

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2006**

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 **0-11917**

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)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Shares, \$1.00 par value

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
(Check one): Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

There were 7,512,713 Common Shares outstanding as of March 7, 2007. The aggregate market value of the Common Shares held by nonaffiliates of the registrant as of June 30, 2006 was \$143,662,128. For purposes of this calculation, it is assumed that the registrant's affiliates include the registrant's Board of Directors and its executive officers.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2007 Annual Meeting of Shareholders, to be held on May 15, 2007 are incorporated by reference into Part III (to be filed).

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations," "Item 7A - Quantitative and Qualitative Disclosures About Market Risk," and elsewhere. These statements relate to future events or our future financial performance. In some cases, forward-looking statements may be identified by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to differ materially from what is expressed or implied in these forward-looking statements. Some important factors that could cause actual results to differ materially from those in the forward-looking statements include:

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

- Our facilities could be damaged or our operations could be disrupted, or our customers or vendors may be adversely affected, by events such as natural disasters, pandemics, terrorist attacks or other external events.
- We may become subject to claims and litigation that may have an adverse effect on us.
- We may misjudge a competitive bid and be contractually bound to an unprofitable contract.

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

THE DAVEY TREE EXPERT COMPANY
FORM 10-K
For the Fiscal Year Ended December 31, 2006

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PART I

Item 1. *Business.*

General

The Davey Tree Expert Company, which was founded in 1880 and incorporated in 1909, and its subsidiaries ("we" or "us") have two primary operating segments which provide a variety of horticultural services to our customers throughout the United States and Canada.

Our Residential and Commercial Services segment provides for the treatment, preservation, maintenance, cultivation, planting and removal of trees, shrubs and other plant life; its services also include the practices of landscaping, tree surgery, tree feeding and tree spraying, as well as the application of fertilizers, herbicides and insecticides.

Our Utility Services segment is principally engaged in the practice of line clearing for public utilities, including the clearing of tree growth from power lines, clearance of rights-of-way and chemical brush control.

We also provide other services related to natural resource management and consulting, urban and utility forestry research and development and environmental planning. We also maintain research, technical support and laboratory diagnostic facilities.

Competition and Customers

Our Residential and Commercial Services group is one of the largest national tree care organizations, and competes with other national and local firms with respect to its services. On a national level, our competition is primarily landscape construction and maintenance companies as well as residential and commercial lawn care companies. At a local and regional level, our competition comes mainly from small, local companies which are engaged primarily in tree care and lawn services. Our Utility Services group is the second largest organization in the industry, and competes principally with one major national competitor, as well as several smaller regional firms.

Principal methods of competition in both operating segments are customer service, marketing, image, performance and reputation. Our program to meet our competition stresses the necessity for our employees to have and project to customers a thorough knowledge of all horticultural services provided, and utilization of modern, well-maintained equipment. Pricing is not always a critical factor in a customer's decision with respect to Residential and Commercial Services; however, pricing is generally the principal method of competition for our Utility Services, although in most instances consideration is given to reputation and past production performance.

We provide a wide range of horticultural services to private companies, public utilities, local, state and federal agencies, and a variety of industrial, commercial and residential customers. During 2006, we had sales of approximately \$43.9 million, or approximately 9% of revenues, to Pacific Gas & Electric Company ("PG&E"), one of our largest customers.

Regulation and Environment

Our facilities and operations, in common with those of the industry generally, are subject to governmental regulations designed to protect the environment. This is particularly important with respect to our services regarding insect and disease control, because these services involve to a considerable degree the blending and application of spray materials, which require formal licensing in most areas. Constant changes in environmental conditions, environmental awareness, technology and social attitudes make it necessary for us to maintain a high degree of awareness of the impact such changes have on the market for our services. We believe that we comply in all material respects with existing federal, state and local laws regulating the use of materials in our spraying operations as well as the other aspects of our business that are subject to any such regulation.

Marketing

We solicit business from residential customers principally through referrals, direct mail programs and to a lesser extent through the placement of advertisements in national magazines and trade journals, local newspapers and "yellow pages" telephone directories. Business from utility and commercial customers is obtained principally through negotiated contracts and competitive bidding. We carry out all of our sales and services through our employees. We generally do not use agents, and do not franchise our name or business.

Seasonality

Our business is seasonal, primarily due to fluctuations in horticultural services provided to Residential and Commercial customers and to a lesser extent by budget constraints imposed on our Utility customers. Because of this seasonality, we have historically incurred losses in the first quarter, while sales and earnings are generally highest in the second and third quarters of the calendar year. Consequently, this has created heavy demands for additional working capital at various times throughout the year. We borrow primarily against bank commitments in the form of a revolving credit facility to provide the necessary funds for our operations. You can find more information about our bank commitments in "Liquidity and Capital Resources" under "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 18-28 of this report.

Other Factors

Due to rapid changes in equipment technology and intensity of use, we must constantly update our equipment and processes to ensure that we provide competitive services to our customers. Also, we must continue to assure our compliance with the Occupational Safety and Health Act.

We own several trademarks including "Davey," "Davey and design," "Arbor Green Pro," "Arbor Green," "Davey Tree and design," "Davey Expert Co. and design" and "Davey and design (Canada)." Through substantial advertising and use, we believe that these trademarks have become of value in the identification and acceptance of our products and services.

Employees

We employed approximately 5,500 employees at December 31, 2006. However, employment levels fluctuate due to seasonal factors affecting our business. We consider our employee relations to be good.

Domestic and Foreign Operations

We sell our services to customers in the United States and Canada.

We do not consider the risks attendant to our business with foreign customers, other than currency exchange risks, to be materially different from those attendant to our business with domestic customers.

Financial Information About Segments and Geographic Areas

Certain financial information regarding our operations by segment and geographic area is contained in Note O to our consolidated financial statements, which are included in Part II, Item 8 of this report.

Access to Company Information

Davey Tree's internet address is <http://www.davey.com>. Through our internet website, by hyperlink to the SEC's website (<http://www.sec.gov>), Davey Tree makes available, free of charge, its Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports. Availability of the reports occurs contemporaneous with the electronic posting to the SEC's website as the reports are electronically filed with or furnished to the Securities and Exchange Commission.

The following documents are also made available on the Company's website and a copy will be mailed, without charge, upon request to our Corporate Secretary:

- Code of Ethics
- Code of Ethics for Financial Matters

Item 1A. Risk Factors.

The factors described below represent the principal risks we face. Except as otherwise indicated, these factors may or may not occur and we are not in a position to express a view on the likelihood of any such factor occurring. Other factors may exist that we do not consider to be significant based on information that is currently available or that we are not currently able to anticipate.

Our business is highly seasonal and weather dependent.

Our business, other than tree services to utility customers, is highly seasonal and weather dependent, primarily due to fluctuations in horticultural services provided to Residential and Commercial customers. We have historically incurred losses in the first quarter, while revenue and operating income are generally highest in the second and third quarters of the calendar year. Inclement weather, such as uncharacteristically low temperatures, in the second and third quarters could dampen the demand for our horticultural services, resulting in reduced revenues that would have an adverse effect on our results of operations.

Financial difficulties or the bankruptcy of one or more of our major customers could adversely affect our results.

Our ability to collect our accounts receivable and future sales depends, in part, on the financial strength of our customers. We grant credit, generally without collateral, to our customers. Consequently, we are subject to potential credit risk related to changes in business and economic factors throughout the United States and Canada. In the event customers experience financial difficulty, and particularly if bankruptcy results, our profitability may be adversely impacted by our failure to collect our accounts receivable in excess of our estimated allowance for uncollectible accounts. Additionally, our future revenues could be reduced by the loss of a customer due to bankruptcy. Our failure to collect accounts receivable and/or the loss of one or more major customers could have an adverse effect on our net income and financial condition.

Our business is dependent upon service to our utility customers and we may be affected by developments in the utility industry.

We derive approximately 50% of our total revenues from our Utility Services segment, including approximately 9% of our total revenues from PG&E. Significant adverse developments in the utility industry generally, or specifically for our major utility customers, could result in pressure to reduce costs by utility industry service providers (such as us), delays in payments of our accounts receivable, or increases in uncollectible accounts receivable, among other things. As a result, such developments could have an adverse effect on our results of operations.

Our quarterly results may fluctuate.

We have experienced and expect to continue to experience quarterly variations in revenues and operating income as a result of many factors, including:

- the seasonality of our business;
- the timing and volume of customers' projects;
- budgetary spending patterns of customers;
- the commencement or termination of service agreements;
- costs incurred to support growth internally or through acquisitions;
- changes in our mix of customers, contracts and business activities;
- fluctuations in insurance expense due to changes in claims experience and actuarial assumptions; and
- general and local economic conditions.

Accordingly, our operating results in any particular quarter may not be indicative of the results that you can expect for any other quarter or for the entire year.

We are subject to the risk of increased fuel costs.

The cost of fuel is a major operating expense of our business. Significant increases in fuel prices for extended periods of time will increase our operating expenses. An increase in cost with partial or no corresponding compensation from customers leads to lower margins that would have an adverse effect on our results of operations.

We could be negatively impacted if our self-insurance accruals or our insurance coverages prove to be inadequate.

We are generally self-insured for losses and liabilities related to workers' compensation, vehicle liability and general liability claims (including California fire-suppression claims). A liability for unpaid claims and associated expenses, including incurred but not reported losses, is actuarially determined and reflected in our consolidated balance sheet as an accrued liability. The determination of such claims and expenses, and the extent of the need for accrued liability, are continually reviewed and updated. If we were to experience insurance claims or costs above our estimates and were unable to offset such increases with earnings, our business could be adversely affected. Also, where we self-insure, a deterioration in claims management, whether by our management or by a third-party claims administrator, could lead to delays in settling claims, thereby increasing claim costs, particularly as it relates to workers' compensation. In addition, catastrophic uninsured claims filed against us or the inability of our insurance carriers to pay otherwise-insured claims would have an adverse effect on our financial condition.

Furthermore, many customers, particularly utilities, prefer to do business with contractors with significant financial resources, who can provide substantial insurance coverage. Should we be unable to renew our umbrella and other commercial insurance policies at competitive rates, this loss would have an adverse effect on our financial condition and results of operations.

Because no public market exists for our common shares, your ability to sell your common shares may be limited.

Our common shares are not traded on any national exchange, market system or over-the-counter bulletin board. Because no public market exists for our common shares, your ability to sell these shares is limited.

We are subject to intense competition.

We believe that each aspect of our business is highly competitive. Principal methods of competition in both operating segments are customer service, marketing, image, performance and reputation. Pricing is not always a critical factor in a customer's decision with respect to Residential and Commercial Services; however, pricing is generally the principal method of competition for our Utility Services, although in most instances consideration is given to reputation and past production performance. On a national level, our competition is primarily landscape construction and maintenance companies as well as residential and commercial lawn care companies. At a local and regional level, our competition comes mainly from small, local companies which are engaged primarily in tree care and lawn services. Our Utility Services group competes principally with one major national competitor, as well as several smaller regional firms. Furthermore, competitors may have lower costs because privately-owned companies operating in a limited geographic area may have significantly lower labor and overhead costs. We cannot be certain that our competitors will not develop the expertise, experience and resources to provide services that are superior in both price and quality to our services. These strong competitive pressures could inhibit our success in bidding for profitable business.

Our failure to comply with environmental laws could result in significant liabilities.

Our facilities and operations are subject to governmental regulations designed to protect the environment, particularly with respect to our services regarding insect and disease control, because these services involve to a considerable degree the blending and application of spray materials, which require formal licensing in most areas. Continual changes in environmental laws, regulations and licensing requirements, environmental conditions, environmental awareness, technology and social attitudes make it necessary for us to maintain a high degree of awareness of the impact such changes have on our compliance programs and the market for our services. We believe that we comply in all material respects with existing federal, state and local laws, regulations and licensing requirements regulating the use of materials in our spraying operations as well as the other aspects of our business that are subject to any such regulation. However, if we fail to comply with such laws, regulations or licensing requirements, we may become subject to significant liabilities, fines and/or penalties, which could adversely affect our financial condition and results of operations.

We may be adversely affected if we are unable to obtain necessary surety bonds or letters of credit.

Surety market conditions are currently difficult as a result of significant losses incurred by many sureties in recent periods, both in the construction industry as well as in certain larger corporate bankruptcies. As a result, less bonding capacity is available in the market and terms have become more expensive and restrictive. Further, under standard terms in the surety market, sureties issue or continue bonds on a project-by-project basis and can decline to issue bonds at any time or require the posting of collateral as a condition to issuing or renewing any bonds. If surety providers were to limit or eliminate our access to bonding, we would need to post other forms of collateral for project performance, such as letters of credit or cash. We may be unable to secure sufficient letters of credit on acceptable terms, or at all. Accordingly, if we were to experience an interruption or reduction in the availability of bonding capacity, our liquidity may be adversely affected.

We may be adversely affected if our reputation is damaged.

We are dependent upon our reputation of quality, integrity and performance. If our reputation were damaged in some way, it may impact our ability to grow or maintain our business.

We may be unable to employ a sufficient workforce for our field operations.

Our industry operates in an environment which requires heavy manual labor. We may experience slower growth in the labor force for this type of work than in the past. As a result, we may experience labor shortages or the need to pay more to attract and retain qualified employees.

We may be unable to attract and retain skilled management.

Our success depends, in part, on our ability to attract and retain key managers. Competition for the best people can be intense and we may not be able to promote, hire or retain skilled managers. The loss of services of one or more of our key managers could have a material adverse impact on our business because of the loss of the manager's skills, knowledge of our industry and years of industry experience, and the difficulty of promptly finding qualified replacement personnel.

Natural disasters, pandemics, terrorist attacks and other external events could adversely affect our business.

Natural disasters, pandemics, terrorist attacks and other adverse external events could materially damage our facilities or disrupt our operations, or damage the facilities or disrupt the operations of our customers or vendors. The occurrence of any such event could adversely affect our business, financial condition and results of operations.

We are subject to claims and litigation.

From time-to-time, customers, vendors or employees may make claims and take legal action against us. Whether these claims and legal actions are founded or unfounded, if such claims and legal actions are not resolved in our favor, they may result in significant financial liability. Any financial liability could have a material adverse effect on our financial condition and results of operations. Any such claims and legal actions may also require significant management attention and may detract from management's focus on our operations.

We may be adversely affected if we enter into a major unprofitable contract.

Our Residential and Commercial Services and our Utilities Services segments frequently operate in a competitive bid contract environment. As a result, we may misjudge a bid and be contractually bound to an unprofitable contract, which could adversely affect our results of operations.

Item 1B. *Unresolved Staff Comments.*

There are no unresolved comments from the Staff of the U.S. Securities and Exchange Commission.

Item 2. *Properties.*

Our corporate headquarters campus is located in Kent, Ohio which, along with several other properties in the surrounding area, includes the Davey Institute's research, technical support and laboratory diagnostic facilities.

We conduct administrative functions through our headquarters and our offices in Livermore, California (Utility Services). Our Canadian operations' administrative functions are conducted through properties located in the provinces of Ontario and British Columbia. We believe our properties are well maintained, in good condition and suitable for our present operations. A summary of our properties follows:

<u>Segment</u>	<u>Number of Properties</u>	<u>How Held</u>	<u>Square Footage</u>	<u>Number of States or Provinces</u>
Residential and Commercial	23	Owned	160,902	14
Utility	3	Owned	36,037	3
Residential and Commercial, and Utility	2	Owned	12,400	2

We also rent approximately 89 properties in 25 states and four provinces.

None of our owned or rented properties used by our business segments is individually material to our operations.

Item 3. *Legal Proceedings.*

We are a party to routine litigation incidental to our business. We do not believe that this litigation, individually or in the aggregate, will have a material effect on our business, financial condition or results of operations.

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

No matters were submitted to a vote of our shareholders during the fourth quarter of 2006.

Item 4A. Executive Officers of the Registrant.

Our executive officers and their present positions and ages as of March 7, 2007 follows:

<u>Name</u>	<u>Position</u>	<u>Age</u>
Karl J. Warnke	President and Chief Executive Officer	55
David E. Adante	Executive Vice President, Chief Financial Officer and Secretary	55
Howard D. Bowles	Senior Vice President and General Manager, Davey Tree Surgery Company	63
C. Kenneth Celmer	Senior Vice President and General Manager, Residential and Commercial Services	60
Marjorie L. Conner, Esquire	Assistant Secretary and Counsel	49
Patrick M. Covey	Executive Vice President - Operations	43
Dr. Roger C. Funk	Vice President and Chief Technical Officer	62
George M. Gaumer	Vice President and General Manager, Commercial Landscape Services	54
Fred W. Johnson	Vice President, Operations Support Services	62
Steven A. Marshall	Executive Vice President - Operations	55
Rosemary T. Nicholas	Assistant Secretary	63
Gordon L. Ober	Vice President - Personnel Recruiting and Development	57
Joseph R. Paul, CPA	Treasurer	45
Richard A. Ramsey	Vice President and General Manager, Canadian Operations	57
Nicholas R. Susic, CPA	Vice President and Controller	60

Mr. Warnke was elected President and Chief Executive Officer, effective January 1, 2007, and elected President and Chief Operating Officer in March 1999. Prior to that time, he served as Executive Vice President and General Manager - Utility Services, having been appointed in January 1993. Previously, having joined the Company in 1980, Mr. Warnke performed all aspects of tree services and also held various managerial positions, including Operations Manager, Operations Support Services, Equipment and Safety functions and Operations Vice President.

Mr. Adante was elected Executive Vice President, Chief Financial Officer and Secretary in May 1993.

Mr. Bowles was elected Senior Vice President and General Manager of Davey Tree Surgery Company in January 2000. Prior to that time, he served as Vice President and General Manager of Davey Tree Surgery Company.

Mr. Celmer was elected Senior Vice President and General Manager - Residential and Commercial Services in January 2000. Prior to that time, he served as Vice President and General Manager - Residential Services.

Ms. Conner was elected Assistant Secretary and Counsel in May 1998. Prior to that time, she served as Manager of Legal and Treasury Services.

Mr. Covey was elected Executive Vice President - Operations, effective January 1, 2007, and served as Vice President and General Manager of the Davey Resource Group, having been appointed in March 2005. Prior to that time, Mr. Covey was Vice President, Southern Operations, Utility Services, having been appointed in January 2003. Previously, having joined the Company in August 1991, Mr. Covey held various managerial positions, including Manager of Systems and Process Management and Administrative Manager, Utility Services.

Dr. Funk was elected Vice President and Chief Technical Officer in June 2006, having previously been elected Vice President and General Manager, The Davey Institute in May 1996.

Mr. Gaumer was elected Vice President and General Manager of Commercial Landscape Services in March 2005. Prior to that time, he served as Vice President of Commercial Grounds Management, having been appointed in 2001.

Mr. Johnson was elected Vice President, Operations Support Services, a corporate vice-president, in January 2003. From 1999 to January 2003, he served as Vice President of Operations Support Services. Prior to joining us, Mr. Johnson served in various capacities, including director of operations and director of sales, at Lesco, Inc., a specialty provider of products for the professional turf care and green industry markets, from 1986 to 1999. Prior to joining Lesco, Mr. Johnson held various management positions at TruGreen/Chemlawn, a provider of lawn care, tree and shrub services and a segment of The Servicemaster Company, from 1979 to 1986.

Mr. Marshall was elected Executive Vice President - Operations, effective January 1, 2007, and served as Vice President and General Manager of Eastern Utility Services, having been appointed in January 2003. Prior to that time, he served as Vice President--Southern Operations, Utility Service, having been appointed in January 1997. Previously, having joined the Company in 1977, Mr. Marshall held various managerial positions, including Operations Manager, Regional Manager and District Manager.

Ms. Nicholas was elected Assistant Secretary in May 1982.

Mr. Ober was elected Vice President - Personnel Recruiting and Development in February 2000. Prior to that time, he served as Vice President - New Ventures.

Mr. Paul was elected Treasurer in December 2005 when he joined the Company. He is a certified public accountant. Prior to joining us, Mr. Paul served as corporate controller for AccessPoint Openings, LLC, a holding company of distribution and manufacturing companies in the building products industry, having been associated with that firm since 1998. Mr. Paul served in various capacities including director of business expansion and integration at Applied Industrial Technologies, an industrial distributor, from 1993 to 1998. Prior to joining Applied Industrial Technologies, Mr. Paul was an audit manager with Deloitte & Touche, having been associated with that firm since 1986.

Mr. Ramsey was elected Vice President and General Manager - Canadian Operations in January 2000. Prior to that time, he served as Vice President and General Manager - Commercial Services.

Mr. Susic was elected Vice President and Controller, effective January 1, 2007, and served as Corporate Controller and Chief Accounting Officer since having joined the Company in November 2001. He is a certified public accountant. Prior to joining us, Mr. Susic served as chief financial officer of Vesper Corporation, a manufacturer of products for industry, from 2000 to 2001; of Advanced Lighting Technologies, Inc., a designer, manufacturer and marketer of metal halide lighting products, from 1996 to 2000; and of various asset management units at The Prudential Investment Corporation, from 1989 to 1996. Prior to joining Prudential, Mr. Susic was a partner with Ernst & Young LLP, having been associated with that firm since 1970.

Our officers serve from the date of their election to the next organizational meeting of the Board of Directors and until their respective successors are elected.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

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, Dycom Industries, Inc., FirstService Corporation, Quanta Services, Inc., Rollins, Inc., and The ServiceMaster Company. The semiannual valuations are effective for a period of six months and the per-share price established by those valuations is the price at which our Board of Directors has determined our common shares will be bought and sold during that six-month period in transactions involving the Company or one of its employee benefit or stock purchase plans. Since 1979, the Company has provided a ready market for all shareholders through its direct purchase of their common shares, although the Company is under no obligation to do so. The purchases described above are added to the treasury stock of the Company.

Record Holders and Common Shares

On March 7, 2007 we had 2,564 record holders of our common shares.

On March 7, 2007 we had 7,512,713 common shares outstanding, options exercisable to purchase 332,525 common shares, partially-paid subscriptions for 696,558 common shares and purchase rights outstanding for 250,604 common shares.

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

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

Dividends

The following table sets forth, for the periods indicated, the dividends declared on our common shares (in cents):

<u>Quarter</u>	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
1	7.5	7.0
2	7.5	7.0
3	7.5	7.0
4	<u>8.0</u>	<u>7.5</u>
Total	<u>30.5</u>	<u>28.5</u>

We presently expect to pay comparable cash dividends in 2007.

Recent Sale of Unregistered Securities

None.

Purchases of Equity Securities

The following table provides information on purchases made by the Company of its common shares during the fiscal year ended December 31, 2006.

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</u>
<u>Fiscal 2006</u>				
January 2 to January 28	-	-	n/a	n/a
January 29 to February 25	-	-	n/a	n/a
February 26 to April 1	<u>51,128</u>	\$ 22.50	n/a	n/a
Total First Quarter	51,128	22.50		
April 2 to April 29	61,281	22.50	n/a	n/a
April 30 to May 27	99,766	22.50	n/a	n/a
May 28 to July 1	<u>16,065</u>	22.50	n/a	n/a
Total Second Quarter	177,112	22.50		
July 2 to July 29	-	22.50	n/a	n/a
July 30 to August 26	59,894	24.00	n/a	n/a
August 27 to September 30	<u>37,609</u>	24.00	n/a	n/a
Total Third Quarter	97,503	24.00		
October 1 to October 28	142,215	24.00	n/a	n/a
October 29 to December 2	151,453	24.00	n/a	n/a
December 3 to December 31	<u>22,684</u>	24.00	n/a	n/a
Total Fourth Quarter	<u>316,352</u>	24.00		
Total Year to Date	<u>642,095</u>	23.44		

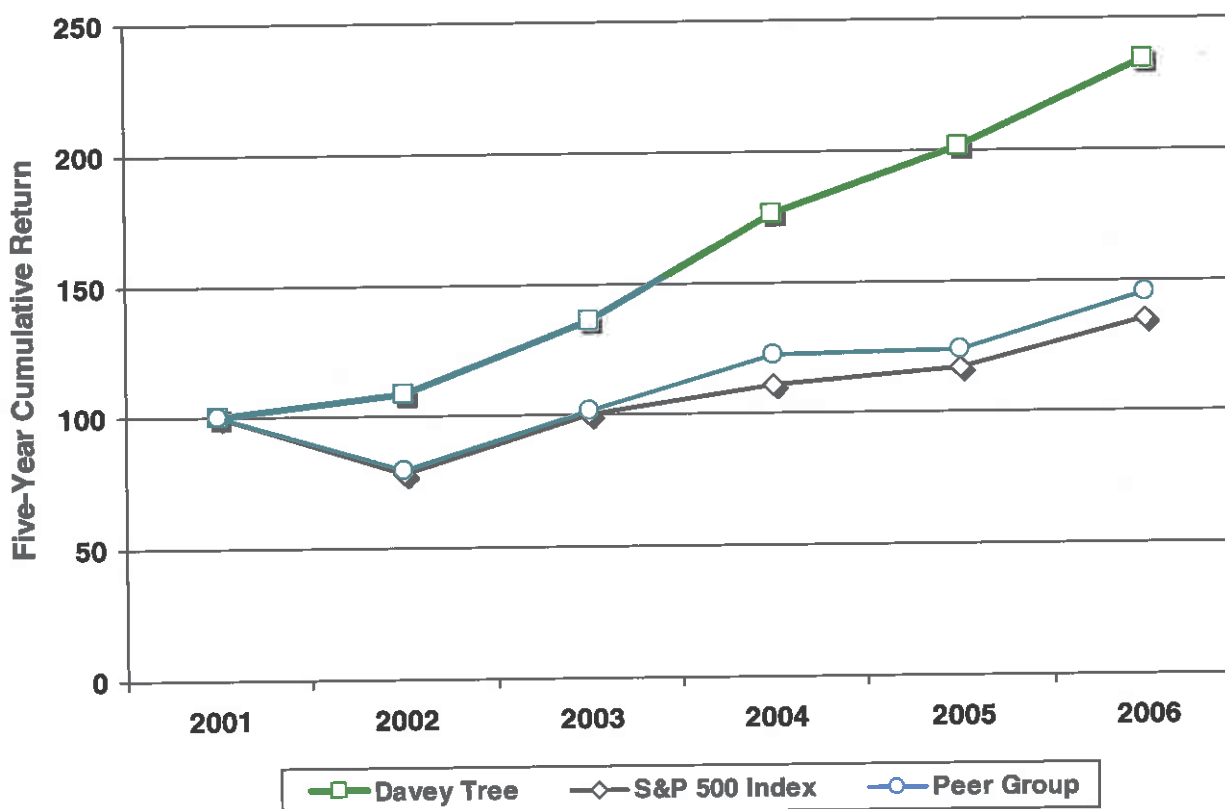
n/a--Not applicable. There are no publicly announced plans or programs to purchase common shares.

Stock Performance Graph

Comparison of five-year cumulative return among The Davey Tree Expert Company, S&P 500 Stock Index and Selected Peer Group Companies Index

The following Performance Graph compares cumulative total shareholder returns for The Davey Tree Expert Company common shares during the last five years to the Standard & Poor's 500 Stock Index and to an index of selected peer group companies. The peer group, which is the same group used by the Company's independent stock valuation firm, consists of: ABM Industries Incorporated; Dycom Industries, Inc.; FirstService Corporation; Quanta Services, Inc.; Rollins, Inc.; and The ServiceMaster Company. Each of the three measures of cumulative total return assumes reinvestment of dividends.

Comparison of Five-Year Cumulative Total Return The Davey Tree Expert Company



	2001	2002	2003	2004	2005	2006
Davey Tree	100	109	136	176	201	234
S&P 500 Index	100	78	100	111	117	135
Peer Group	100	80	102	122	124	145

The Performance Graph and related information above shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

Item 6. Selected Financial Data.

	Fiscal Year Ended December 31,				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands, except ratio and per share data)				
Operating Statement Data:					
Revenues	\$ 467,534	\$ 431,611	\$ 398,648	\$ 346,263	\$ 319,273
Costs and expenses:					
Operating	305,106	283,596	263,080	226,454	211,549
Selling	74,513	69,944	64,010	56,758	50,865
General and administrative	34,126	29,815	27,908	25,947	22,800
Depreciation	26,991	24,147	21,083	19,274	19,370
Amortization of intangible assets	1,291	1,416	1,545	1,501	692
Gain on sale of assets, net	<u>(309)</u>	<u>(521)</u>	<u>(552)</u>	<u>(931)</u>	<u>(2,054)</u>
Income from operations	25,816	23,214	21,574	17,260	16,051
Interest expense	(2,768)	(2,196)	(1,827)	(2,062)	(3,121)
Interest income	176	260	1,949	229	82
Other expense	<u>(1,301)</u>	<u>(825)</u>	<u>(800)</u>	<u>(694)</u>	<u>(1,075)</u>
Income before income taxes	21,923	20,453	20,896	14,733	11,937
Income taxes	<u>7,906</u>	<u>7,142</u>	<u>8,643</u>	<u>6,016</u>	<u>4,716</u>
Net income	<u>\$ 14,017</u>	<u>\$ 13,311</u>	<u>\$ 12,253</u>	<u>\$ 8,717</u>	<u>\$ 7,221</u>
Net income per share--diluted	<u>\$ 1.61</u>	<u>\$ 1.50</u>	<u>\$ 1.37</u>	<u>\$.99</u>	<u>\$.85</u>
Shares used for computing per share amounts--diluted	<u>8,730</u>	<u>8,884</u>	<u>8,923</u>	<u>8,806</u>	<u>8,508</u>
Other Financial Data:					
Depreciation and amortization	\$ 28,282	\$ 25,563	\$ 22,628	\$ 20,775	\$ 20,062
Capital expenditures	32,435	31,985	38,482	19,975	16,127
Cash flow provided by (used in):					
Operating activities	38,372	32,237	54,010	28,263	29,427
Investing activities	(34,419)	(31,682)	(38,119)	(19,740)	(16,670)
Financing activities	(5,297)	1,646	(14,858)	(8,903)	(12,572)
Dividends per share	<u>\$.305</u>	<u>\$.285</u>	<u>\$.265</u>	<u>\$.245</u>	<u>\$.240</u>

	<u>As of December 31,</u>				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands, except ratio and per share data)				
Balance Sheet Data:					
Working capital	\$ 24,494	\$ 26,859	\$ 22,207	\$ 20,208	\$ 15,422
Current ratio	1.38	1.46	1.38	1.42	1.33
Property and equipment, net	96,522	90,768	83,600	66,753	66,863
Total assets	208,084	194,129	183,105	166,837	161,156
Long-term debt	31,951	29,065	19,830	30,178	36,605
Other long-term liabilities	29,283	28,108	34,681	26,323	24,335
Shareholders' equity	<u>82,076</u>	<u>78,553</u>	<u>70,203</u>	<u>62,147</u>	<u>54,135</u>
Common shares:					
Issued	10,728	10,728	10,728	10,728	10,728
In treasury	<u>3,218</u>	<u>3,228</u>	<u>3,074</u>	<u>2,924</u>	<u>3,048</u>
Net outstanding	<u>7,510</u>	<u>7,500</u>	<u>7,654</u>	<u>7,804</u>	<u>7,680</u>
Stock options:					
Outstanding	768	906	990	1,019	868
Exercisable	333	599	580	507	868
ESOT valuation per share	<u>\$ 25.90</u>	<u>\$ 22.50</u>	<u>\$ 20.00</u>	<u>\$ 15.70</u>	<u>\$ 12.80</u>

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(Amounts in thousands, except share data)

You should read the following discussion in conjunction with our consolidated financial statements for the three-year period ended December 31, 2006, and the notes thereto, included elsewhere in this annual report.

GENERAL

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

Our operating results are reported in two segments: Residential and Commercial Services and Utility Services for operations in the United States and Canada. Residential and Commercial Services provides for the treatment, preservation, maintenance, cultivation, planting and removal of trees, shrubs and other plant life; its services also include the practice of landscaping, tree surgery, tree feeding and tree spraying, as well as the application of fertilizer, herbicides and insecticides. Utility Services is principally engaged in the practice of line clearing for investor-owned and municipal utilities, including the clearing of tree growth from power lines, clearance of rights-of-way and chemical brush control.

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

RESULTS OF OPERATIONS

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

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Operating	65.3	65.7	66.0
Selling	15.9	16.2	16.0
General and administrative	7.3	6.9	7.0
Depreciation	5.8	5.6	5.3
Amortization of intangible assets	.3	.3	.4
Gain on sale of assets, net	(.1)	(.1)	(.1)
Income from operations	<u>94.5</u>	<u>94.6</u>	<u>94.6</u>
Other income (expense):	5.5	5.4	5.4
Interest expense	(.6)	(.5)	(.5)
Interest income	-	-	.5
Other	(.2)	(.2)	(.2)
Income before income taxes	4.7	4.7	5.2
Income taxes	<u>1.7</u>	<u>1.6</u>	<u>2.1</u>
Net income	<u>3.0%</u>	<u>3.1%</u>	<u>3.1%</u>

Overview

Revenues of \$467,534 were 8.3% higher than last year's revenues of \$431,611. Utility Services revenues increased 11.5%, Residential and Commercial Services increased 5.7% and All Other increased 2.2%.

Overall, income from operations of \$25,816 increased 11.2% from the \$23,214 experienced in the prior year. Income from operations was \$10,338 in Utility Services (an 8.1% increase) and \$17,260 for Residential and Commercial Services (a 27.8% increase).

Net income of \$14,017 was \$706, or 5.3%, higher than the \$13,311 earned in 2005. The increase in net income was due to higher revenues in 2006 and slightly better operating margins.

Operating activities in 2006 provided cash of \$38,372 as compared to \$32,237 provided in 2005. The \$6,135 net increase was due primarily to an increase in depreciation expense of \$2,844, lower increases in accounts receivable of \$1,544, increases in self-insurance accruals of \$5,414, offset by other operating assets, net, of \$5,455 and deferred income taxes of \$2,444.

Investing activities used \$34,419 in cash, or \$2,737 more than that used in 2005, primarily the result of higher expenditures for equipment and purchases of businesses. The increase in capital expenditures was necessary to support the increased demand for our Utility Services and growth in our Residential and Commercial Services segment.

Financing activities used \$5,297 in 2006, a change of \$6,943 compared with \$1,646 provided in 2005. Net borrowings outstanding from the revolving credit facility increased by \$2,900. Purchases of common shares for treasury of \$15,062 were partially offset by cash received from the sale of common shares of \$8,676 and \$815 of cash received on our common share subscriptions. Dividends paid during 2006 totaled \$2,512.

Fiscal 2006 Compared to Fiscal 2005

Revenues--Revenues of \$467,534 increased \$35,923 over the \$431,611 reported in 2005. Utility Services increased \$24,092 or 11.5% from the prior year. New contracts, increases in existing contracts and better productivity within our utility operations account for the increase. Revenues for 2005 included storm-damage work from hurricanes (Hurricane Katrina and Hurricane Rita) in the southern United States. Residential and Commercial Services increased \$11,250 or 5.7% from 2005, the result of an overall increase in demand for Residential and Commercial Services. All Other increased \$581 or 2.2%.

Operating Expenses--Operating expenses of \$305,106 increased \$21,510 from the prior year, but as a percentage of revenues decreased .4% to 65.3%. Utility Services experienced an increase of \$19,233 or 12.1% from 2005. All utility operations incurred additional costs for labor, equipment and crew travel costs associated with the start-up of new contracts and expanded services which were partially offset by reductions in subcontractor expense. Residential and Commercial Services increased \$3,499 or 3.3% compared with 2005. Increases in labor, equipment, materials and tool expense were partially offset by a reduction in subcontractor costs. All Other decreased \$1,222 or 6.9% from 2005.

Utility Services operating income increased \$771 to \$10,338 for 2006 as compared with \$9,567 during 2005. While Utility Services revenues increased as discussed above, all utility services cost categories, including operating expenses, were negatively impacted by weather factors in the state of California and also by one contract in our western utility operations. Our western utility operations were adversely affected in the state of California by heat and excess vegetation and tree growth preceded by inordinate amounts of rainfall in earlier periods. Our western utility operations were also adversely affected by one contract in California, and this contract had a negative impact on other contracts through losses of production and use of personnel and equipment. This western utility contract, during the year ended 2006, had operating losses of \$3,834, as compared with operating losses of \$2,302 during the year ended 2005. The operating losses of \$3,834 includes provision for anticipated loss, although we expect operating losses from this contract to continue and be recognized through completion, estimated as November 2007.

Selling Expenses--Selling expenses of \$74,513 increased \$4,569 from 2005 but as a percentage of revenues decreased .3% to 15.9%. Utility Services increased \$1,495 or 7.5% over 2005, primarily for field management wages, travel and auto expenses, branch offices expenses and employee development associated with the increased revenue. Residential and Commercial Services experienced an increase of \$3,784 or 7.5% over the prior year 2005, the result of increases in field management wages and incentives, sales and marketing expense and branch office wages and expenses. All Other decreased \$710 from 2005.

General and Administrative Expenses--General and administrative expenses increased \$4,311 to \$34,126 (a 14.5% increase) from the \$29,815 experienced in 2005 and as a percentage of revenues increased .4% to 7.3%. Increases in salaries and incentive expense of \$2,820 were the result of increased revenues and stronger earnings performance. Other increases included computer hardware/software expense, travel and meeting expenses and legal expenses.

Depreciation and Amortization Expense--Depreciation and amortization expense of \$28,282 increased \$2,719 from the prior year and as a percentage of revenues increased .2% to 6.1%. The increase is attributable to additional capital expenditures for equipment among the segments, the result of increased demand for our services.

Gain on Sale of Assets--Gain on the sale of assets of \$309 decreased \$212 from the \$521 experienced in 2005. The decrease is attributable to a reduction in the number of vehicles disposed of and the amount received for those vehicles as compared to the prior year.

Interest Expense--Interest expense of \$2,768 increased \$572 or 26.0% from the \$2,196 incurred in 2005. The increase is attributable to higher interest rates on bank borrowings and higher average debt levels as compared with the prior year.

Income Taxes--Income tax expense for 2006 was \$7,906. The 2006 effective tax rate of 36.1% includes a 4.5% state income tax rate, net of federal benefit. The 2005 tax rate of 34.9% included a 3.5% state income tax rate, net of federal benefit.

Net Income--Net income of \$14,017 was \$706 higher than the \$13,311 earned in 2005. The 5.3% increase in net income was primarily due to higher revenues in 2006 and slightly better operating margins.

Fiscal 2005 Compared to Fiscal 2004

Revenues--Revenues of \$431,611 increased \$32,963 over the \$398,648 reported in 2004. Utility Services increased \$20,769 or 11.0% from the prior year and is the result of storm-damage work arising from damage inflicted by hurricanes in the southern United States, as well as new contracts, increases in existing contracts and increased productivity within our utility operations. Residential and Commercial Services increased \$1,633 or .8% from 2004, as additional demand for Canadian services and other services was partially offset by the shift in servicing of the metro New York Asian Longhorned Beetle ("ALB") contract in 2005 to the Resource Group. All Other increased \$10,561 or 69.2% with the increase occurring from the shift in 2005 of the ALB contract to the Resource Group, along with new and expanded inventory and consulting contracts.

Operating Expenses--Operating expenses of \$283,596 increased \$20,516 from the prior year, but as a percentage of revenues decreased .3% to 65.7%. Utility Services experienced an increase of \$15,361 from the prior year, the result of additional costs for labor, equipment and subcontractor expense associated with the storm-damage work in the southern United States coupled with increased revenues from new contracts and increases in existing contracts from 2004 in our utility operations. Residential and Commercial Services decreased \$2,391 or 2.2% compared with 2004 and all other segments increased \$7,546 or 74.5%. The decrease in Residential and Commercial Services and increase in All Other is attributable to the ALB contract being serviced by Residential and Commercial Services in 2004 and by Resource Group in 2005 and consists primarily of labor, material and subcontractor costs. All segments were impacted by increased fuel costs.

Selling Expenses--Selling expenses of \$69,944 increased \$5,934 from 2004 and as a percentage of revenues increased .2% to 16.2%. Utility Services experienced an increase of \$2,264 or 12.8% over 2004, primarily for field management wages and incentives associated with increased earnings from operations. Residential and Commercial Services experienced an increase of \$2,696 or 5.7% over the prior year, the result of increases in field management wages, professional services and branch office expenses. All Other increased \$974 or 75.2%, primarily for field management wages and incentives, field management travel and branch office expenses.

General and Administrative Expenses--General and administrative expenses increased \$1,907 to \$29,815 or 6.8% from the \$27,908 experienced in 2004 but as a percentage of revenues decreased .1% to 6.9%. Increased salaries and incentive expense of \$1,591, the result of increased revenues and stronger earnings performance, and increased pension expense of \$339 primarily account for the increase.

Depreciation and Amortization Expense--Depreciation and amortization expense of \$25,563 increased \$2,935 from the prior year and as a percentage of revenues increased .2% to 5.9%. The increase is attributable to depreciation expense on additional expenditures for capital required due to the increased business levels.

Gain on Sale of Assets--Gain on the sale of assets of \$521 decreased \$31 from the \$552 experienced in 2004. The decrease is attributable to a reduction in the number of vehicles disposed of as compared to the prior year.

Interest Expense--Interest expense of \$2,196 increased \$369 or 20.2% from the \$1,827 incurred in 2004. The increase is attributable to higher interest rates on bank borrowings and higher average debt levels as compared with the prior year.

Interest Income--Interest income of \$260 decreased \$1,689 from the \$1,949 experienced in 2004. Interest income in 2004 included the recognition of \$1,692 in connection with the collection of the prepetition accounts receivable from PG&E.

Income Taxes--The effective income tax rates of 34.9% for 2005, and 41.4% for 2004, differed from the statutory U.S. federal income tax rate because of the impact of Canadian income being taxed at other than U.S. rates over the years as well as fluctuation in state taxes, net of federal benefit. The reduction in the 2005 state income taxes, net of federal benefit, as compared to 2004 was due to changes in the anticipated state tax rates at which deferred tax assets and liabilities were expected to be realized.

Net Income--Net income of \$13,311 exceeded 2004's net income by \$1,058, and as a percentage of revenues, remained level at 3.1%.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash decreased \$1,344 during the year ended December 31, 2006. Net cash provided by operating activities of \$38,372 was offset by \$34,419 of cash used for investing activities and \$5,297 used for financing activities.

Net Cash Provided by Operating Activities

Operating activities in 2006 provided cash of \$38,372 as compared to \$32,237 provided in 2005. The \$6,135 net increase was due primarily to an increase in depreciation expense of \$2,844, lower increases in accounts receivable of \$1,544 and increases in self-insurance accruals of \$5,414, offset by other operating assets, net, of \$5,455 and deferred income taxes of \$2,444.

Overall, accounts receivable dollars increased \$1,544 in 2006 as compared to the \$5,105 increase experienced in 2005. With respect to the change in accounts receivable arising from business levels, the "days-sales-outstanding" in accounts receivable ("DSO") in 2006 was 60 days, the same as in 2005.

Accounts payable and accrued expenses increased \$61 in 2006, compared to a decrease of \$204 experienced in 2005. The change is primarily attributable to an increase in self-insured medical claims and employee compensation partially offset by decreases in trade payables, employee savings and 401K withholdings.

Self-insurance accruals increased \$5,414 in 2006, \$2,196 more than the increase experienced in 2005. 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 operating assets, net, increased \$5,455 in 2006, a change of \$9,543 over the \$4,088 decrease in 2005. The increase is the result of an increase in advance payments for insurance premiums related to our workers' compensation, vehicle liability and general liability policies and other insurance-related assets. These increases were partially offset by increases in costs associated with our defined benefit plans.

Net Cash Used in Investing Activities

Investing activities used \$34,419 in cash, or \$2,737 more than the \$31,682 used in 2005, the result of higher expenditures for the purchase of businesses and equipment and lower proceeds from the sale of property and equipment. The increase in capital expenditures was necessary to support the increased demand for our Utility Services and growth in our Residential and Commercial Services segment.

Net Cash Used in Financing Activities

Financing activities used \$5,297 in 2006, a decrease of \$6,943 from the \$1,646 provided in 2005. Net borrowings outstanding, from the revolving credit facility, increased by \$2,900. Borrowings of notes payable increased \$2,469 while other debt and capital lease obligations decreased \$2,583. Purchases of common shares for treasury of \$15,062 were partially offset by cash received from the sale of common shares of \$8,676 and \$815 of cash received on our common share subscription. Dividends paid during 2006 totaled \$2,512.

Revolving Credit Facility--In November 2006, the Company executed an amendment and restatement to its revolving credit facility. The amended and restated agreement, which expires in December 2011, permits borrowings as defined up to \$147,000 with a letter of credit sublimit of \$100,000 (the previous agreement permitted borrowings up to \$120,000 with a letter of credit sublimit of \$70,000). 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.

Contractual Obligations Summary

The following is a summary of our long-term contractual obligations, as at December 31, 2006, to make future payments for the periods indicated.

<u>Description</u>	<u>Total</u>	<u>Contractual Obligations Due--Year Ending December 31,</u>					<u>Thereafter</u>
		<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	
Revolving credit facility	\$ 31,500	\$ -	\$ -	\$ -	\$ -	\$ 31,500	\$ -
Term loans	3,312	2,861	376	75	-	-	-
Capital lease obligations	2,413	1,482	487	444	-	-	-
Operating lease obligations	8,458	2,956	2,082	1,294	896	575	655
Self-insurance accruals	45,904	17,208	11,616	7,217	3,420	1,503	4,940
Other liabilities	2,636	999	627	381	128	49	452
	<u>\$ 94,223</u>	<u>\$ 25,506</u>	<u>\$ 15,188</u>	<u>\$ 9,411</u>	<u>\$ 4,444</u>	<u>\$ 33,627</u>	<u>\$ 6,047</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. Other liabilities include estimates of future expected funding requirements related to retirement plans and other sundry items. Because their future cash outflows are uncertain, noncurrent deferred taxes have been excluded from the summary above.

As at December 31, 2006, we were contingently liable to our principal banks for letters of credit in the amount of \$62,516 of which \$58,444 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 with our industry, we have performance obligations that are supported by surety bonds, which expire during 2007 through 2009. We intend to renew the performance bonds where appropriate and as necessary.

Off-Balance Sheet Arrangements

There are no "off-balance sheet arrangements" as that term is defined in Regulation S-K, Item 303(a)(4)(ii) under the Securities Exchange Act of 1934.

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 and interest 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 several other short-term lines of credit. We are continuously reviewing our existing sources of financing and evaluating alternatives. At December 31, 2006, we had working capital of \$24,494, short-term lines of credit approximating \$4,160, and \$57,056 available under our revolving credit facility.

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

Accounting Pronouncements

Adoption of FASB Statement No. 123R ("FAS 123R")--Effective January 1, 2006, the Company adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 123 (revised), "Share-Based Payment" ("FAS 123R"). FAS 123R requires all share-based payments to employees, including grants of stock options, to be recognized as compensation costs in the financial statements based on their estimated fair values over the requisite employee service period (that is, pro forma disclosure is no longer an alternative to financial statement recognition). Prior to January 1, 2006, in accordance with FASB Statement No. 123, "Accounting for Stock-Based Compensation," the Company followed Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under APB 25, no stock-based compensation expense was recognized related to the Company's stock options and Employee Stock Purchase Plan, as all options granted under the stock option plans had an exercise price equal to the market value of the underlying common stock on the date of grant and, with respect to the Employee Stock Purchase Plan, the discount did not exceed 15%. FAS 123R is discussed in Note J, "Stock-Based Compensation" to our consolidated financial statements.

Adoption of FASB Statement No. 158 ("FAS 158")--In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("FAS 158")—an amendment of FASB Statements No. 87, 88, 106 and 132(R). FAS 158 requires that employers (i) recognize the funded status of their defined benefit pension and other postretirement plans in their balance sheet and (ii) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. As a result of adopting FAS 158, on December 31, 2006, the Company reflected the funded status of its defined benefit pension plans by reducing its net pension asset by \$5,834 to reflect actuarial and investment losses that had been deferred pursuant to prior pension accounting rules and recorded (i) a corresponding deferred tax asset of \$2,217, (ii) a reduction in accrued pension obligations of \$208 and (iii) a net after-tax charge of \$3,409 in accumulated other comprehensive income (loss) in shareholders' equity.

New Accounting Pronouncement to be Adopted in 2007--In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement No. 109, "Accounting for Income Taxes" ("FIN 48"). FIN 48 applies to all "tax positions" accounted for under FASB Statement No. 109. FIN 48 refers to "tax positions" as positions taken in a previously-filed tax return or positions expected to be taken in a future tax return that are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements. FIN 48 further clarifies a tax position to include: (i) a decision not to file a tax return in a particular jurisdiction for which a return might be required; (ii) an allocation or a shift of income between taxing jurisdictions; (iii) the characterization of income or a decision to exclude reporting taxable income in a tax return; or (iv) a decision to classify a transaction, entity, or other position in a tax return as tax-exempt.

FIN 48 clarifies that a tax benefit may be reflected in the financial statements only if it is "more-likely-than-not" that a company will be able to sustain the tax return position, based on its technical merits. If a tax benefit meets this criterion, it should be measured and recognized based on the largest amount of benefit that is cumulatively greater than 50% likely to be realized. FIN 48 also requires that we make expanded presentations, including: a description of open tax years by major jurisdictions; a tabular progression of the beginning and ending aggregate unrecognized tax benefits; and a discussion of reasonably possible changes that might occur in unrecognized tax benefits over the next twelve months.

FIN 48 became effective for the Company on January 1, 2007 and is not expected to have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

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

Critical Accounting Policies and Estimates

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

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

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

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

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

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

Self-Insurance Accruals--We are generally self-insured for losses and liabilities related primarily to workers' compensation, vehicle liability and general liability claims. We use commercial insurance as a risk-reduction strategy to minimize catastrophic losses. We accrue ultimate losses based upon estimates of the aggregate liability for claims incurred using certain actuarial assumptions followed in the insurance industry and based on our specific experience.

Our self-insurance accruals include claims for which the ultimate losses will develop over a period of years. Accordingly, our estimates of ultimate losses can change as claims mature. Our accruals also are affected by changes in the number of new claims incurred and claim severity. The methodology for estimating ultimate losses and the total cost of claims were determined by third-party consulting actuaries; the resulting accruals are continually reviewed by us, and any adjustments arising from changes in estimates are reflected in income currently.

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

Market Risk Information

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

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 an interest rate contract -- a derivative financial instrument with the objective of altering interest rate exposures related to variable debt.

The following table provides information, as of December 31, 2006, about our debt obligations and interest rate contract. For debt obligations, the table presents principal cash flows, weighted-average interest rates by expected maturity dates and fair values. For the interest rate contract, the table presents the underlying face (notional) amount, weighted-average interest rate by contractual maturity dates and the fair value to settle the contract at December 31, 2006. Weighted-average interest rates used for variable rate obligations are based on rates as derived from published spot rates, in effect as at December 31, 2006.

	December 31,					Thereafter	Total	Fair Value December 31, 2006
	2007	2008	2009	2010	2011			
Liabilities								
Long-term debt:								
Fixed rate	\$ 341	\$ 301	\$ -	\$ -	\$ -	\$ -	\$ 642	\$ 602
Average interest rate	.6%							
Variable rate	\$ 2,202	\$ 75	\$ 75	\$ -	\$ 31,500	\$ -	\$ 33,852	\$ 33,852
Average interest rate	6.3%	6.0%	6.0%	6.1%	6.2%			
Interest rate derivative instrument								
Interest rate contract:								
Pay fixed, notional amount	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000	\$ (19)
Average pay rate	4.96%							
Average receive rate	5.17%							

Interest rates, as of December 31, 2006, on the fixed-rate debt was at 0% and 10%, and interest rates on the variable-rate debt ranged from 6.0% to 8.3%.

The interest rate contract has an underlying face (notional) amount of \$10,000, which is used to calculate the cash flow to be exchanged and does not represent the exposure to credit loss. If we were to settle the contract at December 31, 2006 (fair value), we would receive \$19.

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.

For the year ended December 31, 2006, the result of a hypothetical 10% uniform change in the value of the U.S. dollar as compared with the Canadian dollar would not have a material effect on our results of operations or our financial position. Our sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices.

Impact of Inflation

The impact of inflation on the results of operations has not been significant in recent years.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information set forth in "Market Risk Information" under Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

Our consolidated financial statements are attached hereto and listed on page F-1 of this annual report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Management's Discussion of Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control framework and processes were designed to provide reasonable assurance to management and the Board of Directors that the Company's financial reporting is reliable and that the Company's consolidated financial statements for external purposes have been prepared in accordance with accounting principles generally accepted in the United States.

Management recognizes its responsibility for fostering a strong ethical climate so that the Company's affairs are conducted according to the highest standards of personal and corporate conduct.

The Company's internal controls over financial reporting include policies and procedures that:

- provide for the maintenance of records that, in reasonable detail, accurately and fairly reflect the business transactions of the Company;
- provide reasonable assurance that transactions are recorded properly to allow for the preparation of financial statements in accordance with generally accepted accounting principles; and,
- provide reasonable assurance that the unauthorized acquisition, use, or disposition of the Company's assets will be prevented, or at the minimum, detected in a timely manner.

We maintain a dynamic system of internal controls and processes—including internal controls over financial reporting—designed to ensure reliable financial recordkeeping, transparent financial reporting and disclosure, and protection of physical and intellectual property.

No system of internal control over financial reporting can provide absolute guarantees, but only reasonable assurances of the prevention or detection of misstatements. The Company's processes, however, contain self-monitoring mechanisms, and actions will be taken to correct deficiencies as they are identified.

Management assessed the effectiveness of the Company's internal control over financial reporting and concluded that, as of December 31, 2006, such internal control is effective. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "Internal Control--Integrated Framework." To comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, the Company designed and implemented a structured and comprehensive compliance process to evaluate its internal control over financial reporting across the enterprise.

In addition, the Company maintains a testing program that assesses the effectiveness of internal control over financial reporting, including testing of the five COSO elements, and recommends improvements.

The Company's independent auditor, Ernst & Young LLP, with direct access to the Company's Board of Directors through its Audit Committee, has audited the consolidated financial statements prepared by the Company. Their report on the consolidated financial statements is included elsewhere herein.

(b) Management's Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Form 10-K, 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) under the Securities Exchange Act of 1934). Based on 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 the end of the period covered by this Form 10-K.

(c) Management’s Annual Report on Internal Control Over Financial Reporting

The management of The Davey Tree Expert Company is responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2006 based on the framework in “Internal Control--Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2006.

The Davey Tree Expert Company’s independent auditor, Ernst & Young LLP, an independent registered public accounting firm, has issued an audit report on management’s assessment of the effectiveness of our internal control over financial reporting. This audit report appears below.

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

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

/s/ Nicholas R. Sucic
*Vice President and
Controller*

Kent, Ohio
March 1, 2007

(d) Changes in Internal Control Over Financial Reporting

There have been no significant changes in our internal control over financial reporting or in other factors that have materially affected or are reasonably likely to materially affect these internal controls over financial reporting subsequent to the date we carried out our evaluation.

(e) Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
The Davey Tree Expert Company

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that The Davey Tree Expert Company maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Davey Tree Expert Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that The Davey Tree Expert Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, The Davey Tree Expert Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Davey Tree Expert Company as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006 of The Davey Tree Expert Company and our report dated March 1, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Akron, Ohio
March 1, 2007

Item 9B. *Other Information.*

As previously announced, effective January 1, 2007, Mr. Cowan retired as our Chief Executive Officer, and Mr. Warnke, our President and Chief Operating Officer since March 1999, was elected our President and Chief Executive Officer. Mr. Cowan is continuing his service to the Company as nonexecutive Chairman of the Board of Directors.

In connection with his continuing service as Chairman of the Board, Mr. Cowan entered into an Agreement, dated December 8, 2006, with the Company that provided for his duties and responsibilities as Chairman. Mr. Cowan will serve as Chairman until the expiration of his current term as a director at the 2008 annual meeting of shareholders. Mr. Cowan will be paid an annual retainer of \$150,000 per year in lieu of the retainer and meeting fees paid to other directors, will be reimbursed for certain dues and expenses, and will receive the fees otherwise payable to nonemployee directors for the three-year period following the 2008 annual meeting.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance.*

Information about our executive officers is in the section "Executive Officers of the Registrant" in Part I, Item 4A of this report.

Information about our directors is in the section "Election of Directors" of our 2007 Proxy Statement, which is incorporated into this report by reference.

Information about our audit committee and our audit committee financial experts is in the section "Committees of the Board of Directors; Shareholder Nominations; Attendance" of our 2007 Proxy Statement, which is incorporated into this report by reference.

Information required by Item 405 of Regulation S-K is in the section "Section 16(a) Beneficial Ownership Reporting Compliance" of our 2007 Proxy Statement, which is incorporated into this report by reference.

The Company has adopted a Code of Ethics for Financial Matters that applies to our principal executive officer, principal financial officer and principal accounting officer, or persons performing similar functions. That Code is incorporated by reference as Exhibit 14 to this report and is also available on our website or upon request, as described in this report in Item 1. "Business - Access to Company Information."

Item 11. *Executive Compensation.*

Information about executive and director compensation is in the sections "Compensation Discussion and Analysis," "Compensation of Executive Officers" and "Compensation of Directors" of our 2007 Proxy Statement, which are incorporated into this report by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.*

Information about ownership of our common shares by certain persons is in the section "Ownership of Common Shares" of our 2007 Proxy Statement, which is incorporated into this report by reference. Information about our securities authorized for issuance under equity compensation plans is in the section "Equity Compensation Plans Information" of our 2007 Proxy Statement, which is incorporated into this report by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence.*

Information about certain transactions between the Company and its affiliates and certain other persons and the independence of directors is in the section "Corporate Governance" of our 2007 Proxy Statement, which is incorporated into this report by reference.

Item 14. *Principal Accountant Fees and Services.*

Information about our principal accountant's fees and services is in the section "Independent Auditors" of our 2007 Proxy Statement, which is incorporated into this report by reference.

PART IV

Item 15. *Exhibits and Financial Statement Schedules.*

(a) (1) and (a) (2) Financial Statements and Schedules.

The response to this portion of Item 15 is set forth on page F-1 of this report.

(b) Exhibits.

The exhibits to this Form 10-K are submitted as a separate section of this report. See Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on March 14, 2007.

THE DAVEY TREE EXPERT COMPANY

By: /s/ Karl J. Warnke
Karl J. Warnke, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 14, 2007.

/s/ R. Douglas Cowan
R. Douglas Cowan, Director,
Chairman of the Board

/s/ Robert A. Stefanko
Robert A. Stefanko, Director

/s/ R. Cary Blair
R. Cary Blair, Director

/s/ Karl J. Warnke
Karl J. Warnke, Director,
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Dr. Carol A. Cartwright
Dr. Carol A. Cartwright, Director

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

/s/ J. Dawson Cunningham
J. Dawson Cunningham, Director

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

/s/ Douglas K. Hall
Douglas K. Hall, Director

/s/ William L. Phipps
William L. Phipps, Director

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>	
3.1	2003 Amended Articles of Incorporation (Incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 27, 2003).	
3.2	1987 Amended and Restated Regulations of The Davey Tree Expert Company.	Filed Herewith
10.1	Amended and Restated Credit Agreement among the Company, as borrower, Various Lending Institutions, as banks, KeyBank National Association, as lead arranger, syndication agent and administrative agent, and National City Bank, as documentation agent, dated as of November 21, 2006 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated November 22, 2006).	
10.2	1994 Omnibus Stock Plan (Incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004).	
10.3	2004 Omnibus Stock Plan (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004).	
10.4	2004 401KSOP Match Restoration Plan (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004).	
10.5	Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004).	
10.6	Retirement Benefit Restoration Plan (Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004).	
10.7	The Davey Tree Expert Company Board of Directors Revised Deferred Compensation Plan (Incorporated by reference to Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004).	
10.8	Agreement, dated as of December 8, 2006, between the Company and R. Douglas Cowan.	Filed Herewith
14	Code of Ethics (Incorporated by reference to Exhibit 14 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003).	
21	Subsidiaries of the Registrant.	Filed Herewith

23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.	Filed Herewith
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

The documents listed as Exhibits 10.2 through 10.8 constitute management contracts or compensatory plans or arrangements.

The Registrant is a party to certain instruments, copies of which will be furnished to the Securities and Exchange Commission upon request, defining the rights of holders of long-term debt.

Subsidiaries of the Registrant

<u>Name</u>	<u>Jurisdiction of Organization</u>
Davey Tree Surgery Company	Ohio
Davey Tree Expert Co. of Canada, Limited	Canada
Standing Rock Insurance Company	Vermont

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference of our reports dated March 1, 2007, with respect to the consolidated financial statements of The Davey Tree Expert Company, The Davey Tree Expert Company management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of The Davey Tree Expert Company included in this Annual Report (Form 10-K) for the year ended December 31, 2006, in the following Registration Statements:

<u>Registration Number</u>	<u>Description of Registration Statement</u>
33-59347	The Davey Tree Expert Company 1994 Omnibus Stock Plan - Form S-8
333-24155	The Davey 401KSOP and ESOP - Form S-8
333-123767	The Davey Tree Expert Company 2004 Omnibus Stock Plan - Form S-8

/s/ Ernst & Young LLP

Akron, Ohio
March 12, 2007

Certification***Certification of Chief Executive Officer***

I, Karl J. Warnke, certify that:

1. I have reviewed this annual report on Form 10-K 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 controls 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 controls over financial reporting.

Date: March 14, 2007

/s/ Karl J. Warnke

Karl J. Warnke
President and Chief Executive Officer

Certification of Chief Financial Officer

I, David E. Adante, certify that:

1. I have reviewed this annual report on Form 10-K 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 controls 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 controls over financial reporting.

Date: March 14, 2007

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

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

Certification of Chief Executive Officer

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

- (1.) The Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2006 (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: March 14, 2007

/s/ Karl J. Warnke

Karl J. Warnke

President and Chief Executive Officer

Certification Pursuant 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 Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2006 (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: March 14, 2007

/s/ David E. Adante

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

ANNUAL REPORT ON FORM 10-K

ITEM 8, ITEM 15(a)(1) and (2)

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CERTAIN EXHIBITS

FINANCIAL STATEMENTS SCHEDULES

YEAR ENDED DECEMBER 31, 2006

THE DAVEY TREE EXPERT COMPANY

KENT, OHIO

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

FORM 10-K - ITEM 15(a)(1) AND (2)

THE DAVEY TREE EXPERT COMPANY

The following consolidated financial statements of The Davey Tree Expert Company are included in Item 8:

Audited Consolidated Financial Statements:

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets -- December 31, 2006 and 2005	F-3
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Financial Statement Schedules:

None

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
The Davey Tree Expert Company

We have audited the accompanying consolidated balance sheets of The Davey Tree Expert Company as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Davey Tree Expert Company at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes J and K to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," and Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of The Davey Tree Expert Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Akron, Ohio
March 1, 2007

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

	December 31,	
	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,101	\$ 3,445
Accounts receivable, net	70,429	68,339
Operating supplies	3,878	4,302
Prepaid expenses	3,953	2,923
Other current assets	8,907	6,253
Total current assets	89,268	85,262
Property and equipment:		
Land and land improvements	7,486	6,903
Buildings and leasehold improvements	19,619	19,567
Equipment	287,779	263,700
	314,884	290,170
Less accumulated depreciation	218,362	199,402
	96,522	90,768
Other assets		
Identified intangible assets and goodwill, net	13,181	11,606
	9,113	6,493
	\$ 208,084	\$ 194,129
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	\$ 3,921	\$ 962
Accounts payable	19,528	21,665
Accrued expenses	22,635	20,218
Self-insurance accruals	17,208	14,477
Current portion of capital lease obligations	1,482	1,081
Total current liabilities	64,774	58,403
Long-term debt		
Capital lease obligations	31,951	29,065
Self-insurance accruals	931	2,434
Other liabilities	25,716	23,033
	2,636	2,641
	126,008	115,576
Common shareholders' equity:		
Common shares, \$1.00 par value, per share; 24,000 shares authorized; 10,728 shares issued and outstanding as of December 31, 2006 and 2005	10,728	10,728
Additional paid-in capital	5,453	6,799
Common shares subscribed, unissued	8,369	8,876
Retained earnings	121,624	110,119
Accumulated other comprehensive income (loss)	(3,025)	525
	143,149	137,047
Less: Cost of Common shares held in treasury:		
3,218 in 2006 and 3,228 in 2005	57,654	53,753
Common shares subscription receivable	3,419	4,741
	82,076	78,553
	\$ 208,084	\$ 194,129

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2006	2005	2004
Revenues	\$ 467,534	\$ 431,611	\$ 398,648
Costs and expenses:			
Operating	305,106	283,596	263,080
Selling	74,513	69,944	64,010
General and administrative	34,126	29,815	27,908
Depreciation	26,991	24,147	21,083
Amortization of intangible assets	1,291	1,416	1,545
Gain on sale of assets, net	(309)	(521)	(552)
	<u>441,718</u>	<u>408,397</u>	<u>377,074</u>
Income from operations	25,816	23,214	21,574
Other income (expense):			
Interest expense	(2,768)	(2,196)	(1,827)
Interest income	176	260	1,949
Other	(1,301)	(825)	(800)
	<u>(2,893)</u>	<u>(2,761)</u>	<u>(678)</u>
Income before income taxes	21,923	20,453	20,896
Income taxes	7,906	7,142	8,643
	<u>7,906</u>	<u>7,142</u>	<u>8,643</u>
Net income	\$ 14,017	\$ 13,311	\$ 12,253
Net income per share:			
Basic	\$ 1.70	\$ 1.60	\$ 1.44
Diluted	\$ 1.61	\$ 1.50	\$ 1.37
Weighted-average shares outstanding:			
Basic	8,237	8,334	8,496
Diluted	8,730	8,884	8,923
Dividends declared per share	\$.305	\$.285	\$.265

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY
STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY
(In thousands, except per share amounts)

	2006		2005		2004	
	Shares	Amount	Shares	Amount	Shares	Amount
Common shares						
At beginning and end of year	10,728	\$ 10,728	10,728	\$ 10,728	10,728	\$ 10,728
Additional paid-in capital						
At beginning of year		6,799		6,172		6,528
Shares sold to employees		1,049		656		(93)
Options exercised		(3,326)		(199)		(236)
Subscription shares, issued		(208)		(107)		(133)
Stock-based compensation		1,139		277		106
At end of year		5,453		6,799		6,172
Common shares subscribed, unissued						
At beginning of year	740	8,876	767	9,198	810	9,720
Common shares, issued	(40)	(475)	(26)	(308)	(37)	(450)
Cancellations	(3)	(32)	(1)	(14)	(6)	(72)
At end of year	697	8,369	740	8,876	767	9,198
Retained earnings						
At beginning of year		110,119		99,167		89,158
Net income		14,017		13,311		12,253
Dividends, \$.265 per share		-		-		(2,244)
Dividends, \$.285 per share		-		(2,359)		-
Dividends, \$.305 per share		(2,512)		-		-
At end of year		121,624		110,119		99,167
Accumulated other comprehensive income (loss), net of tax						
At beginning of year		525		261		(146)
Currency translation adjustment		(35)		253		422
Net gain (loss) on interest rate contracts		55		(34)		153
Net minimum pension liability		122		45		(168)
Pension plans--FAS158 adjustment, net		(3,692)		-		-
At end of year		(3,025)		525		261
Common shares held in treasury						
At beginning of year	3,228	(53,753)	3,074	(49,314)	2,924	(46,516)
Shares purchased	642	(15,062)	441	(9,067)	430	(7,253)
Shares sold to employees	(239)	4,063	(225)	3,664	(206)	3,254
Options exercised	(373)	6,385	(37)	555	(37)	596
Subscription shares, issued	(40)	713	(25)	409	(37)	605
At end of year	3,218	(57,654)	3,228	(53,753)	3,074	(49,314)
Common shares subscription receivable						
At beginning of year	(740)	(4,741)	(767)	(6,009)	(810)	(7,325)
Payments	40	1,291	26	1,255	37	1,244
Cancellations	3	31	1	13	6	72
At end of year	(697)	(3,419)	(740)	(4,741)	(767)	(6,009)
Common Shareholders' Equity at December 31	<u>7,510</u>	<u>\$ 82,076</u>	<u>7,500</u>	<u>\$ 78,553</u>	<u>7,654</u>	<u>\$ 70,203</u>
Comprehensive Income						
Net income		\$ 14,017		\$ 13,311		\$ 12,253
Net other comprehensive income (loss)		(148)		264		407
Total comprehensive income		<u>\$ 13,869</u>		<u>\$ 13,575</u>		<u>\$ 12,660</u>

See notes to consolidated financial statements.

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

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating activities			
Net income	\$ 14,017	\$ 13,311	\$ 12,253
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	26,991	24,147	21,083
Amortization	1,291	1,416	1,545
Gain on sale of property	(309)	(521)	(552)
Deferred income taxes	(2,444)	(8,631)	2,168
Other	350	518	979
Changes in operating assets and liabilities:			
Accounts receivable	(1,544)	(5,105)	1,272
Accounts payable and accrued expenses	61	(204)	7,249
Self-insurance accruals	5,414	3,218	6,832
Other assets, net	(5,455)	4,088	1,181
	<u>24,355</u>	<u>18,926</u>	<u>41,757</u>
Net cash provided by operating activities	38,372	32,237	54,010
Investing activities			
Capital expenditures:			
Equipment	(31,807)	(31,167)	(37,301)
Land and buildings	(628)	(818)	(1,181)
Proceeds from sales of property and equipment	513	1,348	800
Purchases of businesses	(2,497)	(1,045)	(437)
	<u>(34,419)</u>	<u>(31,682)</u>	<u>(38,119)</u>
Net cash used in investing activities	(34,419)	(31,682)	(38,119)
Increase in cash before financing activities	3,953	555	15,891
Financing activities			
Revolving credit facility proceeds (payments), net	2,900	9,900	(10,600)
Borrowings (payments) of notes payable	2,469	(1,187)	(278)
Borrowings (payments) of long-term debt and capital leases	(2,583)	(1,565)	730
Purchase of common shares for treasury	(15,062)	(9,067)	(7,253)
Sale of common shares from treasury	8,676	4,978	3,993
Cash received on common share subscriptions	815	946	794
Dividends	(2,512)	(2,359)	(2,244)
	<u>(5,297)</u>	<u>1,646</u>	<u>(14,858)</u>
Net cash (used in) provided by financing activities	(5,297)	1,646	(14,858)
Increase (Decrease) in cash and cash equivalents	(1,344)	2,201	1,033
Cash and cash equivalents, beginning of year	3,445	1,244	211
Cash and cash equivalents, end of year	\$ 2,101	\$ 3,445	\$ 1,244

See notes to consolidated financial statements.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements
December 31, 2006
(In thousands, except share data)

A. The Company's Business

The Davey Tree Expert Company and its subsidiaries (the "Company") provides a wide range of horticultural services to residential, commercial, utility and institutional customers throughout 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 public utilities, including the clearing of tree growth from power lines, clearance of rights-of-way and chemical brush control.

Resource Group 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.

B. Accounting Policies

Principles of Consolidation and Basis of Presentation--The consolidated financial statements include the accounts of The Davey Tree Expert Company and its wholly-owned subsidiaries and were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All significant intercompany accounts and transactions have been eliminated.

Certain reclassifications of prior years' amounts have been made to the presentation adopted for 2006.

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

Cash Equivalents--Cash equivalents are highly liquid investments with original maturities of three months or less.

Property and Equipment--Property and equipment are stated at cost. Repair and maintenance costs are expensed as incurred. Depreciation is computed for financial reporting purposes by the straight-line method for land improvements, building and leasehold improvements and by the double-declining method for equipment, based on the estimated useful lives of the assets, as follows:

Land improvements.....	5 to 20 years
Buildings	5 to 20 years
Equipment	3 to 10 years
Leasehold improvements	Shorter of lease term or estimated useful life; ranging from 5 to 20 years

The amortization of assets acquired under capital leases is included in depreciation expense.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2006
(In thousands, except share data)

B. Accounting Policies (continued)

Intangible Assets--Intangible assets with finite lives, primarily customer lists, noncompete agreements and tradenames, are amortized by the straight-line method based on their estimated useful lives, ranging from one to ten years. Goodwill is assessed for impairment, at least annually. No impairment charges were incurred during 2006, 2005 or 2004 as the fair value of goodwill exceeded the carrying amount.

Long-Lived Assets--The Company assesses potential impairment to its long-lived assets, other than goodwill, only when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely and the carrying amount of the asset exceeds the estimated future undiscounted cash flow. In the event the assessment indicates that the carrying amounts may not be recoverable, an impairment loss would be recognized to reduce the asset's carrying amount to its estimated fair value based on the present value of the estimated future cash flows.

Self-Insurance Accruals--The Company is generally self-insured for losses and liabilities related primarily to workers' compensation, vehicle liability and general liability claims. The Company uses commercial insurance as a risk-reduction strategy to minimize catastrophic losses. Ultimate losses are accrued based upon estimates of the aggregate liability for claims incurred using certain actuarial assumptions followed in the insurance industry and based on Company-specific experience.

The self-insurance accruals include claims for which the ultimate losses will develop over a period of years. Accordingly, the estimates of ultimate losses can change as claims mature. The accruals also are affected by changes in the number of new claims incurred and claim severity. The methods for estimating the ultimate losses and the total cost of claims were determined by external consulting actuaries; the resulting accruals are continually reviewed by management, and any adjustments arising from changes in estimates are reflected in income currently. The self-insurance accruals are based on estimates, and while management believes that the amounts accrued are adequate and not excessive, the ultimate claims may be in excess of or less than the amounts provided.

Income Taxes--The Company computes taxes on income in accordance with the tax rules and regulations where the income is earned. The income tax rates imposed by these taxing authorities vary. Taxable income may differ from pretax income for financial reporting purposes. To the extent differences are due to revenue and expense items reported in one period for tax purposes and in another period for financial reporting purposes, provision for deferred taxes is made. Changes in tax rates and laws are reflected in income in the period when such changes are enacted.

Net Income Per Share and Common Shares--Basic net income per share is determined by dividing the income available to common shareholders by the weighted-average number of common shares outstanding. Diluted net income per share is computed similar to basic net income per share except that the weighted-average number of shares is increased to include the effect of stock awards that were granted and outstanding during the period and the assumed exercise of stock subscription rights.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2006
(In thousands, except share data)

B. Accounting Policies (continued)

Revenue Recognition--Revenues from residential and commercial services are recognized as the services are provided and amounts are determined to be collectible. Revenues from contractual arrangements, primarily with utility services customers, are recognized based on costs incurred to total estimated contract costs. During the performance of such contracts, estimated final contract prices and costs are periodically reviewed and revisions are made, as required, to the revenue recognized. On cost-plus-fee contracts, revenue is recognized to the extent of costs incurred plus a proportionate amount of fees earned, and on time-and-material contracts, revenue is recognized to the extent of billable rates times hours worked, plus material and other reimbursable costs incurred. Revisions arise in the normal course of providing services to utility services customers and generally relate to changes in contract specifications and cost allowability. Such revisions are recorded when realization is probable and can be reliably estimated.

Concentration of Credit Risk--Credit risk represents the accounting loss that would be recognized if the counterparties failed to perform as contracted. The principal financial instruments subject to credit risk follow:

Cash and Cash Equivalents, and Interest Rate Contracts: To limit its exposure, the Company transacts its business and maintains interest rate contracts with high credit quality financial institutions.

Accounts Receivable: The Company's residential and commercial customers are located geographically throughout the United States and Canada and, as to commercial customers, within differing industries; thus, minimizing credit risk. The credit exposure of utility services customers is directly affected by conditions within the utility industries as well as the financial condition of individual customers. One utility services customer approximated 9% of revenues during 2006, 12% during 2005 and 13% during 2004. To reduce credit risk, the Company evaluates the credit of customers, but generally does not require advance payments or collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition.

Currency Translation Adjustments--All assets and liabilities of the Company's Canadian operations are translated into United States dollars at year-end exchange rates while revenues and expenses are translated at weighted-average exchange rates in effect during the year. Translation adjustments are recorded as accumulated other comprehensive income (loss) in shareholders' equity.

Interest Rate Risk Management--The Company has entered into an interest rate contract with the objective of altering interest rate exposures related to variable rate debt. In the interest rate contract, the Company has agreed with a financial institution to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated on an agreed-upon notional principal amount.

Comprehensive Income (Loss)--Comprehensive income (loss) includes net income and other comprehensive income or loss. Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under U.S. GAAP are included in comprehensive income but are excluded from net income as these amounts are recorded directly as an adjustment to shareholders' equity, net of tax.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2006
(In thousands, except share data)

B. Accounting Policies (continued)

Fair Values--The carrying amount of cash and cash equivalents, receivables, accounts payable and debt approximates fair value.

Adoption of FASB Statement No. 123R ("FAS 123R")--Effective January 1, 2006, the Company adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 123 (revised), "Share-Based Payment" ("FAS 123R"). FAS 123R requires all share-based payments to employees, including grants of stock options, to be recognized as compensation costs in the financial statements based on their estimated fair values over the requisite employee service period (that is, pro forma disclosure is no longer an alternative to financial statement recognition). Prior to January 1, 2006, in accordance with FASB Statement No. 123, "Accounting for Stock-Based Compensation," the Company followed Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under APB 25, no stock-based compensation expense was recognized related to the Company's stock options and Employee Stock Purchase Plan, as all options granted under the stock option plans had an exercise price equal to the market value of the underlying common stock on the date of grant and, with respect to the Employee Stock Purchase Plan, the discount did not exceed 15%. FAS 123R is discussed further in Note J, "Stock-Based Compensation."

Adoption of FASB Statement No. 158 ("FAS 158")--In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("FAS 158")—an amendment of FASB Statements No. 87, 88, 106 and 132(R). FAS 158 requires that employers (i) recognize the funded status of their defined benefit pension and other postretirement plans in their balance sheet and (ii) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. As a result of adopting FAS 158, on December 31, 2006, the Company reflected the funded status of its defined benefit pension plans by reducing its net pension asset by \$5,834 to reflect actuarial and investment losses that had been deferred pursuant to prior pension accounting rules and recorded (i) a corresponding deferred tax asset of \$2,217, (ii) a reduction in accrued pension obligations of \$208 and (iii) a net after-tax charge of \$3,409 in accumulated other comprehensive income (loss) in shareholders' equity.

New Accounting Pronouncement to be Adopted in 2007--In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement No. 109, "Accounting for Income Taxes" ("FIN 48"). FIN 48 applies to all "tax positions" accounted for under FASB Statement No. 109. FIN 48 refers to "tax positions" as positions taken in a previously-filed tax return or positions expected to be taken in a future tax return that are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements. FIN 48 further clarifies a tax position to include: (i) a decision not to file a tax return in a particular jurisdiction for which a return might be required; (ii) an allocation or a shift of income between taxing jurisdictions; (iii) the characterization of income or a decision to exclude reporting taxable income in a tax return; or (iv) a decision to classify a transaction, entity, or other position in a tax return as tax-exempt.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2006
(In thousands, except share data)

B. Accounting Policies (continued)

FIN 48 clarifies that a tax benefit may be reflected in the financial statements only if it is “more-likely-than-not” that a company will be able to sustain the tax return position, based on its technical merits. If a tax benefit meets this criterion, it should be measured and recognized based on the largest amount of benefit that is cumulatively greater than 50% likely to be realized. FIN 48 also requires that we make expanded presentations, including: a description of open tax years by major jurisdictions; a tabular progression of the beginning and ending aggregate unrecognized tax benefits; and a discussion of reasonably possible changes that might occur in unrecognized tax benefits over the next twelve months.

FIN 48 became effective for the Company on January 1, 2007 and is not expected to have a significant impact on the Company’s consolidated financial position, results of operations or cash flows.

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

C. Accounts Receivable, Net

Accounts receivable, net, consisted of the following:

	December 31,	
	2006	2005
Accounts receivable	\$ 68,370	\$ 67,504
Receivables under contractual arrangements	<u>6,151</u>	<u>3,089</u>
	74,521	70,593
Less allowances for doubtful accounts	<u>4,092</u>	<u>2,254</u>
	<u>\$ 70,429</u>	<u>\$ 68,339</u>

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

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2006
(In thousands, except share data)

D. Supplemental Balance Sheet and Cash Flow Information

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

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Other current assets		
Deferred income taxes	\$ 6,091	\$ 5,055
Other	2,816	1,198
Total	<u>\$ 8,907</u>	<u>\$ 6,253</u>

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Other assets		
Net pension asset	\$ 2,972	\$ -
Prepaid pension costs		9,396
Deferred income tax	3,763	167
Deposits	1,362	1,534
Assets invested for self-insurance	5,084	509
Total	<u>\$ 13,181</u>	<u>\$ 11,606</u>

	<u>December 31,</u>			
	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Net of Amortization</u>	<u>Cost</u>	<u>Net of Amortization</u>
Identified intangibles and goodwill, net				
Customer lists	\$ 7,229	\$ 1,354	\$ 6,251	\$ 1,196
Noncompete agreements	2,449	603	1,962	371
Tradenames	1,082	407	697	280
Goodwill	8,461	6,749	6,358	4,646
	19,221	<u>\$ 9,113</u>	15,268	<u>\$ 6,493</u>
Less accumulated amortization	10,108		8,775	
Total	<u>\$ 9,113</u>		<u>\$ 6,493</u>	

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Accrued expenses		
Employee compensation	\$ 10,743	\$ 9,542
Accrued vacation	3,476	3,253
Self-insured medical claims	2,750	1,891
Income taxes payable	1,086	1,896
Taxes, other than income	1,275	1,424
Other	3,305	2,212
Total	<u>\$ 22,635</u>	<u>\$ 20,218</u>

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2006
(In thousands, except share data)

D. Supplemental Balance Sheet and Cash Flow Information (continued)

Supplemental cash flow information follows:

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Interest paid	\$ 2,804	\$ 2,161	\$ 1,867
Income taxes paid, net	11,806	12,975	8,785
Noncash transactions:			
Debt issued for purchases of businesses	<u>1,467</u>	-	<u>1,138</u>
Detail of acquisitions:			
Assets acquired:			
Cash	\$ 49	\$ -	\$ -
Receivables	547	-	-
Equipment	614	411	268
Intangibles	3,914	576	1,307
Prepays	-	58	-
Liabilities assumed	(1,111)	-	-
Debt issued for purchase of businesses	<u>(1,467)</u>	-	<u>(1,138)</u>
Cash paid	<u>\$ 2,546</u>	<u>\$ 1,045</u>	<u>\$ 437</u>

E. Short-Term and Long-Term Debt

Short-term debt consisted of the following:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Notes payable	\$ 1,060	\$ -
Current portion of long-term debt	<u>2,861</u>	<u>962</u>
	<u>\$ 3,921</u>	<u>\$ 962</u>

At December 31, 2006, the Company also had unused short-term lines of credit with several banks totaling \$4,160, generally at the banks' prime rate. Long-term debt consisted of the following:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Revolving credit facility		
Prime rate borrowings	\$ 4,500	\$ 3,600
LIBOR borrowings	<u>27,000</u>	<u>25,000</u>
	31,500	28,600
Term loans	<u>3,312</u>	<u>1,427</u>
	34,812	30,027
Less current portion	<u>2,861</u>	<u>962</u>
	<u>\$ 31,951</u>	<u>\$ 29,065</u>

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
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E. Short-Term and Long-Term Debt (continued)

Revolving Credit Facility--In November 2006, the Company executed an amendment and restatement to its revolving credit facility. The amended and restated agreement, which expires in December 2011, permits borrowings as defined up to \$147,000 with a letter of credit sublimit of \$100,000 (the previous agreement permitted borrowings up to \$120,000 with a letter of credit sublimit of \$70,000). 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 December 31, 2006, the Company had unused commitments under the facility approximating \$57,056, with \$89,944 committed under the agreement, consisting of borrowings of \$31,500 and issued letters of credit of \$58,444. Borrowings outstanding bear interest, at the Company's option, at the agent bank's prime rate or LIBOR plus a margin adjustment ranging from .65% to 1.45%, based on a ratio of funded debt to EBITDA. A commitment fee ranging from .11% to .19% is also required based on the average daily unborrowed commitment.

Term Loans, Weighted-Average Interest Rate--The weighted-average interest on the term loans approximated 8.05% (6.43% at December 31, 2005).

Aggregate Maturities of Long-Term Debt--Aggregate maturities of long-term debt for the five years subsequent to December 31, 2006 were as follows: 2007--\$2,861; 2008--\$376; 2009--\$75; 2010--\$0; 2011--\$31,500.

Interest Rate Contract--The Company uses an interest rate contract to effectively convert a portion of variable-rate revolving credit borrowings to a fixed rate, thus reducing the impact of interest rate changes on future interest expense. As of December 31, 2006, the Company had an interest rate contract outstanding, with an underlying notional amount totaling \$10,000, requiring interest to be paid at 4.96% and maturing in November 2008. The fair value of the interest rate contract is the amount quoted by the financial institution that the Company would receive to terminate the agreement, an asset of \$19 at December 31, 2006.

F. Self-Insurance Accruals

Components of the Company's self-insurance accruals for workers' compensation, vehicle liability and general liability follow:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Workers' compensation	\$ 26,959	\$ 24,640
Present value discount	2,980	2,734
	<u>23,979</u>	<u>21,906</u>
Vehicle liability	6,779	6,174
General liability	12,166	9,430
Total	<u>42,924</u>	<u>37,510</u>
Less current portion	17,208	14,477
Noncurrent portion	<u>\$ 25,716</u>	<u>\$ 23,033</u>

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F. Self-Insurance Accruals (continued)

The table below reconciles the changes in the self-insurance accruals for losses and related payments and sets forth the discount rate used for the workers' compensation accrual.

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 37,510	\$ 34,292
Provision for claims	27,211	25,609
Payment of claims	<u>21,797</u>	<u>22,391</u>
Balance, end of year	<u>\$ 42,924</u>	<u>\$ 37,510</u>
 Workers' compensation discount rate	 <u>4.50%</u>	 <u>4.50%</u>

G. Lease Obligations

Assets acquired under capital leases and included in property and equipment consisted of the following:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Equipment	\$ 4,752	\$ 4,769
Less accumulated amortization	<u>3,889</u>	<u>3,382</u>
	<u>\$ 863</u>	<u>\$ 1,387</u>

The Company also leases facilities under noncancelable operating leases, which are used for district office and warehouse operations. These leases extend for varying periods of time up to five years and, in some cases, contain renewal options. Minimum rental commitments under all capital and noncancelable operating leases, as of December 31, 2006 were as follows:

	<u>Lease Obligations</u>	
	<u>Capital</u>	<u>Operating</u>
Minimum lease obligations		
Year ending December 31, 2007	\$ 1,560	\$ 2,956
2008	522	2,082
2009	454	1,294
2010	-	896
2011	-	575
2012 and after	<u>-</u>	<u>655</u>
Total minimum lease payments	2,536	<u>\$ 8,458</u>
Amounts representing interest	<u>123</u>	
Present value of net minimum lease payments	2,413	
Less current portion	<u>1,482</u>	
Long-term capital lease obligations, December 31, 2006	<u>\$ 931</u>	

Total rent expense under all operating leases was \$3,115 in 2006, \$2,688 in 2005 and \$3,103 in 2004.

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Notes to Consolidated Financial Statements--(Continued)
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H. Common Shares and Preferred Shares

The Company has authorized a class of 4,000,000 preferred shares, no par value, of which none were issued.

The number of common shares authorized is 24,000,000, par value \$1.00. The number of common shares issued was 10,728,440 during each of the three years in the period ended December 31, 2006. The number of shares in the treasury for each of the three years in the period ended December 31, 2006 was as follows: 2006--3,218,059; 2005--3,227,517; and 2004--3,073,632.

The Company's common shares are not listed or traded on an established public trading market, and market prices are, therefore, not available. Semiannually, an independent stock valuation firm determines the fair market value of the Company's common shares based upon the Company's performance and financial condition. Since 1979, the Company has provided a ready market for all shareholders through its direct purchase of their common shares, although the Company is under no obligation to do so. During 2006, purchases of common shares totaled 642,095 shares for \$15,062 in cash; the Company also had direct sales to directors and employees of 22,226 shares for \$357, excluding those shares issued through either the exercise of options or the Employee Stock Purchase Plan. It also sold 109,428 shares to the Company's 401(k) plan for \$2,586 and issued 41,900 shares to participant accounts to satisfy its liability for the 2005 employer match in the amount of \$943. The liability accrued at December 31, 2006 for the 2006 employer match was \$1,012. There were also 65,622 shares purchased during 2006 under the Employee Stock Purchase Plan.

Common Shares Outstanding--The table below reconciles the activity of the common shares outstanding.

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Shares outstanding, beginning of year	7,500,923	7,654,808
Shares purchased	(642,095)	(441,499)
Shares sold to employees and directors	239,176	225,568
Stock subscription offering - cash purchases	39,609	25,126
Options exercised	<u>372,768</u>	<u>36,920</u>
	<u>9,458</u>	<u>(153,885)</u>
Shares outstanding, end of year	<u>7,510,381</u>	<u>7,500,923</u>

On December 31, 2006, the Company had 7,510,381 common shares outstanding, options exercisable to purchase 332,525 common shares, partially-paid subscriptions for 697,392 common shares and purchase rights outstanding for 251,022 common shares.

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

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Notes to Consolidated Financial Statements--(Continued)
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H. Common Shares and Preferred Shares (continued)

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

I. The Davey 401KSOP and Employee Stock Ownership Plan ("ESOP")

On March 15, 1979, the Company consummated a plan, which transferred control of the Company to its employees. As a part of this plan, the Company initially sold 120,000 common shares (presently, 5,760,000 common shares adjusted for stock splits) to the Company's Employee Stock Ownership Trust ("ESOT") for \$2,700. The Employee Stock Ownership Plan ("ESOP"), in conjunction with the related ESOT, provided for the grant to certain employees of certain ownership rights in, but not possession of, the common shares held by the trustee of the Trust. Annual allocations of shares have been made to individual accounts established for the benefit of the participants.

Defined Contribution and Savings Plans--Most employees are eligible to participate in the "The Davey 401KSOP and ESOP." Effective January 1, 1997, the plan commenced operations and retained the existing ESOP participant accounts and incorporated a deferred savings plan (401(k) plan) feature. Participants in the plan are allowed to make before-tax contributions, within Internal Revenue Service established limits, through payroll deductions. The Company will match, in either cash or Company stock, 50% of each participant's before-tax contribution, limited to the first 3% of the employee's compensation deferred each year. All nonbargaining domestic employees who attained age 21 and completed one year of service are eligible to participate. In May 2004, the Company adopted the 401K Match Restoration Plan, a defined contribution plan that supplements the retirement benefits of certain employees that participate in the savings plan feature of The Davey 401KSOP and ESOP Plan, but are limited in contributions because of tax rules and regulations.

Total compensation for these plans, consisting primarily of the employer match was \$1,012 in 2006, \$943 in 2005, and \$919 in 2004.

J. Stock-Based Compensation

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

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Notes to Consolidated Financial Statements--(Continued)
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J. Stock-Based Compensation (continued)

Stock Option Plans--The Stock Plan consolidates into a single plan provisions for the grant of stock options and other stock-based incentives and maintenance of the Employee Stock Purchase Plan. Prior to adoption of the Stock Plan and its predecessor, the 1994 Omnibus Stock Plan, the Company had two qualified stock option plans available for officers and management employees; the final grant of awards under those plans was December 10, 1993. The maximum number of shares that may be issued upon exercise of stock options, other than director options and nonqualified stock options, is 1,600,000 during the ten-year term of the Stock Plan. Shares purchased since 1994 under the Employee Stock Purchase Plan were 1,520,587. Each nonemployee director elected or appointed, and reelected or reappointed, will receive a director option that gives the right to purchase, for six years, 4,000 common shares at the fair market value per share at date of grant. The director options are exercisable six months from the date of grant. The aggregate number of common shares available for grant and the maximum number of shares granted annually are based on formulas defined in the Stock Plan. The grant of awards, other than director options, is at the discretion of the Compensation Committee of the Board of Directors. Shares available for grant at December 31, 2006 were 296,452.

Adoption of FASB Statement No. 123R ("FAS 123R")--Effective January 1, 2006, the Company adopted FAS 123R, "Share-Based Payment." FAS 123R requires all share-based payments to employees, including grants of stock options, to be recognized as compensation costs in the financial statements based on their estimated fair values over the requisite employee service period (that is, pro forma disclosure is no longer an alternative to financial statement recognition).

Prior to January 1, 2006, in accordance with FASB Statement No. 123, "Accounting for Stock-Based Compensation," the Company followed APB 25, "Accounting for Stock Issued to Employees." Under APB 25, no stock-based compensation expense was recognized related to the Company's stock options and Employee Stock Purchase Plan, as all options granted under the stock option plans had an exercise price equal to the market value of the underlying common stock on the date of grant and, with respect to the Employee Stock Purchase Plan, the discount did not exceed 15%.

Under FAS 123R, all new grants of employee stock options awarded after December 31, 2005 to employees and subscriptions to purchase shares under the Employee Stock Purchase Plan after December 31, 2005 result in compensation costs being recognized. In adopting FAS 123R, there was no effect on prior period financial statements as compensation costs are only permitted to be recognized prospectively.

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

	<u>Year Ended December 31</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Compensation expense, all share-based payment plans	\$ 1,139	\$ 277	\$ 106
Income tax benefit	346	105	40

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Notes to Consolidated Financial Statements--(Continued)
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J. Stock-Based Compensation (continued)

As a result of adopting FAS 123R on January 1, 2006, reported results for the year ended December 31, 2006, were lower than if the Company had continued to account for share-based compensation under APB 25, as follows: (i) income before income taxes--\$583; (ii) net income--\$361; (iii) basic net income per share--\$.04; and, (iv) diluted net income per share--\$.04.

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. Purchases under the plan, at 85% of the fair market value of the common shares, have been as follows:

	Year Ended December 31,		
	2006	2005	2004
Number of employees participating	918	994	792
Shares purchased during the year	65,622	66,355	71,282
Weighted-average per share purchase price paid	\$ 19.76	\$ 17.43	\$ 14.42
Cumulative shares purchased since 1982	3,830,491	3,764,869	3,698,514

Compensation costs are recognized as payroll deductions are made. The 15% discount of total shares purchased under the plan resulted in compensation cost being recognized during the year ended December 31, 2006 of \$229.

Stock Option Plans--Since adopting FAS 123R on January 1, 2006 there were 238,000 stock option awards granted. The stock option awards were granted at an exercise price equal to the fair market value of the Company's common stock at the dates of grant. The stock options were awarded under a graded vesting schedule and have a term of ten years. Compensation costs for stock options are recognized over the requisite service period on the straight-line recognition method. Compensation expense for stock options during the year ended December 31, 2006 was \$217.

Performance-Based Restricted Stock Units--During February 2006, the Compensation Committee of the Board of Directors awarded 36,687 Performance-Based Restricted Stock Units to certain management employees. Similar awards were made in prior periods. The awards vest over specified periods. The following table summarizes Performance-Based Restricted Stock Units as of December 31, 2006.

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J. Stock-Based Compensation (continued)

<u>Unvested Performance-Based Restricted Stock Units</u>	<u>Number of Stock Units</u>	<u>Weighted- Average Grant Date Value</u>	<u>Unrecognized Compensation Cost</u>	<u>Aggregate Intrinsic Value</u>
Unvested, January 1, 2006	81,961			
Granted	36,687			
Forfeited	-			
Vested	-			
Unvested, December 31, 2006	<u>118,648</u>	<u>\$ 18.85</u>	<u>\$ 1,185</u>	<u>\$ 2,848</u>

The fair value of the restricted stock units for awards made prior to January 1, 2006 is based on the market price of the Company's common stock on the date of award and is recognized as compensation cost on the straight-line recognition method over the vesting period. Under the provisions of FAS 123R, compensation cost for awards made after December 31, 2005 is determined using a fair-value method, amortized over the requisite service period and remeasured at each reporting date until the date of settlement. As of December 31, 2006, the unrecognized compensation cost related to performance-based restricted stock units, is expected to be recognized over a weighted-average period of 1.7 years. "Intrinsic value" is defined as the amount by which the fair market value of a common share of stock exceeds the exercise price of a performance-based restricted stock unit. Compensation expense on restricted stock awards totaled \$693 for the year ended December 31, 2006 and \$277 for the year ended December 31, 2005.

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

The fair values of stock-based awards granted during the year ended December 31, 2006 were estimated at the date of grant with the following assumptions: volatility—14.1%; expected dividend yield—1.5%; risk-free interest rate—4.7% and expected life of the award—8.2 years.

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J. Stock-Based Compensation (continued)

General Stock Option Information--The following table summarizes activity under the stock option plans for the year ended December 31, 2006.

	<u>Number of Options Outstanding</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Life</u>	<u>Aggregate Intrinsic Value</u>
Outstanding, January 1, 2006	906,293	\$ 11.28		
Granted	238,000	22.50		
Exercised	(372,768)	8.07		
Forfeited	<u>(4,000)</u>	7.90		
Outstanding, December 31, 2006	<u>767,525</u>	16.34	7.4 years	<u>\$ 5,879</u>
Exercisable, December 31, 2006	<u>332,525</u>	13.83	6.4 years	<u>\$ 3,382</u>

“Intrinsic value” is defined as the amount by which the market price of a common share of stock exceeds the exercise price of an option. Information regarding the stock options outstanding at December 31, 2006 is summarized below:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Weighted- Average Remaining Contractual Life</u>	<u>Weighted- Average Exercise Price</u>	<u>Number Exercisable</u>	<u>Weighted- Average Exercise Price</u>
Employee options:					
\$ 13.50	493,925	6.9 years	\$ 13.50	288,925	\$ 13.50
22.50	<u>230,000</u>	9.3 years	22.50	-	22.50
	723,925	7.7 years	16.36	288,925	13.50
Director options:					
\$11.00 to \$22.50	<u>43,600</u>	3.0 years	16.03	<u>43,600</u>	16.03
	<u>767,525</u>	7.4 years	16.34	<u>332,525</u>	13.83

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

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Notes to Consolidated Financial Statements--(Continued)
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K. Defined Benefit Pension Plans

Substantially all of the Company's domestic employees are covered by noncontributory defined benefit pension plans. A plan for nonbargaining employees provides a benefit based primarily on annual compensation up to a defined level and years of credited service. Another plan is for bargaining employees not covered by union pension plans and provides benefits at a fixed monthly amount based upon length of service. During May 2004, the Company adopted a Supplemental Executive Retirement Plan ("SERP") and a Benefit Restoration Pension Plan ("Restoration Plan") for certain key employees. Both the SERP and the Restoration Plan are defined benefit plans under which nonqualified supplemental pension benefits will be paid in addition to amounts paid under the Company's qualified retirement defined benefit pension plans, which are subject to Internal Revenue Service limitations on covered compensation.

The change in benefit obligations and the fair value of plans assets follows:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 24,974	\$ 23,916
Service cost	1,357	1,272
Interest cost	1,476	1,408
Amendments	36	-
Actuarial gain	(744)	(307)
Benefits paid	<u>(1,477)</u>	<u>(1,315)</u>
Projected benefit obligation at end of year	<u>\$ 25,622</u>	<u>\$ 24,974</u>
Accumulated benefit obligation at end of year	<u>\$ 22,626</u>	<u>\$ 21,759</u>
	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	\$ 27,843	\$ 25,536
Actual return on plan assets	1,026	3,511
Employer contributions	109	111
Benefits paid	<u>(1,477)</u>	<u>(1,315)</u>
Fair value of plan assets at end of year	<u>\$ 27,501</u>	<u>\$ 27,843</u>

The aggregate projected benefit obligation, accumulated benefit obligation and fair value of plan assets for plans in which the fair value of plan assets is less than either the projected benefit obligation or accumulated benefit obligation follow:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
For pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	\$ 2,266	\$ 1,795
Accumulated benefit obligation	2,101	1,682
Fair value of plan assets	1,173	1,198

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Notes to Consolidated Financial Statements--(Continued)
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K. Defined Benefit Pension Plans (continued)

Adoption of FASB Statement No. 158 ("FAS 158")--On December 31, 2006, the Company adopted FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("FAS 158")—an amendment of FASB Statements No. 87, 88, 106 and 132(R).

As a result of adopting FAS 158, on December 31, 2006, the Company reflected the funded status of its defined benefit pension plans by reducing its net pension asset by \$5,834 to reflect actuarial and investment losses that had been deferred pursuant to prior pension accounting rules and recorded (i) a corresponding deferred tax asset of \$2,217, (ii) a reduction in accrued pension obligations of \$208 and (iii) a net after-tax charge of \$3,409 in accumulated other comprehensive income (loss) in shareholders' equity.

The adjustment to accumulated other comprehensive income at adoption of FAS 158 represents the net unrecognized actuarial losses, unrecognized prior service costs, and unrecognized transition obligation remaining from the initial adoption of FASB Statement No. 87 ("Employers' Accounting for Pensions"), all of which were previously netted against the plan's funded status in the Company's consolidated balance sheet pursuant to the requirements of FASB Statement No. 87. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of FAS 158.

The adoption of FAS 158 had no effect on the Company's consolidated statement of operations for the year ended December 31, 2006, or for any prior period presented, and it will not affect the Company's operating results in future periods.

The incremental effects of adopting the provisions of FAS 158 on the Company's consolidated balance sheet at December 31, 2006 are presented in the table below, "Effect of Adopting FAS 158." Had the Company not adopted FAS 158 at December 31, 2006, it would have recognized an additional minimum liability pursuant to the provisions of FASB Statement No. 87. The effect of recognizing the additional minimum liability is included in the table below in the column labeled "Prior to Adopting FAS 158."

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K. Defined Benefit Pension Plans (continued)

	<u>At December 31, 2006</u>		<u>As Reported at December 31, 2006</u>
	<u>Prior to Adopting FAS 158</u>	<u>Effect of Adopting FAS 158</u>	
Incremental Effect to the Balance Sheet			
Net pension asset	\$ -	\$ 2,972	\$ 2,972
Prepaid pension costs	<u>8,806</u>	<u>(8,806)</u>	<u>-</u>
	8,806	(5,834)	2,972
Deferred income taxes	1,546	2,217	3,763
Total assets	211,701	(3,617)	208,084
Accrued pension obligations, current	134	(117)	17
Accrued pension obligations, noncurrent	1,167	(91)	1,076
Total liabilities	126,216	(208)	126,008
Accumulated other comprehensive income (loss)	384	(3,409)	(3,025)
Total common shareholders' equity	85,485	(3,409)	82,076
Total liabilities and shareholders' equity	211,701	(3,617)	208,084

Amounts included in accumulated other comprehensive loss related to FAS 158 follow:

	<u>At December 31, 2006</u>	
	<u>Pretax</u>	<u>Net of Tax</u>
Amounts included in accumulated other comprehensive income		
Unrecognized net actuarial loss	\$ 6,088	\$ 3,774
Unrecognized prior service cost	224	139
Unrecognized transition asset	<u>(357)</u>	<u>(221)</u>
	<u>\$ 5,955</u>	<u>\$ 3,692</u>

The actuarial assumptions follow. The discount rates were used to measure the year-end benefit obligation and compute pension expense for the subsequent year.

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Actuarial assumptions		
Discount rate	6.00%	5.75%
Expected long-term rate of return on plan assets	8.00	8.00
Rate of increase in future compensation levels	4.50	4.50

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Notes to Consolidated Financial Statements--(Continued)
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K. Defined Benefit Pension Plans (continued)

Net periodic benefit expense (income) associated with the defined benefit pension plans included the following components:

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Components of pension expense (income)			
Service costs -- increase in benefit obligation earned	\$ 1,357	\$ 1,272	\$ 1,098
Interest cost on projected benefit obligation	1,476	1,408	1,322
Expected return on plan assets	(2,177)	(1,987)	(1,971)
Amortization of net actuarial loss	220	449	268
Amortization of prior service cost	71	281	281
Amortization of transition asset	(72)	(72)	(72)
Net pension expense of defined benefit pension plans	<u>\$ 875</u>	<u>\$ 1,351</u>	<u>\$ 926</u>

The estimated costs that will be amortized from accumulated other comprehensive loss into net periodic pension cost during the year ending December 31, 2007 follows:

	<u>Year Ending</u>	
	<u>December 31, 2007</u>	
	<u>Pretax</u>	<u>Net of Tax</u>
Amortization of costs expected to be recognized next year		
Unrecognized net actuarial loss	\$ 256	\$ 159
Unrecognized prior service cost	32	20
Unrecognized transition asset	(72)	(45)
	<u>\$ 216</u>	<u>\$ 134</u>

Multiemployer Pension Plans Contributions--In addition to the Company-sponsored defined benefit plans, the Company contributes to several multiemployer plans. Total pension expense for multiemployer plans was \$758 in 2006, \$597 in 2005, and \$368 in 2004.

Plan Assets--The percentages of the fair value of total plan assets, by major category, were as follows, along with the target range-of-percentage allocations for 2007 used as investment strategy.

Plan assets - asset category	Percentage of		Target
	Plan Assets		
	at December 31,		Allocations
	<u>2006</u>	<u>2005</u>	<u>2007</u>
Equity securities	71%	70%	55% to 80%
Debt securities	29	30	28% to 33%
Total	<u>100%</u>	<u>100%</u>	

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K. Defined Benefit Pension Plans (continued)

Investment Strategy and Risk Management for Plan Assets--The Company's investment strategy for the plan assets is to manage the assets in order to pay retirement benefits to plan participants while minimizing cash contributions from the Company over the life of the plans. This is accomplished by preserving capital through diversification in high-quality investments and earning an acceptable long-term rate of return consistent with an acceptable degree of risk, while considering the liquidity needs of the plans. Target range-of-percentage allocations to major categories of plan assets are based on the expected returns for the following 12-to-18 months. Equity securities are expected to be well-diversified and consist mainly of domestic and foreign issues, with no single holding exceeding 7% of total equity securities. Debt securities consist of fixed-income issues, generally with a laddered-maturity structure ranging from 1-to-12 years. There is no specific prohibition to investing in real estate. Derivatives, options or leverage are not used.

Rate-of-return-on-assets assumptions are made by major category of plan assets according to historical analysis, tempered for an assessment of possible future influences that could cause the returns to exceed or trail long-term patterns. The overall expected long-term rate-of-return-on-plan assets, as at December 31, 2006, was 8.3%.

Expected Benefit Plan Payments--The benefits, as of December 31, 2006, expected to be paid to defined-benefit plan participants in each of the next five years, and in the aggregate for the five years thereafter, follow.

Estimated future payments	<u>Participants</u> <u>Benefits</u>
Year ending December 31, 2007	\$ 1,063
2008	1,082
2009	1,108
2010	1,135
2011	1,171
Years 2012 to 2016	<u>6,895</u>

Expected Benefit Plan Contributions--The Company expects, as of December 31, 2006, to make defined-benefit contributions totaling \$117 before December 31, 2007.

L. Income Taxes

Income before income taxes was attributable to the following sources:

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
United States	\$ 17,936	\$ 18,190	\$ 19,080
Canada	<u>3,987</u>	<u>2,263</u>	<u>1,816</u>
Total	<u>\$ 21,923</u>	<u>\$ 20,453</u>	<u>\$ 20,896</u>

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L. Income Taxes (continued)

The provision for income taxes follows:

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Currently payable:			
Federal	\$ 8,004	\$ 13,138	\$ 3,953
State	1,573	2,010	1,864
Canadian	<u>1,223</u>	<u>631</u>	<u>649</u>
Total current	10,800	15,779	6,466
Deferred taxes	<u>(2,894)</u>	<u>(8,637)</u>	<u>2,177</u>
Total taxes on income	<u>\$ 7,906</u>	<u>\$ 7,142</u>	<u>\$ 8,643</u>

A reconciliation of the expected statutory U.S. federal rate to the Company's actual effective income tax rate follows:

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Statutory U.S. federal tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	4.5	3.5	5.7
Effect of Canadian income taxes	(.5)	(.7)	.1
All other, net	<u>(2.9)</u>	<u>(2.9)</u>	<u>.6</u>
Effective income tax rate	<u>36.1%</u>	<u>34.9%</u>	<u>41.4%</u>

Deferred income taxes reflect the tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's current net deferred tax assets and liabilities at December 31, were as follows:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Accrued compensated absences	\$ 692	\$ 599
Self-insurance accruals	5,363	4,801
Other assets (liabilities), net	<u>36</u>	<u>(345)</u>
Net deferred income tax assets--current	<u>\$ 6,091</u>	<u>\$ 5,055</u>

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Notes to Consolidated Financial Statements--(Continued)
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L. Income Taxes (continued)

Significant components of the Company's noncurrent net deferred tax assets and liabilities at December 31, were as follows:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Self-insurance accruals	\$ 9,540	\$ 8,202
Intangibles	706	918
Accrued expenses and other liabilities	685	1,000
Other assets (liabilities), net	<u>1,573</u>	<u>768</u>
	12,504	10,888
Deferred tax liabilities:		
Property and equipment	8,030	7,471
Prepaid pension costs	<u>711</u>	<u>3,250</u>
	<u>8,741</u>	<u>10,721</u>
Net deferred income tax assets (liabilities)--noncurrent	<u>\$ 3,763</u>	<u>\$ 167</u>

M. Comprehensive Income (Loss)

The components of comprehensive income (loss) that relate to the Company are net income, currency translation adjustments, the change in fair value of the interest rate contracts designated as effective cash-flow hedges and, prior to the adoption of FAS 158, minimum pension liability adjustments. On December 31, 2006, the Company adopted FAS 158 which requires that employers (i) recognize the funded status of their defined benefit pension and other postretirement plans in their balance sheet and (ii) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. The effect of adopting FAS 158 is discussed in Note K, "Defined Benefit Pension Plans."

The components of other comprehensive income (loss) follow:

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Comprehensive Income			
Net income	\$ 14,017	\$ 13,311	\$ 12,253
Other comprehensive income (loss)			
Currency translation adjustments	(35)	253	422
Interest rate contract, change in fair value	88	(56)	246
Minimum pension liability adjustments	<u>(271)</u>	<u>73</u>	<u>(270)</u>
Other comprehensive income (loss), before income taxes	(218)	270	398
Income tax benefit (expense), related to items of other comprehensive income	<u>70</u>	<u>(6)</u>	<u>9</u>
Other comprehensive income (loss)	<u>(148)</u>	<u>264</u>	<u>407</u>
Comprehensive income	<u>\$ 13,869</u>	<u>\$ 13,575</u>	<u>\$ 12,660</u>

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M. Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), net of tax, included in the equity section of the consolidated balance sheets follow:

	<u>December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Accumulated comprehensive income (loss)			
Currency translation adjustments	\$ 655	\$ 690	\$ 437
Fair value of interest rate contract	12	(43)	(8)
Minimum pension liability adjustments	-	(122)	(168)
Defined benefit pension plans--FAS 158	<u>(3,692)</u>	<u>-</u>	<u>-</u>
Accumulated comprehensive income (loss)	<u>\$ (3,025)</u>	<u>\$ 525</u>	<u>\$ 261</u>

N. Net Income Per Share

Net income per share is computed as follows:

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Income available to common shareholders:			
Net income	<u>\$ 14,017</u>	<u>\$ 13,311</u>	<u>\$ 12,253</u>
Weighted-average shares:			
Basic:			
Outstanding	7,539,617	7,594,463	7,729,829
Partially-paid share subscriptions	<u>697,392</u>	<u>739,697</u>	<u>766,501</u>
Basic weighted-average shares	<u>8,237,009</u>	<u>8,334,160</u>	<u>8,496,330</u>
Diluted:			
Basic from above	8,237,009	8,334,160	8,496,330
Incremental shares from assumed:			
Exercise of stock subscription purchase rights	122,005	105,453	74,883
Exercise of stock options	<u>370,857</u>	<u>444,164</u>	<u>351,697</u>
Diluted weighted-average shares	<u>8,729,871</u>	<u>8,883,777</u>	<u>8,922,910</u>
Net income per share:			
Basic	<u>\$ 1.70</u>	<u>\$ 1.60</u>	<u>\$ 1.44</u>
Diluted	<u>\$ 1.61</u>	<u>\$ 1.50</u>	<u>\$ 1.37</u>

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O. Operations by Business Segment and Geographic Information

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

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

Measurement of Segment Profit and Loss and Segment Assets--The Company evaluates performance and allocates resources based primarily on operating income and also actively manages business unit operating assets. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies except that (a) the Company computes and recognizes depreciation expense for its segments only by the straight-line method and (b) state income taxes are allocated to the segments. Corporate expenses are substantially allocated among the operating segments, but the nature of expenses allocated may differ from year-to-year. There are no intersegment revenues.

Segment assets are those generated or directly used by each segment, and include accounts receivable, inventory, and property and equipment.

During the fourth quarter 2006, the Company aligned its reporting to more closely reflect its management structure. The amounts in the table below for 2005 and 2004 have been conformed to the 2006 reporting.

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Notes to Consolidated Financial Statements--(Continued)
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O. Operations by Business Segment and Geographic Information (continued)

Information on reportable segments and reconciliation to the consolidated financial statements follows:

	<u>Utility Services</u>	<u>Residential Commercial Services</u>	<u>All Other</u>	<u>Reconciling Adjustments</u>		<u>Consolidated</u>
Fiscal Year 2006						
Revenues	\$ 233,419	\$ 207,711	\$ 26,404	\$ -		\$ 467,534
Income (loss) from operations	<u>10,338</u>	<u>17,260</u>	<u>3,178</u>	(4,960)	(a)	25,816
Interest expense				(2,768)		(2,768)
Interest income				176		176
Other income (expense), net				<u>(1,301)</u>		<u>(1,301)</u>
Income before income taxes						<u>21,923</u>
Depreciation	\$ 12,981	\$ 9,543	\$ 738	\$ 3,729	(b)	\$ 26,991
Capital expenditures	16,602	11,407	402	4,024		32,435
Segment assets, total	<u>87,149</u>	<u>59,566</u>	<u>6,645</u>	<u>54,724</u>	(c)	<u>208,084</u>
Fiscal Year 2005						
Revenues	\$ 209,327	\$ 196,461	\$ 25,823	\$ -		\$ 431,611
Income (loss) from operations	<u>9,567</u>	<u>13,509</u>	<u>3,191</u>	(3,053)	(a)	23,214
Interest expense				(2,196)		(2,196)
Interest income				260		260
Other income (expense), net				<u>(825)</u>		<u>(825)</u>
Income before income taxes						<u>20,453</u>
Depreciation	\$ 10,696	\$ 9,378	\$ 527	\$ 3,546	(b)	\$ 24,147
Capital expenditures	16,801	10,892	356	3,936		31,985
Segment assets, total	<u>77,816</u>	<u>60,658</u>	<u>5,750</u>	<u>49,905</u>	(c)	<u>194,129</u>
Fiscal Year 2004						
Revenues	\$ 188,558	\$ 194,828	\$ 15,262	\$ -		\$ 398,648
Income (loss) from operations	<u>8,624</u>	<u>14,037</u>	<u>722</u>	(1,809)	(a)	21,574
Interest expense				(1,827)		(1,827)
Interest income				1,949		1,949
Other income (expense), net				<u>(800)</u>		<u>(800)</u>
Income before income taxes						<u>20,896</u>
Depreciation	\$ 9,533	\$ 8,819	\$ 336	\$ 2,395	(b)	\$ 21,083
Capital expenditures	17,109	14,841	381	6,151		38,482
Segment assets, total	<u>68,424</u>	<u>58,836</u>	<u>3,862</u>	<u>51,983</u>	(c)	<u>183,105</u>

Reconciling adjustments from segment reporting to consolidated external financial reporting include unallocated corporate items:

- (a) Reclassification of depreciation expense and allocation of corporate expenses.
- (b) Reduction to straight-line depreciation expense from declining balance method and depreciation and amortization of corporate assets.
- (c) Corporate assets include cash and cash equivalents, prepaid expenses, corporate facilities, enterprise-wide information systems, intangibles, and deferred and other nonoperating assets.

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Notes to Consolidated Financial Statements--(Continued)
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O. Operations by Business Segment and Geographic Information

Geographic Information--The following presents revenues and long-lived assets by geographic territory:

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues			
United States	\$ 424,466	\$ 398,429	\$ 370,639
Canada	<u>43,068</u>	<u>33,182</u>	<u>28,009</u>
	<u>\$ 467,534</u>	<u>\$ 431,611</u>	<u>\$ 398,648</u>
	<u>December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Long-lived assets, net			
United States	\$ 92,348	\$ 85,842	\$ 81,588
Canada	<u>13,287</u>	<u>11,419</u>	<u>9,320</u>
	<u>\$ 105,635</u>	<u>\$ 97,261</u>	<u>\$ 90,908</u>

P. Commitments and Contingencies

At December 31, 2006, the Company was contingently liable to its principal banks in the amount of \$62,516 for letters of credit outstanding primarily related to insurance coverage.

In certain circumstances, the Company has performance obligations that are supported by surety bonds in connection with its contractual commitments.

The Company is party to a number of lawsuits, threatened lawsuits and other claims arising out of the normal course of business. Management is of the opinion that liabilities which may result are adequately covered by insurance, or reflected in the self-insurance accruals, and would not be material in relation to the financial position or results of operations.

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Q. Quarterly Results of Operations (Unaudited)

The following is a summary of the results of operations for each quarter of 2006 and 2005.

	Fiscal 2006, Three Months Ended			
	<u>Apr 1</u>	<u>Jul 1</u>	<u>Sept 30</u>	<u>Dec 31</u>
Revenues	\$ 101,372	\$ 132,332	\$ 122,897	\$ 110,933
Gross profit	31,397	48,254	42,162	40,615
Income from operations	33	13,721	6,847	5,215
Net income (loss)	<u>(606)</u>	<u>7,694</u>	<u>3,749</u>	<u>3,180</u>
Net income (loss) per share -- Basic	<u>\$ (.08)</u>	<u>\$ 1.00</u>	<u>\$.48</u>	<u>\$.41</u>
Net income (loss) per share -- Diluted	<u>\$ (.08)</u>	<u>\$.94</u>	<u>\$.45</u>	<u>\$.39</u>
ESOT Valuation per share	\$ 22.50	\$ 24.00	\$ 24.00	\$ 25.90

Fourth quarter 2006 includes a decrease in casualty insurance expense that had the effect of increasing the fourth quarter gross profit by approximately \$4,894.

	Fiscal 2005, Three Months Ended			
	<u>Apr 2</u>	<u>Jul 2</u>	<u>Oct 1</u>	<u>Dec 31</u>
Revenues	\$ 88,149	\$ 121,404	\$ 116,387	\$ 105,671
Gross profit	26,494	44,025	41,584	35,912
Income (loss) from operations	(1,994)	12,582	8,783	3,843
Net income (loss)	<u>(1,707)</u>	<u>6,888</u>	<u>5,125</u>	<u>3,005</u>
Net income (loss) per share -- Basic	<u>\$ (.22)</u>	<u>\$.88</u>	<u>\$.66</u>	<u>\$.39</u>
Net income (loss) per share -- Diluted	<u>\$ (.22)</u>	<u>\$.83</u>	<u>\$.61</u>	<u>\$.37</u>
ESOT Valuation per share	\$ 20.00	\$ 21.00	\$ 21.00	\$ 22.50

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