

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.  
20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1990

Commission file number: 0-11917

THE DAVEY TREE EXPERT COMPANY  
(Exact name of Registrant as specified in its charter)

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

1500 North Mantua Street  
Kent, Ohio 44240  
(Address of principal executive offices) (Zip Code)

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

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

None

(Title of class)

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

Common Shares, \$1 par value

(Title of class)

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 requirements for the past 90 days.

The aggregate "market value" (See Item 5 hereof) of voting stock held by non-affiliates of the Registrant at March 15, 1991 (excluding the total number of Common Shares reported in Item 12 hereof), was \$55,753,629.

Common Shares outstanding at March 15, 1991: 2,715,715.

Documents incorporated by reference: Portions of the Registrant's definitive Proxy Statement for its 1991 Annual Meeting of Shareholders (Part III).

Index to Exhibits is located on sequential page 15.

## FORM 10-K

## THE DAVEY TREE EXPERT COMPANY

Year Ended December 31, 1990

PART IItem 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 to project to customers a thorough knowledge of horticulture and utilization of modern, well-maintained equipment and also stresses the Registrant's ability to render technical and diagnostic support for its private horticultural services. 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 the fiscal year ended December 31, 1990, the Registrant had sales of approximately \$29,000,000 (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 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 up to \$9,000,000 in additional working capital at various times throughout the year. The Registrant borrows against bank commitments in the form of lines of credit and a revolving credit agreement to provide the necessary funds.

Other Factors. 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. Environmental controls inhibit the economic disposal of debris, which directly affects the Registrant's profitability. The Registrant believes, however, that the opportunities resulting from the environmental consciousness of the general public more than offset most of the environmental controls by which it is affected.

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 Health and Safety Act. In keeping with these requirements, capital expenditures in 1990 and 1989 were approximately \$14,828,000 and \$17,206,000, respectively. These expenditures included

\$190,000 and \$599,000 related to the acquisition of subsidiaries in 1990 and 1989, respectively.

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 services 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	27,737
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
Pittsburgh, Pennsylvania	2.5	2,000
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	1.0	7,000

<u>Location</u>	<u>Acreage</u>	<u>Building Sq. Ft.</u>
Plymouth, Minnesota	2.7	11,800
Gaithersburg, Maryland	2.1	-0-
Lachine, Quebec, Canada	.5	2,300

The Registrant also rents approximately 50 other premises ranging from desk space with parking, to disposal 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 1990 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 follow:

<u>Name</u>	<u>Position</u>	<u>Age</u>
John W. Joy	Chairman of the Board	68
R. Douglas Cowan	President and Chief Executive Officer	50
Eugene W. Haupt	Executive Vice President and President of Davey Tree Surgery Company	68
David E. Adante	Vice President, Chief Financial Officer and Secretary	39
Howard D. Bowles	Vice President, Co-General Manager of Davey Tree Surgery Company	47
Bradley L. Comport, CPA	Corporate Controller	39
C. Kenneth Celmer	Vice President-Operations, Residential & Commercial Services	43
Dr. Roger C. Funk	Vice President Human and Technical Resources	46
Gordon L. Ober	Vice President-New Ventures	41
Richard A. Ramsey	Vice President, Co-General Manager of Davey Tree Surgery Company	41

<u>Name</u>	<u>Position</u>	<u>Age</u>
James J. Reed	Vice President and Treasurer	62
Donald J. Shope	Vice President and General Manager-Residential and Commercial Services	57
Karl J. Warnke	Vice President and General Manager-Utility Services	39

Mr. Joy was elected Chairman of the Board in May 1988 and prior to that time served as Chairman and Chief Executive Officer since before 1986.

Mr. Cowan was elected President and Chief Executive Officer in May 1988 and prior to that time served as President and Chief Operating Officer since before 1986.

Mr. Haupt was elected Executive Vice President, and President of Davey Tree Surgery Company in July 1985.

Mr. Adante was elected Vice President, Chief Financial Officer and Secretary in September 1985.

Mr. Bowles was elected Vice President, and Co-General Manager of Davey Tree Surgery Company in July 1989, and prior to that time served as Vice President-Utility Operations of Davey Tree Surgery Company since before 1986.

Mr. Comport was elected Corporate Controller in May 1990. Prior to that time and since before 1986, he served as Vice-President Finance and Administration for G & R Felpauch Company, a comparable-size retail supermarket chain.

Mr. Celmer was elected Vice President-Operations, Residential and Commercial Services in May 1989. He served as Operations Vice President-Residential and Commercial Services from July 1986 to May 1989 and prior to that time served as Residential and Commercial Operations Manager since before 1986.

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

Mr. Ober was elected Vice President-New Ventures in March 1986 and prior to that time served as Vice President and Operations Manager-Residential and Commercial Services since before 1986.

Mr. Ramsey was elected Vice President, and Co-General Manager of Davey Tree Surgery Company in July 1989, and prior to that time served as Vice President-Residential and Commercial Services of Davey Tree Surgery Company since before 1986.

Mr. Reed was elected Vice President-Treasurer in May 1990. He served as Vice President-Controller from December 1986, through May 1990, and prior to that time served as Vice President-Operations Administration since before 1986.

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. He served as Vice President and Assistant to the President from September 1987, to September 1988, and prior to that time served in several management positions in Utility Services since before 1986.

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 for 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, 1990, 1989, and 1988 the number of Common Shares issued were 4,364,220 for each date. At those respective dates, the number of shares in the treasury was 1,643,094, 1,550,838, and 1,722,584.

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, 1991, there were 1,314 record holders of the Registrant's Common Shares. During the years ended December 31, 1990 and December 31, 1989, the Registrant paid dividends of \$.09 and \$.08, respectively, per share in each of the four quarters. During the year ended December 31, 1988, the Registrant paid a dividend of \$.065 per share in the first quarter and \$.07 per share in the second, third and fourth 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 D to Consolidated Financial Statements beginning on page F-11 of this Annual Report on Form 10-K.

Item 6. Selected Financial Data.

	Years Ended December 31				
	<u>1990</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>	<u>1986</u>
	(Dollars in Thousands, except per share data)				
Operating Results:					
Revenues	\$184,042	\$166,845	\$152,234	\$143,489	\$133,156
Net Earnings	\$ 5,242	\$ 5,016	\$ 4,832	\$ 3,819	\$ 3,007
Net Earnings Per Common Share	\$ 1.84	\$ 1.82	\$ 1.75	\$ 1.34	\$ 1.00
At Year End:					
Total Assets	\$ 72,544	\$ 67,693	\$ 58,301	\$ 52,758	\$ 52,630
Total Long-Term Debt	\$ 13,402	\$ 12,956	\$ 5,813	\$ 7,654	\$ 8,972
Cash Dividends Per Common Share	\$ .36	\$ .32	\$ .28	\$ .25	\$ .22

Per share data have been adjusted to give retroactive effect to a four-for-one stock split for Common Shareholders of record on June 1, 1987.

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

The Registrant's management uses a number of measurements and ratios to gauge the Registrant's financial condition and to monitor trends in key performance areas of operations.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Measurements. Management believes that the following measurements are useful in evaluating the Registrant's ability to meet short-term obligations, in evaluating liquidity, and in evaluating the extent to which capital expenditures can be financed from internal cash flow.



	<u>1990</u>	<u>1989</u>	<u>1988</u>
	(Dollars in Thousands)		
Working Capital	\$ 8,833	\$ 7,981	\$ 3,991
Current Ratio	1.5:1	1.5:1	1.2:1
Cash Flow from Net Income and Depreciation ("Cash Flow")	\$17,376	\$15,453	\$14,348
Capital Expenditures	\$14,828	\$17,206	\$10,596
Cash Flow to Capital Expenditures Ratio	1.2:1	.9:1	1.4:1
Cash Flow as % of Revenues	9.4%	9.3%	9.4%

At year-end 1990, working capital was \$852,000 higher than at year-end 1989, and \$4,842,000 higher than at year-end 1988. The increase in 1990 was due primarily to higher levels of accounts receivable resulting from the increase in revenues and higher deferred taxes resulting from unfavorable timing differences. In addition, there were increases in operating supplies, prepaid expenses, accrued liabilities and notes payable, bank, all of which occurred in the ordinary course of business.

Management believes that cash flow is the best measure of the Registrant's liquidity, especially when related to capital expenditures. In 1990, cash flow increased \$1,923,000 from 1989, and \$3,028,000 from 1988. The increase in cash flow in 1990 was principally due to higher depreciation. As a percentage of revenues, cash flow was 9.4% for 1990, 9.3% for 1989, and 9.4% for 1988. In 1990 and 1988, cash flow exceeded capital expenditures by \$2,548,000 and \$3,752,000, respectively, whereas in 1989 capital expenditures exceeded cash flow by \$1,753,000. The Registrant also realized cash receipts of \$1,190,000 and \$1,687,000 from the sale of 89,494 and 334,903 shares of treasury stock in 1990 and 1989, respectively, and cash disbursements of \$3,492,000 and \$2,410,000 for the repurchase of 181,750 and 163,157 shares of Common Stock in 1990 and 1989. During 1989, the Registrant began a program of acquiring real estate and building facilities in strategic market areas to provide more permanent locations for its Residential and Commercial operations. This program is expected to continue for the next several years. It continues to be Management's objective to finance capital expenditures from internally generated cash flow as much as possible, as long as that posture does not prevent the Registrant from maximizing growth opportunities.

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>1990</u>	<u>1989</u>	<u>1988</u>
Equity to Debt Ratio	.97:1	.97:1	1.04:1
Debt as % of Assets	50.7%	50.9%	49.1%
Equity as % of Assets	49.3%	49.1%	50.9%

At the end of 1990, the relationship of equity to debt remained unchanged at .97:1 when compared to 1989 and decreased slightly from 1.04:1 in 1988. The change in the ratio from 1988 resulted from the increase in long-term debt in connection with the higher level of capital expenditures and the increase in working capital.

The Registrant will continue to finance its operations needs with borrowings under a Revolving Credit Agreement and short-term lines of credit. At March 15, 1991, the Registrant had \$26,500,000 available in commitments under all existing credit arrangements. Management believes those arrangements to be sufficient for the Registrant's borrowing needs for 1991 operations.

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>1990</u>	<u>1989</u>	<u>1988</u>
Earnings Per Share	\$ 1.84	\$ 1.82	\$ 1.75
Dividends Per Share	\$ .36	\$ .32	\$ .28
Book Value Per Share	\$13.13	\$11.82	\$11.24
ESOT Market Valuation Per Share	\$20.53	\$18.79	\$15.86

The earnings per share measurements are shown as if all outstanding stock options had been exercised at December 31 of the years presented.

Earnings per share in 1990 increased to \$1.84 per share, up \$.02 from 1989, and \$.09 from 1988. The market value per share increased to \$20.53 per share, up 9.3% from 1989, and 29.4% from 1988.

Dividends per share were again increased in 1990. In 1990, they were increased \$.04 per share, or 13% over 1989, compared to an increase in 1989 of \$.04 per share, or 14% over 1988. Total dividends in 1990 were \$999,000, compared to \$863,000 in 1989 and \$738,000 in 1988. 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 increases in each of the last five years reflect this objective.

#### RESULTS OF OPERATIONS

Profitability Measurements. Management uses these measurements to evaluate its overall effectiveness in increasing revenues and generating returns on revenues.

	<u>1990</u>	<u>1989</u>	<u>1988</u>
Increase in Revenues	10.3%	9.6%	6.1%
Operating Earnings as % of Revenues	6.2%	6.0%	5.8%
Pre-Tax Earnings as % of Revenues	4.9%	4.8%	5.3%
Net Earnings as % of Revenues	2.8%	3.0%	3.2%

Revenues of \$184,042,000 for 1990 set a new record and increased \$17,197,000, or 10.3% over 1989, compared to a 9.6% increase in revenues in 1989 and 6.1% in 1988. Revenues increased in all of the Registrant's major service lines and substantially all of its operating units.

Operating costs in 1990 increased by \$10,353,000 or 9.3% over the prior year, but at a lower rate than the increase in revenues. As a percentage of revenues, these costs decreased to 66.0%, compared to 66.6% in 1989 and 67.2% in 1988. The principal improvements were in Workers' Compensation and other casualty insurance costs. These costs were reduced by favorable retrospective insurance adjustments received by the Registrant in 1990 resulting from the continued emphasis on safety and accident prevention. See Note A to the Financial Statements.

Selling, General and Administrative costs increased 10.8% in 1990, and at a higher rate than the revenue increase of 10.3%. As a percentage of revenues, these costs were 21.2% in 1990, compared to 21.1% in 1989, and 20.7% in 1988. The slight increases of .1% from 1989 and .5% from 1988 were due primarily to higher sales commissions and branch office costs resulting from increased profits and the expanding sales force in the Registrant's Residential and Commercial operations.

Depreciation expense in 1990 increased 16.3% from 1989, and 27.5% from 1988. As a percentage of revenues, depreciation expense was 6.6% in 1990, compared to 6.3% in 1989 and 1988. The Registrant records its depreciation expense on a double-declining balance method, which provides a higher depreciation expense in the early years of asset life. Each year's expense, therefore, is significantly affected by the level of capital expenditures in the current and immediately preceding years. Capital expenditures, for 1990, 1989 and 1988, exclusive of investments in subsidiaries were \$14,638,000, \$16,607,000, and \$10,318,000, respectively.

Interest expense in 1990 increased to \$2,232,000 compared to \$1,677,000 in 1989 and \$981,000 in 1988. The increase was primarily due to higher levels of borrowing incurred to sustain the high level of capital expenditures.

As a result of the above factors, 1990 earnings before income taxes were \$9,009,000, or 4.9% of revenues, compared to \$8,021,000, or 4.8% of revenues in 1989, and \$8,006,000, or 5.3% of revenues in 1988. 1988 earnings included approximately \$550,000 of non-recurring credits to income. The effective income tax rates for 1990, 1989 and 1988 were 41.8%, 37.5% and 39.6%, respectively.

Net income for 1990 increased to \$5,242,000 compared to \$5,016,000 and \$4,832,000 in 1989 and 1988, respectively, and as a percentage of revenues was 2.8% compared to 3.0% in 1989 and 3.2% in 1988.

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

	<u>1990</u>	<u>1989</u>	<u>1988</u>
Average Assets Employed (in 000's)	\$70,119	\$62,997	\$55,529
Asset Turnover (Revenues to Average Assets)	2.6	2.7	2.7
Return on Average Assets	7.5%	8.0%	8.7%

Asset turnover decreased slightly to 2.6 in 1990. Return on average assets dropped .5% to 7.5% due to the relatively flat net income in 1990 compared to 1989. Management expects return on average assets to remain lower in the near term than desired because of the Registrant's commitment to acquiring real estate and facilities for its Residential and Commercial operations. Management is steadfast in its long-term goal of achieving an asset turnover rate of at least 3.0 and improving the net earnings percentage to provide a return on assets of 15%.

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-18 of this Annual Report on Form 10-K.

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

During 1990 and 1989 and the period from December 31, 1990 through March 15, 1991, no Form 8-K under the Securities Exchange Act of 1934 has been filed to report a change of accountants or a disagreement on any matter of accounting principles or practices or financial statement disclosure.

PART III

Item 10. Directors and 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 1991 Annual Meeting of Shareholders is hereby incorporated by reference.

Item 11. Executive Compensation.

The information regarding compensation of the Registrant's executive officers appearing under the headings "Remuneration of Executive Officers," "Pension Plans" and "Stock Options" in the Registrant's definitive Proxy Statement for its 1991 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 1991 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 1991 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 16 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

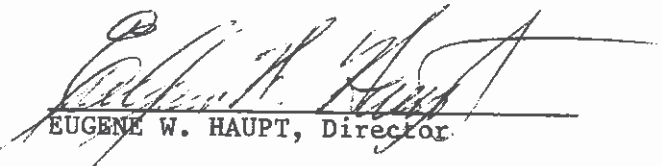
March 8, 1991

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 8, 1991.

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

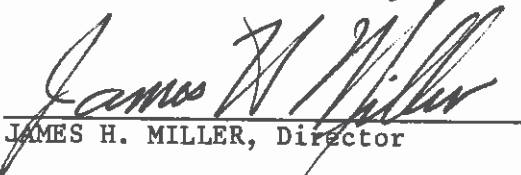
  
WILLIAM D. GINN, Director

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

  
EUGENE W. HAUPT, Director

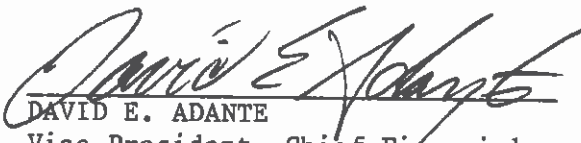
  
THOMAS W. BLAZEY, Director

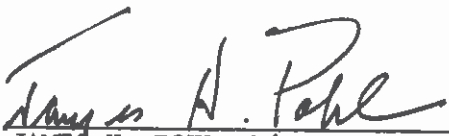
  
J MAURICE STRUCHEN, Director

  
JAMES H. MILLER, Director

  
EDWARD P. TAYLOR, Director

  
RICHARD E. DUNN, Director

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

  
JAMES H. POHL, Director

  
BRADLEY L. COMFORT  
Corporate Controller  
(Principal Accounting Officer)

INDEX TO EXHIBITS

[Item 14(a)(3)]

<u>Exhibit No.</u>	<u>Description</u>	<u>Location or Sequential Page</u>
(3)(a)	1987 Amended Articles of Incorporation	Incorporated by reference to Exhibit 3(a) to the Registrant's Current Report on Form 8-K dated July 1, 1987.
(3)(b)	1987 Amended Regulations of The Davey Tree Expert Company	Incorporated by reference to Exhibit 3(b) to the Registrant's Current Report on Form 8-K dated July 1, 1987
(4)	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 D of Notes to Consolidated Financial Statements.	
(9)	Voting Trust Agreement	Not applicable.
(10)(a)	1980 Employee Stock Option Plan, as amended	Incorporated by reference to Exhibit 10 to the Registrant's Annual Report on Form 10-K for year ended December 31, 1983.
(10)(b)	1985 Incentive Stock Option Plan	Incorporated by reference to Exhibit 10(b) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1985.

<u>Exhibit No.</u>	<u>Description</u>	<u>Location Sequential Page</u>
(10) (c)	1987 Incentive Stock Option Plan	Incorporated by reference to Exhibit 10(c) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1987.
(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
(18)	Letter re change in accounting principles	Not applicable
(19)	Previously unfiled documents	Not applicable
(22)	Subsidiaries of the Registrant	17
(23)	Published report regarding matters submitted to vote of security holders	Not applicable
(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).	18
(25)	Power of Attorney	Not applicable
(28)	Form S-8 Indemnification Undertaking	19



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.

Exhibit 24

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) The Davey Tree Expert Company 1989 Stock Subscription Plan and in the related Prospectuses, of our report dated March 1, 1991, appearing in this Annual Report on Form 10-K of The Davey Tree Expert Company for the year ended December 31, 1990.



Akron, Ohio  
March 27, 1991

## EXHIBIT 28

## FORM S-8

## INDEMNIFICATION UNDERTAKING

For the purposes of complying with the amendments to the rules governing Form S-8 (effective July 13, 1990) under the Securities Act of 1933, the undersigned Registrant hereby undertakes as follows, which undertaking shall be incorporated by reference into Registrant's Registration Statements on Form S-8 Nos. 2-77353 (filed May 4, 1982), 33-5755 (filed April 25, 1986) and 33-21072 (filed April 26, 1988):

Inssofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit, or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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, 1990, 1989 and 1988, 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 at December 31, 1990, 1989, and 1988 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 therein set forth.



Akron, Ohio  
March 1, 1991

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS  
 DECEMBER 31, 1990, 1989 AND 1988  
 (Dollars in Thousands)

<u>ASSETS</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 545	\$ 1,169	\$ 1,273
Accounts receivable	22,432	20,923	18,660
Operating supplies	1,559	1,367	1,301
Prepaid expenses	2,012	1,770	1,476
Deferred income taxes	<u>1,217</u>	<u>169</u>	<u>56</u>
Total current assets	27,765	25,398	22,766
<b>INTANGIBLES AND OTHER ASSETS</b>	2,830	2,670	2,085
<b>PROPERTY AND EQUIPMENT:</b>			
Land and land improvements	3,431	2,997	2,419
Buildings and leasehold improvements	12,347	11,905	9,740
Equipment	<u>98,506</u>	<u>89,353</u>	<u>78,966</u>
	114,284	104,255	91,125
Less accumulated depreciation	<u>72,335</u>	<u>64,630</u>	<u>57,675</u>
Net property and equipment	41,949	39,625	33,450
<b>TOTAL</b>	<u>\$ 72,544</u>	<u>\$ 67,693</u>	<u>\$ 58,301</u>

See notes to consolidated financial statements.

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 7,719	\$ 7,768	\$ 8,759
Accrued liabilities	7,875	6,908	7,063
Income taxes payable	865	650	833
Notes payable, bank	1,171	838	100
Current maturities of long-term debt	<u>1,302</u>	<u>1,253</u>	<u>2,020</u>
Total current liabilities	18,932	17,417	18,775
<b>LONG-TERM DEBT</b>	13,402	12,956	5,813
<b>DEFERRED INCOME TAXES</b>	3,951	3,559	3,654
<b>OTHER LIABILITIES</b>	<u>524</u>	<u>502</u>	<u>356</u>
Total liabilities	36,809	34,434	28,598
<b>SHAREHOLDERS' EQUITY:</b>			
Preferred shares			
Common shares	4,364	4,364	4,364
Additional paid-in capital	6,010	5,120	1,192
Retained earnings	<u>46,923</u>	<u>42,669</u>	<u>38,475</u>
	57,297	52,153	44,031
Less:			
Treasury shares, at cost	18,491	15,271	13,640
Subscriptions receivable from employees	2,529	3,020	
Future contributions to ESOT	<u>542</u>	<u>603</u>	<u>688</u>
Total shareholders' equity	<u>35,735</u>	<u>33,259</u>	<u>29,703</u>
<b>TOTAL</b>	<u>\$ 72,544</u>	<u>\$ 67,693</u>	<u>\$ 58,301</u>

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF EARNINGS  
 YEARS ENDED DECEMBER 31, 1990, 1989 AND 1988  
 (Dollars in Thousands, Except Per Share Amounts)

	<u>1990</u>		<u>1989</u>		<u>1988</u>	
REVENUES	\$184,042	100.0%	\$166,845	100.0%	\$152,234	100.0%
COSTS AND EXPENSES:						
Operating costs	121,433	66.0	111,080	66.6	102,312	67.2
Selling, general and administrative	39,092	21.2	35,271	21.1	31,513	20.7
Depreciation and amortization	<u>12,134</u>	<u>6.6</u>	<u>10,437</u>	<u>6.3</u>	<u>9,516</u>	<u>6.3</u>
	<u>172,659</u>	<u>93.8</u>	<u>156,788</u>	<u>94.0</u>	<u>143,341</u>	<u>94.2</u>
EARNINGS FROM OPERATIONS	11,383	6.2	10,057	6.0	8,893	5.8
INTEREST EXPENSE	2,232	1.2	1,677	1.0	981	.6
OTHER (INCOME) EXPENSE - NET	<u>142</u>	<u>.1</u>	<u>359</u>	<u>.2</u>	<u>(94)</u>	<u>(.1)</u>
EARNINGS BEFORE INCOME TAXES	9,009	4.9	8,021	4.8	8,006	5.3
INCOME TAXES	<u>3,767</u>	<u>2.1</u>	<u>3,005</u>	<u>1.8</u>	<u>3,174</u>	<u>2.1</u>
NET EARNINGS	<u>\$ 5,242</u>	<u>2.8%</u>	<u>\$ 5,016</u>	<u>3.0%</u>	<u>\$ 4,832</u>	<u>3.2%</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING INCLUDING COMMON STOCK EQUIVALENTS	<u>2,849,470</u>		<u>2,754,370</u>		<u>2,765,266</u>	
NET EARNINGS PER COMMON SHARE	<u>\$ 1.84</u>		<u>\$ 1.82</u>		<u>\$ 1.75</u>	

See notes to consolidated financial statements.



THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIESCONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 1990, 1989 AND 1988

(Dollars in Thousands, Except Per Share Amounts)

	<u>Common Shares</u> <u>(\$1.00 Par Value)</u>	<u>Additional</u> <u>Paid-In</u> <u>Capital</u>
BALANCE, JANUARY 1, 1988	\$4,364	\$ 608
Shares purchased		
Shares sold to employees		566
Options exercised		18
Contributions to ESOT		
Net earnings		
Dividends, \$.28 per share		
Net adjustment for foreign currency translation	_____	_____
BALANCE, DECEMBER 31, 1988	4,364	1,192
Subscriptions receivable		2,883
Shares purchased		
Shares sold to employees		762
Options exercised		283
Contributions to ESOT		
Net earnings		
Dividends, \$.32 per share		
Net adjustment for foreign currency translation	_____	_____
BALANCE, DECEMBER 31, 1989	4,364	5,120
Receipts 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	_____	_____
BALANCE, DECEMBER 31, 1990	<u>\$4,364</u>	<u>\$6,010</u>

See notes to consolidated financial statements.

<u>Retained Earnings</u>	<u>Treasury Shares</u>	<u>Subscriptions Receivable From Employees</u>	<u>Future Contributions to ESOT</u>	<u>Total</u>
\$34,318	\$(11,432)		\$ (803)	\$27,055
	(2,350)			(2,350)
	134			700
	8			26
4,832			115	115
(738)				4,832
<u>63</u>				<u>(738)</u>
38,475	(13,640)		(688)	29,703
	522	\$(3,020)		385
	(2,410)			(2,410)
	152			914
	105			388
5,016			85	85
(863)				5,016
<u>41</u>				<u>(863)</u>
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>
<u>\$46,923</u>	<u>\$(18,491)</u>	<u>\$(2,529)</u>	<u>\$ (542)</u>	<u>\$35,735</u>

## THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
 YEARS ENDED DECEMBER 31, 1990, 1989 AND 1988  
 (Dollars in Thousands)

	<u>1990</u>	<u>1989</u>	<u>1988</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net earnings	\$ 5,242	\$ 5,016	\$ 4,832
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	12,134	10,437	9,516
Deferred income taxes	<u>(656)</u>	<u>(208)</u>	<u>275</u>
	16,720	15,245	14,623
Change in operating assets and liabilities:			
Accounts receivable	(1,509)	(2,263)	(2,836)
Other assets	(492)	(446)	(980)
Accounts payable and accrued liabilities	918	(1,146)	2,720
Other liabilities	<u>237</u>	<u>(37)</u>	<u>728</u>
Net cash provided by operating activities	15,874	11,353	14,255
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from sales of property and equipment	279	147	178
Acquisitions of intangibles	(190)	(599)	(278)
Capital expenditures:			
Land and buildings	(798)	(2,695)	(1,096)
Equipment	<u>(13,840)</u>	<u>(13,912)</u>	<u>(9,222)</u>
Net cash (used in) investing activities	(14,549)	(17,059)	(10,418)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
ESOT payment of debt guaranteed by Company	61	85	115
Net borrowings (payments) under notes payable, bank	333	738	(55)
Principal payments of long-term debt	(8,358)	(1,519)	(2,585)
Proceeds from issuance of long-term debt	8,853	7,880	1,757
Sales of treasury shares	1,190	4,711	726
Receipts from (financing of) stock subscriptions	463	(3,020)	
Dividends paid	(999)	(863)	(738)
Repurchase of common stock	<u>(3,492)</u>	<u>(2,410)</u>	<u>(2,350)</u>
Net cash provided by (used in) financing activities	(1,949)	5,602	(3,130)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(624)	(104)	707
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,169</u>	<u>1,273</u>	<u>566</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 545</u>	<u>\$ 1,169</u>	<u>\$ 1,273</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, 1990

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A. 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.

Cash equivalents are highly liquid investments with maturities of three months or less when purchased.

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 are recorded at cost. Generally, the Company depreciates its land improvements, leasehold improvements and buildings by the straight-line method while using the double declining balance method for equipment. 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.

Income Taxes - Deferred income taxes are provided to recognize the effect of timing differences between financial statement and income tax reporting for depreciation and other items in accordance with Accounting Principles Board Opinion No. 11.

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 (expense), net of income taxes, from such adjustments of \$1,186,000 in 1990, \$(244,000) in 1989 and \$217,000 in 1988.

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

B. COMMON AND PREFERRED SHARES

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

## B. COMMON AND PREFERRED SHARES (Continued)

The number of common shares issued was 4,364,220 at December 31, 1990, 1989 and 1988. At those respective dates, the number of shares in the treasury were 1,643,094, 1,550,838 and 1,722,584.

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

Stock Option Plans - The Company has three qualified stock option plans available for officers and management employees. The status of the qualified stock option plans are as follows at December 31, 1990:

Grant date	Option Plan				
	1980 May 22, 1985	1985 May 22, 1985	1985 September 10, 1986	1987 May 20, 1987	1987 December 31, 1989
Options granted	7,200	55,600	75,000	109,600	137,900
Forfeitures to be redistributed		(7,200)	(1,000)	(14,600)	
Exercised through 1988		(4,512)			
Exercised in 1989	(7,200)	(12,400)	(21,000)	(3,000)	
Exercised in 1990		(31,488)	(2,000)	(2,400)	(100)
Options outstanding, December 31, 1990	<u>-0-</u>	<u>-0-</u>	<u>51,000</u>	<u>89,600</u>	<u>137,800</u>
Option purchase price based on fair value at grant date	<u>\$ 8.05</u>	<u>\$ 8.05</u>	<u>\$ 9.15</u>	<u>\$ 12.92</u>	<u>\$ 18.79</u>
Year of expiration	1990	1990	1991	1992	1999

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 market value of the shares. The Plan will terminate when no more shares are available to be offered or December 31, 1991, whichever occurs first.

## B. COMMON AND PREFERRED SHARES (Continued)

Purchases under the plan have been as follows:

	<u>1990</u>	<u>1989</u>	<u>1988</u>
Number of employees participating	715	585	577
Annual shares purchased	49,166	46,509	52,965
Average price paid	\$16.46	\$14.22	\$12.57
Cumulative shares purchased	445,901	396,735	350,226
Shares available for future purchase	314,099	363,265	409,774

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.

## C. ACCRUED LIABILITIES

Accrued liabilities consisted of:

	<u>December 31</u>		
	<u>1990</u>	<u>1989</u>	<u>1988</u>
	(Dollars in Thousands)		
Wages, salaries, etc.	\$3,108	\$2,967	\$2,722
Workers' compensation	2,129	1,504	2,090
Accrued vacation	1,348	1,284	1,108
Taxes, other than taxes on income	870	821	892
Other	<u>420</u>	<u>332</u>	<u>251</u>
	<u>\$7,875</u>	<u>\$6,908</u>	<u>\$7,063</u>

## D. 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 three banks totalling \$2,670,000, generally at the banks' prime rate. The prime rate was 10.0% at December 31, 1990.

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

Long-Term Debt

Long-term debt consists of:

	<u>December 31</u>		
	<u>1990</u>	<u>1989</u>	<u>1988</u>
	(Dollars in Thousands)		
Revolving credit agreement	\$ 1,400	\$ 8,500	\$ 1,200
Notes payable	8,000		
Corporate Center financing	1,875	2,375	2,975
Long-term debt of ESOT	542	602	688
Subordinated notes - stock redemption	841	685	1,078
Term loans	1,018	1,146	1,384
Other	<u>1,028</u>	<u>901</u>	<u>508</u>
	14,704	14,209	7,833
Less current maturities	<u>1,302</u>	<u>1,253</u>	<u>2,020</u>
	<u>\$13,402</u>	<u>\$12,956</u>	<u>\$ 5,813</u>

The total annual installments required to be paid on long-term debt in the years 1991 to 1995 are as follows: 1991, \$1,302,000; 1992, \$1,635,000; 1993, \$1,037,000; 1994, \$775,000; 1995, \$127,000. 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 permits the Company to borrow up to \$18,000,000. The Agreement provides for interest on any borrowings on the "Revolver" at prime, plus a commitment fee of 1/4 of 1% on the unborrowed commitment. The Company is to maintain a compensating balance equal to approximately 2% of the Revolving Credit Agreement commitment. Borrowings under the "Revolver" may be converted, at the Company's option, to a 5-year term loan payable in equal quarterly installments plus interest at a floating rate of 1/2 of 1% over the banks' prime rate.

Under the most restrictive covenants of the Agreement, dividend payments could not exceed \$1,367,000 in 1990, and the Company is obligated to maintain a minimum shareholders' equity, as defined, of \$15,000,000; a minimum ratio of shareholders' equity to total liabilities, as defined, of .75 to 1 at December 31 of each year; and a minimum current ratio of 1 to 1.

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

Notes Payable

Notes payable totaling \$8,000,000 consist of borrowings from banks for periods of up to 90 days 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 through borrowing under the Revolving Credit Agreement.

Corporate Center Financing

Corporate Center financing consists of \$1,625,000 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 net book value of the Corporate Center, which collateralizes the Corporate Center financing, was \$4,784,000 at December 31, 1990.

Long-Term Debt of ESOT

The agreement provides for equal quarterly installments of principal of \$15,061 with the final installment of the remaining unpaid principal due March 20, 1992. The loan has a fixed interest rate of 8.4%. Prior to a refinancing on December 29, 1989, the installments were \$28,688 per quarter and the interest rate was 12.5%.

Subordinated Notes

In 1990, 1988, and 1986 the Company redeemed shares of its common stock from shareholders for cash and 5-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 32,937 shares redeemed in 1990 for cash of \$179,730 and notes of \$478,022. In 1988 and 1986 a total of 176,536 shares were redeemed for cash of \$703,620 and notes of \$1,121,397.

Term Loans

Interest on these loans varies from prime plus 3/8 of 1% to prime plus 3/4 of 1%, and the amounts outstanding are being repaid primarily in equal monthly installments through November 30, 1994.

Interest on Debt

The Company made cash payments for interest on all debt of \$2,266,000, \$1,590,000 and \$999,000 in 1990, 1989, and 1988, respectively.



**E. 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.

Effective January 1, 1989, the Employee Stock Ownership Plan was amended to include 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 ESOT, 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. The contributions to the ESOT for 1990, 1989 and 1988 were:

	<u>1990</u>	<u>1989</u>	<u>1988</u>
	(Dollars in Thousands)		
Principal repayment	\$ 61	\$ 85	\$115
Interest	<u>50</u>	<u>82</u>	<u>97</u>
Total cash contributions required	111	167	212
Less dividends paid on collateral shares	<u>59</u>	<u>65</u>	<u>71</u>
ESOT expense	<u>\$ 52</u>	<u>\$102</u>	<u>\$141</u>
Annual release of shares from collateral	<u>25,401</u>	<u>38,880</u>	<u>55,548</u>
Cumulative release of shares from collateral	<u>1,302,302</u>	<u>1,276,901</u>	<u>1,238,021</u>
Number of shares remaining in collateral	<u>137,698</u>	<u>163,099</u>	<u>201,979</u>

## F. 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 and allows fixed employee contributions 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.

Expense Recognition

Pension expense (income) for 1990, 1989 and 1988 was calculated as follows:

	<u>1990</u>	<u>1989</u>	<u>1988</u>
	(Dollars in Thousands)		
Service cost - increase in benefit obligations earned during the period	\$ 451	\$ 486	\$ 254
Interest cost on projected benefit obligation	704	654	637
Return on plan assets - loss (earnings)	161	(2,970)	(784)
Deferral (amortization) of unrecognized net assets	<u>(1,439)</u>	<u>1,921</u>	<u>(99)</u>
Net pension expense (income)	<u>\$ (123)</u>	<u>\$ 91</u>	<u>\$ 8</u>

## F. PENSION PLANS (Continued)

Funded Status

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

	<u>1990</u>	<u>1989</u>	<u>1988</u>
	(Dollars in Thousands)		
Plan assets at fair market value	\$13,541	\$14,681	\$11,877
Projected benefit obligations	<u>(9,191)</u>	<u>(8,498)</u>	<u>(8,278)</u>
Excess of assets over projected benefit obligations	4,350	6,183	3,599
Unrecognized initial asset	(1,515)	(1,587)	(1,649)
Unrecognized gain	(1,328)	(3,388)	(991)
Excess contributions	<u>(259)</u>	<u>(230)</u>	<u>(204)</u>
Prepaid pension expense recognized in the balance sheet	<u>\$ 1,248</u>	<u>\$ 978</u>	<u>\$ 755</u>

The projected benefit obligation was determined using an assumed discount rate of 8% and an assumed long-term compensation rate increase of 6%. The assumed long-term rate of return on plan assets was 8% in 1990 and 1989 and 7% in 1988.

The projected benefit obligation is based on an accumulated benefit obligation of \$7,743,100, \$7,447,000 and \$7,647,000 at December 31, 1990, 1989 and 1988, respectively, which includes vested benefits of \$7,667,000, \$6,948,000 and \$7,385,000, respectively.

## G. INCOME TAXES

The provision for United States Federal, state and local and Canadian income taxes includes:

	<u>1990</u>	<u>1989</u>	<u>1988</u>
	(000's omitted)		
<b>Taxes currently payable:</b>			
U.S. Federal	\$3,547	\$2,463	\$1,956
Canadian	270	350	569
State and local	<u>606</u>	<u>400</u>	<u>374</u>
	4,423	3,213	2,899
<b>Deferred taxes:</b>			
U.S.	(603)	(245)	254
Canada	<u>(53)</u>	<u>37</u>	<u>21</u>
	<u>(656)</u>	<u>(208)</u>	<u>275</u>
	<u>\$3,767</u>	<u>\$3,005</u>	<u>\$3,174</u>

## G. INCOME TAXES (Continued)

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

	<u>1990</u>	<u>1989</u>	<u>1988</u>
U.S. Federal statutory tax rate	34.0%	34.0%	34.0%
State and local income taxes	4.4	3.3	3.1
Canadian income taxes	1.8	2.5	3.6
Miscellaneous	<u>1.6</u>	<u>(2.3)</u>	<u>(1.1)</u>
Effective tax rate	<u>41.8%</u>	<u>37.5%</u>	<u>39.6%</u>

Earnings before income taxes by country are as follows:

	<u>1990</u>	<u>1989</u>	<u>1988</u>
U.S.	\$8,851	\$7,576	\$7,122
Canada	<u>158</u>	<u>445</u>	<u>884</u>
	<u>\$9,009</u>	<u>\$8,021</u>	<u>\$8,006</u>

Deferred income taxes arise because certain income and expense items are recognized on the Company's financial statements in different fiscal years than for tax purposes. The major timing differences and resulting deferred income taxes are as follows:

	<u>1990</u>	<u>1989</u>	<u>1988</u>
Accrued vacations	\$ (95)	\$ (48)	\$ (64)
Accelerated depreciation	(305)	50	288
Pensions	42	87	131
Insurance reserves	(241)	(338)	(132)
Other	<u>(57)</u>	<u>41</u>	<u>52</u>
	<u>\$ (656)</u>	<u>\$ (208)</u>	<u>\$ 275</u>

The Company made cash payments for income taxes of \$3,314,000, \$3,226,000 and \$2,116,000 in 1990, 1989 and 1988, respectively.

## H. 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, 1990. The Company had revenues from one utility customer under multiple five-year contracts aggregating approximately \$29,000,000 in 1990, \$28,000,000 in 1989 and \$31,000,000 in 1988. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral.

I. 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 \$1,170,000, \$1,162,000 and \$1,125,000 for 1990, 1989 and 1988, respectively. As of December 31, 1990, future minimum rental payments, including taxes and other operating costs, for all operating leases having noncancelable lease terms in excess of one year, totalled \$1,158,000 and are expendable as follows: 1991, \$627,000; 1992, \$343,000; 1993, \$152,000 and 1994, \$36,000.

J. 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, 1990, the Company was contingently liable to its major bank in the amount of \$4,944,000 for outstanding letters of credit for deferred premiums relating to certain insurance contracts and a guarantee of debt for one of its Canadian subsidiaries.

K. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions. This statement will require accrual of postretirement benefits (such as health care benefits) during the years an employee provides services. The only such postretirement benefit the Company provides is a limited amount of term life insurance for certain retirees. These benefits are currently expensed on a pay-as-you-go basis. The Company believes the impact of this statement will not be significant upon adoption in 1993.

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THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

(Dollars in Thousands)

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions At Cost</u>	<u>Retirements</u>	<u>Other Charges Add/(Deduct)</u>	<u>Balance at End of Period</u>
<b>Year-Ended December 31, 1988:</b>					
Land & Land Improvements	\$ 1,933	\$ 530	\$ 44	\$	\$ 2,419
Buildings & Leaseholds	9,278	535	84	11 (A)	9,740
Equipment	<u>72,384</u>	<u>9,731</u>	<u>3,554</u>	<u>405 (A)</u>	<u>78,966</u>
	<u>\$ 83,595</u>	<u>\$10,796</u>	<u>\$3,682</u>	<u>\$ 416</u>	<u>\$ 91,125</u>
<b>Year-Ended December 31, 1989:</b>					
Land & Land Improvements	\$ 2,419	\$ 599	\$	\$ (21) (A)	\$ 2,997
Building & Leaseholds	9,740	2,096		69 (A)	11,905
Equipment	<u>78,966</u>	<u>13,912</u>	<u>3,600</u>	<u>75 (A)</u>	<u>89,353</u>
	<u>\$ 91,125</u>	<u>\$16,607</u>	<u>\$3,600</u>	<u>\$ 123</u>	<u>\$104,255</u>
<b>Year-Ended December 31, 1990:</b>					
Land & Land Improvements	\$ 2,997	\$ 434	\$ 1	\$ 1 (A)	\$ 3,431
Building & Leaseholds	11,905	527	85	--	12,347
Equipment	<u>89,353</u>	<u>13,677</u>	<u>4,538</u>	<u>14 (A)</u>	<u>98,506</u>
	<u>\$104,255</u>	<u>\$14,638</u>	<u>\$4,624</u>	<u>\$ 15</u>	<u>\$114,284</u>

(A) Effect of Compliance with Statement No. 52 of the Financial Accounting Standards Board and Footnote A.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES  
 SCHEDULE VI - ACCUMULATED DEPRECIATION, DEPLETION AND  
 AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

(Dollars in Thousands)

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Depreciation Expenses</u>	<u>Retirements</u>	<u>Other Charges Add/(Deduct)</u>	<u>Balance at End of Period</u>
<b>Year-Ended December 31, 1988:</b>					
Land & Land Improvements	\$ 116	\$ 17	\$ 17	\$	\$ 116
Buildings & Leaseholds	2,165	359	50	6 (A)	2,480
Equipment	<u>49,006</u>	<u>9,094</u>	<u>3,247</u>	<u>226 (A)</u>	<u>55,079</u>
	<u>\$51,287</u>	<u>\$ 9,470</u>	<u>\$3,314</u>	<u>\$ 232</u>	<u>\$57,675</u>
<b>Year-Ended December 31, 1989:</b>					
Land & Land Improvements	\$ 116	\$ 46	\$	\$	\$ 162
Buildings & Leaseholds	2,480	403		5 (A)	2,888
Equipment	<u>55,079</u>	<u>9,777</u>	<u>3,342</u>	<u>66 (A)</u>	<u>61,580</u>
	<u>\$57,675</u>	<u>\$10,226</u>	<u>\$3,342</u>	<u>\$ 71</u>	<u>\$64,630</u>
<b>Year-Ended December 31, 1990:</b>					
Land & Land Improvements	\$ 162	\$ 60	\$ --	\$ --	\$ 222
Buildings & Leaseholds	2,888	480	1	--	3,367
Equipment	<u>61,580</u>	<u>11,476</u>	<u>4,325</u>	<u>15 (A)</u>	<u>68,746</u>
	<u>\$64,630</u>	<u>\$12,016</u>	<u>\$4,326</u>	<u>\$ 15</u>	<u>\$72,335</u>

(A) Effect of compliance with Statement No. 52 of the Financial Accounting Standards Board and Footnote A.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

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, 1988	\$ 100	10.50%	\$ 982	\$ 552	9.95%
December 31, 1989	\$ 838	13.30%	\$1,590	\$ 847	12.26%
December 31, 1990	\$1,171	12.86%	\$1,506	\$1,206	13.95%

(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 &amp; Expenses</u>		
	<u>Year-Ended December 31</u>		
	<u>1990</u>	<u>1989</u>	<u>1988</u>
Maintenance and Repairs	\$10,462	\$ 9,815	\$ 8,763
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 sales