

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, 1987

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 1988 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, 1988 (based upon excluding the total number of Common Shares reported in Item 12 hereof), was \$39,211,200.

Common Shares outstanding at March 15, 1988: 2,730,585

Index to Exhibits is located on sequential page 16.

FORM 10-K

THE DAVEY TREE EXPERT COMPANY

Year Ended December 31, 1987

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, 1987, the Registrant had sales of approximately \$32,000,000 (22% 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 1986 and 1987 were approximately \$10,595,000 and \$9,045,000, respectively. These expenditures included \$1,933,000 and \$1,062,000 related to the acquisition of subsidiaries in 1986 and 1987, 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.

<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	2,500
Chamblee, Georgia	1.9	7,000
East Dundee, Illinois	4.0	7,500
Indianapolis, Indiana	1.5	5,000
Grand Rapids, Michigan	4.0	2,300
Troy, Michigan	2.0	10,200
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	7,800
Pittsburgh, Pennsylvania	2.5	2,000
Ninety-Six, South Carolina	6.2	6,150
Houston, Texas	1.6	8,200
Chantilly, Virginia	2.0	8,900
Downsview, Ontario, Canada	.5	2,800
Baltimore, Maryland	3.3	22,500
Lancaster, New York	3.0	6,600
Bettendorf, Iowa	.5	320
Richmond, Virginia	.5	1,200
Mecklenburg, North Carolina	15.6	-0-
Soco Gap, North Carolina	17.0	-0-

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 1987 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 and Chief Executive Officer	65
R. Douglas Cowan	President and Chief Operating Officer	47
Eugene W. Haupt	Executive Vice President, and President of Davey Tree Surgery Company	65
David E. Adante	Secretary-Treasurer and Chief Financial Officer	36
Paul E. Daniel	Vice President, and Senior Vice President of Davey Tree Surgery Company	59
Dr. Roger C. Funk	Vice President-Human and Technical Resources	43
William F. Heim	Vice President and General Manager-Utility Services	60
James J. Reed	Vice President and Controller	59
Donald J. Shope	Vice President and General Manager-Residential and Commercial Services	54
Karl J. Warnke	Vice President and Assistant to the President	36

<u>Name</u>	<u>Position</u>	<u>Age</u>
Gordon L. Ober	Vice President, New Ventures	38
Rosemary T. Nicholas	Assistant Secretary	44

Mr. Joy was elected Chairman of the Board and Chief Executive Officer in July, 1985. From January, 1984, he had served as Chairman of the Board, President and Chief Executive Officer and prior to 1984 had served as President and Chief Executive Officer since before 1982.

Mr. Cowan was elected President and Chief Operating Officer in July, 1985. From January, 1984 until July, 1985 he served as Executive Vice President-Finance and Administration, Corporate Group, and prior to holding that position had served as Vice President, Finance, since before 1982.

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 1982.

Mr. Heim has been Vice President and General Manager-Utility Services for more than five years.

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 September, 1983 and served as Vice President and Chief Financial Officer of King Musical Instruments, Inc. for a number of years prior to 1982.

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 1982.

Mr. Warnke was elected Vice President and Assistant to the President in September 1987. He served as Vice President-Utility Operations from 1986 through August 1987, Area Manager from 1984 to 1986, and Operations Coordinator from 1982 through 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 and as Vice President-Lawnscape Services from prior to 1982 to January, 1984.

Mrs. Nicholas was elected Assistant Secretary in May, 1982 and has 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, 1987. 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, 1987, 1986, and 1985 the number of common shares issued were 4,364,220, 1,091,055, and 1,091,055, respectively. At those respective dates, the number of shares in the treasury was 1,623,394, 393,758, and 322,522. 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, 1988, there were 922 record holders of the Registrant's Common Shares. During the year ended December 31, 1986, the Registrant paid a dividend of \$.0525 per share in each of the first three quarters and \$.0575 per share in the fourth quarter. 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. 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				
	<u>1987</u>	<u>1986</u>	<u>1985</u>	<u>1984</u>	<u>1983</u>
	(000's omitted, except per share data)				
Operating Results:					
Revenues	\$143,489	\$133,156	\$129,221	\$118,915	\$ 104,557
Net Earnings	\$ 3,819	\$ 3,007	\$ 4,256	\$ 4,623	\$ 4,422
Net Earnings Per Common Share	\$ 1.34	\$ 1.00	\$ 1.29	\$ 1.35	\$ 1.30
At Year End:					
Total Assets	\$ 52,758	\$ 52,630	\$ 50,609	\$ 46,769	\$ 36,967
Total Long-Term Debt	\$ 7,654	\$ 8,972	\$ 7,499	\$ 8,892	\$ 3,471
Cash Dividends Per Common Share	\$.25	\$.22	\$.20	\$.18	\$.15

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.

FINANCIAL CONDITION

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>1987</u>	<u>1986</u>	<u>1985</u>
Working Capital (in 000's)	\$ 4,436	\$ 2,318	\$ 1,483
Current Ratio	1.3:1	1.1:1	1.1:1
Cash Flow from Operations (in 000's)	\$13,826	\$13,454	\$14,015
Capital Expenditures (in 000's)	\$ 9,045	\$10,595	\$14,350
Cash Flow to Capital Expenditures Ratio	1.5:1	1.3:1	1.0:1
Cash Flow as % of Revenues	9.6%	10.1%	10.8%

At year-end 1987, working capital (current assets less current liabilities) increased compared to the prior year, and was \$2,118,000 and \$2,953,000 higher than at year-end 1986 and 1985, respectively. The increase in 1987 was due to higher accounts receivable and lower levels of accrued liabilities and short-term debt. Accounts receivable increased \$1,879,000 due to the increase in sales volume together with slower collections in certain utility accounts. The Registrant believes that this condition is temporary, and is not a major concern. Accrued liabilities decreased due to the elimination of deferred premiums under the Registrant's workers' compensation insurance programs. Short-term debt decreased due to lower borrowing requirements as a result of improved cash flow.

Management believes that cash flow is the best measure of the Registrant's liquidity, particularly when related to capital expenditures. In 1987, cash flow increased \$372,000 from 1986, and decreased \$189,000 from 1985. The increase in cash flow in 1987 was primarily due to higher net income. As a percentage of revenues, cash flow was at 9.6%, compared to levels of 10.1% and 10.8% for the previous two years. However, capital expenditures for 1987 were reduced to \$9,045,000 from levels of \$10,595,000 and \$14,350,000 for 1986 and 1985 respectively. In 1987, cash flow in excess of capital expenditures was \$4,781,000, compared to \$2,859,000 in 1986, and capital expenditures in excess of cash flow of \$335,000 in 1985. It continues to be management's objective to finance capital expenditures from internally generated funds (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.

	<u>1987</u>	<u>1986</u>	<u>1985</u>
Equity to Debt Ratio	1.05:1	.9:1	1.0:1
Debt as % of Assets	48.7%	52.9%	49.7%
Equity as % of Assets	51.3%	47.1%	50.3%

At the end of 1987, the relationship of equity to debt increased to 1.05:1, compared to .9:1 in 1986 and 1.0:1 in 1985. The decline in the ratio for 1986 and 1985 was caused by the debt incurred in connection with the construction of the Corporate Center and by the Registrant's redemption of common stock. Redemptions in 1987, 1986, and 1985 were \$1,995,000, \$3,838,000 and \$2,815,000, respectively. Since a significant number of the shares redeemed in recent years were due to retirees and employees nearing retirement, management believes that the level of redemptions experienced in 1986 and 1985 will not continue in the near term, and that the impact of redemptions on the debt to equity ratio will continue to diminish. 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 15, 1988, the Registrant had available \$15,500,000 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>1987</u>	<u>1986</u>	<u>1985</u>
Earnings Per Share	\$ 1.34	\$ 1.00	\$ 1.29
Dividends Per Share	\$.25	\$.22	\$.20
Book Value Per Share	\$ 9.87	\$ 8.89	\$ 8.28
ESOT Market Valuation Per Share	\$14.36	\$12.92	\$ 8.85

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 December 31, 1987, due to the redemptions of stock have favorably affected the per share measurement.

The higher earnings in 1987 are reflected in the per share measurements in the table above. Earnings per share in 1987 increased to \$1.34 per share, up \$.34 from 1986, and \$.05 from 1985. The market value per share increased to \$14.36 per share, up 11% from 1986, and 62% from 1985. Although the Registrant's earnings per share increased 34% in 1987 over 1986, the market valuation of the common stock increased only 11% because of the decline in price/earnings multiples of publicly traded stocks and stock indexes during the fourth quarter.

Dividends paid per share were again increased in 1987. In 1987, they were increased \$.03 per share, or 14% over 1986, compared to an increase in 1986 of \$.02 per share, or 10% over 1985. Total dividends paid to shareholders in 1987 were \$696,000, compared to \$630,000 in 1986 and \$616,000 in 1985. 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 due to 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.

	<u>1987</u>	<u>1986</u>	<u>1985</u>
Increase in Revenues	7.8%	3.0%	8.7%
Operating Earnings as % of Revenues	5.8%	5.5%	6.1%
Pre-Tax Earnings as % of Revenues	4.8%	4.3%	5.4%
Net Earnings as % of Revenue	2.7%	2.3%	3.3%

Revenues for 1987 of \$143,489,000 set a new record and increased \$10,333,000, or 7.8%, over 1986, compared to a 3.0% increase in revenues in 1986 and 8.7% in 1985. Revenues increased in the Kent Operating Company and ~~and~~ in most of the Registrant's major service lines, but were slightly lower in the Davey Tree Surgery Company.

Operating costs in 1987 increased by \$5,709,000 or 6.3% over the prior year, but at a lower rate than the increase in revenues. As a percentage of revenues, these costs decreased to 67.4%, compared to 68.3% and 68.0% in 1986 and 1985, respectively. Two major components of operating costs, labor and equipment, were lower than the prior year as a percentage of revenues. Partially offsetting these improvements, however, were increases in liability insurance costs.

Selling, General and Administrative ("S, G&A") costs increased 14.3% in 1987, and at a higher rate than the revenue increase of 7.8%. As a percentage of revenues, these costs were 20.1% in 1987, compared to 19.0% in 1986, and 19.0% in 1985. "S, G&A" expenses increased at a disproportionate rate primarily due to higher general insurance and selling costs, as well as the impact of "S, G&A" costs of subsidiaries acquired in 1986 and 1987.

Depreciation expense in 1987 increased .8% over 1986, compared to an increase of 6.9% in 1986, and an increase of 11.7% in 1985. As a percentage of revenues, depreciation expense was 6.7% in 1987, compared to 7.2% in 1986, and 6.9% in 1985. 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 in 1987 and 1986, and Corporate Center expenditures in 1985, were \$7,983,000, \$8,662,000 and \$11,333,000, respectively. Capital expenditures for 1987 were reduced due to the leveling of the growth pattern prior to 1985, and by improved utilization of existing equipment.

Interest expense in 1987 decreased to \$1,279,000 compared to \$1,363,000 in 1986 and \$1,191,000 in 1985. Interest expense for 1987, 1986, and 1985 included \$274,000, \$363,000, and \$232,000, respectively, related to the financing of the Corporate Center. Excluding the effect of the Corporate Center financing, interest expense increased in 1987 by \$5,000, or .5% over the 1986 level. Management believes that interest expense will remain at or below current levels in the short term.

As a result of the above factors, 1987 earnings before income taxes were \$6,922,000 or 4.8% of revenues. The effective tax rate for 1987 was 44.8%, compared to 47.1% for 1986 and 38.6% for 1985. Despite the 40% federal income tax rate for 1987, the effective tax rate remained high because of the impact of higher state and local taxes. Effective tax rates for 1987 and 1986 were also affected by the elimination of the investment tax credit as mandated by Tax Reform Act of 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, 1988. The Registrant has not adopted the standard in 1987, and has not determined whether or not it will adopt the standard in 1988. The future impact of the adoption of the standard on the Registrant's financial statements, whether adopted in 1988 or 1989, is not known or reasonably estimable at the time of this filing.

Net income for 1987 increased to \$3,819,000 compared to \$3,007,000 and \$4,256,000 in 1986 and 1985 respectively, and as a percentage of revenues was 2.7% compared to 2.3% in 1986 and 3.3% in 1985.

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

	<u>1987</u>	<u>1986</u>	<u>1985</u>
Average Assets Employed (in 000's)	\$52,694	\$51,620	\$48,689
Asset Turnover (Revenues to Average Assets)	2.7	2.6	2.7
Return on Average Assets	7.3%	5.8%	8.7%

Due to capital expenditures for the Corporate Center of \$3,017,000 in 1985, the average assets employed and the asset turnover ratio for that year as well as for 1987 and 1986 are somewhat distorted as compared to prior years. Excluding the effect of the Corporate Center from the above table, the turnover rate would have been 3.0 in 1987, and 2.9 in 1986 and 1985, and the return on average assets would have been 8.2%, 6.7% and 9.5%, respectively. Despite the effect of the Corporate Center on these measurements and a continuing high level of insurance costs, the improvement in the 1987 return on assets was due to improved asset turnover and a higher net earnings percentage (2.7%), which resulted primarily from lower depreciation expense.

Management believes that high insurance costs will continue to adversely affect return on assets for the short term but is steadfast in its goal to achieve a 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-19 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 "Nominees for Board of Directors" in the Registrant's definitive Proxy Statement for its 1988 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 heading "Compensation of Executive Officers" in the Registrant's definitive Proxy Statement for its 1988 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 "Beneficial Ownership of Voting Stock" in the Registrant's definitive Proxy Statement for its 1988 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 "Nominees for Board of Directors" and "Compensation of Executive Officers" in the Registrant's definitive Proxy Statement for its 1988 Annual Meeting of Shareholders is hereby incorporated by reference.

PART IV

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

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

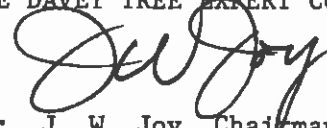
(a)(3) Exhibits. See the Index to Exhibits on sequentially numbered page 18 of this Annual Report on Form 10-K.

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

SIGNATURES

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


THE DAVEY TREE EXPERT COMPANY



By: J. W. Joy, Chairman and Chief Executive Officer

March 4, 1988


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 4, 1988



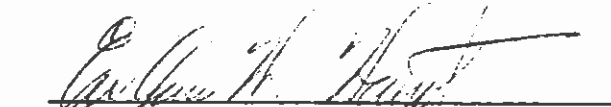
J. W. JOY, Director
Chairman and Chief
Executive Officer
(Principal Executive Officer)



WILLIAM D. GINN, Director



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



EUGENE W. HAUPT, Director



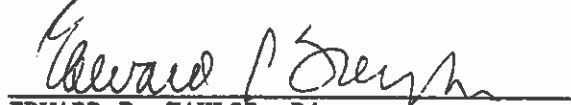
THOMAS W. BLAZEY, Director



J MAURICE STRUCHEN, Director



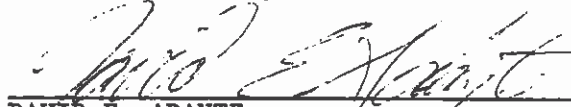
JAMES H. MILLER, Director



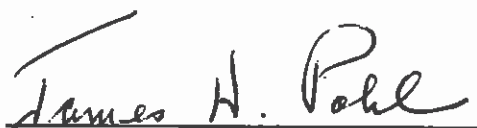
EDWARD P. TAYLOR, Director



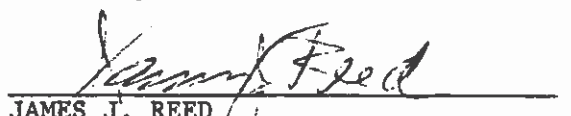
RICHARD E. DUNN, Director



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



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 Annual 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 Annual 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 the 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 or Sequential Page</u>
(10) (c)	1987 Incentive Stock Option Plan	18
(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	25
(24)	Consent of independent auditors to incorporation of their opinion in Registrant's Statements on Form S-8 (File Nos. 2-73052 and 2-77353)	26
(25)	Power of Attorney	Not applicable
(28)	Additional Exhibits	Not applicable

THE DAVEY TREE EXPERT COMPANY

1987 INCENTIVE STOCK OPTION PLAN

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

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

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

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

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

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

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

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

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

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

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

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

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

consents, exercise the Option in whole or in part within the period of three months after the date of termination of employment.

10. Termination of Options.

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

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

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

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

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

12. Assignability. Except as otherwise provided in Section 9(b), an Option granted under this Plan shall not be transferred and may be exercised only by the

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

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

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

15. Purchase for Investment. Each employee exercising an Option may be required by the Company, in its sole discretion, to give a representation that he is acquiring the shares other than with a view to the distribution thereof. The Company may release any investment representation obtained if it subsequently determines that the representation is no longer required to insure that a sale or other disposition of the shares would not involve a violation of the provisions of the Securities Act of 1933, as amended, or of applicable state blue sky laws.

16. Compliance with Securities Laws and Exchange Requirements. No certificate for shares shall be delivered upon exercise of an Option until the Company

shall have taken such action, if any, as is then required to comply with the provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the Ohio Securities Act, as amended, any other applicable state blue sky laws, and with the requirements of any exchange on which the Common Shares may, at the time, be listed.

17. Duration and Termination of the Plan.

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

18. Amendment of the Plan.

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

19. Shareholder Approval.

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

EXHIBIT 22

SUBSIDIARIES OF THE REGISTRANT

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

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 and 33-5755) relating to The Davey Tree Expert Company 1980 Employees Stock Option Plan, to The Davey Tree Expert Company 1982 Employee Stock Purchase Plan, and to The Davey Tree Expert Company 1985 Incentive Stock Option Plan, and in the related Prospectuses, of our report, dated February 29, 1988, with respect to the consolidated financial statements of The Davey Tree Expert Company for the year ended December 31, 1987.

Touche Ross & Co.

TOUCHE ROSS & CO.

Akron, Ohio
March 24, 1988

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

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Consolidated Statements of Earnings for the three years ended December 31, 1987	F-5
Consolidated Statements of Shareholders' Equity for the three years ended December 31, 1987	F-6
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Schedules for the three years ended December 31, 1987:	
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VI -- Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equip- ment	S-2
IX -- Short-Term Borrowings	S-3
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OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Davey Tree Expert Company
Kent, Ohio

We have examined the consolidated balance sheets of The Davey Tree Expert Company and subsidiary companies as of December 31, 1987, 1986 and 1985, and the related consolidated statements of earnings, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Davey Tree Expert Company and subsidiary companies at December 31, 1987, 1986 and 1985 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examination also comprehended the schedules listed in the index at Item 14(a)(2). In our opinion, such schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

Touche Ross + Co.

TOUCHE ROSS & CO.

Akron, Ohio
February 29, 1988

THE DAVEY TREE EXPERT COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

ASSETS

	December 31		
	1987	1986	1985
CURRENT ASSETS:			
Cash and short-term investments	\$ 566	\$ 1,210	\$ 399
Accounts receivable, less allowance for uncollectible accounts of \$335,000, \$315,000 and \$184,000	15,824	13,945	13,970
Operating supplies	1,194	1,335	886
Prepaid expenses	1,222	1,467	1,569
TOTAL CURRENT ASSETS	18,806	17,957	16,824
OTHER ASSETS	1,644	401	282
PROPERTY AND EQUIPMENT:			
Land and land improvements	1,933	1,906	1,738
Buildings and leasehold improvements	9,278	8,999	8,971
Equipment, principally revenue producing	72,384	68,300	61,467
	83,595	79,205	72,176
Less accumulated depreciation	51,287	44,933	38,673
NET PROPERTY AND EQUIPMENT	32,308	34,272	33,503
TOTAL ASSETS	\$52,758	\$52,630	\$50,609

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31		
	<u>1987</u>	<u>1986</u>	<u>1985</u>
CURRENT LIABILITIES:			
Accounts payable	\$ 5,694	\$ 5,297	\$ 6,460
Accrued liabilities	7,408	8,461	8,010
Income taxes payable	105	312	87
Notes payable, bank	155	606	
Current maturities on long-term debt	<u>1,008</u>	<u>963</u>	<u>784</u>
TOTAL CURRENT LIABILITIES	14,370	15,639	15,341
LONG-TERM DEBT	7,654	8,972	7,499
DEFERRED INCOME TAXES	3,323	2,920	2,017
OTHER LIABILITIES	<u>356</u>	<u>317</u>	<u>297</u>
TOTAL LIABILITIES	25,703	27,848	25,154
SHAREHOLDERS' EQUITY:			
Common shares	4,364	1,091	1,091
Additional paid-in capital	608	1,285	974
Retained earnings	34,318	33,019	30,632
	<u>39,290</u>	<u>35,395</u>	<u>32,697</u>
Less:			
Treasury shares, at cost	11,432	9,695	6,209
Future contributions to ESOT	<u>803</u>	<u>918</u>	<u>1,033</u>
TOTAL SHAREHOLDERS' EQUITY	27,055	24,782	25,455
TOTAL LIABILITIES AND SHARE- HOLDERS' EQUITY	<u>\$52,758</u>	<u>\$52,630</u>	<u>\$50,609</u>

THE DAVEY TREE EXPERT COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Dollars in Thousands)

	Year Ended December 31					
	1987		1986		1985	
REVENUES	\$143,489	100.0%	\$133,156	100.0%	\$129,221	100.0%
COSTS AND EXPENSES:						
Operating costs	96,690	67.4	90,981	68.3	87,908	68.0
Selling, general and administrative	28,897	20.1	25,278	19.0	24,493	19.0
Depreciation	9,604	6.7	9,526	7.2	8,908	6.9
	<u>135,191</u>	<u>94.2</u>	<u>125,785</u>	<u>94.5</u>	<u>121,309</u>	<u>93.9</u>
EARNINGS FROM OPERA- TIONS	8,298	5.8	7,371	5.5	7,912	6.1
INTEREST EXPENSE	(1,279)	(.9)	(1,363)	(1.0)	(1,191)	(.9)
OTHER INCOME (EXPENSE) - NET	<u>(97)</u>	<u>(.1)</u>	<u>(321)</u>	<u>(.2)</u>	<u>212</u>	<u>.2</u>
EARNINGS BEFORE INCOME TAXES	6,922	4.8	5,687	4.3	6,933	5.4
INCOME TAXES	<u>3,103</u>	<u>2.1</u>	<u>2,680</u>	<u>2.0</u>	<u>2,677</u>	<u>2.1</u>
NET EARNINGS	<u>\$ 3,819</u>	<u>2.7%</u>	<u>\$ 3,007</u>	<u>2.3%</u>	<u>\$ 4,256</u>	<u>3.3%</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING INCLUDING COMMON STOCK EQUIVALENTS	<u>2,842,032</u>		<u>2,993,796</u>		<u>3,284,556</u>	
NET EARNINGS PER COMMON SHARE	<u>\$ 1.34</u>		<u>\$ 1.00</u>		<u>\$ 1.29</u>	

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF
SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1987, 1986 AND 1985

(Dollars in Thousands)

	<u>Common Shares</u> <u>(\$1.00 Par Value)</u>	<u>Additional</u> <u>Paid-In</u> <u>Capital</u>
BALANCE, JANUARY 1, 1985	\$1,084	\$ 557
Shares purchased		
Shares sold to employees		319
Options exercised	7	98
Receipts on subscriptions		
Contributions to ESOT		
Net earnings		
Dividends, \$.20 per share		
Net adjustment for foreign currency translation		
	<hr/>	<hr/>
BALANCE, DECEMBER 31, 1985	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		
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
BALANCE, DECEMBER 31, 1987	<u>\$4,364</u>	<u>\$ 608</u>

See notes to consolidated financial statements.

<u>Retained Earnings</u>	<u>Treasury Shares</u>	<u>Subscriptions Receivable From Employees</u>	<u>Future Contributions to ESOT</u>	<u>Total</u>
\$27,075	\$ (3,676)	\$(118)	\$(1,148)	\$23,774
	(2,815)			(2,815)
	116			435
	166			271
		118		118
			115	115
4,256				4,256
(616)				(616)
(83)				(83)
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)
<u>\$34,318</u>	<u>\$(11,432)</u>	<u>\$ -0-</u>	<u>\$(803)</u>	<u>\$27,055</u>

THE DAVEY TREE EXPERT COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF
CHANGES IN FINANCIAL POSITION

(Dollars in Thousands)

	<u>Year Ended December 31</u>		
	<u>1987</u>	<u>1986</u>	<u>1985</u>
CASH PROVIDED FROM OPERATIONS:			
Net earnings	\$ 3,819	\$ 3,007	\$ 4,256
Items not affecting cash:			
Depreciation and amortization	9,604	9,558	8,944
Deferred income taxes	403	889	815
	<u>13,826</u>	<u>13,454</u>	<u>14,015</u>
 Net book value of property and equipment disposals	 352	 300	 452
 Cash provided (used) by major components of working capital:			
Accounts receivable	(1,879)	25	(694)
Accounts payable and accrued liabilities	(656)	(712)	2,788
	<u>(2,535)</u>	<u>(687)</u>	<u>2,094</u>
 TOTAL CASH PROVIDED FROM OPERATIONS	 11,643	 13,067	 16,561
 CASH PROVIDED (USED) FROM FINANCING ACTIVITIES:			
Proceeds of long-term borrowings	583	2,267	491
Short-term financing - net	(451)	606	
Short-term investments of funds restricted for construction			2,308
ESOT payment of debt guaranteed by the Company	115	115	115
Sale of treasury shares:			
Receipts on subscriptions receivable			118
Proceeds from stock options exercised	172	236	271
Employee stock purchase plan	758	427	404
Other			31
	<u>1,177</u>	<u>3,651</u>	<u>3,738</u>
 TOTAL CASH PROVIDED FROM FINANCING ACTIVITIES	 1,177	 3,651	 3,738
 TOTAL CASH PROVIDED	 12,820	 16,718	 20,299

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

**CONSOLIDATED STATEMENTS OF
CHANGES IN FINANCIAL POSITION (Continued)**

(Dollars in Thousands)

	<u>Year Ended December 31</u>		
	<u>1987</u>	<u>1986</u>	<u>1985</u>
USES OF CASH:			
Additions to property and equipment	\$ 7,983	\$ 8,604	\$11,333
Investment in subsidiary	1,062	1,933	
Additions to corporate center		58	3,017
Purchase of treasury shares	1,995	3,838	2,815
Reduction of long-term debt	1,856	615	1,985
Other	(128)	229	905
Dividends	696	630	616
	<u>13,464</u>	<u>15,907</u>	<u>20,671</u>
 INCREASE (DECREASE) IN CASH	 (644)	 811	 (372)
 CASH, BEGINNING OF YEAR	 <u>1,210</u>	 <u>399</u>	 <u>771</u>
 CASH, END OF YEAR	 <u>\$ 566</u>	 <u>\$ 1,210</u>	 <u>\$ 399</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, 1987

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.

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. 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.

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, of which none were issued at December 31, 1987. A four-for-one stock split for shareholders of record on June 1, 1987 was also approved and distributed on June 22, 1987.

B. COMMON AND PREFERRED SHARES (Continued)

At December 31, 1987, 1986 and 1985 the number of common shares issued were 4,364,220, 1,091,055 and 1,091,055, respectively. At those respective dates, the number of shares in the treasury was 1,623,394, 393,758 and 322,522. 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.

C. ACCRUED LIABILITIES

Accrued liabilities consisted of:

	<u>December 31</u>		
	<u>1987</u>	<u>1986</u>	<u>1985</u>
	(000's omitted)		
Workers' compensation	\$2,807	\$3,574	\$3,504
Wages, salaries, etc.	2,535	2,435	2,317
Taxes, other than taxes on income	880	1,276	1,056
Accrued vacation	1,046	951	963
Other	<u>140</u>	<u>225</u>	<u>170</u>
TOTAL	<u>\$7,408</u>	<u>\$8,461</u>	<u>\$8,010</u>

D. SHORT-TERM AND LONG-TERM DEBTShort-Term Debt

The Company has unused short-term lines of credit with four banks totalling \$4,500,000, 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.

D. SHORT-TERM AND LONG-TERM DEBT (Continued)Long-Term Debt

Long-term debt consists of:

	December 31		
	<u>1987</u>	<u>1986</u>	<u>1985</u>
	(000's omitted)		
Industrial Development Bonds (88% of prime)	\$3,125	\$3,625	\$4,125
Revolving credit agreement	2,700	3,600	2,000
Long-term debt of ESOT	803	918	1,033
Subordinated notes - stock redemption	1,056	1,380	775
3% Community Development Block Grant	350	350	350
Notes payable (prime)	256		
Mortgage note payable (prime plus 2%)	98		
12.725% Small Business Administration note payable	103		
Other	171	62	
	<u>8,662</u>	<u>9,935</u>	<u>8,283</u>
Less current maturities	<u>1,008</u>	<u>963</u>	<u>784</u>
TOTAL LONG-TERM DEBT	<u>\$7,654</u>	<u>\$8,972</u>	<u>\$7,499</u>

As of December 31, 1987, the total annual installments required to be paid on long-term debt in the years 1988 to 1992 are as follows: 1988, \$1,008,000; 1989, \$1,720,000; 1990, \$808,000; 1991, \$710,000; 1992, \$641,000.

Corporate Center Financing

The Company completed construction of its new corporate center during 1985. Financing for the construction of the center was provided by the issuance of Industrial Development Bonds, and a Community Development Block Grant in the amounts of \$4,500,000 and \$350,000, respectively.

The Industrial Development Bonds are to be repaid in equal quarterly principal payments of \$125,000 commencing on May 1, 1985 and ending on February 1, 1994. The Community Development Block Grant is to be repaid by principal payments of \$100,000 on August 1, 1989 and \$250,000 on August 1, 1994.

D. SHORT-TERM AND LONG-TERM DEBT (Continued)Revolving Credit Agreement

On March 21, 1985, a Revolving Credit Agreement was executed and subsequently modified to permit 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 5% of the Revolving Credit Agreement commitment. Borrowings under the "Revolver" may be converted, at the Company's option to a 5-year term loan payable in equal quarterly installments plus interest at a floating rate of 1/2 of 1% over the banks' prime rate.

Under the most restrictive covenants of the Agreement, there is a restriction on dividend payments (\$1,140,000 of retained earnings were unrestricted at December 31, 1987), 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.

At December 31, 1987, the Company was contingently liable to the bank for approximately \$900,000 for outstanding letters of credit securing deferred premiums of certain insurance contracts.

Long-Term Debt of ESOT

On March 21, 1985, the loan balance of \$1,147,500 was converted to a 5-year term loan at an interest rate of 1/2% over prime. Effective April 17, 1985 the interest rate was fixed at 12.5%. The loan agreement provides for equal quarterly principal payments of \$28,688, commencing March 31, 1985, with a final installment on December 31, 1989, of the remaining unpaid principal balance.

Subordinated Notes

In 1986 and 1985, 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 135,792 shares redeemed in 1986 for cash of \$429,300 and notes of \$774,778. In 1985, 96,000 shares were redeemed for cash of \$293,000, and notes of \$490,700. There were no notes issued in connection with redemptions of common stock in 1987.

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.

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 1987, 1986 and 1985 were:

	<u>1987</u>	<u>1986</u>	<u>1985</u>
	(000's omitted)		
Principal repayment	\$115	\$115	\$115
Interest	<u>111</u>	<u>125</u>	<u>136</u>
Total cash contributions required	226	240	251
Less dividends paid on collateral shares	<u>80</u>	<u>82</u>	<u>88</u>
ESOT expense	<u>\$146</u>	<u>\$158</u>	<u>\$163</u>
Annual release of shares from collateral	<u>59,377</u>	<u>63,316</u>	<u>66,244</u>
Cumulative release of shares from collateral	<u>1,182,473</u>	<u>1,123,096</u>	<u>1,059,780</u>
Number of shares remaining in collateral	<u>257,527</u>	<u>316,904</u>	<u>380,220</u>

F. STOCK OPTION AND STOCK PURCHASE PLANS

Stock Option Plans - The Company has two 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, 1987:

Grant date	1980 Option Plan			
	July 22, 1980	May 19, 1981	July 21, 1982	May 22, 1985
Options outstanding, January 1, 1985	56,400	99,240	66,000	7,200
Exercised in 1985	(56,400)	(21,100)	(11,160)	
Exercised in 1986		(78,140)	(11,400)	
Exercised in 1987			(43,440)	
Options outstanding, December 31, 1987	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>7,200</u>
Option purchase price	<u>\$ 2.07</u>	<u>\$ 2.49</u>	<u>\$ 3.72</u>	<u>\$ 8.05</u>

Under the 1985 Option Plan, there were 55,600, 75,000 and 109,600 options granted on May 22, 1985 at \$8.05, September 10, 1986 at \$9.15 and May 20, 1987 at \$12.92, respectively. All options under the 1985 Option Plan were outstanding at December 31, 1987.

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.

F. STOCK OPTION AND STOCK PURCHASE PLANS (Continued)

Purchases under the plan have been as follows:

	<u>1987</u>	<u>1986</u>	<u>1985</u>
Number of employees participating	506	395	352
Annual shares purchased	45,605	54,888	57,952
Average price paid	\$11.77	\$ 7.66	\$ 6.96
Cumulative shares purchased	297,261	251,656	196,768
Additional shares issuable 1987 amendment	400,000		
Shares available for future purchase	462,739	108,344	163,232

G. 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 \$315,300, \$324,700 and \$352,800 in 1987, 1986 and 1985, respectively. The plans' assets are principally invested by outside asset managers in marketable debt and equity securities.

Effective January 1, 1986, the Company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions". This change in the method of accounting for pensions does not affect the amounts contributed to the plans by the Company. This change in pension accounting increased earnings before income taxes in 1987 and 1986 by \$377,000 and \$335,000, respectively. Aggregate pension income for 1987 and 1986 was \$68,000 and \$19,000, respectively. Pension expense for all plans in 1985, as determined under previous accounting principles, was the amount contributed.

G. PENSION PLANS (Continued)

Pension expense (income) for 1987 and 1986 was calculated as follows (000's omitted):

	<u>1987</u>	<u>1986</u>
Service cost - increase in benefit obligations earned during the period	\$ 190	\$ 202
Interest cost on projected benefit obligation	605	571
Return on plan assets	(764)	(693)
Amortization of unrecognized (net assets)	<u>(99)</u>	<u>(99)</u>
Net pension income	<u>\$ (68)</u>	<u>\$ (19)</u>

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

	<u>1987</u>	<u>1986</u>
Plan assets at fair market value	\$11,462	\$10,548
Projected benefit obligations	<u>(8,123)</u>	<u>(8,420)</u>
Excess of assets over projected benefit obligations	3,339	2,128
Unrecognized initial asset	(1,758)	(1,857)
Unrecognized gain	(1,008)	
Excess contributions	<u>(55)</u>	<u>(94)</u>
Prepaid pension cost recognized in the balance sheet	<u>\$ 518</u>	<u>\$ 177</u>

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

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

H. INCOME TAXES

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

	<u>1987</u>	<u>1986</u>	<u>1985</u>
	(000's omitted)		
Taxes currently payable before tax credits:			
U.S.	\$2,145	\$1,824	\$2,377
Canadian	148	(89)	32
State and local	407	327	471
	<u>2,700</u>	<u>2,062</u>	<u>2,880</u>
Investment tax credits		(199)	(980)
Other tax credits		(72)	(38)
	2,700	1,791	1,862
Deferred taxes:			
U.S.	376	882	816
Canadian	27	7	(1)
	<u>403</u>	<u>889</u>	<u>815</u>
	<u>\$3,103</u>	<u>\$2,680</u>	<u>\$2,677</u>

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

	<u>1987</u>	<u>1986</u>	<u>1985</u>
Statutory tax rate	40.0%	46.0%	46.0%
State and local income taxes	3.5	3.1	3.7
Investment tax credits		(3.5)	(14.1)
Canadian income taxes	2.5	(1.5)	.4
Investment tax credit basis reduction		2.1	3.4
Miscellaneous	<u>(1.2)</u>	<u>.9</u>	<u>(.8)</u>
Effective tax rate	<u>44.8%</u>	<u>47.1%</u>	<u>38.6%</u>

H. 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>1987</u>	<u>1986</u>	<u>1985</u>
Investment tax credit basis reduction		\$117	\$237
Capitalized construction interest		23	35
Accrued vacations		(12)	(6)
Accelerated depreciation	\$430	611	566
Pension contribution	151	154	
Insurance reserve	(209)		
Other	4	(11)	(16)
Total U.S.	<u>376</u>	<u>882</u>	<u>816</u>
Canadian	<u>27</u>	<u>7</u>	<u>(1)</u>
	<u>\$403</u>	<u>\$889</u>	<u>\$815</u>

I. 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 \$32,000,000 in each of the last three years. Approximately \$12,000,000 of these five-year contracts expire on March 31, 1988 and will be open for competitive bid.

J. 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 \$938,000, \$988,000 and \$1,130,000 for 1987, 1986 and 1985, respectively. As of December 31, 1987, 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: 1988, \$714,000; 1989, \$438,000; 1990, \$220,000; 1991, \$35,000; and 1992, \$14,000.

K. 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.

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, 1985:					
Land & Land Improvements	\$ 1,307	\$ 445	\$ 12	\$ (2)	\$ 1,738
Buildings & Leaseholds	4,186	4,982	192	(5)	8,971
Equipment, Principally Revenue Producing	52,969	11,492	2,954	66 (B) (106)(A)	61,467
Corporate Center Under Construction	2,569	(2,569)			
Short-Term Investment of Funds Restricted for Construction	<u>2,308</u>	<u>(2,308)</u>			
	<u>\$ 63,339</u>	<u>\$12,042</u>	<u>\$ 3,158</u>	<u>\$ (47)</u>	<u>\$ 72,176</u>
Year-Ended December 31, 1986:					
Land & Land Improvements	\$ 1,738	\$ 167	\$	\$ 1	\$ 1,906
Buildings & Leaseholds	8,971	62	33	(1)	8,999
Equipment, Principally Revenue Producing	61,467	10,366	3,537	4 (A)	68,300
	<u>\$ 72,176</u>	<u>\$10,595</u>	<u>\$ 3,570</u>	<u>\$ 4</u>	<u>\$ 79,205</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, Principally Revenue Producing	68,300	7,676	3,686	94 (A)	72,384
	<u>\$ 79,205</u>	<u>\$ 7,983</u>	<u>\$ 3,693</u>	<u>\$ 100</u>	<u>\$ 83,595</u>

(A) Effect of Compliance with Statement No. 52 of the Financial Accounting Standards Board
 (b) Write-off of Fully Depreciated Equipment at Canadian Subsidiary

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, 1985:					
Land & Land Improvements	\$ 79	\$ 14	\$ 7	\$	\$ 86
Buildings & Leaseholds	1,345	293	178	(4) (A)	1,456
Equipment, Principally Revenue Producing	31,094	8,601	2,572	66 (B) (58) (A)	37,131
	<u>\$ 32,518</u>	<u>\$ 8,908</u>	<u>\$ 2,757</u>	<u>\$ 4</u>	<u>\$38,673</u>
Year-Ended December 31, 1986:					
Land & Land Improvements	\$ 86	\$ 14	\$	\$	\$ 100
Buildings & Leaseholds	1,456	397	18		1,835
Equipment, Principally Revenue Producing	37,131	9,115	3,257	9 (A)	42,998
	<u>\$ 38,673</u>	<u>\$ 9,526</u>	<u>\$ 3,275</u>	<u>\$ 9</u>	<u>\$44,933</u>
Year-Ended December 31, 1987:					
Land & Land Improvements	\$ 100	\$ 16	\$	\$	\$ 116
Buildings & Leaseholds	1,835	333	3		2,165
Equipment, Principally Revenue Producing	42,998	9,255	3,338	91 (A)	49,006
	<u>\$ 44,933</u>	<u>\$ 9,604</u>	<u>\$ 3,341</u>	<u>\$ 91</u>	<u>\$51,287</u>

(A) Effect of compliance with Statement No. 52 of the Financial Accounting Standards Board
 (B) Write-off of Fully Depreciated Equipment at Canadian Subsidiary

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, 1985	-0-	-0-	1,144	201	9.95%
December 31, 1986	606	8.66	1,066	488	9.19%
December 31, 1987	155	8.93	1,199	430	8.70%

(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>		
	Year-Ended December 31,		
	<u>1987</u>	<u>1986</u>	<u>1985</u>
Maintenance and Repairs	\$ 7,851	\$ 7,133	\$ 6,138
Amortization of Intangible Assets	(A)	(A)	(A)
Pre-Operating Costs and Similar Deferrals	(A)	(A)	(A)
Taxes, Other Than Payroll & Income Taxes	(A)	(A)	(A)
Royalties	(A)	(A)	(A)
Advertising	\$ 1,514	(A)	(A)

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

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