements" as that term is defined in Securities and Exchange Commission ("SEC") Regulation S-K, Item 303(a)(4)(ii).

Contractual Obligations Summary

The following is a summary of our long-term contractual obligations, as at September 29, 2007, to make future payments for the periods indicated.

Description	Total	Three Months Ending December 31,	Year Ending December 31,				Thereafter
		2007	2008	2009	2010	2011	
Revolving credit facility	\$ 45,000	\$ -	\$ -	\$ -	\$ -	\$ 45,000	\$ -
Term loans	5,849	1,152	3,059	953	535	150	-
Capital lease obligations	1,067	125	498	444	-	-	-
Operating lease obligations	6,241	739	2,082	1,294	896	575	655
Self-insurance accruals	44,267	5,048	15,411	10,771	6,603	3,096	3,338
Other liabilities	<u>2,548</u>	<u>784</u>	<u>635</u>	<u>586</u>	<u>298</u>	<u>213</u>	<u>32</u>
	<u>\$104,972</u>	<u>\$ 7,848</u>	<u>\$ 21,685</u>	<u>\$ 14,048</u>	<u>\$ 8,332</u>	<u>\$ 49,034</u>	<u>\$ 4,025</u>

The self-insurance accruals in the summary above reflect the total of the undiscounted amount accrued as at September 29, 2007 and amounts estimated to be due each year may differ from actual payments required to fund claims. Other liabilities include estimates of future funding requirements related to retirement plans and other items. Because their future cash outflows are uncertain, noncurrent deferred taxes and liability for uncertain tax positions have been excluded from the summary above.

As of September 29, 2007, we were contingently liable for letters of credit in the amount of \$51,724, of which \$50,625 is committed under the revolving credit facility. Substantially all of these letters of credit, which expire within a year, are planned for renewal as necessary.

Also, as is common in our industry, we have performance obligations that are supported by surety bonds, which expire during 2007 through 2009. We intend to renew the surety bonds where appropriate and as necessary.

Capital Resources

Cash, generated from operations, and our revolving credit facility are our primary sources of capital.

Business seasonality results in higher revenues during the second and third quarters as compared with the first and fourth quarters of the year, while our methods of accounting for fixed costs, such as depreciation expense, are not significantly impacted by business seasonality. Capital resources during these periods are equally affected. We satisfy seasonal working capital needs and other financing requirements with the revolving credit facility and two other short-term lines of credit. We are continually reviewing our existing sources of financing and evaluating alternatives. At September 29, 2007, we had working capital of \$40,813, short-term lines of credit approximating \$8,208 and \$51,375 available under our revolving credit facility.

Our sources of capital presently allow us the financial flexibility to meet our capital-spending plan and to complete business acquisitions.

New Accounting Pronouncements

New Accounting Pronouncement Adopted--Effective January 1, 2007, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement No. 109, "Accounting for Income Taxes" ("FIN 48"). The adoption of FIN 48 had no effect on our results of operations or financial position.

New Accounting Pronouncement Requiring Adoption in 2008--In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 establishes a common definition for fair value to be applied to U.S. GAAP requiring use of fair value, establishes a framework for measuring fair value, and expands presentations about such fair value measurements. The Company is required to adopt FAS 157 in 2008 and is currently assessing the impact of FAS 157 on its consolidated financial statements.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented.

On an ongoing basis, we evaluate our estimates and assumptions, including those related to accounts receivable, specifically those receivables under contractual arrangements primarily arising from Utility Services customers; allowance for doubtful accounts; and self-insurance accruals. We base our estimates on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

We believe the following are our "critical accounting policies and estimates"--those most important to the financial presentations and those that require the most difficult, subjective or complex judgments.

Revenue Recognition--Revenues from Residential and Commercial Services are recognized as the services are provided and amounts are determined to be collectible. Revenues from contractual arrangements, primarily with Utility Services customers, are recognized based on costs incurred to total estimated contract costs. Changes in estimates and assumptions related to total estimated contract costs may have a material effect on the amounts reported as receivables arising from contractual arrangements and the corresponding amounts of revenues and profit.

Utility Services Customers--We generate a significant portion of revenues and corresponding accounts receivable from our customers in the utility industry. One Utility Services customer approximated 9% of revenues during 2006, 12% during 2005 and 13% during 2004. Adverse conditions in the utility industry or individual utility customer operations may affect the collectibility of our receivables or our ability to generate ongoing revenues.

Allowance for Doubtful Accounts--In determining the allowance for doubtful accounts, we evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us (e.g., bankruptcy filings), we record a specific allowance for doubtful accounts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize allowances for doubtful accounts based on the length of time the receivables are past due. If circumstances change (e.g., unexpected material adverse changes in a major customer's ability to meet its financial obligation to us or higher than expected customer defaults), our estimates of the recoverability of amounts could differ from the actual amounts recovered.

Self-Insurance Accruals--We are generally self-insured for losses and liabilities related primarily to workers' compensation, vehicle liability and general liability claims. We use commercial insurance as a risk-reduction strategy to minimize catastrophic losses. We accrue ultimate losses based upon estimates of the aggregate liability for claims incurred using certain actuarial assumptions followed in the insurance industry and based on our specific experience. Our self-insurance accruals include claims for which the ultimate losses will develop over a period of years. Accordingly, our estimates of ultimate losses can change as claims mature. Our accruals also are affected by changes in the number of new claims incurred and claim severity. The methodology for estimating ultimate losses and the total cost of claims were determined by third-party consulting actuaries; the resulting accruals are continually reviewed by us, and any adjustments arising from changes in estimates are reflected in income currently.

Our self-insurance accruals are based on estimates and, while we believe that the amounts accrued are adequate, the ultimate claims may be in excess of or less than the amounts provided.

Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, forward-looking statements may be identified by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to differ materially from what is expressed or implied in these forward-looking statements. Some important factors that could cause actual results to differ materially from those in the forward-looking statements include:

- Our business, other than tree services to utility customers, is highly seasonal and weather-dependent.
- Significant customers, particularly utilities, may experience financial difficulties, resulting in payment delays or delinquencies.
- The seasonal nature of our business and changes in general and local economic conditions, among other factors, may cause our quarterly results to fluctuate, and our prior performance is not necessarily indicative of future results.
- Significant increases in fuel prices for extended periods of time will increase our operating expenses.
- We have significant contracts with our utility, commercial and government customers that include liability risk exposure as part of those contracts. Consequently, we have substantial insurance, and increases in the cost of obtaining adequate insurance, or the inadequacy of our self-insurance accruals or insurance coverages, could negatively impact our liquidity.
- Because no public market exists for our common shares, the ability of shareholders to sell their common shares is limited.
- We are subject to intense competition.
- Our failure to comply with environmental laws could result in significant liabilities, fines and/or penalties.
- We may encounter difficulties obtaining surety bonds or letters of credit necessary to support our operations.
- We are dependent, in part, on our reputation of quality, integrity and performance. If our reputation is damaged, we may be adversely affected.
- We may be unable to attract and retain a sufficient number of qualified employees for our field operations, and we may be unable to attract and retain qualified management personnel.
- Our facilities could be damaged or our operations could be disrupted, or our customers or vendors may be adversely affected, by events such as natural disasters, pandemics, terrorist attacks or other external events.
- We may become subject to claims and litigation that may have an adverse effect on us.
- We may misjudge a competitive bid and be contractually bound to an unprofitable contract.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this quarterly report on Form 10-Q to conform these statements to actual future results.

The factors described above, as well as other factors that may adversely impact our actual results, are discussed in our annual report on Form 10-K for the year ended December 31, 2006 in “Item 1A. Risk Factors.”

Item 3. *Quantitative and Qualitative Disclosures about Market Risk.*

During the nine months ended September 29, 2007, there have been no material changes in the reported market risks presented in the Company’s annual report on Form 10-K for the year ended December 31, 2006.

Item 4. *Controls and Procedures.*

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 29, 2007.

During the quarter ended September 29, 2007, there were no significant changes in our internal control over financial reporting or in other factors that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

The Davey Tree Expert Company

Part II. Other Information

Items 1, 3, 4 and 5 are not applicable.

Item 1A. *Risk Factors.*

Information regarding risk factors appears in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Note Regarding Forward-Looking Statements,” in Part I – Item 2 of this Form 10-Q and in Part I – Item 1A of the Company’s annual report on Form 10-K for the year ended December 31, 2006. There have been no material changes from the risk factors described previously in the Company’s annual report on Form 10-K.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds.*

The following table provides information on purchases made by the Company of its common shares outstanding during the first nine months of 2007.

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</u>
Fiscal 2007				
January 1 to January 27	-	-	n/a	n/a
January 28 to February 24	-	-	n/a	n/a
February 25 to March 31	<u>47,685</u>	\$ 25.90	n/a	n/a
Total First Quarter	<u>47,685</u>	25.90		
April 1 to April 28	194,946	25.90	n/a	n/a
April 29 to May 26	117,064	25.90	n/a	n/a
May 27 to June 30	<u>79,911</u>	25.90	n/a	n/a
Total Second Quarter	<u>391,921</u>	25.90		
July 1 to July 28	-	-	n/a	n/a
July 29 to August 25	30,346	28.70	n/a	n/a
August 26 to September 29	<u>23,663</u>	28.70	n/a	n/a
Total Third Quarter	<u>54,009</u>	28.70		
Total Year to Date	<u><u>493,615</u></u>	26.21		

n/a--Not applicable. There are no publicly announced plans or programs of the Company to purchase its common shares.

Our common shares are not listed or traded on an established public trading market and market prices are, therefore, not available. Semiannually, for purposes of our 401KSOP, the fair market value of our common shares is determined by an independent stock valuation firm, based upon our performance and financial condition, using a peer group of comparable companies selected by that firm. The peer group currently consists of ABM Industries Incorporated, Comfort Systems USA, Inc., Dycom Industries, Inc., FirstService Corporation, Quanta Services, Inc., Rollins, Inc., and Scotts Miracle-Gro Company. The semiannual valuations are effective for a period of six months and the per share price established by those valuations is the price at which our Board of Directors has determined our common shares will be bought and sold during that six-month period in transactions involving the Company or one of its employee benefit or stock purchase plans. Since 1979, the Company has provided a ready market for all shareholders through its direct purchase of their common shares, although the Company is under no obligation to do so. The purchases listed above were added to the treasury stock of the Company.

Item 6. *Exhibits.*

See Exhibit Index page, below.

Signatures

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.

THE DAVEY TREE EXPERT COMPANY

Date: November 2, 2007

By: /s/ David E. Adante
David E. Adante
Executive Vice President, Chief Financial Officer and Secretary
(Principal Financial Officer)

Date: November 2, 2007

By: /s/ Nicholas R. Sucic
Nicholas R. Sucic
Vice President and Controller
(Principal Accounting Officer)

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>	
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed Herewith
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed Herewith
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished Herewith
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished Herewith

Certification

Certification of Chief Executive Officer

I, Karl J. Warnke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Davey Tree Expert Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2007

/s/ Karl J. Warnke

Karl J. Warnke
President and Chief Executive Officer

Certification

Certification of Chief Financial Officer

I, David E. Adante, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Davey Tree Expert Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2007

/s/ David E. Adante
David E. Adante
Executive Vice President, Chief Financial Officer
and Secretary

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Certification of Chief Executive Officer

I, Karl J. Warnke, President and Chief Executive Officer of The Davey Tree Expert Company (the "Company"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1.) The Quarterly Report on Form 10-Q of the Company for the period ended September 29, 2007 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2.) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2007

/s/ Karl J. Warnke
Karl J. Warnke
President and Chief Executive Officer

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Certification of Chief Financial Officer

I, David E. Adante, Executive Vice President, Chief Financial Officer and Secretary of The Davey Tree Expert Company (the "Company"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1.) The Quarterly Report on Form 10-Q of the Company for the period ended September 29, 2007 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2.) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2007

/s/ David E. Adante
David E. Adante
Executive Vice President, Chief Financial Officer
and Secretary