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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, 1989

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 Mantua Street
Kent, Ohio
(Address of principal executive offices)

44240
(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.

Documents incorporated by reference: Portions of the Registrant's definitive Proxy Statement for its 1990 Annual Meeting of Shareholders (Part III).

The aggregate "market value" (See Item 5 hereof) of voting stock held by non-affiliates of the Registrant at March 15, 1990 (excluding the total number of Common Shares reported in Item 12 hereof), was \$52,917,375.

Common Shares outstanding at March 15, 1990: 2,816,252.

Index to Exhibits is located on sequential page 16.

FORM 10-K

THE DAVEY TREE EXPERT COMPANY

Year Ended December 31, 1989

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 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, 1989, the Registrant had sales of approximately \$28,000,000 (17% 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. Sales and earnings are generally highest in the second and third quarters of the calendar year, and historically the Registrant has incurred losses in the first quarter. This seasonality has historically created heavy demands for additional working capital in the first four to six calendar months ranging from \$2,000,000 to \$12,000,000, and the Registrant borrows against bank commitments for short-term loans in the form of lines of credit and a revolving credit agreement to provide the necessary funds. Services to utility customers show only small fluctuations in volume throughout the year. Extreme fluctuations do exist, however, in horticultural services to private customers.

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 1989 and 1988 were approximately \$17,206,000 and \$10,596,000, respectively. These expenditures included \$599,000 and \$278,000 related to the acquisition of subsidiaries in 1989 and 1988, respectively.

Employees. The Registrant employs between 3,500 and 4,000 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	10.0	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	14,300
Kent, Ohio (multiple parcels)	124.6	111,608
Toledo, Ohio	.5	4,300
Wooster, Ohio	322.8	12,042
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	.5	1,200
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	1.1	4,800
Edmonton, Alberta, Canada	.7	2,900

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 material 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.

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

No matter was submitted during the fourth quarter of 1989 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>
John W. Joy	Chairman of the Board	67
R. Douglas Cowan	President and Chief Executive Officer	49
Eugene W. Haupt	Executive Vice President and President of Davey Tree Surgery Company	67
David E. Adante	Secretary-Treasurer and Chief Financial Officer	38
Howard D. Bowles	Vice President, Co-General Manager of Davey Tree Surgery Company	46
C. Kenneth Celmer	Vice President-Operations, Residential & Commercial Services	42
Dr. Roger C. Funk	Vice President Human and Technical Resources	45
Gordon L. Ober	Vice President-New Ventures	40
Richard A. Ramsey	Vice President, Co-General Manager of Davey Tree Surgery Company	40
James J. Reed	Vice President and Controller	61

<u>Name</u>	<u>Position</u>	<u>Age</u>
Donald J. Shope	Vice President and General Manager-Residential and Commercial Services	56
Karl J. Warnke	Vice President and General Manager-Utility Services	38
Rosemary T. Nicholas	Assistant Secretary	46

Mr. Joy was elected Chairman of the Board in May, 1988. He served as Chairman and Chief Executive Officer from July, 1985, until May, 1988, and as Chairman, President and Chief Executive Officer from January, 1984, until July, 1985.

Mr. Cowan was elected President and Chief Executive Officer in May, 1988. He served as President and Chief Operating Officer from July, 1985, to May, 1988, and as Executive Vice President-Finance and Administration from January, 1984, to July 1985.

Mr. Haupt was elected Executive Vice President, and President of Davey Tree Surgery Company in July, 1985. From January, 1984, to July, 1985, he served as Executive Vice President-General Manager of Davey Tree Surgery Company.

Mr. Adante was elected Secretary-Treasurer and Chief Financial Officer in September, 1985. From January, 1984, until September, 1985, he served as Treasurer.

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 1985.

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 1985.

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

Mr. Ober was elected Vice President-New Ventures in March, 1986. He served as Vice President and Operations Manager-Residential and Commercial Services from January, 1984, to March, 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 1985.

Mr. Reed was elected Vice President-Controller in December, 1986. He served as Vice President-Operations Administration from September, 1985, through December, 1986, and as Controller from March, 1984, through September, 1985.

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 1985.

Mrs. Nicholas was elected Assistant Secretary in May, 1982.

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.

On May 19, 1987, the shareholders approved an increase in the number of authorized common shares of \$1.00 each par value from 3,000,000 to 12,000,000 shares. Also, the Registrant's Articles of Incorporation were amended to authorize a class of 4,000,000 preferred shares, of which none were issued at December 31, 1989. A four-for-one stock split for common shareholders of record on June 1, 1987, was approved and distributed on June 22, 1987.

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, 1989, 1988, and 1987 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 1,550,838, 1,722,584, and 1,623,394. All other references in the financial statements with regard to average number of common shares, earnings per common share, dividends per share, stock option data and stock purchase plan data have been adjusted to give retroactive effect to the 1987 common stock split.

The Registrant's stock is not listed or traded on an established public trading market and market prices are, therefore, not available. Semi-annually, the fair market value of the Registrant's common stock, based upon the Registrant's performance and financial condition, is determined by an independent financial consulting firm.

As of March 15, 1990, there were 1,176 record holders of the Registrant's Common Shares. During the year ended December 31, 1989, the Registrant paid a dividend of \$.08 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-14 of this Annual Report on Form 10-K.

Item 6. Selected Financial Data.

	Years Ended December 31				
	1989	1988	1987	1986	1985
	(Dollars in Thousands, except per share data)				
Operating Results:					
Revenues	\$166,845	\$152,234	\$143,489	\$133,156	\$129,221
Net Earnings	\$ 5,016	\$ 4,832	\$ 3,819	\$ 3,007	\$ 4,256
Net Earnings Per Common Share	\$ 1.82	\$ 1.75	\$ 1.34	\$ 1.00	\$ 1.29
At Year End:					
Total Assets	\$ 67,693	\$ 58,301	\$ 52,758	\$ 52,630	\$ 50,609
Total Long-Term Debt	\$ 12,956	\$ 5,813	\$ 7,654	\$ 8,972	\$ 7,499
Cash Dividends Per Common Share	\$.32	\$.28	\$.25	\$.22	\$.20

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>1989</u>	<u>1988</u>	<u>1987</u>
	(Dollars in Thousands)		
Working Capital	\$ 7,981	\$ 3,991	\$ 4,436
Current Ratio	1.5:1	1.2:1	1.3:1
Cash Flow from Net Income and Depreciation	\$15,453	\$14,348	\$13,423
Capital Expenditures	\$17,206	\$10,596	\$ 8,644
Cash Flow to Capital Expenditures Ratio	.9:1	1.4:1	1.6:1
Cash Flow as % of Revenues	9.3%	9.4%	9.4%

At year-end 1989, working capital increased compared to the prior year, and was \$3,990,000 higher than at year-end 1988, and \$3,545,000 higher than at year-end 1987. The increase in 1989 was due to higher levels of accounts receivable resulting from the increase in revenues, and to a lesser extent, slower payment experience among utility clients. The slower payment experience among utility clients is unrelated to the Registrant's contract performance or client relations. In addition, there was an increase in prepaid expense and a lower level of current maturities of long-term debt, all of which occurred in the ordinary course of business. Management does not expect the slower payment experience with its utility clients to continue in the long term.

In November, 1987, the Financial Accounting Standards Board issued Statement No. 95, "Statement of Cash Flows", which requires all business enterprises to include a statement of cash flows as part of a complete set of financial statements. The Statement of Cash Flows replaces the previously required Statement of Changes in Financial Position. The Registrant adopted Standard No. 95 in 1988.

Management believes that cash flow is the best measure of the Registrant's liquidity, especially when related to capital expenditures. In 1989, cash flow from operating activities increased \$1,105,000 from 1988, and \$2,030,000 from 1987. The increase in cash flow from net income and depreciation in 1989 was principally due to higher depreciation. As a percentage of revenues, cash flow was at 9.3% for 1989 and 9.4% for 1988 and 1987. In 1989, capital expenditures exceeded cash flow by \$1,753,000, whereas for 1988 and 1987, cash flow exceeded capital expenditures by \$3,752,000 and \$4,779,000, respectively. During 1989, the Registrant began a program of acquiring real estate and building facilities in strategic market areas to provide more permanent headquarter locations for Residential and Commercial operations. This program is expected to continue for the next several years. Also, the Registrant increased its purchases of new equipment to satisfy the requirements of a large new multi-year utility contract in the second quarter. It continues to be Management's objective to finance capital expenditures from internally generated cash flow as much as possible, so 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

Equity to Debt Ratio	.97:1	1.04:1	1.05:1
Debt as % of Assets	50.9%	49.1%	48.7%
Equity as % of Assets	49.1%	50.9%	51.3%

At the end of 1989, the relationship of equity to debt decreased slightly to .97:1, compared to 1.04:1 in 1988 and 1.05:1 in 1987, as a result of 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, 1990, the Registrant had available \$20,400,000 in credit commitments under all revolving credit and line of credit arrangements. Management believes those arrangements to be sufficient for the Registrant's borrowing needs for operations.

Common Share Measurements. With these measurements, shareholders can assess the Registrant's earnings performance, dividend payout, and equity position as related to their shareholdings.

	<u>1989</u>	<u>1988</u>	<u>1987</u>
Earnings Per Share	\$ 1.82	\$ 1.75	\$ 1.34
Dividends Per Share	\$.32	\$.28	\$.25
Book Value Per Share	\$11.82	\$11.24	\$ 9.87
ESOT Market Valuation Per Share	\$18.79	\$15.86	\$14.36

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

The higher earnings in 1989 are reflected in the per share measurements in the table above. Earnings per share in 1989 increased to \$1.82 per share, up \$.07 from 1988, and \$.48 from 1987. The market value per share increased to \$18.79 per share, up 18.5% from 1988, and 30.8% from 1987.

Dividends paid per share were again increased in 1989. In 1989, they were increased \$.04 per share, or 14% over 1988, compared to an increase in 1988 of \$.03 per share, or 12% over 1987. Total dividends paid to shareholders in 1989 were \$863,000, compared to \$738,000 in 1988 and \$696,000 in 1987. It is the Registrant's objective to provide a fair return on investment to its shareholders through improved dividends, so 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>1989</u>	<u>1988</u>	<u>1987</u>
Increase in Revenues	9.6%	6.1%	7.8%
Operating Earnings as % of Revenues	6.0%	5.8%	5.8%
Pre-Tax Earnings as % of Revenues	4.8%	5.3%	4.8%
Net Earnings as % of Revenues	3.0%	3.2%	2.7%

Revenues of \$166,845,000 for 1989 set a new record and increased \$14,611,000, or 9.6% over 1988, compared to a 6.1% increase in revenues in 1988 and 7.8% in 1987. Revenues increased in all of the Registrant's operating units, and in most of its major service lines.

Operating costs in 1989 increased by \$8,768,000 or 8.6% over the prior year, but at a lower rate than the increase in revenues. As a percentage of revenues, these costs decreased to 66.6%, compared to 67.2% in 1988 and 67.4% in 1987. The principal improvements were in labor and equipment costs, due to improvements in productivity and revenue mix. The most significant impact of inflation on the Registrant's costs is in the areas of labor and labor-related costs. Since most of the Registrant's contracts include price adjustment clauses covering these costs, the impact of inflation on operating costs did not have a material effect.

Selling, General and Administrative ("S, G&A") costs increased 11.9% in 1989, and at a higher rate than the revenue increase of 9.6%. As a percentage of revenues, these costs were 21.1% in 1989, compared to 20.7% in 1988, and 20.1% in 1987. S, G&A expenses increased at a disproportionate rate primarily due to higher health insurance, supervision and field management costs. Costs of supervision and field management increased because of the significant increase in Utility revenues (16%), in the Registrant's largest operating unit. The rate of increase of these costs is considered temporary. Health insurance costs increased at a higher rate than in prior years, but consistent with the national trend. Management does not expect a similar increase in the future.

Depreciation expense in 1989 increased 9.7% from 1988, compared to a decrease of .9% in 1988, and an increase of .8% in 1987. As a percentage of revenues, depreciation expense was 6.3% in 1989, compared to 6.3% in 1988, and 6.7% in 1987. 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 1989, 1988 and 1987, exclusive of investments in subsidiaries were \$16,607,000, \$10,318,000, and \$7,582,000, respectively.

Interest expense in 1989 increased to \$1,677,000 compared to \$981,000 in 1988 and \$1,279,000 in 1987. The increase was primarily due to higher borrowing levels in the Registrant's Revolving Credit Agreement in connection with the high level of capital expenditures. Higher average interest rates in 1989 also contributed to the increase.

As a result of the above factors, 1989 earnings before income taxes were \$8,021,000, or 4.8% of revenues, compared to \$8,006,000, or 5.3% of revenues in 1988, and \$6,922,000, or 4.8% of revenues in 1987. 1988 earnings included approximately \$550,000 of non-recurring credits to income. The effective income tax rates for 1989, 1988 and 1987 were 37.5%, 39.6% and 44.8%, respectively.

In December, 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 96, Accounting for Income Taxes. This statement establishes financial accounting and reporting standards for the effects of income taxes. SFAS 96 is effective for fiscal years beginning after December 15, 1991. The Registrant has not adopted the standard in 1989, and has not determined whether or not it will adopt the standard in 1990. The future adoption of the standard is expected to have a favorable, but not material, effect on the Registrant's financial statements.

Net income for 1989 increased to \$5,016,000 compared to \$4,832,000 and \$3,819,000 in 1988 and 1987, respectively, and as a percentage of revenues was 3.0% compared to 3.2% in 1988 and 2.7% in 1987.

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

	<u>1989</u>	<u>1988</u>	<u>1987</u>
Average Assets Employed (in 000's)	\$62,997	\$55,529	\$52,694
Asset Turnover (Revenues to Average Assets)	2.7	2.7	2.7
Return on Average Assets	8.0%	8.7%	7.3%

Asset turnover remained steady at 2.7 in 1989. Return on average assets dropped, however, to 8.0% because of the relatively flat net income in 1989 compared to 1988. 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 opinion of independent certified public accountants, 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-20 of this Annual Report on Form 10-K.

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

During 1989 and 1988 and the period from December 31, 1989 through March 15, 1990, 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 1990 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 1990 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 1990 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 1990 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 9, 1990


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 9, 1990.


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;
Executive Vice President



THOMAS W. BLAZEY, Director


J. MAURICE STRUCHEN, Director


JAMES H. MILLER, Director



EDWARD P. TAYLOR, Director


RICHARD E. DUNN, Director


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


R. CARY BLAIR, Director


JAMES H. POHL, Director


JAMES J. REED
Vice President-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 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	18
(23)	Published report regarding matters submitted to vote of security holders	Not applicable
(24)	Consent of independent auditors to incorporation of their opinion 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)	19
(25)	Power of Attorney	Not applicable
(28)	Additional Exhibits	Not applicable

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.

CONSENT OF CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 2-73052, 2-77353, 33-5755 and 33-21072) relating to The Davey Tree Expert Company 1980 Employees Stock Option Plan, to The Davey Tree Expert Company 1982 Employee Stock Purchase Plan, to The Davey Tree Expert Company 1985 Incentive Stock Option Plan, to The Davey Tree Expert Company 1987 Incentive Stock Option Plan and the Form S-2 (No. 33-30970) The Davey Tree Expert Company 1989 Stock Subscription Plan and in the related Prospectuses, of our report, dated February 23, 1990, with respect to the consolidated financial statements of The Davey Tree Expert Company for the year ended December 31, 1989.

Deloitte & Touche

Akron, Ohio
March 26, 1990

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

<u>Description</u>	<u>Page</u>
Opinion of Independent Certified Public Accountants	F-2
Consolidated Balance Sheets at December 31, 1989, 1988 and 1987	F-3
Consolidated Statements of Earnings for the three years ended December 31, 1989	F-5
Consolidated Statements of Shareholders' Equity for the three years ended December 31, 1989	F-6
Consolidated Statements of Cash Flow for the three years ended December 31, 1989	F-8
Notes to Consolidated Financial Statements for the three years ended December 31, 1989	F-10
Schedules of the three years ended December 31, 1989:	
V -- Property, Plant and Equipment	S-1
VI -- Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equip- ment	S-2
IX -- Short-Term Borrowings	S-3
X -- Supplementary Income Statement Data	S-4

INDEPENDENT AUDITORS' REPORT

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, 1989, 1988 and 1987, and the related consolidated statements of earnings, shareholders' equity and cash flows for the years then ended and the financial statement schedules included in Item 14(a)(2). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits

We conducted our audits in accordance with 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Davey Tree Expert Company and subsidiary companies at December 31, 1989, 1988, and 1987 and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles and the schedules referred to above present fairly, in all material respects, when read in conjunction with the related financial statements, the information therein set forth.



Akron, Ohio
February 23, 1990

THE DAVEY TREE EXPERT COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

ASSETS

	December 31		
	<u>1989</u>	<u>1988</u>	<u>1987</u>
CURRENT ASSETS:			
Cash and cash equivalents	\$ 1,169	\$ 1,273	\$ 566
Accounts receivable	20,923	18,660	15,824
Operating supplies	1,367	1,301	1,194
Prepaid expenses	<u>1,939</u>	<u>1,532</u>	<u>1,222</u>
TOTAL CURRENT ASSETS	25,398	22,766	18,806
INTANGIBLES AND OTHER ASSETS	2,670	2,085	1,644
PROPERTY AND EQUIPMENT:			
Land and land improvements	2,997	2,419	1,933
Buildings and leasehold improvements	11,905	9,740	9,278
Equipment	<u>89,353</u>	<u>78,966</u>	<u>72,384</u>
	104,255	91,125	83,595
Less accumulated depreciation	<u>64,630</u>	<u>57,675</u>	<u>51,287</u>
NET PROPERTY AND EQUIPMENT	39,625	33,450	32,308
 TOTAL ASSETS	 <u>\$ 67,693</u>	 <u>\$ 58,301</u>	 <u>\$ 52,758</u>

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31		
	<u>1989</u>	<u>1988</u>	<u>1987</u>
CURRENT LIABILITIES:			
Accounts payable	\$ 7,768	\$ 8,759	\$ 5,694
Accrued liabilities	6,908	7,063	7,408
Income taxes payable	650	833	105
Notes payable, bank	838	100	155
Current maturities on long-term debt	<u>1,253</u>	<u>2,020</u>	<u>1,008</u>
TOTAL CURRENT LIABILITIES	17,417	18,775	14,370
LONG-TERM DEBT	12,956	5,813	7,654
DEFERRED INCOME TAXES	3,559	3,654	3,323
OTHER LIABILITIES	<u>502</u>	<u>356</u>	<u>356</u>
TOTAL LIABILITIES	34,434	28,598	25,703
SHAREHOLDERS' EQUITY:			
Preferred shares			
Common shares	4,364	4,364	4,364
Additional paid-in capital	5,120	1,192	608
Retained earnings	<u>42,669</u>	<u>38,475</u>	<u>34,318</u>
	52,153	44,031	39,290
Less:			
Treasury shares, at cost	15,271	13,640	11,432
Subscriptions receivable from employees	3,020		
Future contributions to ESOT	<u>603</u>	<u>688</u>	<u>803</u>
TOTAL SHAREHOLDERS' EQUITY	<u>33,259</u>	<u>29,703</u>	<u>27,055</u>
TOTAL LIABILITIES AND SHARE- HOLDERS' EQUITY	<u>\$ 67,693</u>	<u>\$ 58,301</u>	<u>\$ 52,758</u>

THE DAVEY TREE EXPERT COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Dollars in Thousands, Except
Per Share Amounts)

	Year Ended December 31					
	<u>1989</u>		<u>1988</u>		<u>1987</u>	
REVENUES	\$166,845	100.0%	\$152,234	100.0%	\$143,489	100.0%
COSTS AND EXPENSES:						
Operating costs	111,080	66.6	102,312	67.2	96,690	67.4
Selling, general and administrative	35,271	21.1	31,513	20.7	28,897	20.1
Depreciation and amortization	<u>10,437</u>	<u>6.3</u>	<u>9,516</u>	<u>6.3</u>	<u>9,604</u>	<u>6.7</u>
	<u>156,788</u>	<u>94.0</u>	<u>143,341</u>	<u>94.2</u>	<u>135,191</u>	<u>94.2</u>
EARNINGS FROM OPERA- TIONS	10,057	6.0	8,893	5.8	8,298	5.8
INTEREST EXPENSE	1,677	1.0	981	.6	1,279	.9
OTHER (INCOME) EXPENSE - NET	<u>359</u>	<u>.2</u>	<u>(94)</u>	<u>(.1)</u>	<u>97</u>	<u>.1</u>
EARNINGS BEFORE INCOME TAXES	8,021	4.8	8,006	5.3	6,922	4.8
INCOME TAXES	<u>3,005</u>	<u>1.8</u>	<u>3,174</u>	<u>2.1</u>	<u>3,103</u>	<u>2.1</u>
NET EARNINGS	<u>\$ 5,016</u>	<u>3.0%</u>	<u>\$ 4,832</u>	<u>3.2%</u>	<u>\$ 3,819</u>	<u>2.7%</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING INCLUDING COMMON STOCK EQUIVALENTS	<u>2,754,370</u>		<u>2,765,266</u>		<u>2,842,032</u>	
NET EARNINGS PER COMMON SHARE	<u>\$ 1.82</u>		<u>\$ 1.75</u>		<u>\$ 1.34</u>	

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF
SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1989, 1988 AND 1987

(Dollars in Thousands, Except
Per Share Amounts)

	Common Shares (\$1.00 Par Value)	Additional Paid-In Capital
BALANCE, JANUARY 1, 1987	\$1,091	\$1,285
Shares purchased		
Shares sold to employees		609
Options exercised		63
Contributions to ESOT		
Net earnings		
Dividends, \$.25 per share		
Net adjustment for foreign currency translation		
Stock split	3,273	(1,300)
Issue expense - authorization of additional common shares		(49)
BALANCE, DECEMBER 31, 1987	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	<u>\$4,364</u>	<u>\$5,120</u>

See notes to consolidated financial statements.

<u>Retained Earnings</u>	<u>Treasury Shares</u>	<u>Subscriptions Receivable From Employees</u>	<u>Contributions to ESOT</u>	<u>Total</u>
\$33,019	\$ (9,695)		\$ (918)	\$24,782
	(1,995)			(1,995)
	149			758
	109			172
			115	115
3,819				3,819
(696)				(696)
149				149
(1,973)				
				(49)
34,318	(11,432)		(803)	27,055
	(2,350)			(2,350)
	134			700
	8			26
			115	115
4,832				4,832
(738)				(738)
63				63
38,475	(13,640)		(688)	29,703
	522	\$ (3,020)		385
	(2,410)			(2,410)
	152			914
	105			388
			85	85
5,016				5,016
(863)				(863)
41				41
<u>\$42,669</u>	<u>\$ (15,271)</u>	<u>\$ (3,020)</u>	<u>\$ (603)</u>	<u>\$33,259</u>

**THE DAVEY TREE EXPERT COMPANY
AND SUBSIDIARY COMPANIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	<u>Year Ended December 31</u>		
	<u>1989</u>	<u>1988</u>	<u>1987</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 5,016	\$ 4,832	\$ 3,819
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	<u>10,437</u>	<u>9,516</u>	<u>9,604</u>
	15,453	14,348	13,423
Change in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(2,263)	(2,836)	(1,879)
Operating supplies	(66)	(107)	141
Prepaid expenses	(407)	(310)	245
Other assets	(82)	(516)	(323)
Increase (decrease) in:			
Accounts payable and accrued expenses	(1,146)	2,720	(656)
Income taxes payable	(183)	728	(207)
Deferred income taxes	(95)	331	403
Other liabilities	<u>146</u>		<u>39</u>
Net cash provided by operating activities	11,357	14,358	11,186
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of fixed assets	147	178	102
Business acquisitions	(599)	(278)	(1,062)
Capital expenditures:			
Land and building	(2,695)	(1,096)	(223)
Equipment	<u>(13,912)</u>	<u>(9,222)</u>	<u>(7,359)</u>
Net cash (used in) investing activities	(17,059)	(10,418)	(8,542)

THE DAVEY TREE EXPERT COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(Dollars in Thousands)

	<u>Year Ended December 31</u>		
	<u>1989</u>	<u>1988</u>	<u>1987</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
ESOT payment of debt guaranteed by Company	\$ 85	\$ 115	\$ 115
Net borrowings under line of credit agreements	738	(55)	(451)
Principal payments of debt obligation	(1,519)	(2,585)	(1,856)
Proceeds from issuance of long-term debt	7,880	1,757	583
Sales of treasury shares	4,711	726	930
Financing of stock subscriptions	(3,020)		
Dividends paid	(863)	(738)	(696)
Repurchase of common stock	(2,410)	(2,350)	(1,995)
Net cash (used in) financing activities	5,602	(3,130)	(3,370)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(4)	(103)	82
NET CHANGE IN CASH AND CASH EQUIVALENTS	(104)	707	(644)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,273</u>	<u>566</u>	<u>1,210</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,169</u>	<u>\$ 1,273</u>	<u>\$ 566</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, 1989

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. All significant intercompany transactions, accounts and profits have been eliminated.

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.

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

Certain reclassifications have been made to the prior year's 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.

The number of common shares issued was 4,364,220 at December 31, 1989, 1988 and 1987. At those respective dates, the number of shares in the treasury were 1,550,838, 1,722,584 and 1,623,394.

B. COMMON AND PREFERRED SHARES (Continued)

The Company's stock is not listed or traded on an active stock market and market prices are, therefore, not available. Semi-annually, 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, directors and management employees. The status of the qualified stock option plans are as follows at December 31, 1989:

Grant date	<u>1980 Option Plan</u>	
	<u>July 21, 1982</u>	<u>May 22, 1985</u>
Options outstanding, January 1, 1987	43,440	7,200
Exercised in 1987	(43,440)	
Exercised in 1989		(7,200)
Options outstanding, December 31, 1989	<u>-0-</u>	<u>-0-</u>
Option purchase price	<u>\$ 3.72</u>	<u>\$ 8.05</u>

Grant date	<u>1985 Option Plan</u>		
	<u>May 22, 1985</u>	<u>Sept. 10, 1986</u>	<u>May 20, 1987</u>
Options outstanding, January 1, 1987	55,600	75,000	109,600
Forfeitures to be redistributed	(7,200)	(1,000)	(14,600)
Exercised in 1987	(1,312)		
Exercised in 1988	(3,200)		
Exercised in 1989	<u>(12,400)</u>	<u>(21,000)</u>	<u>(3,000)</u>
Options outstanding, December 31, 1989	<u>31,488</u>	<u>53,000</u>	<u>92,000</u>
Option purchase price	<u>\$ 8.05</u>	<u>\$ 9.15</u>	<u>\$ 12.92</u>

B. COMMON AND PREFERRED SHARES (Continued)

On May 19, 1987, the shareholders approved the 1987 Option Plan. At December 31, 1989, none of the 400,000 options had been granted under that plan.

The option rights granted are at fair value at the date of grant and are exercisable in full one year after grant and expire five years after grant date, except for the options granted on May 20, 1987, which expire in seven years.

Stock Purchase Plan - In 1982, the Company entered into an employee stock purchase plan for which 360,000 shares were reserved. On May 19, 1987, the shareholders approved an amendment to the Plan which provided an additional 400,000 common shares issuable under the Plan. The Plan provides the opportunity for all full-time employees with two years' 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.

Purchases under the plan have been as follows:

	<u>1989</u>	<u>1988</u>	<u>1987</u>
Number of employees participating	585	577	506
Annual shares purchased	46,509	52,965	45,605
Average price paid	\$14.22	\$12.57	\$11.82
Cumulative shares purchased	396,735	350,226	297,261
Shares available for future purchase	363,265	409,774	462,739

Stock Subscription Offering

Pursuant to a resolution adopted by the Board of Directors on March 10, 1989, the Company announced a stock subscription offering to employees and directors in May 1989. Under the offering, employees and directors 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 employees and directors subscribed for 228,876 common shares of the Company during the subscription period which ended August 15, 1989.

C. ACCRUED LIABILITIES

Accrued liabilities consisted of:

	December 31		
	1989	1988	1987
	(Dollars in Thousands)		
Workers' compensation	\$1,504	\$2,090	\$2,807
Wages, salaries, etc.	2,967	2,722	2,535
Taxes, other than taxes on income	821	892	880
Accrued vacation	1,284	1,108	1,046
Other	332	251	140
TOTAL	<u>\$6,908</u>	<u>\$7,063</u>	<u>\$7,408</u>

D. SHORT-TERM AND LONG-TERM DEBT

Short-Term Debt

The Company has unused short-term lines of credit with six banks totalling \$3,915,000, generally at the banks' prime rate. Within the total commitment, the Company has the option to borrow specific amounts for periods of 30, 60 or 90 days based on the London Interbank Offered Rate (LIBOR), which is generally less than the U.S. prime rate.

Long-Term Debt

Long-term debt consists of:

	December 31		
	1989	1988	1987
	(Dollars in Thousands)		
Corporate Center financing	\$ 2,375	\$ 2,975	\$ 3,475
Revolving credit agreement	8,500	1,200	2,700
Long-term debt of ESOT	602	688	803
Subordinated notes - stock redemption	685	1,078	1,056
Revolving term loan	1,146	1,384	
Other	901	508	628
	<u>14,209</u>	<u>7,833</u>	<u>8,662</u>
Less current maturities	<u>1,253</u>	<u>2,020</u>	<u>1,008</u>
TOTAL LONG-TERM DEBT	<u>\$12,956</u>	<u>\$ 5,813</u>	<u>\$ 7,654</u>

As of December 31, 1989, the total annual installments required to be paid on long-term debt in the years 1990 to 1994 are as follows: 1990, \$1,253,000; 1991, \$1,107,000; 1992, \$1,428,000; 1993, \$836,000 and 1994, \$625,000.

D. SHORT-TERM AND LONG-TERM DEBT (Continued)

Corporate Center Financing

Corporate Center financing consists of \$2,125,000 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 net book value of the Corporate Center, which collateralizes the Corporate Center financing, was \$4,955,000 at December 31, 1989.

Revolving Credit Agreement

The Revolving Credit Agreement permits the Company to borrow, repay and reborrow up to \$13,000,000. 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 3% 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. It is the Company's expectation that the amount of the Revolving Credit Agreement will be outstanding throughout the ensuing year. Therefore, this amount has been classified as long-term debt.

Under the most restrictive covenants of the Agreement, dividend payments could not exceed \$1,367,000 in 1989, 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.

Long-Term Debt of ESOT

The original loan agreement, as revised in 1984, provided for equal quarterly principal payments of \$28,688 with a final installment of the remaining unpaid principal balance on December 31, 1989. The loan had a fixed interest rate of 12.5%.

On December 29, 1989, the original loan was refinanced with the lender. The new agreement provides for equal quarterly installments of principal of \$15,061 commencing March 31, 1990 with the final installment of the remaining unpaid principal due March 20, 1992. The new loan has a fixed interest rate of 8.4%.

D. SHORT-TERM AND LONG-TERM DEBT (Continued)

Subordinated Notes

In 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 40,744 shares redeemed in 1988 for cash of \$274,320 and notes of \$346,619. In 1986, 135,792 shares were redeemed for cash of \$429,300, and notes of \$774,778.

Revolving Term Loan

The Company can borrow up to \$1,146,000 on a Revolving Term Loan. Interest is payable at 3/8 of 1% over the Bank's prime rate on \$191,000 and at a fixed rate of 12.375% on \$955,000. Borrowings under these arrangements are being repaid in equal monthly installments through November 30, 1994.

The Company paid interest on all debt of \$1,590,000, \$999,000 and \$1,216,000 in 1989, 1988, and 1987, 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.

E. EMPLOYEE STOCK OWNERSHIP PLAN (Continued)

The number of shares released from collateral and available for allocation to ESOP participants is determined by dividing the sum of the current year's 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, in order to repay the principal and to pay the interest on the ESOT debt; such contributions are reflected as an expense of the Company. The contributions to the ESOT for 1989, 1988 and 1987 were:

	<u>1989</u>	<u>1988</u>	<u>1987</u>
	(Dollars	in Thousands)	
Principal repayment	\$ 86	\$115	\$115
Interest	<u>82</u>	<u>97</u>	<u>111</u>
Total cash contributions required	168	212	226
Less dividends paid on collateral shares	<u>65</u>	<u>71</u>	<u>80</u>
ESOT expense	<u>\$103</u>	<u>\$141</u>	<u>\$146</u>
Annual release of shares from collateral	<u>38,880</u>	<u>55,548</u>	<u>59,377</u>
Cumulative release of shares from collateral	<u>1,276,901</u>	<u>1,238,021</u>	<u>1,182,473</u>
Number of shares remaining in collateral	<u>163,099</u>	<u>201,979</u>	<u>257,527</u>

F. PENSION PLANS

Description of Plans:

Effective January 1, 1989, the Company consolidated its pension plans into two defined benefit pension plans which cover substantially all of the Company's employees. 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.

F. PENSION PLANS (Continued)

Funding Policy:

The Company's funding policy is to make the annual contributions necessary to maintain fully funded plans within the range required by applicable regulations. The annual contributions to all plans were \$375,300, \$356,300 and \$315,300 in 1989, 1988 and 1987, respectively. The plans' assets are invested by outside asset managers in marketable debt and equity securities.

Expense Recognition:

Pension expense (income) for 1989, 1988 and 1987 was calculated as follows:

	<u>1989</u>	<u>1988</u>	<u>1987</u>
	(Dollars	in Thousands)	
Service cost - increase in benefit obligations earned during the period	\$ 486	\$ 254	\$ 190
Interest cost on projected benefit obligation	654	637	605
Return on plan assets	(2,970)	(784)	(764)
Deferral (amortization) of unrecognized net assets	<u>1,921</u>	<u>(99)</u>	<u>(99)</u>
Net pension expense (income)	<u>\$ 91</u>	<u>\$ 8</u>	<u>\$ (68)</u>

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

	<u>1989</u>	<u>1988</u>	<u>1987</u>
	(Dollars in Thousands)		
Plan assets at fair market value	\$14,681	\$11,877	\$11,462
Projected benefit obligations	<u>(8,498)</u>	<u>(8,278)</u>	<u>(8,123)</u>
Excess of assets over projected benefit obligations	6,183	3,599	3,339
Unrecognized initial asset	(1,587)	(1,649)	(1,758)
Unrecognized gain	(3,388)	(991)	(1,008)
Excess contributions	<u>(230)</u>	<u>(204)</u>	<u>(55)</u>
Prepaid pension cost recognized in the balance sheet	<u>\$ 978</u>	<u>\$ 755</u>	<u>\$ 518</u>

The projected benefit obligation for 1989, 1988 and 1987 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 1989 and 7% in 1988 and 1987.

The projected benefit obligation is based on an accumulated benefit obligation of \$7,447,000, \$7,647,000 and \$7,318,000 in 1989, 1988 and 1987, respectively, which includes vested benefits of \$6,948,000, \$7,385,000 and \$6,719,000, respectively.

G. INCOME TAXES

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

	<u>1989</u>	<u>1988</u>	<u>1987</u>
	(000's omitted)		
Taxes currently payable:			
U.S.	\$2,079	\$1,956	\$2,145
Canadian	357	564	148
State and local	400	374	407
	<u>2,836</u>	<u>2,894</u>	<u>2,700</u>
Deferred taxes:			
U.S.	139	253	376
Canadian	30	27	27
	<u>169</u>	<u>280</u>	<u>403</u>
	<u>\$3,005</u>	<u>\$3,174</u>	<u>\$3,103</u>

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

	<u>1989</u>	<u>1988</u>	<u>1987</u>
Statutory tax rate	34.0%	34.0%	40.0%
State and local income taxes	3.3	3.1	3.5
Canadian income taxes	2.5	3.6	2.5
Miscellaneous	<u>(2.3)</u>	<u>(1.1)</u>	<u>(1.2)</u>
Effective tax rate	<u>37.5%</u>	<u>39.6%</u>	<u>44.8%</u>

Earnings (loss) before income taxes by country:

	<u>1989</u>	<u>1988</u>	<u>1987</u>
U.S.	\$7,576	\$7,122	\$6,788
Canada	<u>445</u>	<u>884</u>	<u>134</u>
	<u>\$8,021</u>	<u>\$8,006</u>	<u>\$6,922</u>

G. INCOME TAXES (Continued)

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 tax expense are as follows:

	<u>1989</u>	<u>1988</u>	<u>1987</u>
Accrued vacations	\$ (48)	\$ (64)	
Accelerated depreciation	50	288	\$430
Pension contribution	87	131	151
Insurance reserve	46	(132)	(209)
Other	4	30	4
Total U.S.	<u>139</u>	<u>253</u>	<u>376</u>
Canadian	<u>30</u>	<u>27</u>	<u>27</u>
	<u>\$169</u>	<u>\$280</u>	<u>\$403</u>

The Company paid income taxes of \$3,226,000, \$2,116,000 and \$2,853,000 in 1989, 1988 and 1987, respectively.

H. SALES TO A MAJOR CUSTOMER

The Davey Tree Expert Company and its subsidiaries are engaged in the business of providing a broad line of horticultural services to corporate, institutional and residential customers throughout most of the United States and in parts of Canada. The Company had revenues from one customer under multiple five-year contracts aggregating approximately \$28,000,000 in 1989, \$31,000,000 in 1988 and \$32,000,000 in 1987. Approximately \$10,000,000 of these five-year contracts will expire in December 1990.

I. OPERATING LEASES

The Company leases certain facilities which are used primarily for district office and warehouse operations, and certain automotive and computer equipment. These leases extend for varying periods of time up to five years and, in some cases, contain renewal options. Total rental expenses under such operating leases amounted to approximately \$1,162,000, \$1,125,000 and \$938,000 for 1989, 1988 and 1987, respectively. As of December 31, 1989, future minimum rental payments, including taxes and other operating costs, for all operating leases having noncancelable lease terms in excess of one year, are as follows: 1990, \$706,000; 1991, \$384,000; 1992, \$196,000; 1993, \$86,000 and 1994, \$33,000.

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, 1989, the Company was contingently liable to its major bank in the amount of \$905,000 for outstanding letters of credit for deferred premiums relating to certain insurance contracts.

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>
Year-Ended December 31, 1987:					
Land & Land Improvements	\$ 1,906	\$ 29	\$ 3	\$ 1 (A)	\$ 1,933
Buildings & Leaseholds	8,999	278	4	5 (A)	9,278
Equipment	<u>68,300</u>	<u>7,676</u>	<u>3,686</u>	<u>94 (A)</u>	<u>72,384</u>
	<u>\$79,205</u>	<u>\$ 7,983</u>	<u>\$3,693</u>	<u>\$ 100</u>	<u>\$ 83,595</u>
Year-Ended December 31, 1988:					
Land & Land Improvements	\$ 1,933	\$ 530	\$ 44	\$ 11 (A)	\$ 2,419
Buildings & Leaseholds	9,278	535	84		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>
Year-Ended December 31, 1989:					
Land & Land Improvements	\$ 2,419	\$ 599	\$	\$ (21) (A)	\$ 2,997
Buildings & 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>

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>
Year-Ended December 31, 1987:					
Land & Land Improvements	\$ 100	\$ 16	\$ 3	\$	\$ 116
Buildings & Leaseholds	1,835	333	3		2,165
Equipment	<u>42,998</u>	<u>9,255</u>	<u>3,338</u>	<u>91 (A)</u>	<u>49,006</u>
	<u>\$44,933</u>	<u>\$ 9,604</u>	<u>\$3,341</u>	<u>\$ 91</u>	<u>\$51,287</u>
Year-Ended December 31, 1988:					
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>
Year-Ended December 31, 1989:					
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>

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

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE IX - SHORT-TERM BORROWINGS

(Dollars in Thousands)

<u>Notes Payable to 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, 1987	155	8.93	1,199	430	8.70%
December 31, 1988	100	10.50	982	552	9.95%
December 31, 1989	838	13.30	1,590	847	12.26%

(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>1989</u>	<u>1988</u>	<u>1987</u>
Maintenance and Repairs	\$ 9,815	\$ 8,763	\$ 7,851
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)	\$ 1,514

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