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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, 1988

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 1989 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, 1989 (based upon excluding the total number of Common Shares reported in Item 12 hereof), was $41,896,300.

Common Shares outstanding at March 15, 1989: 2,641,636.

Index to Exhibits is located on sequential page 16.

FORM 10-K

THE DAVEY TREE EXPERT COMPANY

Year Ended December 31, 1988

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, 1988, the Registrant had sales of approximately $31,000,000 (20% 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 $8,000,000, 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 1987 and 1988 were approximately $8,644,000 and $10,596,000, respectively. These expenditures included $1,062,000 and $278,000 related to the acquisition of subsidiaries in 1987 and 1988, respectively.

Employees. The Registrant employs between 3,500 and 3,800 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 translation 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.

Location	Acreage	Building Sq. Ft.
Cincinnati, Ohio	2.5	7,200
Livermore, California	10.0	27,737
Winter Park, Florida	1.0	2,500
Chamblee, Georgia	1.9	7,000
East Dundee, Illinois	4.0	7,500
Indianapolis, Indiana	1.5	5,000
Troy, Michigan	2.0	7,200
Cheektowaga, New York	6.9	3,200
Bayport, New York	2.0	7,000
Charlotte, North Carolina	3.1	4,900
Canal Winchester, Ohio	2.8	14,300
Kent, Ohio (multiple)	124.5	111,608
Toledo, Ohio	.5	4,300
Wooster, Ohio	322.8	10,122
Pittsburgh, Pennsylvania	2.5	2,000
Houston, Texas	1.6	8,200
Chantilly, Virginia	2.0	8,900
Downsview, Ontario, Canada	.5	2,800
Baltimore, Maryland	3.4	22,500
Lancaster, New York	3.0	6,600
Bettendorf, Iowa	.5	320
Richmond, Virginia	.5	1,200
Mecklenburg County, North Carolina	15.6	-0-
Soco Gap, North Carolina	17.0	-0-
Stow, Ohio	7.4	-0-
West Carlton Twp., Ont., Canada	2.0	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 1988 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:

Name	Position	Age
John W. Joy	Chairman of the Board	66
R. Douglas Cowan	President and Chief Executive Officer	48
Eugene W. Haupt	Executive Vice President and President of Davey Tree Surgery Company	66
David E. Adante	Secretary-Treasurer and Chief Financial Officer	37
Paul E. Daniel	Vice President and Senior Vice President of Davey Tree Surgery Company	60
Dr. Roger C. Funk	Vice President Human and Technical Resources	44
William F. Heim	Vice President	61
James J. Reed	Vice President and Controller	60
Donald J. Shope	Vice President and General Manager-Residential and Commercial Services	55
Karl J. Warnke	Vice President and General Manager-Utility Services	37

Name	Position	Age
Gordon L. Ober	Vice President-New Ventures	39
Rosemary T. Nicholas	Assistant Secretary	45

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. Prior to January, 1984, Mr. Joy served as President and Chief Executive Officer since before 1983.

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. Prior to January, 1984, Mr. Cowan served as Vice President-Finance since before 1983.

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, and had served as Vice President-General Manager of Davey Tree Surgery Company for more than 5 years prior to January, 1984.

Mr. Adante was elected Secretary-Treasurer and Chief Financial Officer in September, 1985. From January, 1984, until September, 1985, he served as Treasurer and, prior to holding that position, served as Assistant Treasurer beginning in May, 1982.

Mr. Daniel was elected Vice President in May, 1984 and has served as Senior Vice President-Operations, Davey Tree Surgery Company for more than five years.

Dr. Funk was elected Vice President-Human and Technical Resources in January, 1984, and had served as Vice President-Research and Development since prior to 1983.

Mr. Heim was elected Vice President in September, 1988, and, prior to that time, served as Vice President and General Manager-Utility Services since before 1983.

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. Reed served as Executive Vice President of King Musical Instruments, Inc. from January, 1982, through December, 1983.

Mr. Shope was elected Vice President and General Manager-Residential and Commercial Services in January, 1984, and had served as Vice President and General Manager-Tree Care Services since prior to 1983.

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 1983.

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, and as Vice President-Lawnscape Services from prior to 1983 to January, 1984.

Mrs. Nicholas was elected Assistant Secretary in May, 1982, and had been employed as an executive secretary with the Registrant for more than five years.

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 shares of $1.00 par value common stock from 3,000,000 to 12,000,000 shares. Also, the Company's Articles of Incorporation were amended to authorize a class of 4,000,000 preferred shares, of which none were issued at December 31, 1988. A four-for-one stock split for common shareholders of record on June 1, 1987, was approved and distributed on June 22, 1987.

At December 31, 1988, 1987, and 1986 the number of common shares issued were 4,364,220, 4,364,220, and 1,091,055, respectively. At those respective dates, the number of shares in the treasury was 1,722,584, 1,623,394, and 393,758. All other references in the financial statements with regard to average number of shares of common stock, earnings per common share, dividends per share, stock option data and stock purchase plan data have been adjusted to give retroactive effect to the common stock split.

The Registrant's stock is not listed or traded on an active stock 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, 1989, there were 1,013 record holders of the Registrant's Common Shares. During the year ended December 31, 1987, the Registrant paid a dividend of $.0575 per share in the first quarter and $.065 per share in the second, third and fourth 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 the Annual Report on Form 10-K.

Item 6. Selected Financial Data.

	Years Ended December 31				
	1988	1987	1986	1985	1984
	(Dollars in Thousands, except per share data)				
Operating Results:					
Revenues	$152,234	$143,489	$133,156	$129,221	$118,915
Net Earnings	$ 4,832	$ 3,819	$ 3,007	$ 4,256	$ 4,623
Net Earnings Per Common Share	$ 1.75	$ 1.34	$ 1.00	$ 1.29	$ 1.35
At Year End:					
Total Assets	$ 58,301	$ 52,758	$ 52,630	$ 50,609	$ 46,769
Total Long-Term Debt	$ 5,813	$ 7,654	$ 8,972	$ 7,499	$ 8,892
Cash Dividends Per Common Share	$ .28	$ .25	$ .22	$ .20	$ .18

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 in 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.

	1988	1987	1986
	(Dollars in Thousands)		
Working Capital	$ 3,991	$ 4,436	$ 2,318
Current Ratio	1.2:1	1.3:1	1.1:1
Cash Flow from Net Income and Depreciation	$14,348	$13,423	$12,533
Capital Expenditures	$10,596	$ 8,644	$10,352
Cash Flow to Capital Expenditures Ratio	1.4:1	1.6:1	1.2:1
Cash Flow as % of Revenues	9.4%	9.4%	9.4%

At year-end 1988, working capital decreased compared to the prior year, and was $445,000 lower than at year-end 1987, but $1,673,000 higher than at year-end 1986. The decrease in 1988 was due to higher levels of accounts payable, income taxes payable, and current maturities of long-term debt, all of which increased in the ordinary course of business.

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 has 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 1988, cash flow from operating activities increased $925,000 from 1987, and $1,815,000 from 1986. The increase in cash flow from net income and depreciation in 1988 was principally due to higher net income. As a percentage of revenues, cash flow was at 9.4% for each of the three years reported. In 1988, 1987 and 1986, cash flow exceeded capital expenditures by $3,752,000, $4,779,000 and $2,181,000, respectively. 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.

	1988	1987	1986
Equity to Debt Ratio	1.04:1	1.05:1	.9:1
Debt as % of Assets	49.1%	48.7%	52.9%
Equity as % of Assets	50.9%	51.3%	47.1%

At the end of 1988, the relationship of equity to debt decreased slightly to 1.04:1, compared to 1.05:1 in 1987 and .9:1 in 1986. Since 1984, the equity to debt ratio has been adversely affected by two principal conditions: the $4,850,000 debt incurred in connection with the Corporate Center in 1984, and the high levels of common stock redemption in 1985 and 1986. At year-end 1988, the Corporate Center debt had been reduced to $2,975,000, and annual redemptions of common stock have been reduced. While the equity to debt ratio has improved, management believes that a ratio of less than 1.0:1 is not necessarily unhealthy, and continues to evaluate opportunities which could require additional debt financing.

The Registrant will continue to finance its operations needs with borrowings under a Revolving Credit Agreement and short-term lines of credit. At March 16, 1989, the Registrant had available $14,800,000 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.

	1988	1987	1986
Earnings Per Share	$ 1.75	$ 1.34	$ 1.00
Dividends Per Share	$ .28	$ .25	$ .22
Book Value Per Share	$11.24	$ 9.87	$ 8.89
ESOT Market Valuation Per Share	$15.86	$14.36	$12.92

The earnings per share measurements are shown as if all outstanding stock options had been exercised at December 31 of the years presented. The lower number of shares outstanding at each year end, due to the redemptions of stock, have favorably affected the per share measurements.

The higher earnings in 1988 are reflected in the per share measurements in the table above. Earnings per share in 1988 increased to $1.75 per share, up $.41 from 1987, and $.75 from 1986. The market value per share increased to $15.86 per share, up 10.4% from 1987, and 22.8% from 1986.

Dividends paid per share were again increased in 1988. In 1988, they were increased $.03 per share, or 12% over 1987, compared to an increase in 1987 of $.03 per share, or 14% over 1986. Total dividends paid to shareholders in 1988 were $738,000, compared to $696,000 in 1987 and $630,000 in 1986. 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.

The Registrant's Common Shares are not listed or traded on an active stock market and market prices are, therefore, not available. Each year, an independent consultant is retained by the Registrant's Employee Stock Ownership Trust (ESOT) to evaluate the Registrant's performance and financial condition and determine a fair market value, as of the end of the year, for the shares owned by the ESOT. The valuations are presented in the absence of other market data.

RESULTS OF OPERATIONS

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

	1988	1987	1986
Increase in Revenues	6.1%	7.8%	3.0%
Operating Earnings as % of Revenues	5.6%	5.8%	5.5%
Pre-Tax Earnings as % of Revenues	5.3%	4.8%	4.3%
Net Earnings as % of Revenue	3.2%	2.7%	2.3%

Revenues of $152,234,000 for 1988 set a new record and increased $8,745,000, or 6.1% over 1987, compared to a 7.8% increase in revenues in 1987 and 3.0% in 1986. Revenues increased in the Kent Operating Company and in most of the Registrant's major service lines.

Operating costs in 1988 increased by $5,622,000 or 5.8% over the prior year, but at a lower rate than the increase in revenues. As a percentage of revenues, these costs decreased to 67.2%, compared to 67.4% and 68.3% in 1987 and 1986, respectively. Operating costs were favorably affected by a settlement with a former liability insurance carrier. In addition, labor, the major component of operating costs, was lower than the prior year as a percentage of revenues, due to improvements in productivity and revenue mix. Partially offsetting these improvements, however, were increases in liability insurance costs and payroll taxes.

Selling, General and Administrative ("S, G&A") costs increased 10.2% in 1988, and at a higher rate than the revenue increase of 6.1%. As a percentage of revenues, these costs were 20.9% in 1988, compared to 20.1% in 1987, and 19.0% in 1986. S, G&A expenses increased at a disproportionate rate primarily due to higher general insurance, supervision and incentive compensation costs, as well as the full impact of S, G&A costs of a subsidiary acquired in 1987. Incentive compensation costs increased due to higher earnings from operations in Residential/Commercial Services.

Depreciation expense in 1988 decreased .9% from 1987, compared to an increase of .8% in 1987, and an increase of 6.9% in 1986. As a percentage of revenues, depreciation expense was 6.3% in 1988, compared to 6.7% in 1987, and 7.2% in 1986. 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, exclusive of the investment in subsidiaries were $10,318,000, $7,582,000, and $8,419,000, respectively, and were at generally lower levels than the years of 1983-1985 in relation to revenues.

Interest expense in 1988 decreased to $981,000 compared to $1,279,000 in 1987 and $1,363,000 in 1986. Interest expense for 1988, 1987, and 1986 included $246,000, $274,000, and $363,000, respectively, related to the financing of the Corporate Center. Excluding the effect of the Corporate Center financing, interest expense decreased in 1988 by $270,000, or 27% from the 1987 level. The lower level of interest expense was principally due to lower borrowing levels resulting from the improvement in cash flow from operating activities and lower average interest rates.

As a result of the above factors, 1988 earnings before income taxes were $8,006,000, or 5.3% of revenues. The effective tax rate for 1988 was 39.6%, compared to 44.8% for 1987 and 47.1% for 1986. Effective tax rates have declined because of the cumulative effect of the Tax Reform Act of 1986, particularly the reduction of the statutory rate from 46% to 34%. However, the Registrant's effective tax rate is approximately the same as the rates for the three years prior to 1986 due to the elimination of the investment tax credit in 1986.

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, 1989. The Registrant has not adopted the standard in 1988, and has not determined whether or not it will adopt the standard in 1989. 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 1988 increased to $4,832,000 compared to $3,819,000 and $3,007,000 in 1987 and 1986 respectively, and as a percentage of revenues was 3.2% compared to 2.7% in 1987 and 2.3% in 1986.

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

	1988	1987	1986
Average Assets Employed (in 000's)	$55,529	$52,694	$51,620
Asset Turnover (Revenues to Average Assets)	2.7	2.7	2.6
Return on Average Assets	8.7%	7.3%	5.8%

The expenditure of $5,495,000 for the Corporate Center in 1984 and 1985 has tended to distort both the average assets employed as well as the percentage of return on average assets, as compared to prior years. Although the return on average assets of 8.7% for 1988 does not approach the 13.3% achieved in 1983, there has been significant improvement in the past two years. Management is steadfast in its goal to achieve an asset turnover rate of at least 3.0 and to improve 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. Disagreements on Accounting and Financial Disclosure.

Within the 24 months prior to the date of the most recent financial statements, no Form 8-K under the Exchange Act has been filed to report a change of accountants and 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 1989 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 Plan" and "Stock Options" in the Registrant's definitive Proxy Statement for its 1989 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 1989 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 heading "Election of Directors" in the Registrant's definitive Proxy Statement for its 1989 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

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

March 10, 1989

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 10, 1989.

/s/ J. W. Joy
J. W. JOY, Director and
Chairman of the Board

/s/ William D. Ginn
WILLIAM D. GINN, Director

/s/ R. Douglas Cowan
R. DOUGLAS COWAN, Director;
President and
Chief Executive Officer
(Principal Executive and
Operating Officer

/s/ Eugene W. Haupt
EUGENE W. HAUPT, Director;
Executive Vice President

/s/ Thomas W. Blazey
THOMAS W. BLAZEY, Director

/s/ J Maurice Struchen
J MAURICE STRUCHEN, Director

/s/ James H. Miller
JAMES H. MILLER, Director

/s/ Edward P. Taylor
EDWARD P. TAYLOR, Director

/s/ Richard E. Dunn
RICHARD E. DUNN, Director

/s/ David E. Adante
DAVID E. ADANTE
Secretary-Treasurer and
Chief Financial Officer
(Principal Financial Officer)

/s/ James H. Pohl
JAMES H. POHL, Director

/s/ James J. Reed
JAMES J. REED
Vice President-Controller
(Principal Accounting Officer)

INDEX TO EXHIBITS

[Item 14(a)(3)]

Exhibit No.	Description	Location or Sequential Page
(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.

Exhibit No.	Description	Location Sequential Page
(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
(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	19
(25)	Power of Attorney	Not applicable
(28)	Additional Exhibits	Not applicable

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

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, and to The Davey Tree Expert Company 1987 Incentive Stock Option Plan and in the related Prospectuses, of our report, dated February 24, 1989, with respect to the consolidated financial statements of The Davey Tree Expert Company for the year ended December 31, 1988.

Touche Ross & Co.

TOUCHE ROSS & CO.

Akron, Ohio
March 24, 1989

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

Touche Ross & Co.
One Cascade Plaza-Suite 1600
Akron, OH 44308-1187
Telephone: 216 253-2022

Touche Ross

Independent Auditor's 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, 1988, 1987, and 1986, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1988. 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, 1988, 1987, and 1986 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988 in conformity with generally accepted accounting principles.

Touche Ross & Co.

Certified Public Accountants
February 24, 1989

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

ASSETS

	December 31 1988	1987	1986
CURRENT ASSETS:			
Cash and short-term investments	$ 1,273	$ 566	$ 1,210
Accounts receivable	18,660	15,824	13,945
Operating supplies	1,301	1,194	1,335
Prepaid expenses	1,532	1,222	1,467
TOTAL CURRENT ASSETS	22,766	18,806	17,957
OTHER ASSETS	2,085	1,644	401
PROPERTY AND EQUIPMENT:			
Land and land improvements	2,419	1,933	1,906
Buildings and leasehold improvements	9,740	9,278	8,999
Equipment	78,966	72,384	68,300
	91,125	83,595	79,205
Less accumulated depreciation	57,675	51,287	44,933
NET PROPERTY AND EQUIPMENT	33,450	32,308	34,272
TOTAL ASSETS	$58,301	$52,758	$52,630

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31 1988	1987	1986
CURRENT LIABILITIES:			
Accounts payable	$ 9,526	$ 5,694	$ 5,297
Accrued liabilities	6,296	7,408	8,461
Income taxes payable	833	105	312
Notes payable, bank	100	155	606
Current maturities on long-term debt	2,020	1,008	963
TOTAL CURRENT LIABILITIES	18,775	14,370	15,639
LONG-TERM DEBT	5,813	7,654	8,972
DEFERRED INCOME TAXES	3,654	3,323	2,920
OTHER LIABILITIES	356	356	317
TOTAL LIABILITIES	28,598	25,703	27,848
SHAREHOLDERS' EQUITY:			
Preferred shares			
Common shares	4,364	4,364	1,091
Additional paid-in capital	1,192	608	1,285
Retained earnings	38,475	34,318	33,019
	44,031	39,290	35,395
Less:			
Treasury shares, at cost	13,640	11,432	9,695
Future contributions to ESOT	688	803	918
TOTAL SHAREHOLDERS' EQUITY	29,703	27,055	24,782
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$58,301	$52,758	$52,630

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Dollars in Thousands, Except Per Share Amounts)

	Year Ended December 31					
	1988		1987		1986	
REVENUES	$152,234	100.0%	$143,489	100.0%	$133,156	100.0%
COSTS AND EXPENSES:						
Operating costs	102,312	67.2	96,690	67.4	90,981	68.3
Selling, general and administrative	31,844	20.9	28,897	20.1	25,278	19.0
Depreciation and amortization	9,516	6.3	9,604	6.7	9,526	7.2
	143,672	94.4	135,191	94.2	125,785	94.5
EARNINGS FROM OPERATIONS	8,562	5.6	8,298	5.8	7,371	5.5
INTEREST EXPENSE	981	.6	1,279	.9	1,363	1.0
OTHER (INCOME) EXPENSE - NET	(425)	(.3)	97	.1	321	.2
EARNINGS BEFORE INCOME TAXES	8,006	5.3	6,922	4.8	5,687	4.3
INCOME TAXES	3,174	2.1	3,103	2.1	2,680	2.0
NET EARNINGS	$ 4,832	3.2%	$ 3,819	2.7%	$ 3,007	2.3%
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING INCLUDING COMMON STOCK EQUIVALENTS	2,765,266		2,842,032		2,993,796	
NET EARNINGS PER COMMON SHARE	$ 1.75		$ 1.34		$ 1.00	

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF
SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1988, 1987 AND 1986

(Dollars in Thousands, Except
Per Share Amounts)

	Common Shares ($1.00 Par Value)	Additional Paid-In Capital
BALANCE, JANUARY 1, 1986	$1,091	$ 974
Shares purchased		
Shares sold to employees		292
Options exercised		19
Contributions to ESOT		
Net earnings		
Dividends, $.22 per share		
Net adjustment for foreign currency translation		
BALANCE, DECEMBER 31, 1986	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

See notes to consolidated financial statements.

Retained Earnings	Treasury Shares	Future Contributions to ESOT	Total
$30,632	$ (6,209)	$(1,033)	$25,455
	(3,838)		(3,838)
	135		427
	217		236
		115	115
3,007			3,007
(630)			(630)
10			10
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

THE DAVEY TREE EXPERT COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	Year Ended December 31 1988	1987	1986
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 4,832	$ 3,819	$ 3,007
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,516	9,604	9,526
	14,348	13,423	12,533
(Gain) loss on sale of fixed assets	(188)	17	8
Change in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(2,836)	(1,879)	25
Operating supplies	(107)	141	(449)
Prepaid expenses	(310)	245	102
Other assets	(516)	(323)	(174)
Increase (decrease) in:			
Accounts payable and accrued expenses	2,720	(656)	(712)
Income taxes payable	728	(207)	225
Deferred income taxes	331	403	903
Other liabilities		39	20
Net cash provided by operating activities	14,170	11,203	12,481
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of fixed assets	366	85	100
Business acquisitions	(278)	(1,062)	(1,933)
Capital expenditures	(10,318)	(7,582)	(8,419)
Net cash (used in) investing activities	(10,230)	(8,559)	(10,252)

THE DAVEY TREE EXPERT COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(Dollars in Thousands)

	Year Ended December 31		
	1988	1987	1986
CASH FLOWS FROM FINANCING ACTIVITIES:			
ESOT payment of debt guaranteed by Company	$ 115	$ 115	$ 115
Net borrowings under line of credit agreements	(55)	(451)	606
Principal payments of debt obligation	(2,585)	(1,856)	(615)
Proceeds from issuance of long-term debt	1,757	583	2,267
Sales of treasury shares	726	930	663
Dividends paid	(738)	(696)	(630)
Payment for purchase of common stock	(2,350)	(1,995)	(3,838)
Other		(52)	
Net cash (used in) financing activities	(3,130)	(3,422)	(1,432)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(103)	134	14
NET CHANGE IN CASH AND CASH EQUIVALENTS	707	(644)	811
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	566	1,210	399
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,273	$ 566	$ 1,210

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

THREE YEARS ENDED DECEMBER 31, 1988

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, Davey Tree Surgery Company and Davey Tree Expert Co. of Canada, Limited. All significant intercompany transactions, accounts and profits have been eliminated.

Accounts Receivable - The Company uses the direct writeoff method for uncollectible accounts receivable. No allowance was considered necessary for any of the years presented.

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. Investment tax credits, which were in effect prior to 1987, were used to reduce the income tax provision in the year in which they were earned.

Statements of Cash Flows - In November 1987, the Financial Accounting Standards Board issued Statement No. 95, "Statement of Cash Flows." The Company adopted the provisions of the statement in its 1988 financial statements and restated the previously issued statements of changes in financial position for 1987 and 1986.

Some cash is invested in highly liquid investments with maturities of three months or less. Such investments are deemed to be cash for presentation purposes in the statements of cash flows.

B. COMMON AND PREFERRED SHARES

On May 19, 1987, the shareholders approved an increase in the number of authorized shares of $1.00 par value common stock from 3,000,000 to 12,000,000 shares. Also, the Company's Articles of Incorporation were amended to authorize a class of 4,000,000 preferred shares, no par value, of which none were issued at December 31, 1988. A four-for-one stock split for shareholders of record on June 1, 1987 was also approved and distributed on June 22, 1987.

At December 31, 1988, 1987 and 1986 the number of common shares issued were 4,364,220, 4,364,220 and 1,091,055, respectively. At those respective dates, the number of shares in the treasury were 1,722,584, 1,623,394 and 393,758. All other references in the financial statements with regard to average number of shares of common stock, earnings per common share, dividends per share, stock option data and stock purchase plan data have been adjusted to give retroactive effect to the common stock split.

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, 1988:

	1980 Option Plan		
Grant date	May 19, 1981	July 21, 1982	May 22, 1985
Options outstanding, January 1, 1986	78,140	54,840	7,200
Exercised in 1986	(78,140)	(11,400)	
Exercised in 1987		(43,440)	
Options outstanding, December 31, 1988	-0-	-0-	7,200
Option purchase price	$ 2.49	$ 3.72	$ 8.05

B. COMMON AND PREFERRED SHARES (Continued)

Grant date	May 22, 1985	Sept. 10, 1986	May 20, 1987
	1985 Option Plan		
Options outstanding, January 1, 1987	55,600	75,000	109,600
Exercised in 1987	(1,312)		
Exercised in 1988	(3,200)		
Options outstanding, December 31, 1988	51,088	75,000	109,600
Option purchase price	$ 8.05	$ 9.15	$ 12.92

On May 19, 1987, the shareholders approved the 1987 Option Plan. At December 31, 1988, none of the 400,000 options had been granted under that plan.

The option rights granted may be exercised 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:

	1988	1987	1986
Number of employees participating	577	506	395
Annual shares purchased	52,965	45,605	54,888
Average price paid	$12.57	$11.82	$ 7.66
Cumulative shares purchased	350,226	297,261	251,656
Additional shares issuable 1987 amendment	400,000	400,000	
Shares available for future purchase	409,774	462,739	108,344

C. ACCRUED LIABILITIES

Accrued liabilities consisted of:

	December 31 1988	1987	1986
	(Dollars in Thousands)		
Workers' compensation	$1,323	$2,807	$3,574
Wages, salaries, etc.	2,722	2,535	2,435
Taxes, other than taxes on income	892	880	1,276
Accrued vacation	1,108	1,046	951
Other	251	140	225
TOTAL	$6,296	$7,408	$8,461

D. SHORT-TERM AND LONG-TERM DEBT

Short-Term Debt

The Company has unused short-term lines of credit with five banks totalling $3,800,000, 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 at 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 1988	1987	1986
	(Dollars in Thousands)		
Corporate Center financing	$2,975	$3,475	$3,975
Revolving credit agreement	1,200	2,700	3,600
Long-term debt of ESOT	688	803	918
Subordinated notes - stock redemption	1,078	1,056	1,380
Revolving term loan	1,384		
Other	508	628	62
	7,833	8,662	9,935
Less current maturities	2,020	1,008	963
TOTAL LONG-TERM DEBT	$5,813	$7,654	$8,972

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

As of December 31, 1988, the total annual installments required to be paid on long-term debt in the years 1989 to 1993 are as follows: 1989, $2,020,000; 1990, $1,127,000; 1991, $1,012,000; 1992, $925,000; 1993, $812,000.

Corporate Center Financing

Corporate Center financing consists of $2,625,000 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 $350,000 Community Development Block Grant, at 3% interest, to be repaid by principal payments of $100,000 on August 1, 1989 and $250,000 on August 1, 1994. The net book value of the Corporate Center was $5,104,000 at December 31, 1988.

Revolving Credit Agreement

The Revolving Credit Agreement permits the Company to borrow, repay and reborrow up to $11,000,000. The Agreement provides for interest on any borrowings on the "Revolver" at prime, plus a commitment fee of 3/8 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 $1,200,000 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 $1,108,000 in 1988, 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 loan agreement provides for equal quarterly principal payments of $28,688 with a final installment of the remaining unpaid principal balance on December 31, 1989. The loan has a fixed interest rate of 12.5%.

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. There were no notes issued in connection with redemptions of common stock in 1987.

Revolving Term Loan

The Company can borrow up to $1,384,000 on a Revolving Term Loan. Interest is payable at 1/8 of 1% over the Bank's prime rate on $231,000 and at a fixed rate of 12.375% on $1,153,000. Borrowings under these arrangements are being repaid in equal monthly installments over six years.

The Company paid interest on all debt of $999,000, $1,216,000 and $1,343,000 in 1988, 1987, and 1986, 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.

E. EMPLOYEE STOCK OWNERSHIP PLAN (Continued)

The number of shares released from collateral and available for allocation to ESOT 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 1988, 1987 and 1986 were:

	1988	1987	1986
	(Dollars in Thousands)		
Principal repayment	$115	$115	$115
Interest	97	111	125
Total cash contributions required	212	226	240
Less dividends paid on collateral shares	71	80	82
ESOT expense	$141	$146	$158
Annual release of shares from collateral	55,548	59,377	63,314
Cumulative release of shares from collateral	1,238,021	1,182,473	1,123,096
Number of shares remaining in collateral	201,979	257,527	316,904

F. PENSION PLANS

The Company has defined benefit pension plans which are available to substantially all of the Company's employees. Two of the plans are contributory. These plans covering salary and hourly employees generally provide benefits at a stated amount for each year of service. The supplemental plan covering salary employees provides benefits under a formula principally based upon compensation levels. The Company's funding policy is to make the annual contributions required by applicable regulations. The annual contributions to all plans were $356,300, $315,300 and $324,700 in 1988, 1987 and 1986, respectively. The plans' assets are invested by outside asset managers in marketable debt and equity securities.

F. PENSION PLANS (Continued)

Pension expense (income) for 1988, 1987 and 1986 was calculated as follows:

	1988	1987	1986
	(Dollars in Thousands)		
Service cost - increase in benefit obligations earned during the period	$ 254	$ 190	$ 202
Interest cost on projected benefit obligation	637	605	571
Return on plan assets	(784)	(764)	(693)
Amortization of unrecognized (net assets)	(99)	(99)	(99)
Net pension expense (income)	$ 8	$ (68)	$ (19)

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

	1988	1987	1986
	(Dollars in Thousands)		
Plan assets at fair market value	$11,877	$11,462	$10,548
Projected benefit obligations	(8,278)	(8,123)	(8,420)
Excess of assets over projected benefit obligations	3,599	3,339	2,128
Unrecognized initial asset	(1,649)	(1,758)	(1,857)
Unrecognized gain	(991)	(1,008)	
Excess contributions	(204)	(55)	(94)
Prepaid pension cost recognized in the balance sheet	$ 755	$ 518	$ 177

The projected benefit obligation for 1988, 1987 and 1986 was determined using an assumed discount rate of 8%, 8% and 7%, respectively, and an assumed long-term compensation rate increase of 6%. The assumed long-term rate of return on plan assets was 7% in all years.

The projected benefit obligation is based on an accumulated benefit obligation of $7,647,000, $7,318,000 and $7,523,000 in 1988, 1987 and 1986, respectively, which includes vested benefits of $7,385,000, $6,719,000 and $6,874,000, respectively.

G. INCOME TAXES

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

	1988	1987	1986
	(000's omitted)		
Taxes currently payable:			
U.S.	$1,971	$2,145	$1,824
Canadian	564	148	(89)
State and local	374	407	327
	2,909	2,700	2,062
Investment tax credits	13		(199)
Other tax credits	(28)		(72)
	2,894	2,700	1,791
Deferred taxes:			
U.S.	253	376	882
Canadian	27	27	7
	280	403	889
	$3,174	$3,103	$2,680

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

	1988	1987	1986
Statutory tax rate	34.0%	40.0%	46.0%
State and local income taxes	3.1	3.5	3.1
Investment tax credits			(3.5)
Canadian income taxes	3.6	2.5	(1.5)
Investment tax credit basis reduction			2.1
Miscellaneous	(1.1)	(1.2)	.9
Effective tax rate	39.6%	44.8%	47.1%

Earnings (loss) before income taxes by country:

	1988	1987	1986
U.S.	$7,122	$6,788	$6,177
Canada	884	134	(490)
	$8,006	$6,922	$5,687

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:

	1988	1987	1986
Investment tax credit basis reduction			$117
Capitalized construction interest			23
Accrued vacations	$(64)		(12)
Accelerated depreciation	288	$430	611
Pension contribution	131	151	154
Insurance reserve	(132)	(209)	
Other	30	4	(11)
Total U.S.	253	376	882
Canadian	27	27	7
	$280	$403	$889

The Company paid income taxes of $2,116,000, $2,853,000 and $892,000 in 1988, 1987 and 1986, 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 $31,000,000 in 1988 and $32,000,000 in 1987 and 1986. Approximately $10,000,000 of these five-year contracts expire during the second quarter of 1989 and will be open for competitive bid.

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 $1,125,000, $938,000 and $988,000 for 1988, 1987 and 1986, respectively. As of December 31, 1988, 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: 1989, $827,000; 1990, $545,000; 1991, $216,000; 1992, $100,000; and 1993, $59,000.

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, 1988, the Company was contingently liable to its major bank in the amount of $1,000,000 for an outstanding letter 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)

Description	Balance at Beginning of Period	Additions At Cost	Retirements	Other Charges Add/(Deduct)	Balance at End of Period
Year-Ended December 31, 1986:					
Land & Land Improvements	$ 1,738	$ 167	$	$ 1	$ 1,906
Buildings & Leaseholds	8,971	62	33	(1)	8,999
Equipment	61,467	10,366	3,537	4 (A)	68,300
	$ 72,176	$ 10,595	$ 3,570	$ 4	$ 79,205
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	68,300	7,676	3,686	94 (A)	72,384
	$ 79,205	$ 7,983	$ 3,693	$ 100	$ 83,595
Year-Ended December 31, 1988:					
Land & Land Improvements	$ 1,933	$ 530	$ 44	$	$ 2,419
Buildings & Leaseholds	9,278	535	84	11 (A)	9,740
Equipment	72,384	9,731	3,554	405 (A)	78,966
	$ 83,595	$ 10,796	$ 3,682	$ 416	$ 91,125

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

THE DAVEY TREE EXPERT AND SUBSIDIARY COMPANIES

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

(Dollars in Thousands)

Description	Balance at Beginning of Period	Depreciation Expenses	Retirements	Other Charges Add/(Deduct)	Balance at End of Period
Year-Ended December 31, 1986:					
Land & Land Improvements	$ 86	$ 14	$	$	$ 100
Buildings & Leaseholds	1,456	397	18		1,835
Equipment	37,131	9,115	3,257	9 (A)	42,998
	$ 38,673	$ 9,526	$ 3,275	$ 9	$ 44,933
Year-Ended December 31, 1987:					
Land & Land Improvements	$ 100	$ 16	$	$	$ 116
Buildings & Leaseholds	1,835	333	3		2,165
Equipment	42,998	9,255	3,338	91 (A)	49,006
	$ 44,933	$ 9,604	$ 3,341	$ 91	$ 51,287
Year-Ended December 31, 1988:					
Land & Land Improvements	$ 116	$ 17	$ 17	$	$ 116
Buildings & Leaseholds	2,165	359	50	6 (A)	2,480
Equipment	49,006	9,094	3,247	226 (A)	55,079
	$ 51,287	$ 9,470	$ 3,314	$ 232	$ 57,675

(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)

Notes Payable to Bank	Balance at End of Period	Weighted Average Interest Rate	Maximum Amount Outstanding During the Period	Average Amount Outstanding During the Period (1)	Weighted Average Interest Rate During the Period (2)
December 31, 1986	606	8.66	1,066	488	9.19%
December 31, 1987	155	8.93	1,199	430	8.70%
December 31, 1988	100	10.50	982	552	9.95%

(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)

	Charged to Costs & Expenses		
	Year-Ended December 31		
	1988	1987	1986
Maintenance and Repairs	$ 8,763	$ 7,851	$ 7,133
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)	$ 1,514	(A)

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