

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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, 1992

Commission file number: 0-11917

THE DAVEY TREE EXPERT COMPANY

(Exact name of Registrant as specified in its charter)

Ohio
(State of Incorporation) 34-0176110
(IRS Employer Identification No.)

1500 North Manuta Street
P. O. Box 5193
Kent, Ohio
Address of principal executive offices 44240-5193
(Zip Code)

Registrant's telephone number, including area code: (216) 673-9511

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

Securities registered pursuant to Section 12(g) of the Act:

Common Shares, \$1 par value

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, and (2) has been subject to such filing requirement for the past 90 days.
Yes No

The 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 amendments to this Form 10-K.
(X)

The aggregate "market value" (See Item 5 hereof) of voting stock held by non-affiliates of the Registrant at March 15, 1993 (excluding the total number of Common Shares reported in Item 12 hereof), was \$65,523,321.

Common Shares outstanding at March 15, 1993: 2,544,595

Documents incorporated by reference: Portions of the Registrant's definitive Proxy Statement for its 1992 Annual Meeting of Shareholders (Part III).

Index to Exhibits is located on sequential page 17.

FORM 10-K

THE DAVEY TREE EXPERT COMPANY

Year Ended December 31, 1992

PART I

Item 1. Business

General. The Davey Tree Expert Company, which was incorporated in 1909, and its subsidiaries (the "Registrant") are in the business of providing horticultural services to a variety of residential, corporate, institutional and governmental customers. Horticultural services include the treatment, preservation, maintenance, cultivation, planting and removal of trees, shrubs and other plant life and also include the practices of landscaping, tree surgery, tree feeding, tree spraying, interior plant installation and maintenance, and line clearing for public utilities. Horticultural services also involve the application of scientifically formulated fertilizers, herbicides and insecticides with hydraulic spray equipment on residential and commercial lawns.

Competition and Customers. The Registrant is one of the largest national organizations in the private horticultural services industry. The Registrant competes with other national and local firms with respect to its services, although the Registrant believes that no other firm, whether national or local, offers the range of services that it offers.

Competition in private horticultural services is generally localized but very active and widespread. The principal methods of competition are advertising, customer service, image, performance and reputation. The Registrant's program to meet its competition stresses the necessity for its employees to have and project to the customers a thorough knowledge of horticulture and utilization of modern, well-maintained equipment. Pricing is not always a critical factor in a customer's decision. Pricing is, however, the principal method of competition in providing horticultural services to utility customers, although in most instances consideration is given to reputation and past production performance.

The Registrant provides 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 1992, the Registrant had sales of approximately \$33,000,000 (16% of total sales) to Pacific Gas & Electric Company.

Regulation and Environment. The Registrant's 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 the Registrant's 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. The constant changes in environmental conditions, environmental awareness, technology and social attitudes make it necessary for the Registrant to maintain a high degree of awareness of the impact such changes have on the market for its services. The Registrant believes that it is in compliance with existing Federal, state and local laws regulating the use of materials in its spraying operations as well as the other aspects of its business that are subject to any such regulation.

Marketing. The Registrant solicits business from residential and commercial customers principally through direct mail programs and to a lesser extent through the placement of advertisements in national magazines and trade journals and in local newspapers and "yellow pages" telephone directories. Business from utility customers is obtained principally through negotiated contracts and competitive bidding. All sales and services are carried out through personnel who are direct employees. The Registrant does not use agents and does not franchise its name or business.

Seasonality. The Registrant's business is highly seasonal, primarily due to extreme fluctuations in horticultural services provided to residential and commercial customers. Because of this seasonality, the Registrant has 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 of between \$8,000,000 and \$12,000,000 in additional working capital at various times throughout the year. The Registrant borrows primarily against bank commitments in the form of lines of credit and a revolving credit agreement to provide the necessary funds.

Other Factors. Rapid changes in equipment technology require a constant updating of equipment and processes to ensure competitive services to the Registrant's clients. Also, the Registrant must continue to assure its compliance with the Occupational Safety and Health Act. In keeping with these requirements, capital expenditures in 1992 and 1991 were approximately \$26,434,000 and \$13,841,000, respectively.

The Registrant owns several trademarks including "Davey", "Davey and design", "Arbor Green", "Davey Tree and design", "Davey Expert Co. and design" and "Davey and design (Canada)". Through substantial advertising and use, the Registrant is of the opinion that these trademarks have become of value in the identification and acceptance of its products and services.

Employees. The Registrant employs between 4,500 and 5,000 persons, depending upon the season, and considers its employee relations to be good.

Foreign and Domestic Operations. The Registrant and its Canadian subsidiaries sell the Registrant's service to customers in the United States and Canada, respectively.

The Registrant does not consider its foreign operations to be material and considers the risks attendant to its business with foreign customers, other than currency exchange risks, to be not materially different from those attendant to business with its domestic customers.

Item 2. Properties

The following table lists certain information with respect to major properties owned by the Registrant and used in connection with its operations.

<u>Location</u>	<u>Acreage</u>	<u>Building Sq. Ft.</u>
Cincinnati, Ohio	2.5	7,200
Livermore, California	12.0	29,737
Winter Park, Florida	1.0	5,850
Chamblee, Georgia	1.9	6,200
East Dundee, Illinois	4.0	7,500
Indianapolis, Indiana	1.5	5,000
Troy, Michigan	2.0	7,200
Cheektowaga, New York	6.9	2,800
Bayport, New York	2.0	7,000
Charlotte, North Carolina	3.1	4,900
Canal Winchester, Ohio	2.8	25,933
Kent, Ohio (multiple parcels)	124.6	111,608
Toledo, Ohio	.5	4,300
Wooster, Ohio	322.8	13,194
Columbus, Ohio	8.0	12,685
Dayton, Ohio	.3	3,584
West Babylon, New York	.9	14,100
Houston, Texas	1.6	8,200
Chantilly, Virginia	2.0	5,700
Downsview, Ontario, Canada	.5	3,675
Baltimore, Maryland	3.4	22,500
Lancaster, New York	3.0	6,624
Bettendorf, Iowa	.5	478
Richmond, Virginia	.7	2,586
Mecklenburg County, North Carolina	15.6	-0-
Soco Gap, North Carolina	17.0	-0-
Stow, Ohio	7.4	14,100
West Carlton Twp., Ontario, Canada	3.0	4,000
Nanaimo, British Columbia, Canada	1.0	4,742
Edmonton, Alberta, Canada	.7	2,900
Houston, Texas	1.5	7,000
Plymouth, Minnesota	2.7	11,750
Gaithersburg, Maryland	2.1	7,200
Lachine, Quebec, Canada	.5	2,300
Gibsonia, Pennsylvania	5.9	7,100
Lawrence, Pennsylvania	3.5	7,200

The Registrant also rents approximately 40 other premises for office, warehouse and storage use. The Registrant believes that all of these properties have been adequately maintained and are suitable and adequate for its business as presently conducted.

Item 3. Legal Proceedings.

There are no legal proceedings, other than ordinary routine litigation incidental to the business, to which the Registrant or any of its subsidiaries is a party or of which any of their property is the subject. This routine litigation is not material to the Registrant.

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

No matter was submitted during the fourth quarter of 1992 to a vote of security holders, through the solicitation of proxies or otherwise.

Executive Officers of the Registrant (included pursuant to Instruction 3 to paragraph (b) of Item 401 of Regulation S-K). The executive officers of the Registrant and their present positions and ages are as follows:

<u>Name</u>	<u>Position</u>	<u>Age</u>
R. Douglas Cowan	President and Chief Executive Officer	52
David E. Adante	Vice President, Chief Financial Officer and Secretary-Treasurer	41
Howard D. Bowles	Vice President and General Manager, Davey Tree Surgery Company	49
C. Kenneth Celmer	Vice President-Eastern Operations, Residential & Commercial Services	45
Bradley L. Comport, CPA	Corporate Controller	41
Dr. Roger C. Funk	Vice President - Human and Technical Resources	48
Rosemary T. Nicholas	Assistant Secretary	49
Gordon L. Ober	Vice President - New Ventures	43
Richard A. Ramsey	Vice President-Western Operations, Residential & Commercial Services	43
Donald J. Shope	Vice President and General Manager, Residential and Commercial Services	59
Karl J. Warnke	Vice President and General Manager, Utility Services	41

Mr. Cowan was elected President and Chief Executive Officer in May 1988 and prior to that time served as President and Chief Operating Officer.

Mr. Adante was elected Vice President, Chief Financial Officer and Secretary-Treasurer in July 1992. Prior to that time, he served as Vice President, Chief Financial Officer and Secretary since before 1988.

Mr. Bowles was elected Vice President and General Manager of Davey Tree Surgery Company in January 1992. He served as Vice President and Co-General Manager from July 1989 to January 1992. Prior to that time, he served as Vice President-Utility Operations of Davey Tree Surgery Company since before 1988.

Mr. Celmer was elected Vice President-Eastern Operations, Residential and Commercial Services in January 1992. He served as Vice President-Operations, Residential and Commercial Services from May 1989 to January 1992. Prior to that time, he served as Operations Vice President-Residential and Commercial Services since before 1988.

Mr. Comport was elected Corporate Controller in May 1990. Prior to that time and since before 1988, he served as Vice President-Finance and Administration for G & R Felpauch Company, a comparable-size retail supermarket chain.

Dr. Funk was elected Vice President-Human Technical Resources in January 1984.

Mrs. Nicholas was elected Assistant Secretary in May 1982.

Mr. Ober was elected Vice President-New Ventures in March 1986.

Mr. Ramsey was elected Vice President-Western Operations, Residential and Commercial Services in January 1992. He served as Vice President and Co-General Manager of Davey Tree Surgery Company from July 1989 to January 1992. Prior to that time, he served as Vice President, Residential and Commercial Services of Davey Tree Surgery since before 1988.

Mr. Shope was elected Vice President and General Manager-Residential and Commercial Services in January 1984.

Mr. Warnke was elected Vice President and General Manager-Utility Services in September 1988. Prior to that time, he served as Vice President and Assistant to the President since before 1988.

Officers of the Registrant serve for a term of office 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 of Registrant's Common Shares and Related Security Holder Matters.

Pursuant to resolution adopted by the Board of Directors on March 10, 1989, the Registrant made a Stock Subscription offering to employees and directors in May 1989. Under the program, employees could subscribe to purchase the Registrant's Common Shares by making 10% down payments and financing the balance by 7-year promissory notes to the Registrant payable in monthly or annual principal installments with interest at 8% per annum on outstanding principal balances. A total of 141 employees and directors subscribed for 228,876 Common Shares during the subscription period, which ended August 15, 1989.

At December 31, 1992, 1991, and 1990 the number of Common Shares issued were 4,364,220 for each date. At those respective dates, the number of shares in the treasury were 1,816,307, 1,696,955 and 1,643,094.

The Registrant's Common Shares are not listed or traded on an established public trading market and market prices are, therefore, not available. Semi-annually, for purposes of the Registrant's Employee Stock Ownership Trust ("ESOT"), the fair market value of the Registrant's Common Shares, based upon the Registrant's performance and financial condition, is determined by an independent financial consulting firm.

As of March 15, 1993, there were 1,388 record holders of the Registrant's Common Shares. During the years ended December 31, 1992, December 31, 1991 and December 31, 1990, the Registrant paid dividends of \$.11, \$.10, and \$.09, respectively, per share in each of the four quarters. The Registrant's agreements with its lenders provide that the payment of cash dividends during any year may not exceed the lesser of (a) 30% of the average of annual net earnings (as defined) for the prior three years or (b) 10% of consolidated net worth (as defined) as at the first day of that year. (See Note 4 to the Financial Statements on page F-13 of this Annual Report on Form 10-K.)

Item 6. Selected Financial Data.

	<u>Years Ended December 31</u>				
	<u>1992</u>	<u>1991</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>
	(Dollars in Thousands, except per share data)				
Operating Results:					
Revenues	\$208,936	\$187,424	\$184,042	\$166,845	\$152,234
Net Earnings	\$ 5,044	\$ 5,867	\$ 5,242	\$ 5,016	\$ 4,832
Net Earnings Per Common Share	\$ 1.89	\$ 2.13	\$ 1.84	\$ 1.82	\$ 1.75
At Year End:					
Total Assets	\$ 92,722	\$ 73,236	\$ 72,544	\$ 67,693	\$ 58,301
Total Long-Term Debt	\$ 27,113	\$ 13,355	\$ 13,402	\$ 12,956	\$ 5,813
Cash Dividends Per Common Share	\$.44	\$.40	\$.36	\$.32	\$.28

Net earnings and net earnings per common share presented for 1991 include both the cumulative effect on prior years of changing to the new standard of accounting for income taxes (See the Consolidated Statement of Net Earnings on page F-5 of this Annual Report on Form 10-K) and the change to the 150% declining balance method of depreciation (See Note 1 to the Consolidated Financial Statements on page F-10 of this Annual Report on Form 10-K). The cumulative effect increased net earnings by \$606,000 and net earnings per common share by \$.22. The change in depreciation method increased net earnings by \$253,000 and net earnings per share by \$.09.

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

LIQUIDITY AND CAPITAL RESOURCES

In fiscal 1992, operating activities generated \$15,463,000 in cash, a decrease of \$2,445,000 from 1991. The decrease was primarily attributable to increases in accounts receivable, other assets, and a reduction in other liabilities, partially offset by an increase in accounts payable and accrued liabilities.

Approximately \$2,878,000 of the increase in accounts receivable resulted from several new utility contracts that had been gained in 1992. The balance of the increase is largely attributable to amounts that were still outstanding from storm damage work acquired as a result of Hurricane Andrew. The Registrant believes that its accounts receivable will remain at current levels, reduced by the amount attributable to the storm work.

Substantially all of the increase of \$2,688,000 and \$1,841,000 in accounts payable and accrued liabilities respectively, was attributable to the new utility contracts. The Registrant anticipates that accounts payable and accrued liabilities will remain at current levels throughout 1993.

During 1992, the Registrant's investing activities used \$26,025,000 in cash compared to \$13,571,000 and \$14,549,000 in 1991 and 1990, respectively. The \$12,454,000 increase from 1991 resulted primarily from equipment expenditures required by the new utility contracts. The Registrant expects its 1993 capital expenditures will decline to a level of approximately \$15,000,000, but will also be consistent with its plans to expand services, maintain equipment on its existing operations, and provide for the ongoing purchase of land and branch office facilities.

Financing activities provided \$10,069,000 in cash for the year, compared to a net use of \$3,702,000 and \$1,949,000 in 1991 and 1990, respectively. The increase of \$13,771,000 over 1991 was primarily attributable to borrowings under the new term note agreement and the revolving credit agreement, necessitated by the capital expenditures associated with the new Utility contracts. This was offset by a net use of \$2,754,000 to redeem the Company's stock compared to \$1,415,000 and \$1,839,000 in 1991 and 1990, respectively.

At December 31, 1992, the Registrants' principal source of liquidity consisted of \$687,000 in cash and cash equivalents; short term lines of credit and amounts available to be borrowed from banks via notes payable totaling \$11,467,000, of which \$8,496,000 had been drawn at December 31, 1992; and a revolving credit agreement with a bank in the amount of \$15,000,000 of which \$5,300,000 had been drawn at December 31, 1992. To provide an additional source of liquidity with which to meet seasonal demands for funds, the Registrant secured an additional \$5,000,000 line of credit with its principal bank. This additional line of credit is available from March 1, 1993 through September 1, 1993. Of the revised aggregate amount available of \$31,467,000, approximately \$20,500,000 had been drawn from these agreements at March 15, 1993. Including the term note agreement of \$12,000,000, the Registrant's credit facilities now total \$43,467,000.

The Registrant also uses a number of other measurements and ratios to gauge its financial condition and monitor trends in key performance areas of operations.

Liquidity Measurements

Management uses these measurements to gauge the Registrant's ability to meet current working capital requirements and the extent by which capital expenditures are funded by internally generated "cash flow".

	<u>1992</u>	<u>1991</u>	<u>1990</u>
Working Capital	\$ 9,947	\$ 9,259	\$ 8,833
Current Ratio	1.5:1	1.5:1	1.5:1
Cash Flow from Earnings before Cumulative Effect and Depre- ciation and Amortization ("Cash Flow")	\$17,220	\$16,692	\$17,376
Capital Expenditures	\$26,434	\$13,841	\$14,828
Cash Flow to Capital Expenditures Ratio	.7:1	1.2:1	1.2:1
Cash Flow as % of Revenues	8.2%	8.9%	9.4%

Leverage Measurements

These ratios measure the extent to which the Registrant has been financed by debt, or, put another way, the proportion of the total assets employed in the business that have been provided by creditors as compared to shareholders. Debt is defined as total liabilities.

	<u>1992</u>	<u>1991</u>	<u>1990</u>
Equity to Debt Ratio	.77:1	1.16:1	.97:1
Debt as % of Assets	56.5%	46.4%	50.7%
Equity as % of Assets	43.5%	53.6%	49.3%

At the end of 1992 the relationship of equity to debt compared to 1991 and 1990 declined primarily due to the additional borrowings incurred to fund the capital expenditures required by the new utility contracts.

Common Share Measurements

These measurements assist shareholders in assessing the Registrant's earnings performance, dividend payout and equity position as related to their shareholdings.

	<u>1992</u>	<u>1991</u>	<u>1990</u>
Earnings per share (before cumulative effect)	\$ 1.89	\$ 1.91	\$ 1.84
Net Earnings per share (after cumulative effect)	\$ 1.89	\$ 2.13	\$ 1.84
Dividends per Share	\$.44	\$.40	\$.36
Book Value per Share	\$15.82	\$14.72	\$13.13
ESOT Market Valuation per Share	\$25.75	\$24.87	\$20.53

Earnings per share measurements are shown as if all outstanding stock options had been exercised at December 31 of the years presented. Dividends were again increased in 1992. In 1992, they were increased \$.04 per share or 10% over 1991, compared to an increase in 1991 of \$.04 per share or 11% over 1990. It is the Registrant's objective to provide a fair return on investment to its shareholders through improved dividends as long as the Registrant can financially justify such a policy. The fact that dividends have increased each year since 1979 reflects that objective.

Asset Utilization Measurements

Management uses these measurements to evaluate its efficiency in employing assets to generate revenues and returns.

	<u>1992</u>	<u>1991</u>	<u>1990</u>
Average Assets Employed (in 000's)	\$82,979	\$72,890	\$70,119
Asset Turnover (Revenues to Average Assets)	2.5	2.6	2.6
Return on Average Assets (calculated on earnings before cumulative effect)	6.1%	7.2%	7.5%

Asset turnover decreased slightly to 2.5 from 2.6 in 1991 and 1990. Although Management anticipated that the return on average assets would remain lower than desired in the near to intermediate term because of a continuing commitment to acquire land and facilities for its Residential/Commercial operations, and particularly due to the investment required for the new utility contracts, the Registrant's long term goal remains that of achieving an asset turnover rate of at least 3.0 and improving the net earnings percentage to provide a return on assets of between 12% to 15%.

The Registrant believes that the liquidity provided by existing cash balances and credit facilities will be sufficient to meet the Registrant's 1993 capital requirements.

RESULTS OF OPERATIONS

Revenues of \$208,936,000 for 1992 set a new record and increased \$21,512,000 or 11.5% over 1991, compared to a 1.8% increase in revenues in 1991 and 10.3% in 1990. Revenues increased in all of the Registrant's major service lines and most of its operating units. Revenues increased at a higher rate in 1992 than in 1991 and 1990 due to the new utility contracts secured during the first quarter of the year. Revenues are therefore not anticipated to increase at the same rate in 1993.

Operating costs in 1992 increased by \$19,776,000 or 15.8% over the prior year, a higher rate than the increase in revenues. As a percentage of revenues, these costs increased to 69.5% compared to 66.9% in 1991 and 66.0% in 1990. The increase in 1992 is attributable to higher direct labor costs, start up costs, and payroll taxes and other fringe benefits, most of which were associated with the new utility contracts. The increase in operating costs as a percentage of revenues was also affected by the economy. In 1992 the lingering recession dictated that we shift our short-term focus to lower-priced services with inherently lower gross margins and attendant higher operating costs. The Registrant has instituted programs to improve the relationship of operating costs as a percentage of revenues in 1993. In addition to the non-recurring initial start-up costs experienced on the utility contracts in 1992, renewed emphasis will be placed on our higher-priced, higher-margin services given our expectation of an improvement in the economy during 1993.

Selling, General and Administrative costs increased 2.4% in 1992, considerably less than the revenue increase of 11.5%. As a percentage of revenues, the costs declined to 19.8% in 1992 compared to 21.5% in 1991 and 21.2% in 1990. The 1.7% decrease from 1991 and 1.4% from 1990 was mainly due to a decrease in district incentives in Residential/Commercial Services resulting from lower operating earnings, and reductions in local advertising and sales promotion expense.

Depreciation expense in 1992 increased 6.5% from 1991, and was virtually equal to 1990. As a percentage of revenues, depreciation expense was 5.8% in 1992, compared to 6.1% in 1991 and 6.6% in 1990. For assets acquired prior to 1991, the Registrant recorded its depreciation expense on a double declining balance method, which provided a higher depreciation expense in the earlier years of an assets life. The decrease in depreciation expense in 1991 compared to 1990 was due primarily to a change in depreciation method. At January 1, 1991, the Registrant changed to the 150% declining balance method of depreciation for substantially all assets. (See Note 1 to the Financial Statements on page F-10 of the Annual Report on Form 10-K.) The increase in depreciation expense in 1992 compared to 1991 was due to the substantial increase in 1992 capital expenditures. The Registrant expects that depreciation expense will increase to a level of approximately \$13,500,000 in 1993.

Despite significantly higher borrowing levels, interest expense in 1992 of \$2,056,000 was only \$37,000 higher than the \$2,019,000 incurred in 1991 due to considerably lower interest rates. In February, 1993, the Registrant executed a second interest rate swap agreement to reduce the impact of future changes in interest rates on its borrowings under the Term Note. The amounts outstanding under the agreements have a total notional amount of \$12,000,000 which effectively changes the interest rate exposure on the Term Note from a variable rate to a fixed rate of 7.22%. Accordingly, the Registrant anticipates that 1993 interest expense will be somewhat higher than 1992. (See Note 4 to the Financial Statements on page F-13 of the Annual Report on Form 10-K.)

As a result of the above factors, earnings before income taxes and cumulative effect were \$8,302,000 or 4.0% of revenues, compared to \$8,666,000 or 4.6% in 1991, and \$9,009,000 or 4.9% of revenues in 1990.

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." The Registrant elected to adopt it for the year ended December 31, 1991. Accordingly, the cumulative effect on prior years (to December 31, 1990) of changing to the new standard in the amount of \$606,000 was included in income for 1991. The income tax expense for 1992 and 1991 reflects the income taxes currently payable and the change in the deferred tax assets and liabilities. It is Management's opinion that no valuation allowance was necessary in the measurement of deferred tax assets. (See Note 7 to the Financial Statements on page F-17 of the Annual Report on Form 10-K.)

The effective income tax rate in 1992 was 39.2% compared to 39.3% and 41.8% in 1991 and 1990 respectively.

Net earnings for 1992 decreased to \$5,044,000 compared to \$5,867,000 and \$5,242,000 in 1991 and 1990, respectively, and as a percentage of revenues were 2.4% compared to 3.1% in 1991 and 2.8% in 1990.

Item 8. Consolidated Financial Statements and Supplementary Data.

The independent auditors' report, the audited consolidated financial statements and the notes to the audited consolidated financial statements required by this Item 8 appear on pages F-1 through F-19 of this Annual Report on Form 10-K.

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

Not Applicable

PART III

Item 10. Directors and Executive Officers of the Registrant.

Reference is made to Part I of this Report for information as to executive officers of the Registrant.

The information regarding directors of the Registrant appearing under the heading "Election of Directors" in the Registrant's definitive Proxy Statement for its 1993 Annual Meeting of Shareholders is hereby incorporated by reference.

Item 11. Remuneration of Executive Officers.

The information regarding compensation of the Registrant's executive officers appearing under the heading "Remuneration of Executive Officers" in the Registrant's definitive Proxy Statement for its 1993 Annual Meeting of Shareholders is hereby incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information regarding the security ownership of certain beneficial owners and management appearing under the heading "Ownership of Common Shares" in the Registrant's definitive Proxy Statement for its 1993 Annual Meeting of Shareholders is hereby incorporated by reference.

Item 13. Certain Relationships and Related Transactions.

The information regarding certain relationships and related transactions appearing under the headings "Election of Directors" and "Indebtedness of Management" in the Registrant's definitive Proxy Statement for its 1993 Annual Meeting of Shareholders is hereby incorporated by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) (1) and (a) (2) Financial Statements and Schedules. See the Index to Financial Statements and Financial Statement Schedules on page F-1 of this Annual Report on Form 10-K.


(a) (3) Exhibits. See the Index to Exhibits on sequentially numbered page 18 of this Annual Report on Form 10-K.

(b) Reports on Form 8-K. No reports on Form 8-K were filed during the last quarter of the period covered by this Annual Report on Form 10-K.

SIGNATURES

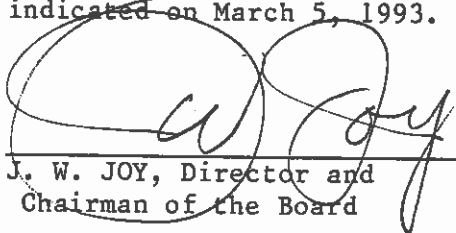
Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned thereunto duly authorized.

THE DAVEY TREE EXPERT COMPANY


By: 
R. D. Cowan, President and
Chief Executive Officer

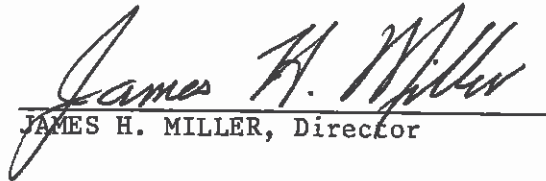
March 5, 1993

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 5, 1993.


J. W. JOY, Director and
Chairman of the Board

EUGENE W. HAUPT, Director



R. DOUGLAS COWAN, Director;
President and
Chief Executive Officer
(Principal Executive and
Operating Officer)

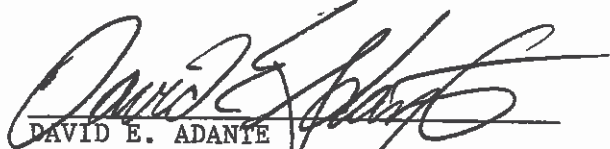

JAMES H. MILLER, Director

JAMES H. POHL, Director



R. CARY BLAIR, Director

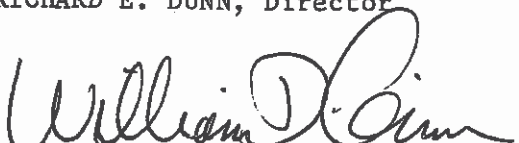

J MAURICE STRUCHEN, Director


THOMAS W. BLAZEY, Director


DAVID E. ADANTE
Vice President, Chief Financial
Officer and Secretary-Treasurer
(Principal Financial Officer)


RICHARD E. DUNN, Director


BRADLEY L. COMFORT
Corporate Controller
(Principal Accounting Officer)


WILLIAM D. GINN, Director


RICHARD S. GRAY, Director

INDEX OF EXHIBITS

[Item 14(a) (3)]

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u> <u>Sequential Page</u>
(3)(a)	1991 Amended Articles of Incorporation	Incorporated by reference to Exhibit 3(a) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991.
(3)(b)	1991 Amended Regulations of The Davey Tree Expert Company	Incorporated by reference to to page 14 to the Registrant's definitive Proxy Statement for its 1991 Annual Meeting of Shareholders and sequential page 11 to the Registrant's Form 10-Q for the quarter ended June 29, 1991.
(4)	Instruments defining the rights of security holders, including indentures	The Company 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 identified in Note 4 of Notes to Consolidated Financial Statements on page F-12 of this Annual Report on Form 10-K.
(9)	Voting Trust Agreement	Not Applicable.
(10)(a)	1985 Incentive Stock Option Plan	19
(10)(b)	1987 Incentive Stock Option Plan	26
(11)	Statement re computation of per share earnings.	Not Applicable.
(12)	Statement re computation of ratios	Not Applicable.
(13)	Annual Report to security holders Form 10-Q or quarterly report to security holders	Not Applicable.

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u> <u>Sequential Page</u>
(16)	Letter re change in certifying accountant.	Not Applicable.
(18)	Letter re change in accounting principles.	Incorporated by reference to Exhibit 18 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991.
(19)	Previously unfiled documents	Not Applicable.
(22)	Subsidiaries of the Registrant	33
(23)	Published report regarding matters submitted to vote of security holders	Incorporated by reference to Part II, Item 4 to the Registrant's Form 10-Q for the quarter ended June 29, 1991
(24)	Consent of independent auditors to incorporation of their report in Registrant's Statements on Form S-8 (File Nos. 2-73052, 2-77353, 33-5755 and 33-21072) and Form S-2 (File No. 33-30970)	34
(25)	Power of Attorney	Not Applicable.
(29)	Information from reports furnished to state insurance regulatory authorities.	Not Applicable.

The documents listed as Exhibits 10(a) and 10(b) constitute management contracts or compensatory plans or arrangements.

EXHIBIT 10(a)

THE DAVEY TREE EXPERT COMPANY

1985 INCENTIVE STOCK OPTION PLAN

Plan Adopted by Board of Directors on March 8, 1985
Plan Approved by Shareholders on May 21, 1985

1. Purpose. This 1985 Incentive Stock Option Plan (the "Plan") is designed to promote the interest of the Company by enabling the Company, by grant of options to purchase Common Shares of the Company, to retain and attract key employees for the Company and its affiliates, and to provide additional incentive to those employees through increased stock ownership in the Company. Options granted under the Plan ("Options") shall be incentive stock options within the meaning of Section 422A of the Internal Revenue Code of 1954 as amended, as now in effect or as hereafter further amended (the "Code"). The term "affiliates" where used in the Plan means subsidiary corporations as defined in Section 425 of the Code.

2. Administration. The Plan shall be administered by the Compensation Committee of the Board of Directors of the Company (the "Committee"). The Committee shall have full power and authority to construe and interpret the provisions and to supervise the administration of the Plan, and to grant Options under the Plan. No Director who shall have been eligible within a period of one year prior to his appointment to the Committee to participate in the Plan or any other plan of the Company entitling participants therein to acquire shares, stock appreciation rights, or options of the Company is entitled to serve on the Committee. All decisions and designations made by the Committee pursuant to the provisions of the Plan shall be made by a majority of its members.

3. Employees Who May Participate In the Plan. Employees to whom Options are granted shall be designated by the Committee. An Option may be granted to any full-time salaried key employee of the Company or of an affiliate, including any director or officer who is a key employee. An employee may hold more than one Option. No employee may, however, be granted Options in any calendar year under all plans of the Company and its affiliates for shares that exceed an aggregate fair market value (determined on the "date of grant") of \$100,000, or such other amount as is provided by Section 422A of the Code, plus any "unused limit carry-over" to that year, as that term is used in Section 422A of the Code.

4. Shares Subject to the Plan. The aggregate number of Common Shares that may be delivered upon the exercise of all Options granted under the Plan may not exceed 60,000, subject, however, to adjustment as provided in Section 13. The Common Shares to be issued under the Plan shall be the Company's authorized Common Shares and may be unissued shares or treasury shares as the Committee, with the concurrence of the Board of Directors, may from time to time determine. To the extent the Company shall reacquire Common Shares for such purposes, shares may be reacquired at the time Options are exercised, or from time to time in advance, whenever the Board of Directors may deem their purchase advisable. If an Option is surrendered or for any other reason ceases to be exercisable in whole or in part, the Common Shares that are subject to the Option, but as to which the Option has not been exercised, shall again become available for offering under the Plan, subject to the limitations contained in the first sentence of this Section 4.

5. Option Grants. Options granted under this Plan shall be deemed to be granted on the June 30 or December 31, whichever day occurs first, immediately following approval by the Committee of the granting of such Options.

6. Option Price. The Option price under each Option shall be determined by the Committee or by the Board of Directors. The Option price shall be not less than 100% of the fair market value of the Common Shares subject to the Option on the date the Option is granted, except that, if the optionee owns, at the time the Option is granted, shares possessing more than 10% of the total combined voting power of all classes of stock of the Company or of an affiliate, the Option price shall be not less than 110% of the fair market value of the shares on the date the Option is granted. For purposes of the Plan, "fair market value" of shares shall be, with respect to Options granted on December 31, the fair market value established by the trustee of the Company's Employee Stock Ownership Trust ("E.S.O.P. Trustee") on that December 31, and with respect to Options granted on June 30, the fair market value established by the E.S.O.P. Trustee on that June 30.

7. Notice of Grant of Option. Promptly after the Committee grants any Option to an employee, the Committee shall cause the employee to be notified of the fact that the Option has been granted and of the terms of the Option.

8. Exercise of Options. No Option granted under the Plan may be exercised prior to the completion of one year of continuous employment with the Company or an affiliate after the date of grant, unless an Option is accelerated as provided in Section 10(b), and under no circumstances later than the expiration date of the Option. An Option may be exercised only while the optionee is in the employ of the Company or an affiliate, except as otherwise provided in Section 9 or as may be permitted pursuant to substitute Options granted under Section 14. An Option shall become exercisable at such time or times, in whole or in part, on a cumulative or non-cumulative basis, as the Committee may determine at the time the Option is granted. No fraction of a share may be purchased upon exercise of an Option. No Option shall be exercisable while a previously granted Option granted to the employee by the Company or by a parent, subsidiary, or predecessor corporation, remains outstanding. An Option shall be treated as outstanding for this purpose until the Option is exercised in full or expires by reason of the lapse of time.

9. Exercise of Options After Termination of Employment. Subject to the provision, found in Section 7, that under no circumstances may an Option be exercised later than the expiration date of the Option, an Option may be exercised after termination of the optionee's employment in only the following situations:

(a) If the termination of employment is due to retirement under the applicable retirement plan or policy of the Company or an affiliate, the optionee shall have the right within the period of three months next following the date of termination to purchase all or any part of the Common Shares that he would have been entitled to purchase if he had exercised his Option on the date of termination.

(b) Upon the termination of employment of an optionee due to permanent and total disability or the death of an optionee while in the employ of the Company or a subsidiary or within the three-month period referred to in paragraphs (a) and (c) of this Section 9, the optionee or the optionee's estate, personal representative, or beneficiary shall have the right to exercise the Option in whole or in part within one year after the date of termination or the optionee's death.

(c) If the termination of employment is due to any reason other than the optionee's

retirement as specified in (a) above or the optionee's permanent and total disability or death as specified in (b) above, the optionee may, provided the Committee or the Board of Directors consents, exercise the Option in whole or in part within the period of three months after the date of termination of employment.

10. Termination of Options.

(a) An Option granted under the Plan shall terminate, and the right of the optionee (or his estate, personal representative, or beneficiary) to purchase shares upon exercise of the Option shall expire, on the date determined by the Committee at the time the Option is granted. No Option, however, may have a life of more than ten years after the date on which it is granted, and, in the case of an optionee who owns, at the time the Option is granted, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or a subsidiary, no Option may have a life of more than five years after the date on which it is granted.

(b) In the event of a proposed lease, sale, or other disposition of all or substantially all of the assets of the Company to other corporations, firms, or individuals or a proposed merger, consolidation, combination [as defined in Section 1701.01(Q), Ohio Revised Code], or majority share acquisition [as defined in Section 1701.01(R), Ohio Revised Code] involving the Company and as a result of which the holders of shares of the Company prior to the transaction would become, by reason of the transaction, the holders of such number of shares of the surviving or acquiring corporation as entitle them to exercise less than one-third of the voting power of the surviving or acquiring corporation in the election of directors, the Board of Directors of the Company may accelerate the date on which any outstanding Option or any portion of an outstanding Option becomes exercisable. If the Board of Directors so accelerates the date, (i) the Board of Directors shall give the optionee written notice of the acceleration and the reasons therefor; (ii) the optionee may, not more than ten days prior to the anticipated effective date of the proposed transaction, exercise the Option to purchase any or all shares then subject to the

Option; (iii) any such exercise shall be conditioned upon the consummation of the transaction and shall become effective immediately prior to the consummation date, in which event the employee need not make payment for the shares to be purchased upon exercise of the Option until five days after written notice by the Company to the employee that the transaction has been consummated; (iv), if the proposed transaction is consummated, each Option, to the extent not previously exercised prior to the date specified in the foregoing notice, shall terminate on the effective date of the consummation; and (v), if the proposed transaction is abandoned, the shares then subject to the Option shall continue to be available for purchase in accordance with the other provisions of the Plan, and any acceleration of the date on which any outstanding Option, or part thereof, becomes exercisable shall be deemed to have been rescinded. In addition to the foregoing, the Committee may authorize the purchase by the Company, from the optionee, of Options previously granted to any person who, at the time of any transaction described in the first sentence of this paragraph (b) of Section 10, is a director or officer of the Company for a price equal to the difference between the consideration per share payable pursuant to the terms of the transaction and the Option price.

(c) If, at the meeting of shareholders of the Company next following the date on which the Board of Directors adopts the Plan, the shareholders do not approve the Plan, any Option theretofore granted shall, forthwith upon the final adjournment of the meeting of shareholders, become null and void.

11. Notice of Exercise; Payment for Common Shares. No certificate for Common Shares purchased upon exercise of an Option shall be delivered until full payment of the purchase price for the Common Shares has been made. An employee to whom an Option has been granted shall have none of the rights of a shareholder with respect to the Common Shares subject thereto until the Option is exercised by delivery of written notice of exercise to the Company. Following exercise of the Option, the employee shall have all of the rights of a shareholder with respect to the Common Shares purchased upon the exercise, except that he shall not have the right to vote the shares or to receive

dividends with respect thereto until payment therefor has been made in full. Payment of the Option price must be made only in cash.

12. Assignability. Except as otherwise provided in Section 9(b), an Option granted under this Plan shall not be transferred and may be exercised only by the employee to whom granted. Each employee to whom an Option is granted, by accepting the Option, agrees with the Company that, in the event the Company merges into, consolidates with, or sells or otherwise transfers all or a substantial part of its assets to another corporation, he will consent to the assumption of the Option, or accept a new incentive stock option in substitution therefor, if the Committee or the Board of Directors requests him to do so and the Option is not otherwise terminated in accordance with the provisions of Section 10(b).

13. Adjustments Upon Changes in Shares. In the event of any change in the Common Shares subject to the Plan or to any Option granted under the Plan by reason of a merger, consolidation, reorganization, recapitalization, stock dividend, stock split-up, combination, or exchange of shares, or other change in the corporate structure of the Company, the aggregate number of shares as to which Options may thereafter be granted under the Plan, the number of shares subject to each outstanding Option, and the Option price with respect to the shares shall be appropriately adjusted by the Board of Directors.

14. Substitute Options. The Board of Directors may grant Options in substitution for, or upon the assumption of, Options granted by another corporation that is merged into, consolidated with, or all or a substantial part of the assets or stock of which is acquired by the Company or a subsidiary. Subject to the limit in Section 4 on the number of shares that may be delivered upon the exercise of Options granted under the Plan, the terms and provisions of any Options granted under this Section 14 may vary from the terms and provisions otherwise specified in the Plan and may, instead, correspond to the terms and provisions of the Options granted by the other corporation.

15. Purchase for Investment. Each employee exercising an Option may be required by the Company, in its sole discretion, to give a representation that he is acquiring the shares other than with a view to the distribution thereof. The Company may release any investment representation obtained if it subsequently determines that the representation is no longer required to insure that a sale or

other disposition of the shares would not involve a violation of the provisions of the Securities Act of 1933, as amended, or of applicable state blue sky laws.

16. Compliance with Securities Laws and Exchange Requirements. No certificate for shares shall be delivered upon exercise of an Option until the Company shall have taken such action, if any, as is then required to comply with the provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the Ohio Securities Act, as amended, any other applicable state blue sky laws, and with the requirements of any exchange on which the Common Shares may, at the time, be listed.

17. Duration and Termination of the Plan. The Plan shall remain in effect until February 28, 1995, and shall then terminate, unless terminated at an earlier date by action of the Board of Directors. Except as provided in Section 19, termination of the Plan shall not affect Options granted prior thereto.

18. Amendment of the Plan. The Board of Directors may alter or amend the Plan from time to time prior to its termination, except that, without shareholder approval, no amendment may increase the aggregate number of shares with respect to which Options may be granted (other than in accordance with the provisions of Section 13), reduce the Option price at which Options may be exercised (other than in accordance with the provisions of Section 13), extend the time within which Options may be granted or exercised, or change the requirements relating to eligibility or to administration of the Plan. Except for adjustments made in accordance with the provisions of Section 13, the Board of Directors may not, without the consent of the holder of the Option, alter or impair any Option previously granted under the Plan.

19. Shareholder Approval. Approval of the Plan must be obtained by no later than June 30, 1985, by the affirmative vote of the holders of shares of the Company entitling them to exercise at least a majority of the voting power on the approval. Options may be granted prior to approval of the Plan by shareholders, but no Option may be exercised until after the Plan has been approved by shareholders.

THE DAVEY TREE EXPERT COMPANY

1987 INCENTIVE STOCK OPTION PLAN

Plan Adopted by Board of Directors on April 20, 1987
Plan Approved by Shareholders on May 19, 1987

1. Purpose. This 1987 Incentive Stock Option Plan (the "Plan") is designed to promote the interest of the Company by enabling the Company, by grant of options to purchase Common Shares of the Company, to retain and attract key employees for the Company and its affiliates, and to provide additional incentive to those employees through increased stock ownership in the Company. Options granted under the Plan ("Options") shall be incentive stock options within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended, as now in effect or as hereafter further amended (the "Code"). The term "affiliates" where used in the Plan means subsidiary corporations as defined in Section 425 of the Code.

2. Administration. The Plan shall be administered by the Compensation Committee of the Board of Directors of the Company (the "Committee"). The Committee shall have full power and authority to construe and interpret the provisions and to supervise the administration of the Plan, and to grant Options under the Plan. No Director who shall have been eligible within a period of one year prior to his appointment to the Committee to participate in the Plan or any other plan of the Company entitling participants therein to acquire shares, stock appreciation rights, or options of the Company is entitled to serve on the Committee. All decisions and designations made by the Committee pursuant to the provisions of the Plan shall be made by a majority of its members.

3. Employees Who May Participate In the Plan. Employees to whom Options are granted shall be designated by the Committee. An Option may be granted to any full-time salaried key employee of the Company or of an affiliate, including any director or officer who is a key employee. An employee may hold more than one Option. No employee may, however, be granted incentive stock options under any and all stock option plans of the Company that become exercisable for the first time by the employee during any calendar year for shares that exceed an aggregate fair market value (determined on the date(s) of grant) of \$100,000.

4. Shares Subject to the Plan. The aggregate number of Common Shares that may be delivered upon the exercise of all Options granted under the Plan may not exceed 100,000, subject, however, to adjustment as provided in Section 13. The Common Shares to be issued under the Plan shall be the Company's authorized Common Shares and may be unissued shares or treasury shares as the Committee, with the concurrence of the Board of Directors, may from time to time determine. To the extent the Company shall reacquire Common Shares for such purposes, shares may be reacquired at the time Options are exercised, or from time to time in advance, whenever the Board of Directors may deem their purchase advisable. If an Option is surrendered or for any other reason ceases to be exercisable in whole or in part, the Common Shares that are subject to the Option, but as to which the Option has not been exercised, shall again become available for offering under the Plan, subject to the limitations contained in the first sentence of this Section 4.

5. Option Grants. Options granted under this Plan shall be deemed to be granted on the June 30 or December 31, whichever day occurs first, immediately preceding approval by the Committee of the granting of such Options.

6. Option Price. The Option price under each Option shall be determined by the Committee or by the Board of Directors. The Option price shall be not less than 100% of the fair market value of the Common Shares subject to the Option on the date the Option is granted, except that, if the optionee owns, at the time the Option is granted, shares possessing more than 10% of the total combined voting power of all classes of stock of the Company or of an affiliate, the Option price shall be not less than 110% of the fair market value of the shares on the date the Option is granted. For purposes of the Plan, "fair market value" of shares shall be, with respect to Options deemed to be granted on December 31, the fair market value established by the trustee of the Company's Employee Stock Ownership Trust ("ESOP Trustee") on that December 31, and with respect to Options deemed to be granted on June 30, the fair market value established by the ESOP Trustee on that June 30.

7. Notice of Grant of Option. Promptly after the Committee grants any Option to an employee, the Committee shall cause the employee to be notified of the fact that the Option has been granted and of the terms of the Option.

8. Exercise of Options. No Option granted under the Plan may be exercised prior to the completion of one year of continuous employment with the Company or an affiliate after the date of grant, unless an Option is accelerated as provided in Section 10(b), and under no circumstances later than the expiration date of the Option. An Option may be exercised only while the optionee is in the employ of the Company or an affiliate, except as otherwise provided in Section 9 or as may be permitted pursuant to substitute Options granted under Section 14. An option shall become exercisable at such time or times, in whole or in part, on a cumulative or non-cumulative basis, as the Committee may determine at the time the Option is granted. No fraction of a share may be purchased upon exercise of an Option.

9. Exercise of Options After Termination of Employment. Subject to the provision found in Section 8, that under no circumstances may an Option be exercised later than the expiration date of the Option, an Option may be exercised after termination of the optionee's employment only in the following situations:

(a) If the termination of employment is due to retirement under the applicable retirement plan or policy of the Company or an affiliate, the optionee shall have the right within the period of three months next following the date of termination to purchase all or any part of the Common Shares that he would have been entitled to purchase if he had exercised his Option on the date of termination.

(b) Upon the termination of employment of an optionee due to permanent and total disability or the death of an optionee while in the employ of the Company or a subsidiary or within the three-month period referred to in paragraphs (a) and (c) of this Section 9, the optionee or the optionee's estate, personal representative, or beneficiary shall have the right to exercise the Option in whole or in part within one year after the date of termination or the optionee's death.

(c) If the termination of employment is due to any reason other than the optionee's retirement as specified in (a) above or the optionee's permanent and total disability or death as specified in (b) above, the optionee

may, provided the Committee or the Board of Directors consents, exercise the Option in whole or in part within the period of three months after the date of termination of employment.

10. Termination of Options.

(a) An Option granted under the Plan shall terminate, and the right of the optionee (or his estate, personal representative, or beneficiary) to purchase shares upon exercise of the Option shall expire, on the date determined by the Committee at the time the Option is granted. No Option, however, may have a life of more than ten years after the date on which it is granted, and, in the case of an optionee who owns, at the time the Option is granted, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or a subsidiary, no Option may have a life of more than five years after the date on which it is granted.

(b) In the event of a proposed lease, sale, or other disposition of all or substantially all of the assets of the Company to other corporations, firms, or individuals or a proposed merger, consolidation, combination (as defined in Section 1701.01(Q), Ohio Revised Code), or majority share acquisition (as defined in Section 1701.01(R), Ohio Revised Code) involving the Company and as a result of which the holders of shares of the Company prior to the transaction would become, by reason of the transaction, the holders of such number of shares of the surviving or acquiring corporation as entitle them to exercise less than one-third of the voting power of the surviving or acquiring corporation in the election of directors, the Board of Directors of the Company may accelerate the date on which any outstanding Option or any portion of an outstanding Option becomes exercisable. If the Board of Directors so accelerates the date (i) the Board of Directors shall give the optionee written notice of the acceleration and the reasons therefor; (ii) the optionee may, not more than ten days prior to the anticipated effective date of the proposed transaction, exercise the Option to purchase any or all shares then subject to the Option; (iii) any such exercise shall be conditioned upon the consummation of the transaction

and shall become effective immediately prior to the consummation date, in which event the employee need not make payment for the shares to be purchased upon exercise of the Option until five days after written notice by the Company to the employee that the transaction has been consummated; (iv), if the proposed transaction is consummated, each Option, to the extent not previously exercised prior to the date specified in the foregoing notice, shall terminate on the effective date of the consummation, and (v), if the proposed transaction is abandoned, the shares then subject to the Option shall continue to be available for purchase in accordance with the other provisions of the Plan, and any acceleration of the date on which any outstanding Option, or part thereof, becomes exercisable shall be deemed to have been rescinded. In addition to the foregoing, the Committee may authorize the purchase by the Company, from the optionee, of Options previously granted to any person who, at the time of any transaction described in the first sentence of this paragraph (b) of Section 10, is a director or officer of the Company for a price equal to the difference between the consideration per share payable pursuant to the terms of the transaction and the Option price.

(c) If, at the meeting of shareholders of the Company next following the date on which the Board of Directors adopts the Plan, the shareholders do not approve the Plan, any Option theretofore granted shall, forthwith upon the final adjournment of the meeting of shareholders, become null and void.

11. Notice of Exercise; Payment for Common Shares. No certificate for Common Shares purchased upon exercise of an Option shall be delivered until full payment of the purchase price for the Common Shares has been made. An employee to whom an Option has been granted shall have none of the rights of a shareholder with respect to the Common Shares subject thereto until the Option is exercised by delivery of written notice of exercise to the Company. Following exercise of the Option, the employee shall have all of the rights of a shareholder with respect to the Common Shares purchased upon the exercise, except that he shall not have the right to vote the shares or to receive

dividends with respect thereto until payment therefor has been made in full. Payment of the Option price must be made only in cash.

12. Assignability. Except as otherwise provided in Section 9(b), an Option granted under this Plan shall not be transferred and may be exercised only by the employee to whom granted. Each employee to whom an Option is granted, by accepting the Option, agrees with the Company that, in the event the Company merges into, consolidates with, or sells or otherwise transfers all or a substantial part of its assets to another corporation, he will consent to the assumption of the Option, or accept a new incentive stock option in substitution therefor, if the Committee or the Board of Directors requests him to do so and the Option is not otherwise terminated in accordance with the provisions of Section 10(b).

13. Adjustments Upon Changes in Shares. In the event of any change in the Common Shares subject to the Plan or to any Option granted under the Plan by reason of a merger, consolidation, reorganization, recapitalization, stock dividend, stock split-up, combination, or exchange of shares, or other change in the corporate structure of the Company, the aggregate number of shares as to which Options may thereafter be granted under the Plan, the number of shares subject to each outstanding Option, and the Option price with respect to the shares shall be appropriately adjusted by the Board of Directors.

14. Substitute Options. The Board of Directors may grant Options in substitution for, or upon the assumption of, Options granted by another corporation that is merged into, consolidated with, or all or a substantial part of the assets or stock of which is acquired by the Company or a subsidiary. Subject to the limit in Section 4 on the number of shares that may be delivered upon the exercise of Options granted under the Plan, the terms and provisions of any Options granted under this Section 14 may vary from the terms and provisions otherwise specified in the Plan and may, instead, correspond to the terms and provisions of the Options granted by the other corporation.

15. Purchase for Investment. Each employee exercising an Option may be required by the Company, in its sole discretion, to give a representation that he is acquiring the shares other than with a view to the distribution thereof. The Company may release any investment representation obtained if it subsequently determines that

the representation is no longer required to insure that a sale or other disposition of the shares would not involve a violation of the provisions of the Securities Act of 1933, as amended, or of applicable state blue sky laws.

16. Compliance with Securities Laws and Exchange Requirements. No certificate for shares shall be delivered upon exercise of an Option until the Company shall have taken such action, if any, as is then required to comply with the provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the Ohio Securities Act, as amended, any applicable state blue sky laws, and with the requirements of any exchange on which the Common Shares may, at the time, be listed.

17. Duration and Termination of the Plan. The Plan shall remain in effect until April 20, 1997, and shall then terminate, unless terminated at an earlier date by action of the Board of Directors. Except as provided in Section 19, termination of the Plan shall not affect Options granted prior thereto.

18. Amendment of the Plan. The Board of Directors may alter or amend the Plan from time to time prior to its termination, except that, without shareholder approval, no amendment may increase the aggregate number of shares with respect to which Options may be granted (other than in accordance with the provisions of Section 13), reduce the Option price at which Options may be exercised (other than in accordance with the provisions of Section 13), extend the time within which Options may be granted or exercised, or change the requirements relating to eligibility or to administration of the Plan. Except for adjustments made in accordance with the provisions of Section 13, the Board of Directors may not, without the consent of the holder of the Option, alter or impair any Option previously granted under the Plan.

19. Shareholder Approval. Approval of the Plan must be obtained by no later than June 30, 1987, by the affirmative vote of the holders of shares of the Company entitling them to exercise at least a majority of the voting power on the approval. Options may be granted prior to approval of the Plan by shareholders, but no Option may be exercised until after the Plan has been approved by shareholders.

EXHIBIT 22

SUBSIDIARIES OF THE REGISTRANT

The Registrant has three wholly-owned subsidiaries, Davey Tree Surgery Company (incorporated in California), Plantasia, Inc., (incorporated in Ohio), and Davey Tree Expert Co. of Canada, Limited (incorporated in Canada), each of which does business under its corporate name.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements on Form S-8 (Nos. 2-73052, as amended, 2-77353, 33-5755 and 33-21072) relating to The Davey Tree Expert Company 1980 Employees Stock Option Plan, The Davey Tree Expert Company 1982 Employee Stock Purchase Plan, The Davey Tree Expert Company 1985 Incentive Stock Option Plan, and The Davey Tree Expert Company 1987 Incentive Stock Option Plan and on Form S-2 (No. 33-30970) relating to The Davey Tree Expert Company 1989 Stock Subscription Plan and in the related Prospectuses, of our report dated February 24, 1993, appearing in this Annual Report on Form 10-K of The Davey Tree Expert Company for the year ended December 31, 1992.

DELOITTE & TOUCHE

Akron, Ohio
March 22, 1993

**INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES
[Items 14(a)(1) and (2)]**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Davey Tree Expert Company
Kent, Ohio

We have audited the accompanying consolidated balance sheets of The Davey Tree Expert Company and subsidiary companies as of December 31, 1992, 1991 and 1990, and the related consolidated statements of earnings, shareholders' equity and cash flows for the years then ended. Our audits also included the financial statement schedules listed in the index at Item 14(a)(2). These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, such consolidated financial statements present fairly, in all material respects, the financial position of The Davey Tree Expert Company and subsidiary companies as of December 31, 1992, 1991 and 1990 and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Notes 1 and 7 to the consolidated financial statements, the Company changed its method of accounting for depreciation and income taxes in 1991.

DELOITTE & TOUCHE

Akron, Ohio
February 24, 1993

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

	1992	December 31 1991	1990
		(Dollars in Thousands)	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 687	\$ 1,180	\$ 545
Accounts receivable	25,085	20,913	22,432
Operating supplies	2,176	1,722	1,559
Prepaid expenses	1,960	2,014	2,012
Deferred income taxes	<u>1,264</u>	<u>774</u>	<u>1,217</u>
Total current assets	31,172	26,603	27,765
INTANGIBLES AND OTHER ASSETS	4,113	3,101	2,830
PROPERTY AND EQUIPMENT:			
Land and land improvements	4,958	3,937	3,431
Building and leasehold improvements	15,386	13,847	12,347
Equipment	<u>123,716</u>	<u>105,818</u>	<u>98,506</u>
	144,060	123,602	114,284
Less accumulated depreciation	<u>86,623</u>	<u>80,070</u>	<u>72,335</u>
Net property and equipment	57,437	43,532	41,949
TOTAL	<u>\$ 92,722</u>	<u>\$ 73,236</u>	<u>\$ 72,544</u>

See notes to consolidated financial statements.

	1992	December 31 1991	1990
		(Dollars in Thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	\$ 10,557	\$ 7,869	\$ 7,719
Accrued liabilities	9,155	7,314	7,875
Income taxes payable	158	916	865
Notes payable, bank	225	80	1,171
Current maturities of long-term debt	<u>1,130</u>	<u>1,165</u>	<u>1,302</u>
Total current liabilities	21,225	17,344	18,932
LONG-TERM DEBT	27,113	13,355	13,402
DEFERRED INCOME TAXES	3,475	2,710	3,951
OTHER LIABILITIES	<u>590</u>	<u>567</u>	<u>524</u>
Total liabilities	52,403	33,976	36,809
SHAREHOLDERS' EQUITY:			
Preferred shares			
Common shares	4,364	4,364	4,364
Additional paid-in capital	6,647	6,241	6,010
Retained earnings	<u>55,520</u>	<u>51,803</u>	<u>46,923</u>
	66,531	62,408	57,297
Less:			
Treasury shares, at cost	24,257	20,607	18,491
Subscriptions receivable from employees	1,569	2,059	2,529
Future contributions to ESOT	<u>386</u>	<u>482</u>	<u>542</u>
Total shareholders' equity	<u>40,319</u>	<u>39,260</u>	<u>35,735</u>
TOTAL	<u>\$ 92,722</u>	<u>\$ 73,236</u>	<u>\$ 72,544</u>

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF NET EARNINGS

	Years Ended December 31					
	1992		1991		1990	
	(Dollars in Thousands, Except Per Share Amounts)					
REVENUES	\$ 208,936	100.0%	\$ 187,424	100.0%	\$ 184,042	100.0%
COSTS AND EXPENSES:						
Operating costs	145,223	69.5	125,447	66.9	121,433	66.0
Selling, general and administrative	41,247	19.8	40,265	21.5	39,092	21.2
Depreciation and amortization	<u>12,176</u>	<u>5.8</u>	<u>11,431</u>	<u>6.1</u>	<u>12,134</u>	<u>6.6</u>
	<u>198,646</u>	<u>95.1</u>	<u>177,143</u>	<u>94.5</u>	<u>172,659</u>	<u>93.8</u>
EARNINGS FROM OPERATIONS	10,290	4.9	10,281	5.5	11,383	6.2
INTEREST EXPENSE	2,056	1.0	2,019	1.1	2,232	1.2
OTHER (INCOME) EXPENSE - NET	<u>(68)</u>	<u>(.1)</u>	<u>(404)</u>	<u>(.2)</u>	<u>142</u>	<u>.1</u>
EARNINGS BEFORE INCOME TAXES AND CUMULATIVE EFFECT	8,302	4.0	8,666	4.6	9,009	4.9
INCOME TAXES	<u>3,258</u>	<u>1.6</u>	<u>3,405</u>	<u>1.8</u>	<u>3,767</u>	<u>2.1</u>
EARNINGS BEFORE CUMULATIVE EFFECT	5,044	2.4	5,261	2.8	5,242	2.8
CUMULATIVE EFFECT ON PRIOR YEARS (TO DECEMBER 31, 1990) OF CHANGING TO THE NEW STANDARD OF ACCOUNTING FOR INCOME TAXES	<u> </u>	<u> </u>	<u>606</u>	<u>.3</u>	<u> </u>	<u> </u>
NET EARNINGS	<u>\$ 5,044</u>	<u>2.4%</u>	<u>\$ 5,867</u>	<u>3.1%</u>	<u>\$ 5,242</u>	<u>2.8%</u>

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF NET EARNINGS - CONTINUED

	Years Ended December 31		
	1992	1991	1990
	(Dollars in Thousands, Except Per Share Amounts)		
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING INCLUDING COMMON STOCK EQUIVALENTS	<u>2,666,110</u>	<u>2,751,769</u>	<u>2,849,470</u>
NET EARNINGS PER COMMON SHARE BEFORE CUMULATIVE EFFECT	\$ 1.89	\$ 1.91	\$ 1.84
NET EARNINGS PER COMMON SHARE FROM CUMULATIVE EFFECT ON PRIOR YEARS (TO DECEMBER 31, 1990) OF CHANGING TO THE NEW STANDARD OF ACCOUNTING FOR INCOME TAXES	<u> </u>	<u>.22</u>	<u> </u>
NET EARNINGS PER COMMON SHARE	<u>\$ 1.89</u>	<u>\$ 2.13</u>	<u>\$ 1.84</u>

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 1992, 1991 AND 1990 (Dollars in Thousands, Except Per Share Amounts)

	Common Shares (\$1.00 Par Value)	Additional Paid-In Capital
BALANCE, JANUARY 1, 1990	\$ 4,364	\$ 5,120
Receipts (forfeitures) from subscriptions receivable		(21)
Shares purchased		
Shares sold to employees		688
Options exercised		223
Contributions to ESOT		
Net earnings		
Dividends, \$.36 per share		
Net adjustment for foreign currency translation		
	<hr/>	<hr/>
BALANCE, DECEMBER 31, 1990	4,364	6,010
Receipts (forfeitures) from subscriptions receivable		(8)
Shares purchased		
Shares sold to employees		321
Options exercised		(82)
Contributions to ESOT		
Net earnings		
Dividends, \$.40 per share		
Net adjustment for foreign currency translation		
Cumulative effect of changing to the new standard of accounting for income taxes		
	<hr/>	<hr/>
BALANCE, DECEMBER 31, 1991	4,364	6,241
Receipts (forfeitures) from subscriptions receivable		(8)
Shares purchased		16
Shares sold to employees		324
Options exercised		74
Contributions to ESOT		
Net earnings		
Dividends, \$.44 per share		
Net adjustment for foreign currency translation		
	<hr/>	<hr/>
BALANCE, DECEMBER 31, 1992	<u>\$ 4,364</u>	<u>\$ 6,647</u>

See notes to consolidated financial statements.

Retained Earnings	Treasury Shares	Subscriptions Receivable From Employees	Future Contributions To ESOT	Total
\$ 42,669	\$ (15,271)	\$ (3,020)	\$ (603)	\$ 33,259
	(7)	491		463
	(3,492)			(3,492)
	184			872
	95			318
5,242			61	61
(999)				5,242
<u>11</u>				<u>(999)</u>
46,923	(18,491)	(2,529)	(542)	35,735
	(23)	470		439
	(3,212)			(3,212)
	556			877
	563			481
5,867			60	60
(1,071)				5,867
(28)				(1,071)
<u>112</u>				<u>(28)</u>
51,803	(20,607)	(2,059)	(482)	39,260
	(29)	490		453
	(4,460)			(4,444)
	541			865
	298			372
5,044			96	96
(1,141)				5,044
<u>(186)</u>				<u>(1,141)</u>
<u>\$ 55,520</u>	<u>\$ (24,257)</u>	<u>\$ (1,569)</u>	<u>\$ (386)</u>	<u>\$ 40,319</u>

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	1992	1991	1990
	(Dollars in Thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 5,044	\$ 5,867	\$ 5,242
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	12,176	11,431	12,134
Deferred income taxes	<u>275</u>	<u>(798)</u>	<u>(656)</u>
	17,495	16,500	16,720
Change in operating assets and liabilities:			
Accounts receivable	(4,172)	1,519	(1,509)
Other assets	(1,654)	205	(492)
Accounts payable and accrued liabilities	4,529	(411)	918
Other liabilities	<u>(735)</u>	<u>95</u>	<u>237</u>
Net cash provided by operating activities	15,463	17,908	15,874
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of property and equipment	409	270	279
Capital expenditures			
Land and buildings	(2,656)	(2,030)	(798)
Equipment	<u>(23,778)</u>	<u>(11,811)</u>	<u>(14,030)</u>
Net cash used in investing activities	(26,025)	(13,571)	(14,549)
CASH FLOWS FROM FINANCING ACTIVITIES:			
ESOT payment of debt guaranteed by Company	96	60	61
Net borrowings (payments) under notes payable, bank	145	(1,091)	333
Principal payments of long term debt	(1,348)	(1,285)	(8,358)
Proceeds from issuance of long-term debt	15,071	1,100	8,853
Sales of treasury shares	1,253	1,358	1,190
Receipts from stock subscriptions	453	439	463
Dividends paid	(1,141)	(1,071)	(999)
Repurchase of common stock	<u>(4,460)</u>	<u>(3,212)</u>	<u>(3,492)</u>
Net cash provided by (used in) financing activities	<u>10,069</u>	<u>(3,702)</u>	<u>(1,949)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(493)	635	(624)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,180</u>	<u>545</u>	<u>1,169</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 687</u>	<u>\$ 1,180</u>	<u>\$ 545</u>

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS THREE YEARS ENDED DECEMBER 31, 1992

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of The Davey Tree Expert Company and its wholly-owned subsidiary companies.

Fiscal Year - The Company's fiscal year ends on the Saturday closest to December 31; 1992 was a 53 week year ended January 2, 1993. In 1991 and 1990, the fiscal years were each comprised of 52 weeks ended December 28, 1991 and December 29, 1990, respectively. For presentation purposes, all years were presumed to have ended on December 31 of each year.

Cash equivalents are highly liquid investments with maturities of three months or less when purchased. Due to the short maturities, the carrying amount of the investments approximates fair value.

Accounts Receivable - No allowance was considered necessary for any of the years presented.

Intangible assets represent employment contracts, client lists and similar assets resulting from business acquisitions and are being amortized on a straight-line basis over their estimated useful lives.

Property and Equipment - The Company records property and equipment at cost. Generally, land improvements, leasehold improvements and buildings are depreciated by the straight-line method while the double declining balance method was used for equipment. In 1991, the Company changed to the 150% declining-balance method for all newly acquired equipment. This change was made to more closely align depreciation expense with the economic lives of its assets and increased net earnings in 1991 by \$253,000 or \$.09 per share. The estimated useful lives used in computing depreciation are: land improvements, 5-20 years; buildings and leasehold improvements, 5-40 years; equipment, 3-10 years.

Insurance - The Company is insured at different levels of coverage beyond various self-insured retention levels for workers' compensation, auto and general liability. For some of the policies the Company pays premiums which are subject to retrospective premium adjustments by the insurance company for up to three years. These premiums are affected by several factors, including the safety record and experience of both the Company and industry, and economic conditions. The Company recorded income, net of income taxes, from such adjustments of \$637,000 in 1992, \$1,587,000 in 1991 and \$1,186,000 in 1990. For some of the other policies, a third party actuarially determines incurred losses and periodically obtains reimbursement from the Company for amounts due; expense is recognized for incurred losses and administrative costs, increased by estimates to reflect incurred but not reported claims.

Reclassifications have been made to the prior-year financial statements to conform to the current year presentation.

2. COMMON 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 issued was 4,364,220 at December 31, 1992, 1991 and 1990. At those respective dates, the number of shares in the treasury were 1,816,307, 1,696,955 and 1,643,094.

The Company's stock is not listed or traded on an active stock market and market prices are, therefore, not available. Semiannually, an independent financial consulting firm determines the fair market value based upon the Company's performance and financial condition.

2. COMMON AND PREFERRED SHARES (Continued)

Since 1979, the Company has provided an "internal market" for all shareholders through its' purchase of their common shares. In 1991, shareholders approved uniform restrictions on the transfer of the Company's common shares. These restrictions generally give the Company or the trust for the Company's Employee Stock Ownership Plan the right to purchase the common shares whenever a shareholder proposes to transfer the shares to anyone, other than transfers to a current employee of the Company or transfers by a current or former employee to members of their immediate family.

Stock Option Plans - The Company has two qualified stock option plans available for officers and management employees. The status of the qualified stock option plans are as follows at December 31, 1992:

Grant date	Option Plan					
	1985			1987		
	May 22, 1985	September 10, 1986	May 20, 1987	December 31, 1989	March 31, 1992	December 4, 1992
Options granted	62,800	75,000	109,600	137,900	128,900	17,800
Exercised through 1990	(62,800)	(24,000)	(21,000)	(100)		
Exercised in 1991		(51,000)	(1,000)	(100)		
Exercised in 1992			(12,800)	(11,000)		
Options outstanding, December 31, 1992	<u>-0-</u>	<u>-0-</u>	<u>74,800</u>	<u>126,700</u>	<u>128,900</u>	<u>17,800</u>
Option purchase price based on fair value at grant date	<u>\$ 8.05</u>	<u>\$ 9.15</u>	<u>\$ 12.92</u>	<u>\$ 18.79</u>	<u>\$24.87</u>	<u>\$ 23.78</u>
Year of expiration	1990	1991	1994	1999	2002	2002

Stock Purchase Plan - The Company has an employee stock purchase plan for which 760,000 shares have been reserved. The Plan provides the opportunity for all full-time employees with two years of service to purchase shares through payroll deductions. The purchase price for the shares offered under the Plan is 85% of the fair value of the shares. The Plan will terminate when no more shares are available to be offered or December 31, 2001, whichever occurs first.

Purchases under the plan have been as follows:

	1992	1991	1990
Number of employees participating	760	693	715
Annual shares purchased	41,366	43,653	49,166
Average price paid	\$20.63	\$18.33	\$16.46
Cumulative shares purchased	530,920	489,554	445,901
Shares available for future purchase	229,080	270,446	314,099

2. COMMON AND PREFERRED SHARES (Continued)

Stock Subscription Offering - In 1989 the Company made a stock subscription offering to employees and directors whereby they could subscribe to purchase stock for \$15.86 per share. Employees could purchase the Company's common shares by making a 10% cash down payment and financing the remainder of the balance with seven-year promissory notes payable to the Company through monthly payroll deductions or annual installments commencing in September 1989. The notes bear interest at a rate of 8% per annum and are reflected as subscriptions receivable in shareholders' equity. A total of 141 participants subscribed for 228,876 common shares of the Company.

3. ACCRUED LIABILITIES

Accrued liabilities consisted of:

	1992	December 31	
		1991	1990
	(Dollars in Thousands)		
Compensation	\$ 2,994	\$ 2,877	\$ 3,108
Workers' compensation	3,173	1,744	2,129
Accrued vacation	1,552	1,359	1,348
Taxes, other than taxes on income	968	944	870
Other	468	390	420
	<u>\$ 9,155</u>	<u>\$ 7,314</u>	<u>\$ 7,875</u>

4. NOTES PAYABLE, BANK AND LONG-TERM DEBT

Notes Payable, Bank

The Company has a bank operating loan which is repayable on demand and bears interest at the bank's prime rate plus .125%. Additionally, the Company has unused short-term lines of credit with four banks totalling \$2,970,000, generally at the banks' prime rate. The prime rate was 6.0% at December 31, 1992.

Long-Term Debt

	1992	December 31	
		1991	1990
	(Dollars in Thousands)		
Revolving credit agreement	\$ 5,300	\$ 2,500	\$ 1,400
Term note agreement	12,000		
Notes payable	8,000	8,000	8,000
Corporate center financing	875	1,375	1,875
Long-term debt of ESOT	386	482	542
Subordinated notes - stock redemption	550	521	841
Term loans	502	766	1,018
Other	630	876	1,028
	<u>28,243</u>	<u>14,520</u>	<u>14,704</u>
Less current maturities	<u>1,130</u>	<u>1,165</u>	<u>1,302</u>
	<u>\$ 27,113</u>	<u>\$ 13,355</u>	<u>\$ 13,402</u>

4. NOTES PAYABLE, BANK AND LONG-TERM DEBT (Continued)

The total annual installments required to be paid on long-term debt in the years 1993 to 1997 are as follows: 1993, \$1,130,000; 1994, \$904,000; 1995, \$2,680,000; 1996, \$2,580,000; 1997, \$2,481,000. Excluded from these installments are the revolving credit agreement and notes payable which are classified as long-term debt since it is expected that these amounts will be outstanding throughout the ensuing year.

Revolving Credit Agreement

The Revolving Credit Agreement ("Revolver") permits the Company to borrow up to \$15,000,000. The Revolver provides for interest on any borrowings at prime, plus a commitment fee of 3/16 of 1% on the unborrowed commitment. Borrowings under the Revolver may be converted, at the Company's option, to five-year term loans.

Under the most restrictive covenants of the Revolver and the Term Note Agreement ("Term Note") below, dividend payments could not exceed \$1,613,000 in 1992, and the Company is obligated to maintain a minimum shareholders' equity, as defined, of \$28,000,000 plus 25% of annual consolidated earnings; a minimum ratio of shareholders' equity to total liabilities, as defined, of .75 to 1 at December 31 of each year; a minimum current ratio of 1 to 1; and a fixed charge coverage ratio of not less than 2.25 to 1.0.

Term Note Agreement

In 1992 the Company borrowed \$12,000,000 under the Term Note which provides for twenty consecutive quarterly principal installments of \$600,000 commencing January 1, 1995 plus interest at either the London Interbank Offered Rate (LIBOR) plus 1 5/16% or prime plus 1/4%. The Company initially elected an adjusted LIBOR rate of 4.625%.

The company entered into an interest rate swap agreement with its principal bank to reduce the impact of changes in interest rates on its borrowings under the Term Note. At December 31, 1992, the amount outstanding under the agreement had a total notional amount of \$6,000,000 which effectively changes the interest rate exposure on one half of the Term Note to a fixed 7.72%. The agreement matures over the same period as the Term Note, and interest differentials to be paid or received are accrued over the related periods.

Notes Payable

Notes payable totaling \$8,000,000 consist of borrowings from banks for periods of up to six months at rates based either on the London Interbank Offered Rate (LIBOR), or at a money market option rate, which are generally less than the U.S. prime rate. The Company intends to refinance these obligations either through continued uninterrupted renewal of the notes or borrowing under the Revolver.

Corporate Center Financing

Corporate Center financing consists of \$1,125,000 of Industrial Development Bonds which bear interest at 88% of prime, and are to be repaid in equal quarterly principal payments of \$125,000 through February 1, 1994. Also included is a \$250,000 Community Development Block Grant, at 3% interest, to be repaid by a principal payment of \$250,000 on August 1, 1994. The financing is collateralized by the net book value of the Corporate Center which was \$4,436,000 at December 31, 1992.

4. NOTES PAYABLE, BANK AND LONG-TERM DEBT (Continued)

Long-Term Debt of ESOT

Commencing March 31, 1992, the agreement provides for twenty equal quarterly installments of \$24,098 plus interest of 8.4% with the final installment due December 31, 1996. Prior to a refinancing on March 20, 1992, the quarterly installments were \$15,061 plus interest of 8.4%.

Subordinated Notes

In 1992, 1990 and 1988 the Company redeemed shares of its common stock from shareholders for cash and five-year subordinated promissory notes bearing interest at a rate equal to the average of the prime rate and the prevailing local bank basic savings rate. There were 16,800 shares redeemed in 1992 for cash of \$223,830 and notes of \$193,986. In 1990, 32,937 shares were redeemed for cash of \$179,730 and notes of \$478,022. In 1988, 40,744 shares were redeemed for cash of \$274,320 and notes of \$346,619.

Term Loans

Interest on these loans is fixed at 7.25%, and the amounts outstanding are being repaid primarily in equal monthly installments through August 29, 1997.

Interest on Debt

The Company made cash payments for interest on all debt of \$2,056,000, \$2,066,000 and \$2,266,000 in 1992, 1991, and 1990, respectively.

5. EMPLOYEE STOCK OWNERSHIP PLAN

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 sold 1,440,000 Common Shares to the Company's new Employee Stock Ownership Trust (ESOT) for \$2,700,000.

The Employee Stock Ownership Plan, in conjunction with the related trust (ESOT), provides 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 are made to individual accounts established for the benefit of the participants.

The Employee Stock Ownership Plan includes as participants, all nonbargaining employees of the parent company and its domestic subsidiaries who have attained age 21 and completed one year of service.

The number of shares released from collateral and available for allocation to ESOP participants is determined by dividing the sum of the current year loan principal and interest payments by the sum of the current and future years' loan principal and interest payments. The Company makes annual cash contributions to the ESOP, net of dividends paid on the shares held as collateral, sufficient to pay the principal and interest on the ESOT debt; such contributions are reflected as an expense of the Company.

5. EMPLOYEE STOCK OWNERSHIP PLAN (Continued)

The contributions to the ESOT for 1992, 1991 and 1990 were:

	1992	1991	1990
	(Dollars in Thousands)		
Principal repayment	\$ 96	\$ 60	\$ 61
Interest	<u>29</u>	<u>44</u>	<u>50</u>
Total cash contributions required	125	104	111
Less dividends paid on collateral shares	<u>50</u>	<u>55</u>	<u>59</u>
ESOT expense	<u>\$ 75</u>	<u>\$ 49</u>	<u>\$ 52</u>
Annual release of shares from collateral	<u>25,922</u>	<u>24,177</u>	<u>25,401</u>
Cumulative release of shares from collateral	<u>1,352,401</u>	<u>1,326,479</u>	<u>1,302,302</u>
Number of shares remaining in collateral	<u>87,599</u>	<u>113,521</u>	<u>137,698</u>

6. PENSION PLANS

Description of Plans

Substantially all of the Company's employees are covered by two defined benefit pension plans. One of these plans is for non-bargaining unit employees and is non-contributory with respect to annual compensation up to a defined level with voluntary contributions beyond the specified compensation levels in graduated increments and provides benefits under a formula based on length of service, compensation levels, and employee contributions. The other plan is for bargaining unit employees not covered by union pension plans, is non-contributory, and provides benefits at a fixed monthly amount based upon length of service.

Funding Policy

The Company's funding policy is to make the annual contributions necessary to fund the plans within the range permitted by applicable regulations. The plans' assets are invested by outside asset managers in marketable debt and equity securities.

6. PENSION PLANS (Continued)

Expense Recognition

Pension expense (income) for 1992, 1991 and 1990 was calculated as follows:

	1992	1991	1990
	(Dollars in Thousands)		
Service cost - increase in benefit obligations earned during the period	\$ 480	\$ 572	\$ 451
Interest cost on projected benefit obligation	754	730	704
Return on plan assets - loss (earnings)	(1,312)	(3,679)	161
Deferral (amortization) of unrecognized net assets	<u>(230)</u>	<u>2,402</u>	<u>(1,439)</u>
Net pension expense (income)	<u>\$ (308)</u>	<u>\$ 25</u>	<u>\$ (123)</u>

The funded status of pension plans at December 31 were as follows:

	1992	1991	1990
	(Dollars in Thousands)		
Plan assets at fair market value	\$ 17,194	\$ 16,910	\$ 13,541
Projected benefit obligations	<u>(9,769)</u>	<u>(9,449)</u>	<u>(9,191)</u>
Excess of assets over projected benefit obligations	7,425	7,461	4,350
Unrecognized initial asset	(1,371)	(1,443)	(1,515)
Unrecognized gain	<u>(3,990)</u>	<u>(4,247)</u>	<u>(1,328)</u>
Prepaid pension expense recognized as other assets in balance sheet	<u>\$ 2,064</u>	<u>\$ 1,771</u>	<u>\$ 1,507</u>

The projected benefit obligation was determined using an assumed discount rate of 8% and an assumed long-term compensation rate increase of 5.5% in 1992, 5% in 1991 and 6% in 1990. The assumed long-term rate of return on plan assets was 8% in 1992, 8 1/2% in 1991 and 8% in 1990.

The projected benefit obligation is based on an accumulated benefit obligation of \$8,329,000, \$8,055,000 and \$7,743,000 at December 31, 1992, 1991 and 1990, respectively, which includes vested benefits of \$8,194,000, \$7,881,000 and \$7,667,000, respectively.

Multiemployer Plans

The Company also contributes to several multiemployer plans which provide benefits to unionized workers who do not participate in the Company sponsored bargaining unit plan. Amounts charged to pension cost and contributed to the plans in 1992, 1991 and 1990 totaled \$664,000, \$587,000 and \$280,000, respectively.

7. INCOME TAXES

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes" which requires an asset and liability approach for financial accounting and reporting for income taxes. The Company elected to adopt it for the year ended December 31, 1991. In years prior to 1991, deferred income taxes were provided to recognize the effect of timing differences between financial statement and income tax reporting in accordance with Accounting Principles Board Opinion No. 11.

The statement requires that a deferred tax liability be recognized for temporary differences that will result in taxable amounts in future years, and that a deferred tax asset be recognized for temporary differences that will result in deductible amounts in future years and carryforwards.

SFAS No. 109 also required that the effect of its initial application be reported as the effect of a change in accounting principle. Accordingly, the adjustment of \$606,000 to retroactively apply the new statement was included in income of 1991 and resulted primarily from applying lower enacted tax rates to taxable and deductible temporary differences existing at the beginning of that year. A significant amount of this adjustment was attributable to a reduction in the deferred tax liability recognized for accelerated depreciation.

The approximate tax effect of each type of temporary difference that gave rise to the Company's deferred tax assets (no valuation allowance was considered necessary) and liabilities at December 31, 1992 were as follows:

	Deferred Tax Consequences (Dollars in Thousands)	
	1992	1991
CURRENT		
Assets:		
Non-Deductible accruals for:		
Compensated absences	\$ 352	\$ 326
Insurance premiums	884	425
Other	<u>81</u>	<u>23</u>
	1,317	774
Liabilities:		
Other	<u>(53)</u>	<u> </u>
 Total current	 1,264	 774
NONCURRENT		
Assets:		
Other	112	143
Liabilities:		
Accelerated depreciation for tax purposes	(2,792)	(2,391)
Pensions	(660)	(462)
Other	<u>(135)</u>	<u> </u>
	<u>(3,587)</u>	<u>(2,853)</u>
 Total Noncurrent	 (3,475)	 (2,710)
 Total	 <u>\$ (2,211)</u>	 <u>\$ (1,936)</u>

7. INCOME TAXES (Continued)

Significant components of income tax expense includes:

	1992	1991	1990
	(Dollars in Thousands)		
Taxes currently payable:			
U.S. Federal	\$ 1,974	\$ 2,443	\$ 3,547
Canadian	268	515	270
State and local	<u>734</u>	<u>595</u>	<u>606</u>
	2,976	3,553	4,423
Deferred tax expense (benefit):			
U.S.	271	(152)	(603)
Canada	<u>11</u>	<u>4</u>	<u>(53)</u>
	<u>282</u>	<u>(148)</u>	<u>(656)</u>
	<u>\$ 3,258</u>	<u>\$ 3,405</u>	<u>\$ 3,767</u>

The differences between the U.S. Federal statutory tax rate and the effective tax rates are as follows:

	1992	1991	1990
U.S. Federal statutory tax rate	34.0%	34.0%	34.0%
State and local income taxes	5.8	4.6	4.4
Canadian income taxes	1.4	2.0	1.8
Miscellaneous	<u>(2.0)</u>	<u>(1.3)</u>	<u>1.6</u>
Effective tax rate	<u>39.2%</u>	<u>39.3%</u>	<u>41.8%</u>

Earnings before income taxes and cumulative effect by country are as follows:

	1992	1991	1990
	(Dollars in Thousands)		
U.S.	\$ 7,829	\$ 7,651	\$ 8,851
Canadian	<u>473</u>	<u>1,015</u>	<u>158</u>
	<u>\$ 8,302</u>	<u>\$ 8,666</u>	<u>\$9,009</u>

The Company made cash payments for income taxes of \$3,729,000, \$4,073,000 and \$3,314,000 in 1992, 1991 and 1990, respectively.

8. CUSTOMERS

The Company provides a broad line of horticultural services to corporate, institutional and residential customers throughout most of the United States and Canada. The Company's major service line, utility line clearance, represented approximately 65% of the outstanding accounts receivable at December 31, 1992, 1991 and 1990. The Company had revenues from one utility customer under multiple five-year contracts aggregating approximately \$33,000,000 in 1992, \$31,000,000 in 1991 and \$29,000,000 in 1990. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral.

9. OPERATING LEASES

The Company primarily leases facilities which are used for district office and warehouse operations. These leases extend for varying periods of time up to four years and, in some cases, contain renewal options. Total rental expenses under such operating leases amounted to approximately \$1,030,000, \$1,126,000 and \$1,170,000 for 1992, 1991 and 1990, respectively. As of December 31, 1992, future minimum rental payments, including taxes and other operating costs, for all operating leases having noncancelable lease terms in excess of one year, totalled \$1,535,000, and are expendable as follows: 1993, \$722,000; 1994, \$442,000; 1995, \$264,000; 1996, \$61,000 and 1997, \$46,000.

10. COMMITMENTS AND CONTINGENCIES

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 to the extent not covered by insurance, would not be material in relation to the financial statements.

At December 31, 1992, the Company was contingently liable to its principal bank in the amount of \$7,500,000 for outstanding letters of credit for insurance coverage and guarantees of debt for two of its subsidiaries.

11. NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board has issued the following Statements of Financial Accounting Standards:

SFAS No. 106 "Employers' Accounting For Postretirement Benefits Other Than Pensions"

This statement requires accrual of postretirement benefits (such as health care benefits) during the years an employee provides services. The Company believes the impact of this statement will not be significant upon adoption in 1993.

SFAS No. 107 "Disclosures About Fair Value of Financial Instruments"

This statement requires an entity to disclose the fair value of financial instruments (such as interest rate swaps) for which it is practicable to estimate that value. It allows the use of quoted market prices or management's best estimate of fair value based on an appropriate valuation technique. The impact of the standard on the Company's financial statement disclosures is not reasonably estimable upon adoption in 1995.

SFAS No. 112 "Employers' Accounting For Postemployment Benefits"

This statement requires accrual of postemployment benefits (such as disability related benefits) during the years an employee provides services. The Company believes the impact of this statement will not be significant upon adoption in 1994.

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THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE V – PROPERTY, PLANT AND EQUIPMENT

(Dollars in Thousands)

Description	Balance at Beginning of Period	Additions At Cost	Retirements	Currency Translation Gain/(Loss)	Balance at End of Period
Year-Ended December 31, 1990:					
Land & Land Improvements	\$ 2,997	\$ 434	\$ 1	\$ 1	\$ 3,431
Buildings & Leaseholds	11,905	527	85	--	12,947
Equipment	89,353	13,677	4,538	14	98,506
	<u>\$ 104,255</u>	<u>\$ 14,638</u>	<u>\$ 4,624</u>	<u>\$ 15</u>	<u>\$ 114,284</u>
Year-Ended December 31, 1991:					
Land & Land Improvements	\$ 3,431	\$ 516	\$ 9	\$ (1)	\$ 3,937
Buildings & Leaseholds	12,347	1,601	99	(2)	13,847
Equipment	98,506	10,738	3,421	(5)	105,818
	<u>\$ 114,284</u>	<u>\$ 12,855</u>	<u>\$ 3,529</u>	<u>\$ (8)</u>	<u>\$ 123,602</u>
Year-Ended December 31, 1992:					
Land & Land Improvements	\$ 3,937	\$ 1,052	\$ --	\$ (31)	\$ 4,958
Buildings & Leaseholds	13,847	1,605	2	(64)	15,386
Equipment	105,818	23,777	5,255	(624)	123,716
	<u>\$ 123,602</u>	<u>\$ 26,434</u>	<u>\$ 5,257</u>	<u>\$ (719)</u>	<u>\$ 144,060</u>

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE VI - ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

(Dollars in Thousands)

Description	Balance at Beginning of Period	Depreciation Expense	Retirements	Currency Translation (Gain)/Loss	Balance at End of Period
Year - Ended December 31, 1990:					
Land & Land Improvements	\$ 162	\$ 60	\$ --	\$ --	\$ 222
Buildings & Leaseholds	2,888	480	1	--	3,367
Equipment	61,580	11,476	4,325	15	68,746
	<u>\$ 64,630</u>	<u>\$ 12,016</u>	<u>\$ 4,326</u>	<u>\$ 15</u>	<u>\$ 72,335</u>
Year - Ended December 31, 1991:					
Land & Land Improvements	\$ 222	\$ 77	\$ --	\$ --	\$ 299
Buildings & Leaseholds	3,367	552	50	--	3,869
Equipment	68,746	10,672	3,535	19	75,902
	<u>\$ 72,335</u>	<u>\$ 11,301</u>	<u>\$ 3,585</u>	<u>\$ 19</u>	<u>\$ 80,070</u>
Year - Ended December 31, 1992:					
Land & Land Improvements	\$ 299	\$ 102	\$ --	\$ --	\$ 401
Buildings & Leaseholds	3,869	641	2	(16)	4,492
Equipment	75,902	11,488	5,229	(431)	81,730
	<u>\$ 80,070</u>	<u>\$ 12,231</u>	<u>\$ 5,231</u>	<u>\$ (447)</u>	<u>\$ 86,623</u>

THE DAVEY TREE EXPERT COMPANY

SCHEDULE IX – SHORT – TERM BORROWINGS

(Dollars in Thousands)

<u>Notes Payable, Bank</u>	<u>Balance at End of Period</u>	<u>Weighted Average Interest Rate</u>	<u>Maximum Amount Outstanding During the Period</u>	<u>Average Amount Outstanding During the Period (1)</u>	<u>Weighted Average Interest Rate During the Period (2)</u>
December 31, 1990	\$ 1,171	12.86%	\$ 1,506	\$ 1,206	13.95%
December 31, 1991	\$ 80	6.53%	\$ 1,892	\$ 1,017	8.76%
December 31, 1992	\$ 225	6.07%	\$ 2,137	\$ 813	6.27%

(1) Average amount outstanding during the period is computed by dividing the total of daily outstanding principal balances by 360.

(2) Weighted Average interest rate during the period is computed by multiplying the actual outstanding principal balances by the applicable interest rates and by the actual days outstanding and averaging the resultant totals.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE X – SUPPLEMENTARY INCOME STATEMENT DATA

(Dollars in Thousands)

	<u>Charged to Costs & Expenses</u>		
	<u>Year-Ended December 31</u>		
	<u>1992</u>	<u>1991</u>	<u>1990</u>
Maintenance and Repairs	\$ 9,163	\$ 10,842	\$ 10,462
Amortization of Intangible Assets	(A)	(A)	(A)
Pre-Operating Costs and Similar Deferrals	(A)	(A)	(A)
Taxes, Other Than Payroll and Income Taxes	(A)	(A)	(A)
Royalties	(A)	(A)	(A)
Advertising	(A)	(A)	(A)

(A) Amounts are not presented as such amounts are less than 1% of net revenues.