
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 October 3, 2009

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one):

☐ Large Accelerated Filer

☒ Accelerated Filer

☐ Non-Accelerated Filer

☐ Smaller Reporting Company

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 14,686,399 Common Shares, \$1.00 par value, outstanding (after stock split) as of October 30, 2009.

The Davey Tree Expert Company
Quarterly Report on Form 10-Q
October 3, 2009

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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 data dollar amounts)

| | October 3, 2009 | December 31, 2008 |
|---|----------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 1,823 | \$ 3,363 |
| Accounts receivable, net | 81,157 | 81,751 |
| Operating supplies | 5,354 | 5,520 |
| Prepaid expenses | 8,396 | 5,391 |
| Other current assets | 9,851 | 15,287 |
| Total current assets | 106,581 | 111,312 |
| Property and equipment | 398,892 | 385,576 |
| Less accumulated depreciation | 266,412 | 244,563 |
| | 132,480 | 141,013 |
| Other assets | 15,109 | 12,026 |
| Identified intangible assets and goodwill, net | 26,410 | 26,651 |
| | <u>\$ 280,580</u> | <u>\$ 291,002</u> |
| Liabilities and shareholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 21,820 | \$ 29,869 |
| Accrued expenses | 27,503 | 29,171 |
| Other current liabilities | 28,397 | 31,469 |
| Total current liabilities | 77,720 | 90,509 |
| Long-term debt | 48,881 | 60,187 |
| Self-insurance accruals | 45,260 | 34,950 |
| Other noncurrent liabilities | 10,721 | 10,573 |
| | 182,582 | 196,219 |
| Common shareholders' equity: | | |
| Common shares, \$1.00 par value, per share; 24,000 shares authorized; 21,457 shares issued | 21,457 | 21,457 |
| Additional paid-in capital | 30 | 4,848 |
| Common shares subscribed, unissued | 1,424 | 5,850 |
| Retained earnings | 163,398 | 153,464 |
| Accumulated other comprehensive loss | (6,944) | (9,633) |
| | 179,365 | 175,986 |
| Less: Cost of Common shares held in treasury; 6,621 shares at October 3, 2009 and 6,939 shares at December 31, 2008 | 81,290 | 80,356 |
| Common shares subscription receivable | 77 | 847 |
| | 97,998 | 94,783 |
| | <u>\$ 280,580</u> | <u>\$ 291,002</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)

| | <u>Three Months Ended</u> | | <u>Nine Months Ended</u> | |
|---|----------------------------|-------------------------------|----------------------------|-------------------------------|
| | <u>October 3, 2009</u> | <u>September 27, 2008</u> | <u>October 3, 2009</u> | <u>September 27, 2008</u> |
| Revenues | \$ 149,272 | \$ 173,559 | \$ 433,474 | \$ 447,984 |
| Costs and expenses: | | | | |
| Operating | 95,790 | 110,437 | 279,343 | 290,573 |
| Selling | 23,268 | 27,409 | 67,244 | 68,826 |
| General and administrative | 11,338 | 12,930 | 35,543 | 34,007 |
| Depreciation and amortization | 9,413 | 10,124 | 28,378 | 26,023 |
| Gain on sale of assets, net | (16) | (113) | (105) | (442) |
| | <u>139,793</u> | <u>160,787</u> | <u>410,403</u> | <u>418,987</u> |
| Income from operations | 9,479 | 12,772 | 23,071 | 28,997 |
| Other income (expense): | | | | |
| Interest expense | (587) | (980) | (1,837) | (2,599) |
| Interest income | 10 | 60 | 22 | 206 |
| Other, net | <u>(634)</u> | <u>(878)</u> | <u>(1,609)</u> | <u>(1,996)</u> |
| Income before income taxes | 8,268 | 10,974 | 19,647 | 24,608 |
| Income taxes | <u>3,303</u> | <u>4,080</u> | <u>7,780</u> | <u>9,425</u> |
| Net income | <u>\$ 4,965</u> | <u>\$ 6,894</u> | <u>\$ 11,867</u> | <u>\$ 15,183</u> |
| Net income per share: | | | | |
| Basic | <u>\$.33</u> | <u>\$.44</u> | <u>\$.80</u> | <u>\$.98</u> |
| Diluted | <u>\$.32</u> | <u>\$.42</u> | <u>\$.76</u> | <u>\$.92</u> |
| Weighted average shares outstanding: | | | | |
| Basic | <u>14,898</u> | <u>15,525</u> | <u>14,839</u> | <u>15,558</u> |
| Diluted | <u>15,565</u> | <u>16,603</u> | <u>15,681</u> | <u>16,531</u> |
| Dividends declared per share | <u>\$.043</u> | <u>\$.043</u> | <u>\$.128</u> | <u>\$.128</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 | |
|---|----------------------------|-------------------------------|
| | October 3, 2009 | September 27, 2008 |
| Operating activities | | |
| Net income | \$ 11,867 | \$ 15,183 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 28,378 | 26,023 |
| Other | 1,901 | 794 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 594 | (26,483) |
| Operating liabilities | (3,350) | 7,217 |
| Other | (1,456) | (5,146) |
| | <u>26,067</u> | <u>2,405</u> |
| Net cash provided by operating activities | 37,934 | 17,588 |
| Investing activities | | |
| Capital expenditures: | | |
| Equipment | (16,353) | (28,549) |
| Land and buildings | (311) | (751) |
| Purchases of businesses | (708) | (15,718) |
| Other | 336 | 713 |
| Net cash used in investing activities | (17,036) | (44,305) |
| Financing activities | | |
| Revolving credit facility proceeds, net | (10,950) | 34,150 |
| Purchase of common shares for treasury | (16,123) | (12,135) |
| Sale of common shares from treasury | 6,968 | 5,230 |
| Dividends | (1,933) | (2,050) |
| Other | (400) | 384 |
| Net cash (used in) provided by financing activities | (22,438) | 25,579 |
| Decrease in cash | (1,540) | (1,138) |
| Cash, beginning of period | <u>3,363</u> | <u>1,819</u> |
| Cash, end of period | <u>\$ 1,823</u> | <u>\$ 681</u> |
| Supplemental cash flow information follows: | | |
| Interest paid | \$ 1,944 | \$ 2,362 |
| Income taxes paid | <u>5,706</u> | <u>9,829</u> |
| Detail of acquisitions: | | |
| Assets acquired: | | |
| Cash | \$ - | \$ 55 |
| Receivables | - | 8,366 |
| Operating supplies | - | 1,090 |
| Prepaid expenses | - | 339 |
| Equipment | 653 | 27,062 |
| Deposits and other | - | 742 |
| Intangibles | 847 | 21,098 |
| Liabilities assumed | (42) | (22,648) |
| Debt issued for purchases of businesses | (750) | (5,639) |
| Common shares issued for purchase of business | - | (14,692) |
| Cash paid | <u>\$ 708</u> | <u>\$ 15,773</u> |

See notes to condensed consolidated financial statements.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 3, 2009

(Amounts in thousands, except share data)

A. Basis of Financial Statement Preparation

The condensed consolidated financial statements present the financial position, results of operations and cash flows of The Davey Tree Expert Company and its subsidiaries. “We,” “us,” “our,” “Davey,” “Davey Tree” and the “Company” means The Davey Tree Expert Company and its subsidiaries, unless the context indicates otherwise.

We have prepared the accompanying unaudited condensed consolidated financial statements 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. All significant intercompany accounts and transactions have been eliminated.

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. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements included in our annual report on Form 10-K for the year ended December 31, 2008 (the “2008 Annual Report”).

Evaluation of Subsequent Events--We evaluated subsequent events and transactions for potential recognition and presentation in the financial statements through the date the financial statements are being issued, November 4, 2009.

Stock Split, Per Common Share Information--All common share and per share data have been retroactively adjusted to recognize a two-for-one forward stock split of our common shares effective October 1, 2008.

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. Our consolidated financial statements include amounts that are based on management’s best estimates and judgments. Estimates are used for, but not limited to, accounts receivable valuation, self-insurance accruals, income taxes and revenue recognition. Actual results could differ from those estimates.

Interim Results of Operations--Interim results may not be indicative of calendar year performance because of seasonal and short-term variations.

New Accounting Standards Updates in the Nine Months Ended October 3, 2009

FASB ASC Topic 105, Generally Accepted Accounting Principles--In June 2009, the Financial Accounting Standards Board (the “FASB”) issued its final Statement of Financial Accounting Standards No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162” (“FAS 168”). FAS 168 established the Accounting Standards Codification (the “Codification” or “FASB ASC”) as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. SEC rules and interpretive releases are also sources of authoritative U.S. GAAP for SEC registrants. FAS 168 established two levels of U.S. GAAP – authoritative and nonauthoritative – and was incorporated into the Codification at FASB ASC Topic 105, “Generally Accepted Accounting Principles.”

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 3, 2009

(Amounts in thousands, except share data)

A. Basis of Financial Statement Preparation (continued)

The Codification supersedes all existing non-SEC accounting and reporting standards and was effective for us beginning July 5, 2009. As the Codification was not intended to change or alter existing U.S. GAAP, it did not affect our financial position, results of operations or cash flows.

The Codification simplifies user access to all authoritative accounting guidance by reorganizing U.S. GAAP pronouncements into a single source arranged by topic within a consistent structure. Following FAS 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates. The FASB will not consider Accounting Standards Updates as authoritative in their own right; these updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the changes in the Codification.

In the description of Accounting Standards Updates that follows, references relate to Codification Topics and their descriptive titles, as appropriate.

FASB ASC Topic 855, Subsequent Events--We adopted FASB ASC 855, "Subsequent Events," effective July 4, 2009. FASB ASC 855 sets forth principles and requirements for subsequent events; specifically: (a) the period after the balance-sheet date during which management shall evaluate events and transactions that may occur for potential recognition or presentation in the financial statements; (b) circumstances under which events or transactions occurring after the balance-sheet date are recognized; and, (c) information presented in the financial statements about events or transactions that occurred after the balance-sheet date. As indicated above, we evaluated subsequent events through the date of financial statement issuance. The adoption of FASB ASC 855 did not affect our financial position, results of operations or cash flows.

FASB ASC Topic 815, Derivatives and Hedging Activities--In March 2008, the FASB issued new guidance, which is now a part of FASB ASC 815, "Derivatives and Hedging Activities," requiring entities to provide enhanced reporting relating to: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedge items are accounted for under FAS 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133") and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. We adopted the new guidance effective January 1, 2009. The reporting requirements, applied prospectively, are included in Note M, "Financial Instruments and Fair Value Measurements."

FASB ASC Topic 825, Financial Instruments--We adopted the revisions to U.S. GAAP included in FASB ASC Topic 825, "Financial Instruments," effective July 4, 2009, which requires information about the fair value of financial instruments in interim reporting periods as well as annual financial statements. The required information is included in Note M, "Financial Instruments and Fair Value Measurements." The adoption of the revised guidance in FASB ASC Topic 825 did not affect our financial position, results of operations or cash flows.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 3, 2009

(Amounts in thousands, except share data)

A. Basis of Financial Statement Preparation (continued)

FASB ASC Topic 805, Business Combinations--We adopted the revisions to FASB ASC Topic 805, "Business Combinations," in the first quarter 2009. The revisions retain the previous underlying concepts in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting but the revisions changed the method of applying the acquisition method in a number of significant aspects. The adoption of the revised guidance in FASB Topic 805 did not have a material impact on our condensed consolidated financial statements.

FASB ASC Topic 350, Intangibles—Goodwill and Other--The revised guidance to FASB ASC Topic 350, "Intangibles—Goodwill and Other," amended the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The revised guidance was effective prospectively for intangibles acquired on or after January 1, 2009 and did not have a material effect on our financial position, results of operations or cash flows.

New Accounting Standards Update Not Yet Effective

FASB ASC 715, Compensation—Retirement Benefits--In December 2008, the FASB issued new guidance requiring enhanced information about the plan assets of a Company's defined benefit pension and other postretirement plans. The enhanced information required is intended to provide users of financial statements with a greater understanding of: (a) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies; (b) the major categories of plan assets; (c) the inputs and valuation techniques used to measure the fair value of plan assets; (d) the effect of fair value measurements using significant unobservable inputs (referred to as Level 3 inputs) on changes in plan assets for the period; and (e) significant concentrations of risk within plan assets. The new guidance, which is now part of FASB ASC 715, is effective for us as of our year end December 31, 2009.

B. Seasonality of Business

Due to the seasonality of our business, our operating results for the nine months ended October 3, 2009 are not indicative of results that may be expected for any other interim period or for the year ending December 31, 2009. Business seasonality is the result of traditionally 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, amortization, rent and interest expense, are not significantly impacted by business seasonality.

C. Business Combinations

We made an investment in one business during the nine months ended October 3, 2009 for an aggregate purchase price of \$1,458, including cash payment of \$708 and debt issued of \$750. Additional consideration for this acquisition is contingent upon continued employment, which is expensed as compensation over the employment period and not included in the purchase price.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 3, 2009

(Amounts in thousands, except share data)

C. Business Combinations (continued)

Acquired amortizable intangibles totaled \$441 and have estimated useful lives of between three and seven years. The excess of purchase price over the fair value of the net assets acquired was \$406 of goodwill and is classified in our consolidated balance sheets with identified intangible assets and goodwill, net. The purchase price allocation is preliminary and subject to revision, and any change to the fair value of net assets acquired will lead to a corresponding change to the purchase price allocable to goodwill.

The results of operations of the acquired business have been included in our consolidated results of operations from the acquisition-date forward. The effect of this acquisition on consolidated revenues and the results of operations for the nine months ended October 3, 2009 was not significant.

D. Accounts Receivable, Net

Our accounts receivable, net, consisted of the following:

| | October 3, 2009 | December 31, 2008 |
|--|----------------------------|------------------------------|
| Accounts receivable | \$ 70,862 | \$ 76,328 |
| Receivables under contractual arrangements | 12,326 | 7,858 |
| | 83,188 | 84,186 |
| Less allowances for doubtful accounts | 2,031 | 2,435 |
| | <u>\$ 81,157</u> | <u>\$ 81,751</u> |

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

E. Identified Intangible Assets and Goodwill, Net

The carrying amounts of the identified intangibles and goodwill acquired in connection with our investments in businesses were as follows:

| | October 3, 2009 | | December 31, 2008 | |
|---|----------------------------|-------------------------------------|----------------------------|-------------------------------------|
| | Carrying Amount | Accumulated Amortization | Carrying Amount | Accumulated Amortization |
| Identified Intangible Assets and Goodwill, Net | | | | |
| Amortized intangible assets: | | | | |
| Customer lists/relationships | \$ 9,177 | \$ 7,590 | \$ 8,971 | \$ 7,121 |
| Employment-related | 4,874 | 3,173 | 4,796 | 2,744 |
| Tradenames | 3,957 | 1,568 | 3,785 | 1,208 |
| Amortized intangible assets | \$ 18,008 | <u>\$ 12,331</u> | \$ 17,552 | <u>\$ 11,073</u> |
| Less accumulated amortization | 12,331 | | 11,073 | |
| Identified intangibles, net | 5,677 | | 6,479 | |
| Unamortized intangible assets: | | | | |
| Goodwill | 20,733 | | 20,172 | |
| | <u>\$ 26,410</u> | | <u>\$ 26,651</u> | |

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 3, 2009

(Amounts in thousands, except share data)

F. Long-Term Debt

Our long-term debt consisted of the following:

| | October 3, 2009 | December 31, 2008 |
|---------------------------|----------------------------|------------------------------|
| Revolving credit facility | | |
| Prime rate borrowings | \$ 4,500 | \$ 3,700 |
| LIBOR borrowings | 36,000 | 47,000 |
| Term loan | 5,000 | 5,750 |
| | <u>45,500</u> | <u>56,450</u> |
| Term loans | 12,752 | 11,101 |
| | <u>58,252</u> | <u>67,551</u> |
| Less current portion | 9,371 | 7,364 |
| | <u><u>\$ 48,881</u></u> | <u><u>\$ 60,187</u></u> |

Revolving Credit Facility--We have a \$159,000 revolving credit facility with a group of banks, which will expire in December 2011 and permits borrowings, as defined, up to \$159,000 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. The \$5,000 term loan included in the credit facility requires quarterly principal installments of \$250, plus interest, and was a \$7,000 seven-year term loan when entered into in November 2007.

As of October 3, 2009, we had unused commitments under the facility approximating \$54,574, with \$104,426 committed, consisting of borrowings of \$45,500 (including the \$5,000 term loan) and issued letters of credit of \$58,926. Borrowings outstanding bear interest, at Davey Tree'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.

G. Stock-Based Compensation

The Davey Tree Expert Company 2004 Omnibus Stock Plan (the "Stock Plan") was approved by our shareholders at our 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 10,000,000. 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.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 3, 2009

(Amounts in thousands, except share data)

G. Stock-Based Compensation (continued)

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

| | Three Months Ended | | Nine Months Ended | |
|--|----------------------------|-------------------------------|----------------------------|-------------------------------|
| | October 3, 2009 | September 27, 2008 | October 3, 2009 | September 27, 2008 |
| Compensation expense, all share-based payment plans | \$ 272 | \$ 252 | \$ 802 | \$ 927 |

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. We recognize compensation costs as payroll deductions are made. The 15% discount of total shares purchased under the plan resulted in compensation cost of \$275 being recognized for the nine months ended October 3, 2009 and \$236 for the nine months ended September 27, 2008.

Stock Option Plans--On January 1, 2006—when accounting standards regarding stock compensation changed—and through the end of the third quarter, October 3, 2009, we have granted 528,668 stock option awards. The stock option awards were granted at an exercise price equal to the fair market value of our common shares at the dates of grant. The stock options were awarded under a graded vesting schedule and the stock options 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 \$223 for the nine months ended October 3, 2009 and \$244 for the nine months ended September 27, 2008.

Stock-Settled Stock Appreciation Rights--During the nine months ended October 3, 2009, the Compensation Committee of the Board of Directors awarded 74,200 Stock-Settled Stock Appreciation Rights (“SSARs”) to certain management employees and 5,222 SSARs awarded to nonemployee directors, which vest ratably over five years. A stock-settled stock appreciation right is an award that allows the recipient to receive common stock equal to the appreciation in the fair market value of our common stock between the date the award was granted and the conversion date of the shares vested.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 3, 2009

(Amounts in thousands, except share data)

G. Stock-Based Compensation (continued)

The following table summarizes our SSARs as of October 3, 2009.

| Stock-Settled Stock Appreciation Rights | Number of Rights | Weighted- Average Award Date Value | Weighted- Average Remaining Contractual Life | Unrecognized Compensation Cost | Aggregate Intrinsic Value |
|--|-----------------------------|---|---|---|--|
| Unvested, January 1, 2009 | - | \$ - | | | |
| Granted | 79,422 | 2.82 | | | |
| Forfeited | - | - | | | |
| Vested | - | - | | | |
| Unvested, October 3, 2009 | <u>79,422</u> | <u>\$ 2.82</u> | <u>4.3 years</u> | <u>\$ 192</u> | <u>\$ 1,271</u> |
| Employee SSARs | <u>74,200</u> | <u>\$ 2.84</u> | <u>4.3 years</u> | <u>\$ 179</u> | <u>\$ 1,187</u> |
| Nonemployee Director SSARs | <u>5,222</u> | <u>\$ 2.56</u> | <u>4.7 years</u> | <u>\$ 13</u> | <u>\$ 84</u> |

Compensation costs for stock appreciation rights are determined using a fair-value method and amortized over the requisite service period. Compensation expense for stock appreciation rights was \$33 for the nine months ended October 3, 2009. There was no expense for stock appreciation rights in 2008.

Performance-Based Restricted Stock Units--During March 2009, the Compensation Committee of the Board of Directors awarded 30,856 Performance-Based Restricted Stock Units to certain management employees. The Compensation Committee made similar awards in prior periods. The awards vest over specified periods. The following table summarizes Performance-Based Restricted Stock Units as of October 3, 2009.

| Unvested Performance-Based Restricted Stock Units | Number of Stock Units | Weighted- Average Grant Date Value | Weighted- Average Remaining Contractual Life | Unrecognized Compensation Cost | Aggregate Intrinsic Value |
|--|----------------------------------|---|---|---|--|
| Unvested, January 1, 2009 | 123,980 | \$ 11.96 | | | |
| Granted | 30,856 | 15.23 | | | |
| Forfeited | - | - | | | |
| Vested | (9,396) | 7.85 | | | |
| Unvested, October 3, 2009 | <u>145,440</u> | <u>\$ 12.92</u> | <u>2.7 years</u> | <u>\$ 1,022</u> | <u>\$ 2,327</u> |

The fair value of the restricted stock units for awards made prior to January 1, 2006 is based on the market price of our common shares on the date of award and is recognized as compensation cost on the straight-line recognition method over the vesting period. 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 \$271 for the nine months ended October 3, 2009 and \$447 for the nine months ended September 27, 2008.

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(Amounts in thousands, except share data)

G. Stock-Based Compensation (continued)

For stock-based awards issued on or after January 1, 2006, we estimated the fair value of each award 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 our 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 October 3, 2009.

| | Number of Options Outstanding | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Life | Unrecognized Compensation Cost | Aggregate Intrinsic Value |
|------------------------------|--|---|---|---|--|
| Outstanding, January 1, 2009 | 1,330,550 | \$ 8.63 | | | |
| Granted | - | - | | | |
| Exercised | (116,599) | 7.88 | | | |
| Forfeited | - | - | | | |
| Outstanding, October 3, 2009 | <u>1,213,951</u> | <u>8.70</u> | <u>5.0 years</u> | <u>\$ 10,564</u> | <u>\$ 8,862</u> |
| Exercisable, October 3, 2009 | <u>1,029,951</u> | <u>8.24</u> | <u>4.7 years</u> | | <u>\$ 7,992</u> |

“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 October 3, 2009 is summarized below:

| Exercise Price | Number Outstanding | Weighted- Average Remaining Contractual Life | Weighted- Average Exercise Price | Number Exercisable | Weighted- Average Exercise Price |
|-----------------------|-------------------------------|---|---|-------------------------------|---|
| Employee options: | | | | | |
| \$ 6.75 | 716,483 | 4.2 years | \$ 6.75 | 716,483 | \$ 6.75 |
| 11.25 | <u>428,800</u> | 6.7 years | 11.25 | <u>244,800</u> | 11.25 |
| | 1,145,283 | 5.1 years | 8.43 | <u>961,283</u> | 7.90 |
| Director options: | | | | | |
| \$7.85 to \$16.40 | <u>68,668</u> | 3.4 years | 13.11 | <u>68,668</u> | 13.11 |
| | <u>1,213,951</u> | 5.0 years | 8.70 | <u>1,029,951</u> | 8.24 |

Common shares are issued from treasury upon the exercise of stock options, stock appreciation rights, restricted stock units or purchases under the Employee Stock Purchase Plan.

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(Amounts in thousands, except share data)

H. Net Periodic Benefit Cost--Defined Benefit Pension Plans

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

| | Three Months Ended | | Nine Months Ended | |
|--|----------------------------|-------------------------------|----------------------------|-------------------------------|
| | October 3, 2009 | September 27, 2008 | October 3, 2009 | September 27, 2008 |
| Components of pension cost | | | | |
| Service costs--increase in benefit obligation earned | \$ 29 | \$ 452 | \$ 88 | \$ 1,355 |
| Interest cost on projected benefit obligation | 397 | 415 | 1,190 | 1,245 |
| Expected return on plan assets | (371) | (561) | (1,113) | (1,684) |
| Amortization of net actuarial loss | 210 | 10 | 630 | 30 |
| Amortization of prior service cost | 3 | 8 | 10 | 23 |
| Amortization of transition asset | (18) | (18) | (52) | (52) |
| Net pension cost of defined-benefit pension plans | <u>\$ 250</u> | <u>\$ 306</u> | <u>\$ 753</u> | <u>\$ 917</u> |

Because of the deterioration in the global stock and financial markets during 2008, the value of the pension plan assets was negatively affected. Given the lower plan asset values and anticipated negative cash flow and increased pension costs in 2009 and beyond, during the fourth quarter 2008, our Board of Directors approved an amendment to freeze the Employee Retirement Plan and the Restoration Plan, effective December 31, 2008 and implement enhanced benefits to our defined contribution saving plan—The Davey 401KSOP and ESOP—effective January 1, 2009.

Employer Contributions--Contributions of \$108 were made to our defined-benefit pension plans during the nine months ended October 3, 2009. We expect, as of October 3, 2009, to make additional defined-benefit plan contributions totaling \$33 before December 31, 2009.

I. Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate and, if our estimated annual tax rate changes, we make a cumulative adjustment. The 2009 annual effective tax rate is estimated to be 39.6%. Our annual effective tax rate for 2008 was 40.1%.

At December 31, 2008 we had unrecognized tax benefits of \$1,910, of which \$1,310 would affect our effective rate if recognized, and accrued interest expense related to unrecognized benefits of \$220. At October 3, 2009, there were no significant changes in the unrecognized benefits, including the amount that would affect our effective tax rate if recognized, or the accrued interest expense related to the unrecognized tax benefits. Unrecognized tax benefits are the differences between a tax position taken, or expected to be taken in a tax return, and the benefit recognized for financial reporting purposes.

We do not anticipate that total unrecognized tax benefits will change significantly in the next 12 months, based on tax years open to examination.

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J. Comprehensive Income (Loss)

Comprehensive income (or loss) is comprised of net income (or net loss) and other components, including currency translation adjustments, changes in the fair value of interest rate contracts qualifying as cash flow hedges, and adjustments to defined-benefit pension plans. The components of comprehensive income (loss) follow:

| | Three Months Ended | | Nine Months Ended | |
|---|----------------------------|-------------------------------|----------------------------|-------------------------------|
| | October 3, 2009 | September 27, 2008 | October 3, 2009 | September 27, 2008 |
| Comprehensive Income | | | | |
| Net income | \$ 4,965 | \$ 6,894 | \$ 11,867 | \$ 15,183 |
| Other comprehensive income (loss) | | | | |
| Currency translation adjustments | 1,058 | (410) | 2,188 | (939) |
| Interest rate swaps, change in fair value | (201) | (29) | 221 | 108 |
| Defined benefit pension plans -- amortization of net actuarial loss, prior service cost and transition asset | 391 | - | 588 | - |
| Other comprehensive income (loss), before income taxes | 1,248 | (439) | 2,997 | (831) |
| Income tax benefit (expense), related to items of other comprehensive income | (72) | 11 | (308) | (41) |
| Other comprehensive income (loss) | 1,176 | (428) | 2,689 | (872) |
| Comprehensive income | <u>\$ 6,141</u> | <u>\$ 6,466</u> | <u>\$ 14,556</u> | <u>\$ 14,311</u> |

The following summarizes the components of other comprehensive income (loss) accumulated in shareholders' equity:

| | Currency Translation Adjustments | Interest Rate Swap Contracts | Defined Benefit Pension Plans | Accumulated Other Comprehensive Income/(Loss) |
|--|---|---|--|--|
| Balance at January 1, 2009 | <u>\$ (831)</u> | <u>\$ (1,057)</u> | <u>\$ (7,745)</u> | <u>\$ (9,633)</u> |
| Unrealized gains | 2,188 | - | - | 2,188 |
| Unrealized gains in fair value | - | 221 | - | 221 |
| Unrecognized amounts from defined benefit pension plans | - | - | 588 | 588 |
| Tax effect | - | (84) | (224) | (308) |
| Net of tax amount | <u>2,188</u> | <u>137</u> | <u>364</u> | <u>2,689</u> |
| Balance at October 3, 2009 | <u>\$ 1,357</u> | <u>\$ (920)</u> | <u>\$ (7,381)</u> | <u>\$ (6,944)</u> |

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K. Per Share Amounts and Common Shares Outstanding

We calculate our basic earnings per share by dividing net income or net loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated in a similar manner, but include the effect of dilutive securities. To the extent these securities are antidilutive, they are excluded from the calculation of earnings per share. The per share amounts were computed as follows (adjusted for the two-for-one stock split of our common shares effective October 1, 2008):

| | Three Months Ended | | Nine Months Ended | |
|--|----------------------------|-------------------------------|----------------------------|-------------------------------|
| | October 3, 2009 | September 27, 2008 | October 3, 2009 | September 27, 2008 |
| Income available to common shareholders: | | | | |
| Net income | <u>\$ 4,965</u> | <u>\$ 6,894</u> | <u>\$ 11,867</u> | <u>\$ 15,183</u> |
| Weighted-average shares: | | | | |
| Basic: | | | | |
| Outstanding | 14,837,934 | 15,254,261 | 14,661,089 | 14,750,984 |
| Partially-paid share subscriptions | 59,836 | 270,846 | 177,556 | 806,650 |
| Basic weighted-average shares | <u>14,897,770</u> | <u>15,525,107</u> | <u>14,838,645</u> | <u>15,557,634</u> |
| Diluted: | | | | |
| Basic from above | 14,897,770 | 15,525,107 | 14,838,645 | 15,557,634 |
| Incremental shares from assumed: | | | | |
| Exercise of stock subscription purchase rights | 104,190 | 335,925 | 243,593 | 311,070 |
| Exercise of stock options | 562,849 | 742,440 | 598,290 | 662,514 |
| Diluted weighted-average shares | <u>15,564,809</u> | <u>16,603,472</u> | <u>15,680,528</u> | <u>16,531,218</u> |
| Net income per share | | | | |
| Basic | <u>\$.33</u> | <u>\$.44</u> | <u>\$.80</u> | <u>\$.98</u> |
| Diluted | <u>\$.32</u> | <u>\$.42</u> | <u>\$.76</u> | <u>\$.92</u> |

Common Shares Outstanding--A summary of the activity of the common shares outstanding for the nine months ended October 3, 2009 follows:

| | |
|---|-------------------|
| Shares outstanding at December 31, 2008 | 14,518,044 |
| Shares purchased | (987,916) |
| Shares sold | 464,148 |
| Stock subscription offering -- cash purchases | 737,658 |
| Options exercised | 104,267 |
| | <u>318,157</u> |
| Shares outstanding at October 3, 2009 | <u>14,836,201</u> |

On October 3, 2009, we had 14,836,201 common shares outstanding, options exercisable to purchase 1,029,951 common shares and partially-paid subscriptions for 237,392 common shares. As at October 3, 2009, the stock subscription purchase rights referred to below were either exercised or, if unexercised, expired in August 2009.

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K. Per Share Amounts and Common Shares Outstanding (continued)

The partially-paid share subscriptions relate to common shares purchased at \$6.00 per share (after the October 2008 two-for-one stock split of our common shares), 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 by annual lump-sum payment or payroll deduction, either monthly or biweekly. The promissory notes are expected to be paid-in-full during the first quarter 2010 for stock subscription financing payments made by biweekly payroll deduction. All other promissory notes have been paid or, in a few instances, canceled. The promissory notes outstanding 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.

Stock subscription purchase rights were granted to employees (excluding directors, officers and certain operations management) to purchase one additional common share at the price of \$6.00 per share for every two common shares purchased in connection with the stock subscription offering completed in August 2002. Each right was exercisable at the rate of one-seventh per year and all stock subscription rights were either exercised or, if unexercised, expired in August 2009.

L. Operations by Business Segment

Our 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--We evaluate performance and allocate resources based primarily on operating income and also actively manage business unit operating assets. Segment information, including reconciling adjustments, is presented consistent with the basis described in the 2008 Annual Report.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
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(Amounts in thousands, except share data)

L. Operations by Business Segment (continued)

Segment information reconciled to consolidated external reporting information follows:

| | Utility Services | Residential Commercial Services | All Other | Reconciling Adjustments | Consolidated |
|--|-----------------------------|--|----------------------|------------------------------------|---------------------|
| Three Months Ended October 3, 2009 | | | | | |
| Revenues | \$ 75,091 | \$ 65,120 | \$ 9,061 | \$ - | \$ 149,272 |
| Income (loss) from operations | <u>3,956</u> | <u>5,741</u> | <u>658</u> | (876) (a) | 9,479 |
| Interest expense | | | | (587) | (587) |
| Interest income | | | | 10 | 10 |
| Other income (expense), net | | | | <u>(634)</u> | <u>(634)</u> |
| Income before income taxes | | | | | <u>\$ 8,268</u> |
| Segment assets, total | <u>119,712</u> | <u>101,537</u> | <u>11,920</u> | <u>47,411</u> | <u>280,580</u> |
| Three Months Ended September 27, 2008 | | | | | |
| Revenues | \$ 86,913 | \$ 77,368 | \$ 9,278 | \$ - | \$ 173,559 |
| Income (loss) from operations | <u>6,572</u> | <u>6,842</u> | <u>394</u> | (1,036) (a) | 12,772 |
| Interest expense | | | | (980) | (980) |
| Interest income | | | | 60 | 60 |
| Other income (expense), net | | | | <u>(878)</u> | <u>(878)</u> |
| Income before income taxes | | | | | <u>\$ 10,974</u> |
| Segment assets, total | <u>\$ 138,032</u> | <u>116,833</u> | <u>\$ 13,499</u> | <u>\$ 53,735</u> | <u>\$ 322,099</u> |
| Nine Months Ended October 3, 2009 | | | | | |
| Revenues | \$ 222,984 | \$ 179,888 | \$ 30,602 | \$ - | \$ 433,474 |
| Income (loss) from operations | <u>14,352</u> | <u>9,550</u> | <u>1,177</u> | (2,008) (a) | 23,071 |
| Interest expense | | | | (1,837) | (1,837) |
| Interest income | | | | 22 | 22 |
| Other income (expense), net | | | | <u>(1,609)</u> | <u>(1,609)</u> |
| Income before income taxes | | | | | <u>\$ 19,647</u> |
| Segment assets, total | <u>119,712</u> | <u>101,537</u> | <u>11,920</u> | <u>47,411</u> | <u>280,580</u> |
| Nine Months Ended September 27, 2008 | | | | | |
| Revenues | \$ 229,585 | \$ 188,994 | \$ 29,405 | \$ - | \$ 447,984 |
| Income (loss) from operations | <u>16,002</u> | <u>14,659</u> | <u>589</u> | (2,253) (a) | 28,997 |
| Interest expense | | | | (2,599) | (2,599) |
| Interest income | | | | 206 | 206 |
| Other income (expense), net | | | | <u>(1,996)</u> | <u>(1,996)</u> |
| Income before income taxes | | | | | <u>\$ 24,608</u> |
| Segment assets, total | <u>138,032</u> | <u>116,833</u> | <u>13,499</u> | <u>53,735</u> | <u>322,099</u> |

(a) Reconciling adjustments from segment reporting to consolidated external financial reporting include reclassification of depreciation expense and allocation of corporate expenses.

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M. Financial Instruments and Fair Value Measurements

On January 1, 2009, we fully adopted as required, FASB ASC Topic 820, "Fair Value Measurements," which had no effect on our financial position, results of operations or cash flows.

Valuation Hierarchy--FASB ASC Topic 820 establishes a valuation hierarchy for presentation of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Our assets and liabilities measured at fair value on a recurring basis subject to the presentation requirements of FASB ASC Topic 820 at October 3, 2009, were as follows:

| Description | Total Carrying Value at October 3, 2009 | Fair Value Measurements at October 3, 2009 Using: | | |
|---|--|--|--|--|
| | | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Assets: | | | | |
| Assets invested for self-insurance, classified as other assets, noncurrent | \$ 8,770 | \$ 8,770 | \$ - | \$ - |
| Liabilities: | | | | |
| Interest rate swaps, classified as accrued expenses | \$ 1,483 | \$ - | \$ 1,483 | \$ - |
| Deferred compensation | 761 | - | 761 | - |

Financial Instruments--We adopted the revisions to FASB ASC Topic 825, "Financial Instruments," effective July 4, 2009, which requires fair value information for financial instruments in interim reporting periods as well as annual financial statements.

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M. Financial Instruments and Fair Value Measurements (continued)

The fair values of our current assets and current liabilities approximate their reported carrying values because of their short-term nature. The fair value of our assets invested for self-insurance, consisting of money market savings account deposits, approximates the carrying value and is classified as other assets, noncurrent. Financial instruments classified as noncurrent liabilities and their carrying values and fair values are included in the following table.

| | October 3, 2009 | | December 31, 2008 | |
|--|---------------------------|-----------------------|---------------------------|-----------------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Revolving credit facility, noncurrent | 44,500 | 44,500 | 55,450 | 55,450 |
| Term loans, noncurrent | 4,381 | 4,365 | 4,737 | 4,703 |
| Total | <u>\$ 48,881</u> | <u>\$ 48,865</u> | <u>\$ 60,187</u> | <u>\$ 60,153</u> |

The carrying value of our revolving credit facility approximates fair value as the interest rates on the amounts outstanding are variable. The fair value of our term loans is determined based on expected future weighted average interest rates with the same remaining maturities.

Market Risk and Derivative Financial Instruments

In the normal course of business, we are exposed to market risk related to changes in foreign currency exchange rates and changes in interest rates. We do not hold or issue derivative financial instruments for trading or speculative purposes. We manage interest rate risk by using derivative financial instruments, specifically interest rate swaps.

Foreign Currency Rate Risk--We are exposed to market risk related to foreign currency exchange rate risk resulting from our operations in Canada, where we provide a comprehensive range of horticultural services. Our financial results could be affected by factors such as changes in the foreign currency exchange rate or differing economic conditions in the Canadian markets as compared with the markets for our services in the United States. Our earnings are affected by translation exposures from currency fluctuations in the value of the U.S. dollar as compared to the Canadian dollar. Similarly, the Canadian dollar-denominated assets and liabilities may result in financial exposure as to the timing of transactions and the net asset / liability position of our Canadian operations. Presently, we do not engage in hedging activities related to our foreign currency rate risk.

Interest Rate Risk--We are exposed to market risk related to changes in interest rates on long-term debt obligations. The interest rates on substantially all of our long-term debt outstanding are variable. We have entered into interest rate swap contracts -- derivative financial instruments--with the objective of altering interest rate exposures related to variable debt.

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(Amounts in thousands, except share data)

M. Financial Instruments and Fair Value Measurements (continued)

Interest Rate Swaps--As of October 3, 2009, we held interest rate swap contracts—cash-flow hedges—to effectively convert a portion of our variable-rate revolving credit borrowings to a fixed rate, thus reducing the impact of interest-rate changes on future interest expense. Under the contracts, we agree with the counterparty to exchange, at specified intervals, the difference between variable rate and fixed rate amounts calculated on a notional principal amount. These interest rate swaps have reset dates and fixed-rate indices that match those of our underlying variable-rate long-term debt and have been designated as cash-flow hedges for a portion of that debt. As all of the critical terms of our interest rate swap contracts match the debt to which they pertain, there was no ineffectiveness related to these interest rate swaps in 2008 or 2009 and all related unrealized gains and losses were deferred in accumulated other comprehensive income (loss). No material amounts were recognized in the results of operations related to our interest rate swaps during 2008 or 2009.

We had two interest rate swaps with the notional value totaling \$20,000 as of December 31, 2008 and, during the first quarter 2009, we entered into another interest rate swap, with the three interest rate swaps having a notional value totaling \$30,000 as of October 3, 2009. The following summarizes the amount of the long-term debt hedged (which is the notional principal amount of the interest rate swaps), the percentage of long-term debt hedged and the gross fair value of the asset / (liability) position of the interest rate swaps.

| | <u>October 3, 2009</u> | <u>December 31, 2008</u> |
|--|----------------------------|------------------------------|
| Amount of long-term debt hedged | \$ 30,000 | \$ 20,000 |
| Percentage of long-term debt | 61% | 33% |
| Gross fair value asset/(liability) position, classified as accrued expenses | \$ (1,483) | \$ (1,704) |

The following summarizes the amount of the gain recognized in other comprehensive income from the interest rate swaps for the nine months ended October 3, 2009 and September 27, 2008.

| | <u>Nine Months Ended October 3, 2009</u> | <u>September 27, 2008</u> |
|---|--|-------------------------------|
| Derivatives in cash-flow hedging relationship | | |
| Interest rate swaps | <u>\$ 221</u> | <u>\$ 108</u> |

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

(Amounts in thousands, except share data)

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided as a supplement to the accompanying condensed consolidated financial statements and notes to help provide an understanding of our financial condition, cash flows and results of operations.

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

Our Business--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 tables set forth our consolidated results of operations as a percentage of revenues and the percentage change in dollar amounts of the results of operations for the periods presented.

| | Three Months Ended | | | Nine Months Ended | | |
|-----------------------------------|--------------------|-----------------------|----------------------|--------------------|-----------------------|----------------------|
| | October 3, 2009 | September 27, 2008 | Percentage Change | October 3, 2009 | September 27, 2008 | Percentage Change |
| Revenues | 100.0% | 100.0% | (14.0%) | 100.0% | 100.0% | (3.2%) |
| Costs and expenses: | | | | | | |
| Operating | 64.2 | 63.7 | (13.3) | 64.4 | 64.8 | (3.9) |
| Selling | 15.6 | 15.8 | (15.1) | 15.5 | 15.4 | (2.3) |
| General and administrative | 7.6 | 7.4 | (12.3) | 8.2 | 7.6 | 4.5 |
| Depreciation and amortization | 6.3 | 5.8 | (7.0) | 6.6 | 5.8 | 9.0 |
| Gain on sale of assets, net | - | (.1) | nm | - | (.1) | nm |
| Income from operations | 6.3 | 7.4 | (25.8) | 5.3 | 6.5 | (20.4) |
| Other income (expense): | | | | | | |
| Interest expense | (.4) | (.6) | (40.1) | (.4) | (.6) | (29.3) |
| Interest income | - | - | nm | - | - | nm |
| Other, net | (.4) | (.5) | nm | (.5) | (.4) | nm |
| Income before income taxes | 5.5 | 6.3 | (24.7) | 4.4 | 5.5 | (20.2) |
| Income taxes | 2.2 | 2.3 | (19.0) | 1.8 | 2.1 | (17.5) |
| Net income | 3.3% | 4.0% | (28.0%) | 2.6% | 3.4% | (21.8%) |

nm--not meaningful

Third Quarter--Three Months Ended October 3, 2009 Compared to Three Months Ended September 27, 2008

Our results of operations for the three months ended October 3, 2009 compared to the three months ended September 27, 2008 follows:

| | Three Months Ended | | | |
|-----------------------------------|--------------------|-----------------------|-------------------|----------------|
| | October 3, 2009 | September 27, 2008 | Change | % Change |
| Revenues | \$ 149,272 | \$ 173,559 | \$ (24,287) | (14.0%) |
| Costs and expenses: | | | | |
| Operating | 95,790 | 110,437 | (14,647) | (13.3) |
| Selling | 23,268 | 27,409 | (4,141) | (15.1) |
| General and administrative | 11,338 | 12,930 | (1,592) | (12.3) |
| Depreciation and amortization | 9,413 | 10,124 | (711) | (7.0) |
| Gain on sale of assets, net | (16) | (113) | 97 | nm |
| | <u>139,793</u> | <u>160,787</u> | <u>(20,994)</u> | <u>(13.1)</u> |
| Income from operations | 9,479 | 12,772 | (3,293) | (25.8) |
| Other income (expense): | | | | |
| Interest expense | (587) | (980) | 393 | (40.1) |
| Interest income | 10 | 60 | (50) | nm |
| Other, net | (634) | (878) | 244 | nm |
| Income before income taxes | 8,268 | 10,974 | (2,706) | (24.7) |
| Income taxes | 3,303 | 4,080 | (777) | (19.1) |
| Net income | <u>\$ 4,965</u> | <u>\$ 6,894</u> | <u>\$ (1,929)</u> | <u>(28.0%)</u> |

nm--not meaningful

Revenues--Revenues of \$149,272 decreased \$24,287 compared with \$173,559 in the third quarter of 2008. Utility Services decreased \$14,239 or 8.8% compared with the third quarter of 2008, because of reductions on existing contracts, but also 2008 included incremental storm damage revenue of approximately \$7,000 arising from hurricane damage in the southern United States. Residential and Commercial Services decreased \$12,776 to \$135,894 from the third quarter of 2008. Reductions in tree surgery and landscape services in all residential and commercial operations due to lower customer demand, which is affected by current economic conditions, account for the decrease. Total consolidated revenue of \$149,272 includes production incentive revenue, recognized under the completed-performance method, of \$1,076 during the third quarter 2009 compared with \$972 during the third quarter 2008.

Operating Expenses--Operating expenses of \$95,790 decreased \$14,647 compared with the third quarter of 2008 and, as a percentage of revenues, increased .5% to 64.2%. Utility Services decreased \$11,114 or 9.2% compared with the third quarter of 2008. Decreases occurred in labor expense, employee benefits expense, fuel expense and material and tools expense, associated with the decrease in revenues, and were partially offset with increases in subcontractor expense and equipment expense. Residential and Commercial Services decreased \$9,041 or 11.8% compared with the third quarter 2008 and as a percentage of revenue decreased 1.8% to 49.5%. Reductions in labor expense, equipment expense, material expense, subcontractor expense, disposal expense and fuel expense account for the decrease.

Fuel costs declined during the third quarter 2009 as compared with fuel costs for the third quarter 2008 and impacted operating expenses within all segments. During the third quarter 2009, fuel expense of \$5,668 decreased \$4,082, or 42%, from the \$9,750 incurred in the third quarter 2008.

Selling Expenses--Selling expenses of \$23,268 decreased \$4,141 compared with the third quarter of 2008 and as a percentage of revenues decreased .2% to 15.6%. Utility Services experienced a decrease of \$2,258 or 16.0% from the third quarter of 2008. Reductions in field management wages and incentive expense, field management travel expense, vehicle expense, branch office expenses and employee development expenses account for the decrease. Residential and Commercial Services experienced a decrease of \$1,569 or 4.4% over the third quarter 2008. Decreases in field management wages and incentive expense, auto expense, branch office wages were partially offset by an increase in office rent and utilities expense.

General and Administrative Expenses--General and administrative expenses of \$11,338 decreased \$1,592 from \$12,930 in the third quarter of 2008. Decreases in salary and incentive expense, professional service expense, travel expense, personal development expense and pension expense were partially offset by increases in communications expense and postage expense.

Depreciation and Amortization Expense--Depreciation and amortization expense of \$9,413 decreased \$711 from \$10,124 in the third quarter of 2008 and, as a percentage of revenues, increased .5% to 6.3%. The decrease is attributable to a reduction in capital expenditures from the purchases of businesses and equipment.

Gain on the Sale of Assets, Net--Gain on the sale of assets of \$16 decreased \$97 from \$113 in the third quarter of 2008. The decrease is the result of fewer units being disposed in the third quarter of 2009 as compared with the third quarter of 2008.

Interest Expense--Interest expense of \$587 decreased \$393 from the \$980 incurred in the third quarter of 2008. The decrease is attributable to lower interest rates on bank borrowings and lower average debt levels during the third quarter 2009 as compared to the third quarter 2008.

Other, Net--Other, net, of \$634 decreased \$244 from the \$878 incurred in the third quarter of 2008, and consisted of nonoperating income and expense, primarily foreign currency gains and losses on the intercompany account balances of our Canadian operations.

Income Taxes--Income tax for the third quarter 2009 was \$3,303, as compared to \$4,080 for the third quarter of 2008. Our tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. The 2009 annual effective tax rate is estimated to be 39.6%. Our annual effective tax rate for 2008 was 40.1%.

Net Income--Net income for the third quarter of \$4,965 was \$1,929 less than the \$6,894 experienced in the third quarter of 2008.

Nine Months Ended October 3, 2009 Compared to Nine Months Ended September 27, 2008

Our results of operations for the nine months ended October 3, 2009 compared to the nine months ended September 27, 2008 follows:

| | Nine Months Ended | | | |
|-----------------------------------|--------------------|-----------------------|-------------------|----------------|
| | October 3, 2009 | September 27, 2008 | Change | % Change |
| Revenues | \$ 433,474 | \$ 447,984 | \$ (14,510) | (3.2%) |
| Costs and expenses: | | | | |
| Operating | 279,343 | 290,573 | (11,230) | (3.9) |
| Selling | 67,244 | 68,826 | (1,582) | (2.3) |
| General and administrative | 35,543 | 34,007 | 1,536 | 4.5 |
| Depreciation and amortization | 28,378 | 26,023 | 2,355 | 9.0 |
| Gain on sale of assets, net | (105) | (442) | 337 | nm |
| | <u>410,403</u> | <u>418,987</u> | <u>(8,584)</u> | <u>(2.0)</u> |
| Income from operations | 23,071 | 28,997 | (5,926) | (20.4) |
| Other income (expense): | | | | |
| Interest expense | (1,837) | (2,599) | 762 | (29.3) |
| Interest income | 22 | 206 | (184) | nm |
| Other, net | <u>(1,609)</u> | <u>(1,996)</u> | <u>387</u> | <u>nm</u> |
| Income before income taxes | 19,647 | 24,608 | (4,961) | (20.2) |
| Income taxes | <u>7,780</u> | <u>9,425</u> | <u>(1,645)</u> | <u>(17.5)</u> |
| Net income | <u>\$ 11,867</u> | <u>\$ 15,183</u> | <u>\$ (3,316)</u> | <u>(21.8%)</u> |

nm--not meaningful

Revenues--Revenues of \$433,474 decreased \$14,510 compared with \$447,984 in the first nine months of 2008. Utility Services decreased \$6,601 or 2.9% compared with the first nine months of 2008. Additional revenues of \$8,486 from a business acquired in March 2008 were offset by reduced revenue from reductions in existing contracts. Revenues for the first nine months of 2008 also included incremental storm damage work of approximately \$7,000 arising from hurricane damage in the southern United States. Residential and Commercial Services decreased \$9,106 to \$179,888 from the first nine months of 2008. Revenues of \$19,360 from a new business acquired in June 2008 were offset by reductions in tree surgery and landscape services in all other residential and commercial operations due to lower customer demand, which is affected by current economic conditions. Total consolidated revenue of \$433,474 includes production incentive revenue, recognized under the completed-performance method, of \$6,297 during the first nine months of 2009 compared with \$4,594 during the first nine months of 2008.

Operating Expenses--Operating expenses of \$279,343 decreased \$11,230 compared with the first nine months of 2008 and, as a percentage of revenues, decreased .4% to 64.4%. Utility Services decreased \$4,776 or 2.8% compared with the first nine months of 2008. Decreases in labor expense, employee benefits expense, fuel expense, material and tools expense and subcontractor expense associated with the decrease in revenues were partially offset by increases in equipment expense and disposal expense. Residential and Commercial Services decreased \$8,309 or 8.2% compared with the first nine months of 2008 and includes \$9,720 of expenses related to the business acquired in the second quarter of 2008. The additional expenses associated with the acquired businesses were offset by cost reductions in all other residential and commercial operations. Decreases in labor expense, material expense, fuel expense and subcontractor expense associated with the decrease in revenues was partially offset by an increase in equipment expense.

Fuel costs declined during the first nine months of 2009 as compared with fuel costs for the first nine months of 2008 and impacted operating expenses within all segments. During the first nine months of 2009, fuel expense of \$14,748 decreased \$8,760, or 37%, from the \$23,508 incurred in the first nine months of 2008.

Selling Expenses--Selling expenses of \$67,244 decreased \$1,582 over the first nine months of 2008 but as a percentage of revenues increased .1% to 15.5%. Utility Services experienced a decrease of \$2,291 or 11.3% from the first nine months of 2008. Reductions occurred in field management wages and incentive expense, vehicle expense, relocation expense, communication expense and employee development expense and travel expense with increases occurring in branch office wages and office rent and utilities expense. Residential and Commercial Services experienced a decrease of \$35 or .1% from the first nine months of 2008 and include \$5,023 related to the business acquired in the second quarter of 2008. The increase in expense related to the acquired business was offset by reductions in costs among all other residential and commercial operations. Decreases occurred in field management wages and incentive expense, auto expense, marketing expense, field management travel expenses and employee development expense with increases occurring in office rent and utilities expense and branch office wages.

General and Administrative Expenses--General and administrative expenses of \$35,543 increased \$1,536 from \$34,007 in the first nine months of 2008. The increase is attributable to an increase in salary and incentive expense, professional service expense and office rent and maintenance expense, partially offset by reductions in stock-based compensation expense, travel expense, office expense and pension expense. Excluding the business acquired in June 2008, total general and administrative expenses for the first nine months of 2009 would have approximated \$31,526 as compared with the first nine months of 2008 of \$34,007.

Depreciation and Amortization Expense--Depreciation and amortization expense of \$28,378 increased \$2,355 from \$26,023 in the first nine months of 2008 and, as a percentage of revenues, increased .7% to 6.5%. The increase is attributable to additional capital expenditures from the purchases of businesses and equipment in the first and second quarters of 2008.

Gain on the Sale of Assets, Net--Gain on the sale of assets of \$105 decreased \$337 from \$442 in the first nine months of 2008. The decrease is the result of fewer units being disposed in addition to a change in the mix of equipment disposed of in the first nine months of 2009 as compared to the first nine months of 2008. Gain on the sale of assets in the first nine months of 2008 included the sale of aerial trucks, while none were disposed of in the first nine months of 2009.

Interest Expense--Interest expense of \$1,837 decreased \$762 from the \$2,599 incurred in the first nine months of 2008. The decrease is attributable to lower interest rates on bank borrowings and lower average debt levels during the first nine months of 2009 as compared to the first nine months of 2008.

Other, Net--Other, net, of \$1,609 decreased \$387 from the \$1,996 in the first nine months of 2008, and consisted of nonoperating income and expense. The fluctuation was primarily due to foreign currency gains and losses on the intercompany account balances of our Canadian subsidiary, which were \$190 of gains for the first nine months on 2009 compared to \$385 of losses for the comparable period of 2008.

Income Taxes--Income tax for the first nine months of 2009 was \$7,780, as compared to \$9,425 for the first nine months of 2008. Our tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. The 2009 annual effective tax rate is estimated to be 39.6%, adjusted during the first nine months for discrete expense approximating \$27. Our annual effective tax rate for 2008 was 40.1%.

Net Income--Net income of \$11,867 was \$3,316 less than the \$15,183 experienced in the first nine months of 2008.

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 October 3, 2009 and September 27, 2008, are summarized as follows:

| | <u>2009</u> | <u>2008</u> |
|------------------------------------|-------------------|-------------------|
| Cash provided by (used in): | | |
| Operating activities | \$ 37,934 | \$ 17,588 |
| Investing activities | (17,036) | (44,305) |
| Financing activities | (22,438) | 25,579 |
| Decrease in cash | <u>\$ (1,540)</u> | <u>\$ (1,138)</u> |

Cash Provided by Operating Activities--Cash provided by operating activities for the first nine months of 2009 was \$20,346 more than the \$17,588 provided in the first nine months of 2008. The increase was primarily attributable to \$20,200 less cash used for operating assets and liabilities and an increase in depreciation and amortization of \$2,355.

Overall, accounts receivable dollars decreased \$594 during the first nine months of 2009, as compared to the \$26,483 increase experienced in the first nine months of 2008. With respect to the change in accounts receivable arising from business levels, the "days-sales-outstanding" in accounts receivable ("DSO") at the end of the first nine months of 2009 decreased six days to 50 days, as compared to the end of the first nine months of 2008. The DSO at September 27, 2008 was 56 days.

Operating liabilities decreased \$3,350 in the first nine months of 2009, \$10,567 more than the \$7,217 increase in the first nine months of 2008. Accounts payable and accrued expenses decreased \$9,717 during the first nine months of 2009 as compared with a decrease of \$514 for the first nine months of 2008. Decreases in employee compensation, trade payables, self-insured medical claims, advance payments from customers, accrued interest and professional services were partially offset by increases in 401K SOP liabilities, compensated-absence accruals and accrued employee vacation expense. Self-insurance accruals increased \$6,367 in the first nine months of 2009, \$1,364 less than the increase of \$7,731 experienced in the first nine months of 2008. 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.

Other, net, increased \$1,456 in the first nine months of 2009, \$3,690 less than the \$5,146 increase for the first nine months of 2008. The increase is attributable to increases in prepaid expenses and assets invested for self-insurance, partially offset by reductions in tax deposits and operating supplies.

Cash Used In Investing Activities--Cash used in investing activities for the first nine months of 2009 was \$17,036, or \$27,269 less than the \$44,305 used during the first nine months of 2008. The decrease was a result of reductions in capital expenditures for equipment, land and buildings as well as purchases of businesses.

Cash (Used In) Provided by Financing Activities--Cash used in financing activities of \$22,438 increased \$48,017 during the first nine months of 2009 as compared with the \$25,579 of cash provided during the first nine months of 2008. During the first nine months of 2009, we had payments under our revolving credit facility of \$10,950, as compared with the \$34,150 borrowed during the first nine months of 2008. We use the credit facility primarily for capital expenditures and payments of notes payable related to acquisitions. Treasury share transactions (purchases and sales) used \$2,250 more cash than the \$6,905 used in the first nine months of 2008. Dividends paid of \$1,933 decreased \$117, as compared with \$2,050 paid in the first nine months of 2008.

Debt Issued in Connection with Our Investments in Businesses--Debt issued in connection with our investments in one business during the first nine months of 2009 totaled \$750. During the first nine months of 2008, we issued \$5,639 of debt in connection with our investments in businesses.

Revolving Credit Facility--We have a \$159,000 revolving credit facility with a group of banks, which will expire in December 2011 and permits borrowings, as defined, up to \$159,000 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 October 3, 2009, our unused commitments under the facility approximated \$54,574, with \$104,426 committed, consisting of borrowings of \$45,500 and issued letters of credit of \$58,926. Borrowings outstanding bear interest, at our 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 summarizes our long-term contractual obligations, as at October 3, 2009, to make future payments for the periods indicated.

| <u>Description</u> | Three Months Ending December 31, | | | | | | |
|-----------------------------|--|------------------|--------------------------|------------------|------------------|-----------------|------------------|
| | Total | 2009 | Year Ending December 31, | | | | Thereafter |
| | | | 2010 | 2011 | 2012 | 2013 | |
| Revolving credit facility | \$ 45,500 | \$ 250 | \$ 1,000 | \$ 41,500 | \$ 1,000 | \$ 1,000 | \$ 750 |
| Term loans | 12,752 | 2,955 | 5,503 | 2,702 | 730 | 480 | 382 |
| Capital lease obligations | 343 | 179 | 164 | - | - | - | - |
| Operating lease obligations | 10,671 | 1,352 | 3,779 | 2,375 | 1,346 | 910 | 909 |
| Self-insurance accruals | 63,386 | 6,291 | 19,279 | 13,881 | 8,069 | 3,752 | 12,114 |
| Purchase obligations | 3,986 | 3,986 | - | - | - | - | - |
| Other liabilities | 10,721 | 3,041 | 424 | 513 | 532 | 348 | 5,863 |
| | <u>\$ 147,359</u> | <u>\$ 18,054</u> | <u>\$ 30,149</u> | <u>\$ 60,971</u> | <u>\$ 11,677</u> | <u>\$ 6,490</u> | <u>\$ 20,018</u> |

The self-insurance accruals in the summary above reflect the total of the undiscounted amount accrued, for which amounts estimated to be due each year may differ from actual payments required to fund claims. Purchase obligations in the summary above represent open purchase-order amounts we anticipate will become payable for goods and services we have negotiated for delivery as of October 3, 2009. Other liabilities include estimates of future expected funding requirements related to retirement plans and other sundry items. Because their future cash outflows are uncertain, accrued income tax liabilities for uncertain tax positions, as of October 3, 2009, have not been included in the summary above. Noncurrent deferred taxes and payments related to defined benefit pension plans are also not included in the summary.

As of October 3, 2009, we were contingently liable for letters of credit in the amount of \$61,181, of which \$58,926 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 2009 through 2011. 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 three other short-term lines of credit. We are continually reviewing our existing sources of financing and evaluating alternatives. At October 3, 2009, we had working capital of \$28,861, short-term lines of credit approximating \$11,820 and \$54,574 available under our revolving credit facility.

We believe our sources of capital, at this time, provide us with the financial flexibility to meet our capital-spending plans, borrowing needs and to complete business acquisitions for the foreseeable future.

New Accounting Standards Updates in the Nine Months Ended October 3, 2009

FASB ASC Topic 105, Generally Accepted Accounting Principles--In June 2009, the Financial Accounting Standards Board (the "FASB") issued its final Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162" ("FAS 168"). FAS 168 established the Accounting Standards Codification (the "Codification" or "FASB ASC") as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. SEC rules and interpretive releases are also sources of authoritative U.S. GAAP for SEC registrants. FAS 168 established two levels of U.S. GAAP – authoritative and nonauthoritative – and was incorporated into the Codification at FASB ASC Topic 105, "Generally Accepted Accounting Principles."

The Codification supersedes all existing non-SEC accounting and reporting standards and was effective for us beginning July 5, 2009. As the Codification was not intended to change or alter existing U.S. GAAP, it did not affect our financial position, results of operations or cash flows.

The Codification simplifies user access to all authoritative accounting guidance by reorganizing U.S. GAAP pronouncements into a single source arranged by topic within a consistent structure. Following FAS 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates. The FASB will not consider Accounting Standards Updates as authoritative in their own right; these updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the changes in the Codification.

In the description of Accounting Standards Updates that follows, references relate to Codification Topics and their descriptive titles, as appropriate.

FASB ASC Topic 855, Subsequent Events--We adopted FASB ASC 855, "Subsequent Events," effective July 4, 2009. FASB ASC 855 sets forth principles and requirements for subsequent events; specifically: (a) the period after the balance-sheet date during which management shall evaluate events and transactions that may occur for potential recognition or presentation in the financial statements; (b) circumstances under which events or transactions occurring after the balance-sheet date are recognized; and, (c) information presented in the financial statements about events or transactions that occurred after the balance-sheet date. As indicated above, we evaluated subsequent events through the date of financial statement issuance. The adoption of FASB ASC 855 did not affect our financial position, results of operations or cash flows.

FASB ASC Topic 815, Derivatives and Hedging Activities--In March 2008, the FASB issued new guidance, which is now a part of FASB ASC 815, "Derivatives and Hedging Activities," requiring entities to provide enhanced reporting relating to: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedge items are accounted for under FAS 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133") and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. We adopted the new guidance effective January 1, 2009. The reporting requirements, applied prospectively, are included in Note M, "Financial Instruments and Fair Value Measurements."

FASB ASC Topic 825, Financial Instruments--We adopted the revisions to U.S. GAAP included in FASB ASC Topic 825, "Financial Instruments," effective July 4, 2009, which requires information about the fair value of financial instruments in interim reporting periods as well as annual financial statements. The required information is included in Note M, "Financial Instruments and Fair Value Measurements." The adoption of the revised guidance in FASB ASC Topic 825 did not affect our financial position, results of operations or cash flows.

FASB ASC Topic 805, Business Combinations--We adopted the revisions to FASB ASC Topic 805, "Business Combinations," in the first quarter 2009. The revisions retain the previous underlying concepts in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting but the revisions changed the method of applying the acquisition method in a number of significant aspects. The adoption of the revised guidance in FASB Topic 805 did not have a material impact on our condensed consolidated financial statements.

FASB ASC Topic 350, Intangibles—Goodwill and Other--The revised guidance to FASB ASC Topic 350, "Intangibles—Goodwill and Other," amended the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The revised guidance was effective prospectively for intangibles acquired on or after January 1, 2009 and did not have a material effect on our financial position, results of operations or cash flows.

New Accounting Standards Update Not Yet Effective

FASB ASC 715, Compensation—Retirement Benefits--In December 2008, the FASB issued new guidance requiring enhanced information about the plan assets of a Company's defined benefit pension and other postretirement plans. The enhanced information required is intended to provide users of financial statements with a greater understanding of: (a) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies; (b) the major categories of plan assets; (c) the inputs and valuation techniques used to measure the fair value of plan assets; (d) the effect of fair value measurements using significant unobservable inputs (referred to as Level 3 inputs) on changes in plan assets for the period; and (e) significant concentrations of risk within plan assets. The new guidance, which is now part of FASB ASC 715, is effective for us as of our year end December 31, 2009.

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.

As discussed in our annual report on Form 10-K for the year ended December 31, 2008, we believe that our policies related to revenue recognition, the allowance for doubtful accounts and self-insurance accruals 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.

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.

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.
- The current economic downturn and the financial and credit crisis may reduce our customers’ spending, adversely impact pricing for our services, and impede our collection of accounts receivable.
- 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.
- The current economic downturn may limit our access to capital.
- 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, 2008 in “Item 1A. Risk Factors.”

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

During the nine months ended October 3, 2009, there have been no material changes in the reported market risks previously presented in our Annual Report on Form 10-K for the year ended December 31, 2008.

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 (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as of October 3, 2009 in ensuring that information required to be included in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended October 3, 2009, there were no changes in our internal control over financial reporting 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 our annual report on Form 10-K for the year ended December 31, 2008. There have been no material changes from the risk factors described previously in our annual report on Form 10-K.

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

The following table provides information on purchases of our common shares outstanding made by us during the first nine months of 2009.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------------------|---|------------------------------------|--|--|
| Fiscal 2009 | | | | |
| January 1 to January 31 | - | - | n/a | n/a |
| February 1 to February 28 | - | - | n/a | n/a |
| March 1 to April 4 | 130,468 | \$ 16.40 | n/a | n/a |
| Total First Quarter | 130,468 | 16.40 | | |
| April 5 to May 2 | 229,590 | 16.40 | n/a | n/a |
| May 3 to May 30 | 160,972 | 16.40 | n/a | n/a |
| May 31 to July 4 | 270,749 | 16.40 | n/a | n/a |
| Total Second Quarter | 661,311 | 16.40 | | |
| July 5 to August 1 | - | 16.40 | n/a | n/a |
| August 2 to August 29 | 66,282 | 16.00 | n/a | n/a |
| August 30 to October 3 | 129,855 | 16.00 | n/a | n/a |
| Total Third Quarter | 196,137 | 16.00 | | |
| Total Year to Date | 987,916 | 16.32 | | |

n/a--Not applicable. There are no publicly announced plans or programs of the Company to purchase our 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 our employee benefit or stock purchase plans. Since 1979, we have provided a ready market for all shareholders through our direct purchase of their common shares, although we are under no obligation to do so. The purchases made of our common shares were added to our treasury stock.

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 4, 2009

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

Date: November 4, 2009

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 4, 2009

/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 4, 2009

/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 October 3, 2009 (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 4, 2009

/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 October 3, 2009 (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 4, 2009

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