UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 1998

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

Registrant's telephone number, including area code: (330) 673-9511

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

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

Common Shares, $1 par value

The Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirement for the past 90 days.
Yes X No ___

The disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate "market value" (See Item 5 hereof) of voting stock held by non-affiliates of the Registrant at March 22, 1999 (excluding the total number of Common Shares reported in Item 12 hereof), was $128,093,664.

Common Shares outstanding at March 22, 1999: 4,002,927

Documents incorporated by reference: Portions of the Registrant's definitive Proxy Statement for its 1999 Annual Meeting of Shareholders (Part III).

Index to Exhibits is located on sequential page 16.

PART I

ITEM 1. BUSINESS.

GENERAL. The Davey Tree Expert Company, which was incorporated in 1909, and its subsidiaries (the "Registrant") have two primary operating segments which provide a variety of horticultural services to their respective customer groups. Residential services provides for the treatment, preservation, maintenance, cultivation, planting and removal of trees, shrubs and other plant life; its services also include the practices of landscaping, tree surgery, tree feeding, and tree spraying, as well as the application of fertilizers, herbicides and insecticides. Utility services is principally engaged in the practice of line clearing for public utilities. The Registrant also provides commercial services and other services related to natural resource management solutions, including urban and utility forestry research and development, natural resources consulting and environmental planning.

COMPETITION AND CUSTOMERS. The Registrant's Residential services is one of the largest national tree care organizations, and competes with other national and local firms with respect to its services. On a national level, the competition is primarily in the context of landscape construction and maintenance as well as residential and commercial lawn care. At a local and regional level, its competition comes mainly from other companies which are engaged primarily in tree care. With respect to Utility services, the Registrant is the second largest organization in its industry, and competes principally with one major national competitor, as well as several smaller regional firms.

Principal methods of competition in both operating segments are advertising, customer service, image, performance and reputation. The Registrant's program to meet its competition stresses the necessity for its employees to have and project to the customers a thorough knowledge of all horticultural services provided, and utilization of modern, well-maintained equipment. Pricing is not always a critical factor in a customer's decision with respect to Residential services; however, pricing is generally the principal method of competition for the Registrant's Utility services, 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 1998, the Registrant had sales of approximately $55,000,000 (18% of total sales) to Pacific Gas & Electric Company.

REGULATION AND ENVIRONMENT. The Registrant's facilities and operations, in common with those of the industry generally, are subject to governmental regulations designed to protect the environment. This is particularly important with respect to the Registrant's services regarding insect and disease control, because these services involve to a considerable degree the blending and application of spray materials, which require formal licensing in most areas. The constant changes in environmental conditions, environmental awareness, technology and social attitudes make it necessary for the Registrant to maintain a high degree of awareness of the impact such changes have on the market for its services. The Registrant believes that it is in substantial 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 customers principally through direct mail programs and to a lesser extent through the placement of advertisements in national magazines and trade journals, 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 generally use agents and does not franchise its name or business.

SEASONALITY. The Registrant's business is seasonal, primarily due to fluctuations in horticultural services provided to residential customers and to a lesser extent by budget constraints imposed on its utility customers. Because of this seasonality, the Registrant has historically incurred losses in the first quarter, while sales and earnings are generally highest in the second and third quarters of the calendar year. Consequently, this has created heavy demands for additional working capital at various times throughout the year. The Registrant borrows primarily against bank commitments in the form of a revolving credit agreement with two banks to provide the necessary funds.

OTHER FACTORS. Rapid changes in equipment technology require a constant updating of equipment and processes to ensure competitive services to the Registrant's customers. Also, the Registrant must continue to assure its compliance with the Occupational Safety and Health Act. In keeping with these requirements, and to equip the Registrant for continued growth, capital expenditures in 1998 and 1997 were approximately $34,009,000 and $27,003,000, respectively.

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

EMPLOYEES. The Registrant employs between 5,000 and 6,000, depending upon the season, and considers its employee relations to be good.

FOREIGN AND DOMESTIC OPERATIONS. The Registrant sells its services to customers in the United States and Canada.

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

ITEM 2. PROPERTIES.

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

LOCATION	OPERATING SEGMENT	ACREAGE	BUILDING SQ. FT.
Baltimore, Maryland	Residential	3.4	22,500
Bettendorf, Iowa	Residential	.5	478
Cincinnati, Ohio	Residential	2.5	8,800
Chamblee, Georgia	Residential & Utility	1.9	6,200
Chantilly, Virginia	Residential	4.0	5,700
Charlotte, North Carolina	Residential & Utility	3.1	4,900
Cheektowaga, New York	Other	6.9	2,800
Columbus, Ohio	Residential	8.0	15,925
Downsview, Ontario, Canada	Residential	.5	3,675
East Dundee, Illinois	Residential & Utility	4.0	7,500
Edmonton, Alberta, Canada	Utility	.7	2,900
Gaithersburg, Maryland	Residential	2.1	7,200
Gibsonia, Pennsylvania	Residential	5.9	7,100
Hinsdale, Illinois	Residential	1.7	7,200
Houston, Texas	Residential	1.5	7,000
Indianapolis, Indiana	Residential	1.5	5,000
Jacksonville, Florida - Nursery	Residential	279.0	5,300
Kent, Ohio (multiple parcels) - Corporate Headquarters	Other	101.4	111,608
Lachine, Quebec, Canada	Residential	.5	2,300
Lancaster, New York	Residential	3.0	6,624
Lawrence, Pennsylvania	Residential	3.5	7,200
Livermore, California	Utility	12.0	29,737
Mecklenburg County, North Carolina	Utility	15.6	-0-
Nanaimo, British Columbia, Canada	Other	1.0	4,742
Plymouth, Minnesota	Residential	2.7	11,750
Richmond, Virginia	Residential	.7	2,586
Stow, Ohio	Residential	7.4	14,100
Toledo, Ohio	Residential	.5	4,300
Troy, Michigan	Residential	2.0	7,200
West Babylon, New York	Residential	.9	14,100
West Carlton Twp., Ontario, Canada	Residential	3.1	4,000
Wheeling, Illinois	Residential	5.0	11,300
Winter Park, Florida	Utility	1.0	5,850
Wooster, Ohio - Nursery	Residential	322.8	13,194

The Registrant also rents approximately 70 other premises for office and warehouse use. The Registrant believes that all of these properties have been adequately maintained and are suitable and adequate for its business as presently conducted.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matter was submitted during the fourth quarter of 1998 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) and their present positions and ages are as follows:

NAME	POSITION	AGE
R. Douglas Cowan	Chairman and Chief Executive Officer	58
Karl J. Warnke	President and Chief Operating Officer	47
David E. Adante	Executive Vice President, Chief Financial Officer and Secretary-Treasurer	47
Howard D. Bowles	Vice President and General Manager, Davey Tree Surgery Company	55
C. Kenneth Celmer	Vice President and General Manager, Residential Services	52
Bradley L. Comport, CPA	Corporate Controller	47
Dr. Roger C. Funk	Vice President and General Manager, The Davey Institute	54
Rosemary T. Nicholas	Assistant Secretary	55
Marjorie L. Conner, Esquire	Assistant Secretary	41
Gordon L. Ober	Vice President - New Ventures	49
Richard A. Ramsey	Vice President and General Manager, Commercial Services	49
Wayne M. Parker	Vice President - Northern Operations, Utility Services	43

Mr. Cowan was elected Chairman and Chief Executive Officer on March 11, 1999. Previously he had served as Chairman, President and Chief Executive Officer since May 1997. Prior to that time, he served as President and Chief Executive Officer since before 1994.

Mr. Warnke was elected President and Chief Operating Officer on March 11, 1999. Prior to that time, he served as Executive Vice President and General Manager - Utility Services since before 1994.

Mr. Adante was elected Executive Vice President, Chief Financial Officer and Secretary - Treasurer in May 1993.

Mr. Bowles was elected Vice President and General Manager of Davey Tree Surgery Company in January 1992.

Mr. Celmer was elected Vice President and General Manager - Residential Services in January 1995. Prior to that time, he served as Vice President - Eastern Operations, Residential and Commercial Services since before 1994.

Mr. Comport was elected Corporate Controller in May 1990.

Dr. Funk was elected Vice President and General Manager - The Davey Institute in May 1996. Prior to that time he served as Vice President - Human and Technical Resources since before 1994.

Ms. Nicholas was elected Assistant Secretary in May 1982.

Ms. Conner was elected Assistant Secretary in May 1998. Prior to that time she served as Manager of Legal and Treasury Services since February 1995 and as Assistant Controller since before 1994.

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

Mr. Ramsey was elected Vice President and General Manager - Commercial Services in January 1995. Prior to that time, he served as Vice President - Western Operations, Residential and Commercial Services since before 1994.

Mr. Parker was elected Vice President - Northern Operations, Utility Services in May 1994. Prior to that time and since before 1994, he served in several positions in utility operations.

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 EQUITY AND RELATED STOCKHOLDER MATTERS.

At December 31, 1998, 1997, and 1996 the number of Common Shares issued were 8,728,440 for each date. At those respective dates, the number of shares in the treasury were 4,736,785, 4,429,205 and 4,209,623.

The Registrant's Common Shares are not listed or traded on an established public trading market and market prices are, therefore, not available. Semi-annually, for purposes of the Registrant's 401KSOP and ESOP, the fair market value of the Registrant's Common Shares, based upon the Registrant's performance and financial condition, is determined by an independent stock valuation firm.

As of March 22, 1999, there were 1,920 recorded holders of the Registrant's Common Shares. During the years ended December 31, 1998, December 31, 1997 and December 31, 1996, the Registrant paid dividends of $.38, $.34, and $.295, respectively, per share. Approximately one quarter of the total dividend payment is made in each of the four quarters. The Registrant's agreements with its lenders allow for the payment of cash dividends provided that the terms and conditions of the agreements, particularly those dealing with its shareholders' equity, fixed charge coverage ratio and maximum consolidated funded debt to consolidated funded debt plus consolidated net worth ratio, are maintained. (See Note 6 to the Financial Statements on page F-16 of this Annual Report on Form 10-K.)

ITEM 6. SELECTED FINANCIAL DATA.

	Years Ended December 31				
	1998	1997	1996	1995	1994
	(Dollars in Thousands, except per share data)				
Operating Results:					
Revenues	$ 313,887	$ 295,079	$ 266,934	$ 229,682	$ 209,683
Earnings from Continuing Operations	$ 10,597	$ 11,279	$ 8,759	$ 6,137	$ 4,189
Earnings from Continuing Operations Per Common Share	$ 2.57	$ 2.57	$ 1.92	$ 1.29	$ .85
Earnings from Continuing Operations Per Common Share - Assuming Dilution	$ 2.30	$ 2.39	$ 1.86	$ 1.27	$ .84
At Year End:					
Total Assets	$ 149,086	$ 127,825	$ 111,386	$ 104,161	$ 98,486
Total Long-Term Debt	$ 42,893	$ 24,104	$ 19,640	$ 17,049	$ 21,124
Cash Dividends Per Common Share	$ .38	$ .34	$ .295	$ .275	$ .26

In 1995 the Registrant sold its interior plant care business. Operating results in 1995 and 1994 have accordingly been restated for this discontinued operation.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities provided $28,193,000 in cash, an increase of $1,259,000 when compared to the $26,934,000 provided in 1997. This increase occurred despite a decline in net earnings for the year, and is attributable to a higher level of depreciation, an increase in the Registrant's net deferred tax liability, a lower increase in other assets, and increases in accounts payable and accrued liabilities. These increases were partially offset by an increase in accounts receivable and reductions in insurance and other liabilities.

Net earnings of $10,597,000 declined $682,000 or 6.0% when compared to the $11,279,000 earned in 1997, and the decline occurred even though the Registrant's two primary operating segments, Utility and Residential, realized increased operating earnings. Utility services improvement was driven largely by additional work obtained in its western and southern operations; the former continues to be primarily a function of the more stringent utility line clearance standards promulgated by the state of California, while the latter is mainly the result of new contracts obtained in the ordinary course of business, as well as a heightened focus on operating efficiencies and consequent cost reductions. Notwithstanding these improvements, the overall decline in net earnings resulted from two factors. First, the Registrant completed a significant consulting service contract in 1997. Second, it incurred expense in the current year of approximately $3,000,000 related to its implementation of a new enterprise-wide information system, a process which commenced in January 1998.

Depreciation increased $2,563,000, the result of higher levels of capital expenditures in the current and immediately preceding two years.

The Registrant's deferred tax expense of $2,397,000 represents a net increase of $3,214,000 from last year's deferred tax benefit of $817,000, and is principally the result of a higher level of accelerated depreciation for tax purposes in the current year.

Other assets increased only $59,000, $2,817,000 less than the increase experienced in 1997. Last year's increase resulted from an escrow deposit on real property to be used as a branch office facility in the Registrant's Residential services; the transaction was completed in 1998.

Accounts payable and accrued liabilities increased $5,595,000 in 1998, or $2,989,000 more than the increase experienced last year. The increase is mainly due to a higher level of accounts payable associated with consulting services performed in conjunction with the Registrant's development of its enterprise-wide information system, as well as higher compensation related accruals associated with its increased levels of revenue and operating earnings in its primary operating segments.

Accounts receivable increased $7,594,000 to $51,490,000, $3,503,000 more than the increase in 1998. Days outstanding increased 1.2 days to 63.7 days from 62.5 days in 1997. Substantially all of the increase in the level of accounts receivable and days outstanding has been realized in the Registrant's Residential services. The Registrant is not concerned as to the overall collectibility of accounts and continues its efforts to reduce both the level of accounts receivable and days outstanding. It also performs ongoing credit evaluations of its customers' financial condition for collection purposes, and when determined necessary, it provides an allowance for doubtful accounts.

Insurance liabilities declined by $885,000, a net change of $3,424,000 when compared to the 1997 increase of $2,539,000. This reduction is a function of relatively stable levels of estimated ultimate costs resulting from a generally mature self-insurance program, coupled with an acceleration in claims payments. As has been experienced throughout 1998, this acceleration in claims payments is due to an anticipated "catching up" in processing by the Registrant's excess insurer and claims administrator; these payments had generally lagged during the transition to this insurer since September 1996. The most significant estimates made by the Registrant that affect the amounts reported in the financial statements and accompanying notes are those relating to its insurance liabilities (see Note 3 on page F-13 of this Annual Report on Form 10-K).

The Registrant's other liabilities decreased $1,233,000, a net change of $2,478,000 when compared to the increase of $1,245,000 in 1997. Most of the change can be attributed to the Registrant's payment of its 1997 income tax liability in the current year.

Investing activities used $32,841,000 in cash, an increase of $6,527,000 over last year. The increase is mainly attributable to costs capitalized in conjunction with the development of the Registrant's new enterprise-wide information system.

Financing activities provided $5,190,000 in cash, a $5,715,000 increase when compared to the $525,000 used in 1997. Proceeds from issuance of long-term debt, net of principal repayments, totaled $16,496,000, $11,518,000 more than last year. The additional long-term borrowings were necessitated by the higher level of capital expenditures previously discussed, as well as by the repurchase of $12,150,000 of its common shares, an increase of $6,232,000. The current year increase in shares repurchased was due to a combination of several factors. First, there was favorable movement in the independent valuation of the Registrant's common shares, which resulted in a higher level of transactions generally. Second, the Registrant experienced a relatively higher level of retirements and consequent repurchases of shares from the Employee Stock Ownership Trust. Finally, a portion of these purchases were attributable to redemptions from two directors related to or in contemplation of their retirements from the Board.

At December 31, 1998, the Registrant's principal source of liquidity consisted of $1,264,000 in cash and cash equivalents; short term lines of credit and amounts available to be borrowed from banks via notes payable totaling $4,600,000, of which $710,000 was considered drawn to cover outstanding letters of credit; and the revolving credit agreement and temporary line of credit totaling $70,000,000, of which $30,900,000 was drawn and $9,715,000 was considered drawn to cover outstanding letters of credit. Including the outstanding term note agreement, at that date the Registrant's credit facilities totaled $84,600,000. The Registrant believes its available credit will exceed credit requirements, and that its liquidity is adequate.

LIQUIDITY MEASUREMENTS

As previously discussed, management uses these measurements primarily to gauge the Registrant's ability to meet working capital requirements, fund capital expenditures, and repurchase its common shares.

	1998	1997	1996
Net cash provided by operating activities	$ 28,193	$ 26,934	$ 17,104
Net cash used in investing activities	$ (32,841)	$ (26,314)	$ (17,263)
Net cash provided by (used in) financing activities	$ 5,190	$ (525)	$ (684)

The Registrant also uses the following additional measures in its evaluation. They are not an alternative to earnings determined in accordance with generally accepted accounting principles (GAAP) as a measure of financial performance or to GAAP cash flow as a measure of liquidity.

	1998	1997	1996
Working capital	$ 28,172	$ 19,194	$ 19,283
Current ratio	1.8:1	1.6:1	1.7:1
Cash flow from net earnings, depreciation and amortization	$ 30,531	$ 28,654	$ 23,449
Capital expenditures	$ 34,009	$ 27,003	$ 18,121
Cash flow to capital expenditures ratio	.9:1	1.1:1	1.3:1
Cash flow as percentage of revenues	9.7%	9.7%	8.8%

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.

	1998	1997	1996
Equity to debt ratio	.62:1	.83:1	.89:1
Debt as percentage of assets	61.6%	54.7%	52.9%
Equity as percentage of assets	38.4%	45.3%	47.1%

At the end of 1998, these measurements reflect a greater degree of leverage when compared with 1997 due primarily to the additional borrowings incurred to fund the significantly higher level of capital expenditures and common share repurchases.

COMMON SHARE MEASUREMENTS

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

	1998	1997	1996
Net earnings per share - assuming dilution	$ 2.30	$ 2.39	$ 1.86
Dividends per share	$ .38	$ .34	$ .295
Book value per share	$ 14.35	$ 13.46	$ 11.61
Market valuation per share	$ 32.00	$ 26.05	$ 18.20

Net earnings per share – assuming dilution includes the dilutive effects of employee and director stock options in each of the years presented. Dividends were again increased in 1998. In 1998, they were increased by a total of $.04 per share, or 11.8% over 1997, compared to an increase in 1997 of $.045 per share, or 15.3% over 1996. It is the Registrant's objective to provide a fair return on investment to its shareholders through improved dividends as long as the Registrant can financially justify this policy. The fact that dividends have increased each year since 1979 reflects that objective.

ASSET UTILIZATION MEASUREMENTS

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

	1998	1997	1996
Average assets employed	$ 138,456	$ 119,606	$107,774
Asset turnover (revenues to average assets)	2.3	2.5	2.5
Return on average assets	7.7%	9.4%	8.1%

MARKET RISK

The Registrant's interest expense is most sensitive to changes in the general level of U.S. interest rates; in this regard, changes in these rates affect the interest paid on its debt. To partially mitigate the impact of fluctuations in interest rates, the Registrant has entered into interest rate exchange agreements (swaps) on its term note agreement.

The following table provides information about the Registrant's financial instruments and swaps that are sensitive to changes in interest rates. For debt obligations, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. For the interest rate swap related to the Registrant's term note, the table presents notional amounts and actual pay, receive rates by contractual maturity dates. For presentation purposes, it has been assumed that the December 31, 1998 balance under the Registrant's revolving credit agreement will remain outstanding for the years shown.

Interest Rate Sensitivity
Principal (Notional) Amount by Effected Maturity
Average Interest (Swap) Rate

(Dollars in Thousands)

	1999	2000	2001	2002	2003	Thereafter	Total	Fair Value 12-31-98
Long-term debt, including current portion								
Fixed rate	$ 347	$ 36	$ 40	$ 40	$ 44	$ 160	$ 667	$ 680
Average interest rate	9.5%	10.4%	10.4%	10.3%	10.2%	10.0%		
Variable rate:								
a) Term note	-	$ 1,500	$ 2,000	$ 2,000	$ 2,000	$ 2,500	$ 10,000	$ 10,000
Average interest rate	LIBOR plus (1.00% to 1.50%)	LIBOR plus (1.00% to 1.50%)	LIBOR plus (1.00% to 1.50%)	LIBOR plus (1.00% to 1.50%)	LIBOR plus (1.00% to 1.50%)	LIBOR plus (1.00% to 1.50%)		
b) Subordinated notes	$ 508	$ 508	$ 389	$ 388	$ 388	-	$ 2,181	$ 2,181
Average interest rate	5-year U.S. Treasury	5-year U.S. Treasury	5-year U.S. Treasury	5-year U.S. Treasury	5-year U.S. Treasury			
c) Revolving credit agreement, assuming renewal upon maturity								
i. Prime borrowings	-	-	-	-	-	$ 2,900	$ 2,900	$ 2,900
Average interest rate	prime	prime	prime	prime	prime	prime		
ii.Libor borrowings	-	-	-	-	-	$ 28,000	$ 28,000	$ 28,000
Average interest rate	LIBOR plus (.9% to 1.4%)	LIBOR plus (.9% to 1.4%)	LIBOR plus (.9% to 1.4%)	LIBOR plus (.9% to 1.4%)	LIBOR plus (.9% to 1.4%)	LIBOR plus (.9% to 1.4%)		
Interest rate derivative financial instruments related to term note:								
Interest rate swap:								
Pay fixed		$ 1,500	$ 2,000	$ 2,000	$ 2,000	$ 2,500	$ 10,000	$ (335)
Average pay rate		6.09% plus (1.00% to 1.50%)	6.09% plus (1.00% to 1.50%)	6.09% plus (1.00% to 1.50%)	6.09% plus (1.00% to 1.50%)	6.09% plus (1.00% to 1.50%)		
Average receive rate		LIBOR	LIBOR	LIBOR	LIBOR	LIBOR		

The Registrant's Canadian operations subject the Company to currency rate exposure related to its foreign denominated debt, intercompany debt and cash and cash equivalents. The Registrant periodically borrows against its Canadian lines of credit, on which there were no amounts outstanding at December 31, 1998. All other foreign denominated financial instruments are not material.

RESULTS OF OPERATIONS

Revenues of $313,887,000 for the year increased $18,808,000 or 6.4% when compared to the $295,079,000 realized in 1997. This compares with increases of 10.5% and 16.2% in 1997 and 1996, respectively. The current year increase was attributable to revenue growth in Utility and Residential services. As previously mentioned, the increase in Utility services revenue was derived principally from additional work obtained in its western and southern operations, while Residential services continues to benefit from good economic conditions and a focused sales effort. The 1998 revenues of $55,000,000 earned by the Registrant with its major U.S. customer represent a significant concentration (See Note 2 to the Financial Statements on page F-11 of this Annual Report on Form 10-K). The Registrant expects that its 1999 revenues will increase slightly less as a percent than in 1998.

Operating costs of $210,921,000 increased $13,195,000 over 1997, and as a percentage of revenues they increased .2% to 67.2%. The percentage increase was primarily influenced by higher operating costs associated with a relatively higher increase in Utility services revenues compared to that of Residential services, as well as a significantly lower level of Consulting service revenues. Utility services, in contrast with Residential and Consulting services, adversely affect operating costs in that they are generally lower priced services with inherently lower gross margins and attendant higher operating costs. The Registrant anticipates that as a percentage of revenues, 1999 operating costs will approximate 1998 levels.

Selling costs for 1998 increased $1,769,000 to $39,601,000, but as a percentage of revenues they declined .2% to 12.6%. The dollar increase continues to result from higher commissions and branch office expenses associated with higher Residential service revenues; the decline as a percentage of revenues is primarily due to a lower level of travel and other sales costs related to the Registrant's Consulting services, the result of completing a major contract in 1997.

General and administrative expense of $22,764,000 was $2,467,000 higher than in 1997, and as a percentage of revenues these costs increased .3% to 7.2%. The increases are due to costs associated with the Registrant's implementation of an enterprise-wide information system.

In 1997, the Registrant completed development of its information technology plan for the purpose of replacing its existing legacy systems with this new system. Of primary importance and in accord with the information technology plan, the new system will significantly enhance the Registrant's processes and its ability to support future growth. The software vendor has also represented that this new system is year 2000 compliant. In January 1998, the Registrant acquired and commenced implementation of this new information system. The Registrant estimates implementation will be completed by June of 1999. Consistent with the implementation schedule, the blueprint phase of the project had been completed as of July 4, 1998. Configuration, data conversion, testing, and going live will follow over the remaining term of the implementation schedule. The Registrant's current estimate for the ultimate cost of this new system is approximately $13,500,000. Of this total, $3,000,000 has been expensed in 1998 and $8,800,000, consisting of hardware, software license fees, consulting and internal personnel costs related to design and configuration, has been capitalized. The Registrant expects that depreciation of these costs will commence in 1999, as system modules are ready to be placed in service.

The Registrant has not fully addressed the year 2000 readiness of its non-IT systems, those systems with embedded technology, but recognizes the need to do so over the next two quarters. The exception to this is that concurrent with implementation of the new enterprise-wide application, the Registrant, with assistance from outside consultants, obtained competitive proposals from several major vendors to provide it with telecommunication services throughout North America. One critical element that the Registrant evaluated in these proposals was the year 2000 readiness of each vendor. The telecommunication services provider selection process was completed in 1998. The Registrant has also upgraded its corporate headquarters phone software at a cost of $60,000.

The Registrant continues to assess the year 2000 readiness of external entities with which it interfaces. Material relationships include, but are not limited to, those with existing utility customers in which electronic billing is required as well as vendors such as the Registrant's principal bank which will provide or already provides such services as lockbox processing, treasury management services, and benefit plan administration. It is anticipated that the assessment of year 2000 issues with material third party relationships will be completed over the term of the enterprise-wide system implementation schedule.

The Registrant currently is uncertain with respect to its most reasonably likely worst case year 2000 scenario, but believes that most issues will have been identified prior to going live with its enterprise-wide information system. Given this uncertainty, the Registrant also has no contingency plans, but will, to the extent considered necessary under the circumstances, develop such plans as issues are identified.

The preceding comments regarding the year 2000 are forward looking statements and, as such, represent the Registrant's best faith estimates of costs that will be incurred. There can be no assurance that these estimates are accurate.

Depreciation and amortization of $19,934,000 increased $2,559,000 or .5% as a percentage of revenues. The dollar and percentage increases continue to result from a relatively higher level of capital expenditures for equipment primarily to support Utility and Residential services.

Interest expense of $3,391,000 was $688,000 higher than in 1997, and as a percentage of revenues it increased .2% from .9 to 1.1%. The increase was due to the substantially higher debt levels in 1998.

Earnings before income taxes declined $1,410,000 to $17,841,000, and as a percentage of revenues they decreased .8% to 5.7%. The tax provisions for 1998, 1997, and 1996 resulted in effective tax rates of 40.6%, 41.4%, and 41.0%, respectively. (See Note 10 of the Financial Statements on page F-21 on this Annual Report on Form 10-K.)

The Registrant's net earnings of $10,597,000 decreased $682,000 or 6.0% compared to 1997, and as a percentage of revenues they declined .4% to 3.4%.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The independent auditors' report, the audited consolidated financial statements, and the notes to the audited consolidated financial statements required by this Item 8 appear on pages F-1 through F-22 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

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

The information regarding directors of the Registrant appearing under the heading "Election of Directors" in the Registrant's definitive Proxy Statement for its 1999 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 "Remuneration of Executive Officers" in the Registrant's definitive Proxy Statement for its 1999 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 1999 Annual Meeting of Shareholders is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information regarding certain relationships and related transactions appearing under the headings "Election of Directors" and "Indebtedness of Management" in the Registrant's definitive Proxy Statement for its 1999 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 and 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: /s/ R. Douglas Cowan
R. D. Cowan, Chairman and
Chief Executive Officer

March 25, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 25, 1999.

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

/s/ R. Cary Blair
R. CARY BLAIR, Director

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

/s/ Russell R. Gifford
RUSSELL R. GIFFORD, Director

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

/s/ Richard S. Gray
RICHARD S. GRAY, Director

/s/ Douglas K. Hall
DOUGLAS K. HALL, Director

/s/ J. W. Joy
J. W. JOY, Director

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

/s/ Thomas G. Murdough, Jr.
THOMAS G. MURDOUGH, JR., Director

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

/s/ Bradley L. Comport
BRADLEY L. COMPORT, Corporate Controller
(Principal Accounting Officer)

INDEX OF EXHIBITS
[Item 14(a) (3)]

SEQUENTIAL PAGE		LOCATION EXHIBIT NO. DESCRIPTION
(2)	Plan of acquisition, reorganization, arrangement, liquidation or succession.	Not Applicable.
(3)(i)	1991 Amended Articles of Incorporation	Incorporated by reference to Exhibit 3 (i) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.
(3)(ii)	1987 Amended and Restated Regulations of The Davey Tree Expert Company.	Incorporated by reference to Exhibit 3 (ii) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.
(4)	Instruments defining the rights of security holders, including indentures	The Company is a party to certain instruments, copies of which will be furnished to the Securities and Exchange Commission upon request, defining the rights of holders of long-term debt identified in Note 6 of Notes to Consolidated Financial Statements on page F-16 of this Annual Report on Form 10-K.
(9)	Voting Trust Agreement	Not Applicable.
(10)(a)	1987 Incentive Stock Option Plan	Incorporated by reference to Exhibit (10) (a) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.
(10)(b)	1994 Omnibus Stock Plan	Incorporated by reference to Exhibit 10 (c) to the Registrant's Form 10-Q for the quarter ended July 2, 1994.
(11)	Statement re computation of per share earnings	Not Applicable.
(12)	Statement re computation of ratios	Not Applicable.
(13)	Annual Report to security holders, Form 10-Q or quarterly report to security holders	Not Applicable.
(16)	Letter re change in certifying accountant	Not Applicable.

EXHIBIT NO.	DESCRIPTION	LOCATION SEQUENTIAL PAGE
(18)	Letter re change in accounting principles	Not Applicable.
(21)	Subsidiaries of the Registrant	18
(22)	Published report regarding matters submitted to vote of security holders	Incorporated by reference to Part II, Item 4 to the Registrant's Form 10-Q for the quarter ended June 28, 1997.
(23)	Consent of independent auditors to incorporation of their report in Registrant's Statements on Form S-8 (File Nos. 2-73052, 2-77353, 33-5755, 33-21072, and 33-59347) and Form S-2 (File No. 33-30970)	19
(24)	Power of Attorney	Not Applicable.
(27)	Financial Data Schedule	20

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

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

The Registrant has two wholly-owned subsidiaries, Davey Tree Surgery Company (incorporated in Ohio), and the Davey Tree Expert Co. of Canada, Limited (incorporated in Canada), each of which did business in 1998 under its corporate name.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 2-73052, as amended, 2-77353, 33-5755, 33-21072 and 33-59347 on Forms S-8 relating to The Davey Tree Expert Company 1980 Employee Stock Option Plan, The Davey Tree Expert Company 1982 Employee Stock Option Plan, The Davey Tree Expert Company 1985 Incentive Stock Option Plan, The Davey Tree Expert Company 1987 Incentive Stock Option Plan and The Davey Tree Expert Company 1994 Omnibus Stock Plan, and in Registration Statement No. 33-30970 on Form S-2 relating to The Davey Tree Expert Company 1989 Stock Subscription Plan and in the related prospectus, of our report dated February 12, 1999 appearing in this Annual Report on Form 10-K of The Davey Tree Expert Company for the year ended December 31, 1998.

/s/DELOITTE & TOUCHE LLP

Cleveland, Ohio
March 24, 1999

Financial Data Schedule

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders and 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, 1998, 1997, and 1996, and the related consolidated statements of net earnings, shareholders' equity, and cash flows for the years then ended. 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, such consolidated financial statements present fairly, in all material respects, the financial position of The Davey Tree Expert Company and subsidiary companies as of December 31, 1998, 1997, and 1996, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

/s/ DELOITTE & TOUCHE LLP

Cleveland, Ohio
February 12, 1999

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

	1998	December 31 1997 (Dollars in Thousands)	1996
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 1,264	$ 722	$ 627
Accounts receivable	51,490	43,896	39,805
Operating supplies	2,644	2,662	2,477
Prepaid expenses and other assets	2,940	2,724	2,023
Refundable income taxes	1,248		
Deferred income taxes	1,842	2,032	1,786
Total current assets	61,428	52,036	46,718
PROPERTY AND EQUIPMENT:			
Land and land improvements	6,325	6,283	6,178
Buildings and leasehold improvements	18,269	16,142	16,682
Equipment	187,084	166,902	148,204
	211,678	189,327	171,064
Less accumulated depreciation	132,245	123,053	113,980
Net property and equipment	79,433	66,274	57,084
OTHER ASSETS AND INTANGIBLES	8,225	9,515	7,584
TOTAL ASSETS	$149,086	$127,825	$111,386

See notes to consolidated financial statements.

	1998	December 31 1997 *(Dollars in Thousands)*	1996
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	$ 15,191	$ 10,187	$ 10,174
Accrued liabilities	11,413	10,822	8,229
Insurance liabilities	5,797	6,738	6,105
Income taxes payable		1,647	218
Notes payable, bank		300	75
Current maturities of long-term debt	855	3,148	2,634
Total current liabilities	33,256	32,842	27,435
LONG-TERM DEBT	42,893	24,104	19,640
DEFERRED INCOME TAXES	3,588	1,381	1,952
INSURANCE LIABILITIES	10,969	10,913	9,007
OTHER LIABILITIES	1,112	698	882
TOTAL LIABILITIES	91,818	69,938	58,916
SHAREHOLDERS' EQUITY:			
Preferred shares			
Common shares	8,728	8,728	8,728
Additional paid-in capital	5,893	4,625	3,876
Accumulated other comprehensive income (loss)	(745)	(535)	(401)
Retained earnings	94,547	85,510	75,725
	108,423	98,328	87,928
LESS:			
Treasury shares, at cost	51,155	40,441	35,451
Subscriptions receivable from employees			7
TOTAL SHAREHOLDERS' EQUITY	57,268	57,887	52,470
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$149,086	$127,825	$111,386

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF NET EARNINGS

	Years Ended December 31					
	1998		1997		1996	
	(Dollars in Thousands, Except Per Share Amounts)					
REVENUES	$ 313,887	100.0%	$ 295,079	100.0%	$ 266,934	100.0%
COSTS AND EXPENSES:						
Operating	210,921	67.2	197,726	67.0	183,427	68.7
Selling	39,601	12.6	37,832	12.8	33,575	12.6
General and administrative	22,764	7.2	20,297	6.9	18,216	6.8
Depreciation and amortization	19,934	6.4	17,375	5.9	14,690	5.5
	293,220	93.4	273,230	92.6	249,908	93.6
EARNINGS FROM OPERATIONS	20,667	6.6	21,849	7.4	17,026	6.4
INTEREST EXPENSE	3,391	1.1	2,703	.9	2,457	.9
OTHER INCOME - NET	(565)	(.2)	(105)		(272)	(.1)
EARNINGS BEFORE INCOME TAXES	17,841	5.7	19,251	6.5	14,841	5.6
INCOME TAXES	7,244	2.3	7,972	2.7	6,082	2.3
NET EARNINGS	$ 10,597	3.4%	$ 11,279	3.8%	$ 8,759	3.3%
EARNINGS PER COMMON SHARE	$ 2.57		$ 2.57		$ 1.92	
EARNINGS PER COMMON SHARE – ASSUMING DILUTION	$ 2.30		$ 2.39		$ 1.86	

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(Dollars in Thousands, Except Per Share Amounts)

	Common Shares	Additional Paid-In Capital
BALANCE, JANUARY 1, 1996	$ 8,728	$ 3,472
Comprehensive income:		
Net earnings		
Other comprehensive income, net of tax		
Foreign currency translation adjustments		
Comprehensive income		
Receipts from subscriptions receivable		
Shares purchased		
Shares sold to employees		373
Options exercised		31
Contributions to ESOT		
Dividends, $.295 per share		
BALANCE, DECEMBER 31, 1996	8,728	3,876
Comprehensive income:		
Net earnings		
Other comprehensive income, net of tax		
Foreign currency translation adjustments		
Comprehensive income		
Receipts from subscriptions receivable		
Shares purchased		
Shares sold to employees		695
Options exercised		54
Dividends, $.34 per share		
BALANCE, DECEMBER 31, 1997	8,728	4,625
Comprehensive income:		
Net earnings		
Other comprehensive income, net of tax		
Foreign currency translation adjustments		
Comprehensive income		
Receipts from subscriptions receivable		
Shares purchased		
Shares sold to employees		1,115
Options exercised		153
Dividends, $.38 per share		
BALANCE, DECEMBER 31, 1998	$ 8,728	$ 5,893

See notes to consolidated financial statements.

	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Shares	Subscriptions Receivable From Employees	Contributions To ESOT	Comprehensive Income	Total
	$ (385)	$ 68,307	$ (33,198)	$ (297)	$ (97)		$ 46,530
		8,759				$ 8,759	
	(16)					(16)	
						$ 8,743	8,743
				290			290
			(3,045)				(3,045)
			716				1,089
			76				107
					97		97
		(1,341)					(1,341)
	(401)	75,725	(35,451)	(7)	0		52,470
		11,279				$ 11,279	
	(134)					(134)	
						$ 11,145	11,145
				7			7
			(5,918)				(5,918)
			737				1,432
			191				245
		(1,494)					(1,494)
	(535)	85,510	(40,441)	0	0		57,887
		10,597				$ 10,597	
	(210)					(210)	
						$ 10,387	10,387
			(12,150)				(12,150)
			773				1,888
			663				816
		(1,560)					(1,560)
	$ (745)	$ 94,547	$ (51,155)	$ 0	$ 0		$ 57,268

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	1998	1997	1996
	Years Ended December 31 (Dollars in Thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 10,597	$ 11,279	$ 8,759
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	19,563	17,000	14,338
Amortization	371	375	352
Deferred income taxes	2,397	(817)	(319)
Other	(559)	(326)	(273)
	32,369	27,511	22,857
Change in operating assets and liabilities:			
Accounts receivable	(7,594)	(4,091)	(5,183)
Other assets	(59)	(2,876)	(966)
Accounts payable and accrued liabilities	5,595	2,606	1,323
Insurance liabilities	(885)	2,539	1,941
Other liabilities	(1,233)	1,245	(2,868)
Net cash provided by operating activities	28,193	26,934	17,104
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of property and equipment	1,880	1,138	1,678
Acquisitions	(712)	(449)	(820)
Capital expenditures:			
Land and buildings	(2,617)	(285)	(727)
Equipment	(31,392)	(26,718)	(17,394)
Net cash used in investing activities	(32,841)	(26,314)	(17,263)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings (payments) under notes payable, bank	(300)	225	(325)
Principal payments of long-term debt	(5,547)	(2,778)	(2,704)
Proceeds from issuance of long-term debt	22,043	7,756	5,148
Sales of treasury shares	2,704	1,677	1,196
Receipts from stock subscriptions		7	290
ESOT payment of debt guaranteed by Company			97
Dividends paid	(1,560)	(1,494)	(1,341)
Repurchase of common shares	(12,150)	(5,918)	(3,045)
Net cash provided by (used in) financing activities	5,190	(525)	(684)
NET CHANGE IN CASH AND CASH EQUIVALENTS	542	95	(843)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	722	627	1,470
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,264	$ 722	$ 627

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE YEARS ENDED DECEMBER 31, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of The Davey Tree Expert Company and its subsidiary companies. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported and contingencies disclosed in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fiscal Year

The Company's fiscal year ends on the Saturday closest to December 31; 1998 was a 52-week year ended January 2, 1999; 1997 was a 53-week year ended January 3, 1998, and in 1996, the fiscal year was comprised of 52 weeks ended December 28, 1996. For presentation purposes, all years were presumed to have ended on December 31.

Revenue Recognition

The Company recognizes revenues as services are provided, either on a time and materials basis, price per unit completed, or an agreed upon fee for services performed.

Cash and Cash Equivalents, Accounts Receivable and Accounts Payable

Carrying amounts approximate fair value due to the short maturity of these instruments. Cash equivalents are highly liquid investments with maturities of three months or less when purchased. Due to the short maturities, the carrying amount of the investments approximates fair value.

Accounts Receivable

The Company had an allowance of $314,000 at December 31, 1998, 1997, and 1996.

Intangible Assets

Intangible assets represent goodwill, employment contracts, and customer lists resulting from business acquisitions and are being amortized on a straight-line basis over their estimated useful lives ranging from 3-15 years. The net book value of intangible assets (net of accumulated amortization of $2,318,000, $1,947,000, and $1,572,000 at December 31, 1998, 1997, and 1996, respectively) was $2,631,000, $2,550,000, and $2,648,000 at December 31, 1998, 1997, and 1996, respectively.

Property and Equipment

The Company records property and equipment at cost. In January 1998, the Company commenced development of its new enterprise-wide information system. This project will include the re-design of certain key business processes, and will replace the Company's existing legacy systems by June 1999. The Company is accounting for the costs of the project in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Accordingly, costs have been expensed or capitalized depending on whether they were incurred in the preliminary project stage, application development stage, or the post implementation stage. Reengineering, training, and other costs such as data conversion have been expensed as incurred. Generally, land improvements, leasehold improvements and buildings are depreciated by the straight-line method while the declining balance method is used 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.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Impairment

The Company periodically assesses recoverability of the carrying amount of its property and equipment, goodwill, and other intangible assets principally by evaluating the utilization of those assets as well as the profitability associated with their related revenues. In the event these assessments indicate their carrying amounts may not be recoverable, estimates will be made of the applicable assets future undiscounted cash flows to determine if recognition of an impairment loss is necessary.

Earnings Per Share

The following table sets forth the computation of earnings per common share and earnings per common share – assuming dilution:

	1998	1997	1996
	(Dollars in Thousands, Except Per Share Amounts)		
Numerator:			
Net earnings	$ 10,597	$ 11,279	$ 8,759
Denominator:			
For earnings per common share weighted average shares outstanding	4,122,183	4,392,969	4,550,677
Effect of dilutive securities employee and director stock options	491,823	332,837	163,930
Denominator for earnings per share – assuming dilution	4,614,006	4,725,806	4,714,607
Earnings per common share	$ 2.57	$ 2.57	$ 1.92
Earnings per common share – assuming dilution	$ 2.30	$ 2.39	$ 1.86
Antidilutive shares not included in earnings per common share – assuming dilution	0	0	20,402

Recently Issued Accounting Standards

In 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." As permitted, the Company expects to adopt this statement in 2000. The statement requires that all derivatives, such as interest rate exchange agreements (swaps), be recognized on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. Derivatives determined to be hedges will be adjusted to fair value through either income or other comprehensive income, depending on the nature of the hedge. The Company has not yet determined what effect Statement 133 will have on the earnings and financial position of the Company.

In 1997, AcSec issued SOP 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments," which becomes effective for fiscal years beginning after December 15, 1998. It requires entities subject to assessments to recognize a liability at the time an assessment is imposed, when the event obligating the entity to pay the imposed assessment has occurred, and when the amount of the assessment can be reasonably estimated. The Company has not yet determined what effect SOP 97-3 will have on the earnings and financial position of the Company upon its adoption in 1999.

Reclassifications

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

2. *OPERATING SEGMENTS*

The Company has adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company has two primary operating segments which provide a variety of horticultural services to their respective customer groups. Residential services provides for the treatment, preservation, maintenance, cultivation, planting and removal of trees, shrubs and other plant life; its services also include the practices of tree surgery, tree feeding, tree spraying and landscaping, as well as the application of fertilizers, herbicides, and insecticides. Utility services is principally engaged in the practice of line clearing for public utilities. The "Other" segment category includes the Company's services related to natural resource management and consulting, forestry research and development, environmental planning, and commercial services.

The Company's primary focus in evaluating segment performance is on operating earnings. The accounting policies of the operating segments are the same as those described in Note 1, except that only straight line depreciation is allocated. Corporate expenses are substantially allocated among the operating segments. Identifiable assets are those directly used or generated by each segment, and include accounts receivable, inventory, and property and equipment. Unallocated assets consist principally of corporate facilities, enterprise-wide information systems, cash and cash equivalents, deferred taxes, prepaid expenses, and other assets and intangibles.

Detail to Operating Segments are as follows:

	Utility	Residential	Other	Total
		(Dollars in Thousands)		
1998				
Revenues	$ 184,768	$ 113,155	$ 15,964	$ 313,887
Earnings from operations	12,849	10,729	268	23,846
Depreciation	11,213	5,433	657	17,303
Segment assets	66,720	38,294	4,738	109,752
Capital expenditures	16,442	7,972	430	24,844
1997				
Revenues	167,798	103,933	23,348	295,079
Earnings from operations	9,556	9,946	2,948	22,450
Depreciation	9,918	4,874	413	15,205
Segment assets	59,291	31,759	3,194	94,244
Capital expenditures	14,460	6,682	277	21,419
1996				
Revenues	156,437	97,575	12,922	266,934
Earnings from operations	7,285	9,553	794	17,632
Depreciation	8,776	4,331	295	13,402
Segment assets	52,446	28,928	2,292	83,666
Capital expenditures	10,244	4,769	196	15,209

	1998	1997	1996
		(Dollars in Thousands)	
Earnings			
Operating earnings for reportable segments	$ 23,578	$ 19,502	$ 16,838
Operating earnings for other	268	2,948	794
Unallocated amounts:			
Other corporate expense	(3,179)	(601)	(606)
Interest expense	(3,391)	(2,703)	(2,457)
Other income- net	565	105	272
Earnings before tax	$ 17,841	$ 19,251	$ 14,841

2. *OPERATING SEGMENTS (Continued)*

	1998	1997 (Dollars in Thousands)	1996
Depreciation			
Depreciation for reportable segments	$ 16,646	$ 14,792	$ 13,107
Depreciation for other	657	413	295
Unallocated depreciation	2,260	1,795	936
Consolidated total	$ 19,563	$ 17,000	$ 14,338
Assets			
Assets for reportable segments	$ 105,014	$ 91,050	$ 81,374
Assets for other	4,738	3,194	2,292
Unallocated assets	39,334	33,581	27,720
Consolidated total	$ 149,086	$ 127,825	$ 111,386
Capital Expenditures			
Expenditures for reportable segments	$ 24,414	$ 21,142	$ 15,013
Expenditures for other	430	277	196
Unallocated expenditures	9,165	5,584	2,912
Consolidated total	$ 34,009	$ 27,003	$ 18,121

The Company's geographic information is as follows:

	1998	1997 (Dollars in Thousands)	1996
Revenues			
United States	$ 297,705	$ 280,284	$ 253,753
Canada	16,182	14,795	13,181
Total	$ 313,887	$ 295,079	$ 266,934
Property and Equipment, Net of Accumulated Depreciation			
United States	$ 76,489	$ 63,336	$ 54,122
Canada	2,944	2,938	2,962
Total	$ 79,433	$ 66,274	$ 57,084

Customer Concentration

Utility services represented approximately 62% of the outstanding accounts receivable at December 31, 1998, 1997, and 1996. The Company had revenues from one utility customer under multiple year contracts aggregating approximately $55,000,000 in 1998, $67,000,000 in 1997, and $55,000,000 in 1996. The Company had revenues from a second utility customer under multiple year contracts of approximately $18,000,000 in 1998, $22,000,000 in 1997, and $19,000,000 in 1996. The Company performs ongoing credit evaluations of its customers' financial conditions and generally requires no collateral.

3. *INSURANCE LIABILITIES*

In managing its casualty liability exposures for workers compensation, auto liability, and general liability, the Company is substantially self-insured. It generally retains the first $300,000 in loss per occurrence and carries excess insurance above that amount. With respect to workers compensation, the Company's risk of exposure to loss per occurrence may be less than $300,000 depending on the nature of the claim and the statutes in effect by state.

Insurance liabilities are determined using actuarial methods and assumptions to estimate ultimate costs. They include a large number of claims for which the ultimate costs will develop over a period of several years. Accordingly, the estimates can change as claims mature; they can also be affected by changes in the number of new claims incurred and claim severity. For these reasons, it is possible that these estimates can change materially in the near term. Changes in estimates of claim costs resulting from new information received will be recognized in income in the period in which the estimates are changed. Expenses that are unallocable to specific claims are recognized as period costs.

These liabilities, including the present value of workers compensation liabilities which are discounted at 4 ½ % at December 31, 1998, 5 ¾ % at December 31, 1997, and 6 ¼ % at December 31, 1996, totaled $16,766,000, $17,651,000 and $15,112,000 at December 31, 1998, December 31, 1997, and December 31, 1996, respectively. The change in the discount rate increased insurance costs by approximately $306,000 in 1998 and $213,000 in 1997, and reduced insurance costs by $200,000 in 1996. Insurance liabilities are classified as current and noncurrent liabilities based on the timing of future estimated cash payments. At December 31, 1998, 1997, and 1996, the gross value of those liabilities was approximately $18,867,000, $20,765,000 and $18,740,000, respectively.

4. *COMMON AND PREFERRED SHARES*

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

The number of common shares authorized is 12,000,000, par value $1.00. At December 31, 1998, 1997 and 1996, the number of common shares issued was 8,728,440 and the number of shares in the treasury were 4,736,785, 4,429,205, and 4,209,623, respectively.

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

Since 1979, the Company has provided a ready market for all shareholders through its direct purchase of their common shares. During 1998, these purchases totaled 336,725 shares for $9,049,000 in cash; the Company also had direct sales, to directors and employees, excluding those shares sold through either the exercise of options or the employee stock purchase plan below, of 1,472 shares for $40,000. It also sold 8,398 shares to the Company's 401 (k) plan for $234,000 and issued 15,526 shares to participant accounts to satisfy its liability for the 1997 employer match in the amount of $404,000. Uniform restrictions apply to the transfer of the Company's common shares. These restrictions generally give the Company or the trust of the Company's Employee Stock Ownership Plan the right to purchase the common shares whenever a shareholder proposes to transfer the shares to anyone, other than transfers to a current employee of the Company or transfers by a current or former employee to members of their immediate family.

4. *COMMON AND PREFERRED SHARES (Continued)*

Stock-Based Compensation Plans

The 1994 Omnibus Stock Plan consolidated into a single plan provisions for the grant of stock options and other stock based incentives and maintenance of the employee stock purchase plan. Other than director options, the grant of awards is at the discretion of the compensation committee of the Board of Directors. The aggregate number of common shares available for grant and the maximum number of shares granted annually are based on formulas defined in the plan. Each non-employee director elected or appointed, and re-elected or re-appointed, will receive a director option that gives the right to purchase, for six years, 2,000 common shares at the fair market value per share at date of grant. The director options are exercisable six months from the date of grant. The maximum number of shares that may be issued upon exercise of stock options, other than director options and nonqualified stock options, is 800,000 during the ten-year term of the plan.

Shares available for grant at December 31, 1998 were 286,595, which were based on the number available upon ratification of the plan less: the options granted presented below; the director options granted; and 380,674 shares purchased since 1994 under the stock purchase plan.

A summary of the status of the Company's director options as of December 31, 1998, 1997, and 1996, and changes during the years ending on those dates is presented below:

	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	30,000	$ 15.71	24,000	$14.06	24,000	$14.16
Granted	6,000	26.05	10,000	18.79	2,000	13.56
Exercised	(8,000)	15.01	(4,000)	13.51	(2,000)	14.82
Forfeited						
Outstanding at end of year	28,000	18.13	30,000	15.71	24,000	14.06

The Company has an employee stock purchase plan that provides the opportunity for all full-time employees with one year of service to purchase shares through payroll deductions. The purchase price for the shares offered under the plan is 85% of the fair market value of the shares.

Purchases under the plan have been as follows:

	1998	1997	1996
Number of employees participating	907	817	787
Annual shares purchased	51,344	62,108	80,006
Average price paid	$23.29	$16.63	$12.44
Cumulative shares purchased	1,535,626	1,484,282	1,422,174

4. *COMMON AND PREFERRED SHARES (Continued)*

Prior to adoption of the 1994 Omnibus Stock Plan, the Company had two qualified stock option plans available for officers and management employees; the final grant of awards under those plans was December 10, 1993.

A summary of the status of the Company's stock option plans, excluding director options, as of December 31, 1998, 1997, and 1996, and changes during the years ending on those dates is presented below:

Fixed Options	1998 Shares	1998 Weighted-Average Exercise Price	1997 Shares	1997 Weighted-Average Exercise Price	1996 Shares	1996 Weighted-Average Exercise Price
Outstanding at beginning of year	947,850	$13.01	965,600	$12.97	708,800	$11.88
Granted					265,000	15.80
Exercised	(59,835)	11.62	(17,750)	10.82	(8,200)	10.56
Forfeited	(1,800)	15.80				
Outstanding at end of year	886,215	13.09	947,850	13.01	965,600	12.97
Options exercisable at year end	727,215		735,850		646,600	
Weighted average fair value of options granted during the year	–		–		$ 2.65	

The following table summarizes information about fixed stock options outstanding at December 31, 1998:

Exercise Price	Options Outstanding: Number Outstanding at 12/31/98	Options Outstanding: Remaining Contractual Life	Number Exercisable at 12/31/98
$ 9.40	185,450	1.0 year(s)	185,450
11.89	24,550	4.0	24,550
12.44	211,865	3.3	211,865
13.83	205,000	5.0	205,000
15.80	259,350	7.9	100,350
	886,215		727,215

The Company continues to apply the intrinsic-value method under APB Opinion 25 and related interpretations in accounting for awards granted under the three plans. Using this method, compensation is measured as the difference between the option exercise price and the market value of the stock at the date of grant. Accordingly, no compensation cost has been recognized for either the fixed options granted under these plans or the employee stock purchase plan. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net earnings and earnings per common share - assuming dilution would have been reduced by $360,000 and $.08 in 1998, $330,000 and $.07 in 1997 and $201,000 and $.04 in 1996.

In calculating the pro forma impact on earnings, the following assumptions were used for the grants in 1996: initial annual dividends of $.31 per share with annual increases of $.02 per share; a risk free interest rate of 6.25%; an expected life of 5 years; and an estimated forfeiture rate of 8%. The 1996 options vest at the rate of 20% annually. The pro forma amounts for 1998, 1997, and 1996 include $230,000, $200,000 and $190,000, respectively, attributable to compensation cost for shares acquired under the employee stock purchase plan.

Stock Subscription Offering

In 1989, the Company made a stock subscription offering to employees and directors whereby they could subscribe to purchase stock for $7.93 per share. Employees could purchase the Company's common shares by making a 10% cash down payment and financing the remainder of the balance with seven-year promissory notes payable to the Company through monthly payroll deductions or annual installments commencing in September, 1989. The notes called for interest at a rate of 8% per annum and have been reflected as subscriptions receivable in shareholders' equity. A total of 141 participants subscribed for 457,752 common shares of the Company.

5. *ACCRUED LIABILITIES*

Accrued liabilities consisted of:

	December 31 1998	1997	1996
	(Dollars in Thousands)		
Compensation	$ 6,666	$ 5,648	$ 4,009
Medical claims	1,420	1,948	1,390
Vacation	1,927	1,848	1,620
Taxes, other than taxes on income	779	657	600
Other	621	721	610
	$ 11,413	$ 10,822	$ 8,229

6. *NOTES PAYABLE, BANK AND LONG-TERM DEBT*

Notes Payable, Bank

The Company had a bank operating loan which was repayable on demand and charged interest at the bank's prime rate. Additionally, the Company has unused short-term lines of credit with three banks totaling $3,876,000, generally at the banks' prime rate, which was 7.75% at December 31, 1998.

Long-Term Debt

	December 31 1998	1997	1996
	(Dollars in Thousands)		
Revolving credit agreement:			
Prime rate borrowings	$ 2,900	$ 2,800	$ 3,100
London Interbank Offered Rate (LIBOR) borrowings	28,000	18,000	11,000
Term note agreement	10,000	4,800	7,200
	40,900	25,600	21,300
Subordinated notes - stock redemption	2,181	357	515
Term loans and other	667	1,295	459
	43,748	27,252	22,274
Less current maturities	855	3,148	2,634
	$ 42,893	$ 24,104	$ 19,640

The total annual installments required to be paid on long-term debt are as follows: 1999, $855,000; 2000, $2,044,000; 2001, $2,429,000; 2002, $2,427,000; 2003, $2,432,000; and thereafter $2,660,000. The revolving credit agreement is classified as long-term debt and excluded from these installments since it is expected that these amounts will be outstanding throughout the ensuing year.

Revolving Credit Agreement

In 1998, the Company renegotiated and amended its Revolving Credit Agreement (Revolver) with two banks, which permits borrowings, as defined, up to $55,000,000. It provides the Company an option of borrowing funds at either the prime (7.75% at December 31, 1998) interest rate or rates based on LIBOR (5.68% at December 31, 1998) plus a margin adjustment ranging from .9% to 1.4%. The Revolver also includes a commitment fee of between .15% and .25% on the average daily unborrowed commitment. A minimum of $5,000,000 in borrowings may be converted, at the Company's option, to four-year loans. The agreement has an expiration date of April 30, 2001.

In 1998, the Company also renegotiated and amended its temporary line of credit in the amount of $15,000,000 with its principal bank, which provided for borrowings at either the prime interest rate, rates based on LIBOR, or a negotiated fixed interest rate. The agreement has an expiration date of June 30, 1999.

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

Under the most restrictive covenants of the Revolver and the Term Note Agreement below, the Company is obligated to maintain a minimum shareholders' equity, as defined, of $45,000,000 plus 30% of annual consolidated earnings for 1998 and each year thereafter; a maximum ratio of consolidated funded debt to consolidated funded debt plus consolidated shareholders' equity of .5 to 1, .58 to 1, and .5 to 1 in 1998, 1999-2000, and 2001, respectively; and a fixed charge coverage ratio of not less than 2.25 to 1.0.

Term Note Agreement

Concurrent with the Company's renegotiation of the Revolver on May 14, 1998, it refinanced the term note, borrowing an additional $5,800,000. Commencing June 30, 2000, it provides for twenty consecutive quarterly principal installments of $500,000, plus interest at either LIBOR plus a margin adjustment ranging from 1.00% to 1.50%, or prime. The average adjusted LIBOR rate during 1998 was 6.59%; adjusted LIBOR was 6.19%, 7.09%, and 6.96% at December 31, 1998, 1997 and 1996, respectively.

Subordinated Notes

In 1998, 1995, and 1992, the Company redeemed shares of its common stock from shareholders for cash and five-year subordinated promissory notes. Effective January 1, 1998, these notes bear interest based on the five-year U.S. Treasury rate in effect at January 1 of each year (5.379% in 1998); prior to 1998, they bore interest at a rate equal to the average of the prime rate and the prevailing local bank basic savings rate. There were 115,430 shares redeemed in 1998 for cash of $1,157,710 and notes of $1,943,091. In 1995, there were 31,574 shares redeemed for cash of $174,147 and notes of $595,627. In 1992, 16,800 shares were redeemed for cash of $223,830 and notes of $193,986.

Term Loans and Other

The weighted-average interest on the term loans approximates 9.60% and the amounts outstanding are being repaid primarily in equal monthly installments through 2007.

Interest on Debt

The Company made cash payments for interest on all debt of $3,353,000, $2,806,000, and $2,475,000 in 1998, 1997, and 1996, respectively.

7. *FINANCIAL INSTRUMENTS*

The Company has used interest rate exchange agreements (swaps) with its principal bank to modify the interest rate characteristics on its borrowings under the variable interest rate term note. Management's authority to utilize these agreements is restricted by the Board of Directors, and they are not used for trading purposes. Concurrent with the Company's May 14, 1998 renegotiation of the term note, it terminated the swaps outstanding on the prior term note, and entered into a new swap. At December 31, 1998, 1997, and 1996, the outstanding swaps had a total notional amount of $10,000,000, $4,800,000, and $7,200,000, respectively. These swaps effectively changed the interest rate exposure through May 14, 1998 to a fixed 7.22%, and thereafter to a fixed 6.09% plus the applicable LIBOR margin which was 1.00% at December 31, 1998.

The swaps are accounted for using the settlement method or the "matched swap" method in which the quarterly net cash settlements of the agreements are recognized in interest expense when they accrue. The accrual amounts are included in the consolidated balance sheets as accrued liabilities. Interest expense was increased by $35,000, $9,000, and $25,000 in 1998, 1997 and 1996 respectively from these agreements. An interest rate swap is considered to be a matched swap if it is linked through designation with an asset or liability provided that it has the opposite interest rate characteristics of the asset or liability. Generally, if the asset or liability that is linked to the swap matures, or is extinguished, or if the swap no longer qualifies for settlement accounting the swap will be marked to market through income. The term of the agreements is matched with the maturity period of the term note. If the Company decided to terminate the swap agreements any resulting gain or loss would be deferred and amortized over the original life of the swap contracts or recognized with the offsetting gain or loss of the hedged transaction.

7. *FINANCIAL INSTRUMENTS (Continued)*

The fair value of the swaps is the quoted amount that the Company would receive or pay to terminate the swap agreements as provided by the bank, taking into account current interest rates. Had these agreements been terminated as of December 31 each year, the Company would have paid $335,000, paid $3,000 and received $1,000 in 1998, 1997, and 1996, respectively.

The carrying value of the Company's long-term debt is considered to approximate fair value based on borrowing rates currently available for loans with similar terms and maturities.

8. *EMPLOYEE STOCK OWNERSHIP PLAN AND 401KSOP*

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 2,880,000 common shares to the Company's Employee Stock Ownership Trust (ESOT) for $2,700,000.

The Employee Stock Ownership Plan (ESOP), in conjunction with the related ESOT, provided 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 have been made to individual accounts established for the benefit of the participants.

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

Statement of Position 93-6 "Employers Accounting for Employee Stock Ownership Plans" required the employer to recognize compensation expense equal to the fair value of the shares committed to be released; however, it allowed an employer with an ESOP holding shares purchased prior to December 31, 1992 to continue their existing accounting treatment. Accordingly, the Company elected to maintain its existing accounting treatment.

The number of shares released from collateral and available for allocation to ESOP participants was determined by dividing the sum of the current year loan principal and interest payments by the sum of the current and future years' loan principal and interest payments. The Company made annual cash contributions to the ESOP, net of dividends paid on the shares held as collateral, sufficient to pay the principal and interest on the ESOT debt; such contributions are reflected as an expense of the Company. Dividends on allocated shares are credited to participants' accounts and charged against retained earnings. ESOP shares that have been released and committed to be released are considered outstanding for purposes of computing earnings per share.

The contributions to the ESOT were:

	1996 *(Dollars in Thousands)*
Principal repayment	$ 97
Interest	5
Total cash contributions required	102
Less dividends paid on collateral shares	12
ESOT expense	$ 90
Annual release of shares from collateral	38,970
Cumulative release of shares from collateral	2,880,000
Number of shares remaining in collateral	0

8. *EMPLOYEE STOCK OWNERSHIP PLAN AND 401KSOP (Continued)*

Effective January 1, 1997, the Company commenced operation of the "The Davey 401KSOP and ESOP," which retained the existing ESOP participant accounts and incorporated a deferred savings plan (401(k) plan) feature. Participants in the plan are allowed to make before-tax contributions, within Internal Revenue Service established limits, through payroll deductions. The Company will match, in either cash or Company stock, 50% of each participant's before-tax contribution, limited to the first 3% of the employee's compensation deferred each year. Eligibility to participate is the same as that provided under the Employee Stock Ownership Plan. The Company's cost of this plan for 1998 and 1997, consisting principally of the accruals for the employer match, was $520,000 and $493,000, respectively.

9. *PENSION PLANS*

Description of Plans

Substantially all of the Company's employees are covered by two defined benefit pension plans. One of these plans is for non-bargaining unit employees and, through 1996, was non-contributory with respect to annual compensation up to a defined level, with voluntary employee contributions beyond the specified compensation levels. Concurrent with the introduction of the Davey 401KSOP, future benefits earned under this plan were modified, and as of January 1, 1997, the plan was amended to become non-contributory. The other plan is for bargaining unit employees not covered by union pension plans, is non-contributory, and provides benefits at a fixed monthly amount based upon length of service.

Funding Policy

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

Expense Recognition

Pension expense (income) was calculated as follows:

	1998	1997	1996
	(Dollars in Thousands)		
Service cost - increase in benefit obligations earned	$ 754	$ 626	$ 368
Interest cost on projected benefit obligation	905	849	906
Expected return on plan assets	(2,106)	(1,894)	(1,702)
Amortization of prior service cost	(34)	(34)	4
Amortization of initial net asset	(72)	(72)	(72)
Recognized gains	(240)	(141)	(66)
Net pension income	$ (793)	$ (666)	$ (562)

9. *PENSION PLANS (Continued)*

Funded Status

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

	1998	1997	1996
	(Dollars in Thousands)		
Plan assets at fair market value	$ 32,725	$ 25,561	$ 21,488
Projected benefit obligation	(13,595)	(12,502)	(12,091)
Excess of assets over projected benefit obligation	19,130	13,059	9,397
Unrecognized initial asset	(938)	(1,010)	(1,082)
Unrecognized gain	(13,125)	(7,741)	(4,639)
Unrecognized prior service cost	(629)	(663)	(697)
Prepaid benefit cost recognized as other assets in balance sheets	$ 4,438	$ 3,645	$ 2,979

Reconciliations

The projected benefit obligation is reconciled as follows:

	1998	1997	1996
	(Dollars in Thousands)		
Balance, beginning of year	$ 12,502	$ 12,091	$ 12,462
Service cost	754	626	368
Interest cost	905	849	906
Participant contributions		13	152
Amendments			(755)
Actuarial gain	607	104	238
Benefits paid	(1,173)	(1,181)	(1,280)
Balance, end of year	$ 13,595	$ 12,502	$ 12,091

The fair value of plan assets are reconciled as follows:

	1998	1997	1996
	(Dollars in Thousands)		
Balance, beginning of year	$ 25,561	$ 21,488	$ 19,143
Actual return on plan assets	8,337	5,241	3,473
Participant contributions		13	152
Benefits paid	(1,173)	(1,181)	(1,280)
Balance, end of year	$ 32,725	$ 25,561	$ 21,488

On a weighted-average basis the following assumptions were used in accounting for the plans:

	1998	1997	1996
Discount rate used to determine projected benefit obligation	6.75%	7.00%	7.25%
Expected return on plan assets	8.25%	8.25%	9.00%
Rate of compensation increase	5.00%	5.00%	5.00%

9. PENSION PLANS (Continued)

Multiemployer Plans

The Company also contributes to several multiemployer plans, which provide defined benefits to unionized workers who do not participate in the Company sponsored bargaining unit plan. Amounts charged to pension cost and contributed to the plans in 1998, 1997 and 1996 totaled $396,000, $380,000, and $395,000, respectively.

10. INCOME TAXES

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

	1998	1997	1996
		(Dollars in Thousands)	
CURRENT			
Assets:			
Compensated absences	$ 377	$ 341	$ 294
Insurance	1,311	1,447	1,346
Other - net	154	244	146
Net current	1,842	2,032	1,786
NON-CURRENT			
Assets:			
Insurance	3,872	3,825	3,100
Other – net	286	462	264
Liabilities:			
Accelerated depreciation for tax purposes	(6,222)	(4,421)	(4,300)
Pensions	(1,524)	(1,247)	(1,016)
Net noncurrent	(3,588)	(1,381)	(1,952)
Net deferred tax asset (liability)	$ (1,746)	$ 651	$ (166)

Significant components of income tax expense include:

	1998	1997	1996
		(Dollars in Thousands)	
Taxes currently payable:			
U.S. Federal	$ 3,014	$ 6,839	$ 5,057
Canadian	333	309	144
State and local	1,500	1,641	1,200
	4,847	8,789	6,401
Deferred tax expense (benefit):			
U.S. Federal	1,975	(682)	(269)
Canadian	73	46	22
State and local	349	(181)	(72)
	2,397	(817)	(319)
	$ 7,244	$ 7,972	$ 6,082

10. *INCOME TAXES (Continued)*

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

	1998	1997	1996
U.S. Federal statutory tax rate	34.6%	34.9%	34.3%
State and local income taxes	5.5	5.5	5.3
Canadian income taxes	.7	.7	.5
Miscellaneous	(.2)	.3	.9
Effective tax rate	40.6%	41.4%	41.0%

Earnings before income taxes by country are as follows:

	1998	1997	1996
		(Dollars in Thousands)	
U.S.	$ 17,006	$ 18,604	$ 14,555
Canadian	835	647	286
	$ 17,841	$ 19,251	$ 14,841

The Company made cash payments for income taxes of $7,742,000, $7,360,000, and $9,354,000 in 1998, 1997 and 1996, respectively.

11. *OPERATING LEASES*

The Company primarily leases facilities which are used for district office and warehouse operations. These leases extend for varying periods of time up to four years and, in some cases, contain renewal options. Total rental expense under such operating leases amounted to approximately $1,899,000, $1,723,000, and $1,693,000 for 1998, 1997 and 1996, respectively. As of December 31, 1998, future minimum rental payments, including taxes and other operating costs, for all operating leases having noncancelable lease terms in excess of one year, totaled $3,588,000, and are expendable as follows: 1999, $1,363,000; 2000, $1,000,000; 2001, $642,000; 2002, $363,000 and 2003, $220,000.

12. *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 or accrued, would not be material in relation to the financial position, results of operations or liquidity of the Company.

At December 31, 1998, the Company was contingently liable to its principal banks in the amount of $10,425,000 for outstanding letters of credit for insurance coverage.

13. *ACQUISITIONS*

In 1998, 1997, and 1996, the Company completed acquisitions of organizations providing horticultural services for a total purchase price of $712,000, $449,000 and $820,000, respectively. They were accounted for as purchases and their results of operations, which were not material in any of the years presented, are included in the accompanying financial statements from their respective dates of acquisition.

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