

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, 1999

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, OH
(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 requirements for the past 90 days.

Yes 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 29, 2000 (excluding the total number of Common Shares reported in Item 12 hereof), was \$105,689,766.

Common Shares outstanding at March 29, 2000: 8,129,982

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 and Commercial 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 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 and Commercial 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 and Commercial 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 1999, the Registrant had sales of approximately \$51,000,000 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 and Commercial 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, expenditures in 1999 and 1998 were approximately \$20,580,000 and \$34,009,000, 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.

<u>Location</u>	<u>Operating Segment</u>	<u>Acreage</u>	<u>Building Sq. Ft.</u>
Baltimore, Maryland	Residential and Commercial	3.4	22,500
Bettendorf, Iowa	Residential and Commercial	.5	478
Cincinnati, Ohio	Residential and Commercial	2.5	8,800
Chamblee, Georgia	Residential and Commercial & Utility	1.9	6,200
Chantilly, Virginia	Residential and Commercial	4.0	5,700
Charlotte, North Carolina	Residential & Utility	3.1	4,900
Cheektowaga, New York	Other	6.9	2,800
Columbus, Ohio	Residential and Commercial	8.0	15,925
Downsview, Ontario, Canada	Residential and Commercial	.5	3,675
East Dundee, Illinois	Residential and Commercial & Utility	4.0	7,500
Edmonton, Alberta, Canada	Utility	.7	2,900
Gaithersburg, Maryland	Residential and Commercial	2.1	7,200
Gibsonia, Pennsylvania	Residential and Commercial	5.9	7,100
Hinsdale, Illinois	Residential and Commercial	1.7	7,200
Houston, Texas	Residential and Commercial	1.5	7,000
Indianapolis, Indiana	Residential and Commercial	1.5	5,000
Jacksonville, Florida – Nursery	Residential and Commercial	279.0	5,300
Kent, Ohio (multiple parcels) – Corporate Headquarters	Other	101.4	111,608
Lachine, Quebec, Canada	Residential and Commercial	.5	2,300
Lancaster, New York	Residential and Commercial	3.0	6,624
Lawrence, Pennsylvania	Residential and Commercial	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 and Commercial	2.7	11,750
Richmond, Virginia	Residential and Commercial	.7	2,586
Stow, Ohio	Residential and Commercial	7.4	14,100
Toledo, Ohio	Residential and Commercial	.5	4,300
West Babylon, New York	Residential and Commercial	.9	14,100
West Carlton Twp., Ontario, Canada	Residential and Commercial	3.1	4,000
Wheeling, Illinois	Residential and Commercial	5.0	11,300
Winter Park, Florida	Utility	1.0	5,850
Wooster, Ohio – Nursery	Residential and Commercial	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 1999 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:

<u>Name</u>	<u>Position</u>	<u>Age</u>
R. Douglas Cowan	Chairman and Chief Executive Officer	59
Karl J. Warnke	President and Chief Operating Officer	48
David E. Adante	Executive Vice President, Chief Financial Officer and Secretary-Treasurer	48
Howard D. Bowles	Senior Vice President and General Manager, Davey Tree Surgery Company	56
C. Kenneth Celmer	Senior Vice President and General Manager, Residential Services	53
Bradley L. Comport, CPA	Corporate Controller	49
Dr. Roger C. Funk	Vice President and General Manager, The Davey Institute	55
Rosemary T. Nicholas	Assistant Secretary	56
Marjorie L. Conner, Esquire	Assistant Secretary	42
Gordon L. Ober	Vice President – Personnel Recruiting and Development	50
Richard A. Ramsey	Vice President and General Manager, Commercial Services	50
Wayne M. Parker	Vice President – Eastern Operations, Utility Services	44

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 1995.

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 1995.

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

Mr. Bowles was elected Senior Vice President and General Manager of Davey Tree Surgery Company in January 2000. Prior to that time, he served as Vice President and General Manager of Davey Tree Surgery Company since before 1995.

Mr. Celmer was elected Senior Vice President and General Manager – Residential and Commercial Services in January 2000. Prior to that time, he served as Vice President and General Manager - Residential Services since January 1995.

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 1995.

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 1995.

Mr. Ober was elected Vice President – Personnel Recruiting and Development in February, 2000. Prior to that time, he served as Vice President - New Ventures since before 1995.

Mr. Ramsey was elected Vice President and General Manager – Canadian Operations in January 2000. Prior to that time, he served as Vice President and General Manager - Commercial Services since January 1995.

Mr. Parker was elected Vice President – Eastern Utility Services in January 2000. Previously he had served as Vice President - Northern Operations, Utility Services since before 1995.

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, 1999, 1998 and 1997, the number of Common Shares issued were 10,728,440, 8,728,440, and 8,728,440 respectively. At those respective dates, the number of shares in the treasury were 2,601,058, 4,736,785 and 4,429,205.

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, 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 29, 2000, there were 2,125 recorded holders of the Registrant's Common Shares. During the years ended December 31, 1999, December 31, 1998 and December 31, 1997, the Registrant paid dividends of \$.20, \$.19, and \$.17, 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, EBIT (earnings before interest and taxes on income) to interest expense 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				
	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
	<i>(Dollars in Thousands, Except Per Share Amounts)</i>				
Operating Results:					
Revenues	\$ 308,144	\$ 313,887	\$ 295,079	\$ 266,934	\$ 229,682
Earnings From Continuing Operations	\$ 3,715	\$ 10,597	\$ 11,279	\$ 8,759	\$ 6,137
Earnings From Continuing Operations Per Common Share	\$.47	\$ 1.29	\$ 1.28	\$.96	\$.65
Earnings From Continuing Operations Per Common Share- Assuming Dilution	\$.42	\$ 1.15	\$ 1.19	\$.93	\$.64
At Year End:					
Total Assets	\$ 176,682	\$ 149,086	\$ 127,825	\$ 111,386	\$ 104,161
Total Long-Term Debt (Including Capital Leases)	\$ 65,904	\$ 42,893	\$ 24,104	\$ 19,640	\$ 17,049
Cash Dividends Per Common Share	\$.20	\$.19	\$.17	\$.148	\$.138

In 1995, the Registrant sold its interior plant care business. Operating results for 1995 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 used \$4,578,000 in cash during 1999, \$32,771,000 more than what had been provided in 1998. The items contributing to this significant increased use of cash in 1999 were substantially reduced earnings, an inordinate increase in accounts receivable, an increase in other assets, and a decrease in accounts payable and accrued liabilities.

Several factors influenced the decline in earnings. First, Utility earnings decreased almost solely as a result of a contract the Registrant had renegotiated with a major western customer. This contract provided for an extended term along with lower pricing. Second, Residential and Commercial services earnings were significantly impacted by additional aged accounts receivable (amounts in excess of a "typical" year) written off of approximately \$3,200,000. Please refer to the more detailed discussion regarding accounts receivable which follows. Residential and Commercial services earnings, when compared to last year, were also adversely affected due to the absence of storm work that had been gained in Quebec and Maine in 1998. Consulting costs incurred upon switching over to the Registrant's new enterprise-wide information system of approximately \$2,000,000 in excess of that originally anticipated also contributed to the overall reduced level of earnings. Please also refer to the Registrant's more detailed discussion regarding its new system under "Results of Operations."

Accounts receivable increased \$19,962,000, \$12,368,000 more than the increase experienced in 1998. Also, days outstanding have increased to 89.8 days from 63.7 days in the prior year. Several factors, all of which relate to converting to the Registrant's new enterprise-wide information system in April 1999, have contributed to this increase. First, upon switching over to this system, the Registrant temporarily postponed billing its Residential and Commercial customers until approximately mid-May, and in some cases June, a delay of about 40-60 days. This initial delay was attributable to errors in converting data from the Registrant's legacy systems. Beyond this initial delay, the Registrant also continued to experience a lag in billing to these customers during its prime sales season. This lag in billing, the difference between the date services had been performed versus the date an invoice was actually prepared and sent to the customers, was attributable to the learning curve associated with the new system. Despite this learning curve, revenues were accrued and recognized as services were performed. The build-up in accounts receivable was also significantly influenced as a result of billing customers monthly from May through November, a function of system configuration (in contrast with "as services were performed" under the Registrant's legacy system); the system was reconfigured to bill all Residential customers weekly from and after November. Finally, the level of accounts receivable was exacerbated by an inability to generate accurate accounts receivable aging reports until the latter part of 1999. In prior years these reports served as an important tool to facilitate the Registrant's corporate and field management efforts in monitoring the level of, and effecting collection on its accounts receivable. As a consequence, as previously mentioned the Registrant charged off as uncollectible approximately \$3,200,000 in accounts receivable above and beyond that which would have been experienced in prior years. While the Registrant is not pleased with the level of accounts receivable at year end, it has worked through substantially all of the issues previously mentioned, and is further assured by the fact that, as of the end of February 2000, total accounts receivable decreased to approximately \$52,000,000, only \$5,000,000 higher than February 1999 levels. Accordingly, the Registrant is not concerned as to the overall collectibility of accounts and will continue its efforts to reduce both the level of accounts receivable and days outstanding. It also performs ongoing credit evaluations of its customers' financial conditions for collection purposes, and when determined necessary, it provides an allowance for doubtful accounts.

Other assets increased \$3,732,000, \$3,673,000 more than in 1998. The increase is attributable to increases in prepaid pension costs and refundable income taxes.

Accounts payable and accrued liabilities declined by \$2,949,000, \$8,544,000 more than the increase experienced last year. The current year reduction is due largely to lower administrative incentive accruals based upon the Registrant's decreased earnings in 1999.

While insurance liabilities declined by \$856,000, approximately the same amount as last year, the Registrant believes it is important to note that the current year reduction resulted primarily from a 175 basis point increase in the discount rate applied to its workers compensation liabilities whereas in 1998 the reduction was due to accelerated claims payments made to the Registrant's new excess insurer and claims administrator.

Investing activities used \$18,707,000 in cash, \$14,134,000 less than in 1999. Last years level of cash expended for equipment was higher primarily due to costs capitalized in conjunction with the development of the Registrant's enterprise-wide information system. Also contributing to the decrease was \$4,657,000 of current year expenditures financed with capital leases.

Financing activities provided \$22,084,000 in cash, \$16,894,000 more than last year. The increase is attributable to two factors. First, the Registrant's net borrowings increased \$10,206,000, necessitated by the higher level of accounts receivable. Second, the Registrant's repurchase of common shares declined by \$6,641,000 from 1998. Last year the Registrant experienced a relatively higher level of retirements and consequent repurchases of shares from the Employee Stock Ownership Trust, along with redemptions from two directors related to or in contemplation of their retirements from the Board.

At December 31, 1999, the Registrant's principal source of liquidity consisted of \$63,000 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 \$500,000 was drawn and \$700,000 was considered drawn to cover outstanding letters of credit; and the revolving credit agreement and temporary line of credit totaling \$85,000,000, of which \$56,600,000 was drawn and \$11,400,000 was considered drawn to cover outstanding letters of credit. Including the outstanding term note agreement, at that date the Registrant's credit facilities totaled \$99,600,000. The Registrant and its banks have amended its existing credit facility to among other things, extend the current availability through April 30, 2000; the Registrant expects to complete a new credit agreement with its banks prior to that date. As currently structured, the proposed agreement would raise the total credit facilities of the Registrant to \$109,600,000. 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.

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Net cash provided by (used in) operating activities	\$ (4,578)	\$ 28,193	\$ 26,934
Net cash used in investing activities	\$ (18,707)	\$ (32,841)	\$ (26,314)
Net cash provided by (used in) financing activities	\$ 22,084	\$ 5,190	\$ (525)

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.

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Working capital	\$ 47,847	\$ 28,172	\$ 19,194
Current ratio	2.4:1	1.8:1	1.6:1
Cash flow from net earnings, depreciation and amortization	\$ 24,127	\$ 30,531	\$ 28,654
Capital expenditures	\$ 20,580	\$ 34,009	\$ 27,003
Cash flow to capital expenditure ratio	1.2:1	.9:1	1.1:1
Cash flow as percentage of revenues	7.8%	9.7%	9.7%

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>1999</u>	<u>1998</u>	<u>1997</u>
Equity to debt ratio	.47:1	.62:1	.83:1
Debt as percentage of assets	68.1%	61.6%	54.7%
Equity as percentage of assets	31.9%	38.4%	45.3%

At the end of 1999, these measurements reflect a greater degree of leverage when compared with 1998 due primarily to the additional borrowings necessitated by the higher level of accounts receivable.

COMMON SHARE MEASUREMENTS

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

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Net earnings per share - assuming dilution	\$.42	\$ 1.15	\$ 1.19
Dividends per share	\$.20	\$.19	\$.17
Book value per share	\$ 6.94	\$ 7.18	\$ 6.73
Market valuation per share	\$ 13.00	\$ 16.00	\$ 13.03

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 1999. In 1999, they were increased by a total of \$.01 per share, or 5.3% over 1998, compared to an increase in 1998 of \$.02 per share, or 11.8% over 1997. 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.

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Average assets employed	\$ 162,884	\$ 138,456	\$ 119,606
Asset turnover (revenues to average assets)	1.9	2.3	2.5
Return on average assets	2.3%	7.7%	9.4%

RESULTS OF OPERATIONS

Revenues of \$308,144,000 decreased \$5,743,000 or 1.8% from 1999. As previously mentioned, the Registrant believes that in the aggregate, approximately \$3,200,000 or 56% of this decline is attributable to "excess" or "additional" amounts written off as sales allowances in the current year in contrast with prior years, due to invoicing and collection issues resulting from the system conversion. On an operating segment basis, the continued strength of Residential and Commercial service revenues, which improved by \$6,877,000 or 5.6%, was more than offset by an \$11,114,000 or 6.0% decline in Utility service revenues. The entire amount of excess amounts written off negatively impacted Residential and Commercial services' revenues. As has been the case over the last several years, Residential and Commercial services has benefited from a continued emphasis on sales coupled with a good economy. The reduction in Utility service revenues resulted primarily from three factors. First, at the beginning of 1999, the Registrant completed negotiations with a major western customer to extend the term of its contract with somewhat lower pricing. Second, also in early 1999, it experienced a reduction in crews on a contract with an eastern U.S. customer. Finally, it lost in the ordinary course of competitive bidding, a relatively small contract in the Midwest.

Operating costs of \$210,628,000 were \$293,000 lower than in 1998, but increased 1.1% as a percentage of revenues to 68.3%. The percentage increase resulted from a higher level of field costs associated with the Registrant's conversion to its new enterprise-wide information system, resulting in reduced productivity.

Selling costs of \$45,403,000 were \$5,802,000 higher than last year, and at 14.7% were 2.1% higher as a percentage of revenues. The increase is attributable to increased expenditures for salaries, commissions, and branch office expenses associated with higher Residential and Commercial service revenues as well as for branch office costs incurred related to converting to the Registrant's new information system.

General and administrative costs of \$21,742,000 declined \$1,022,000 from 1998, primarily the result of an increase in net periodic pension income realized on the Registrant's defined benefit pension plans, along with lower travel and education costs in comparison to 1998, a function of the system project. These factors were somewhat offset by costs incurred for consultants required to provide post implementation system modifications to the Registrant's new enterprise-wide information system, as well as costs incurred for the increase in additional temporary and full-time personnel retained upon "going live" with the new system to perform data entry.

The Registrant acquired and commenced implementation of this new system in January 1998, completing the blueprint, configuration, data conversion, and testing phases through April 3, 1999. On April 4, 1999, the Registrant commenced live operation of the new system and discontinued use of the legacy system. The ultimate cost of this new system was approximately \$18,000,000. Of this total, \$3,000,000 had been expensed in 1998 and as of December 31, 1999, \$11,000,000 had been capitalized. The remaining \$4,000,000 was expensed during 1999. The amounts expensed in 1999 were higher than the amount originally anticipated, and resulted from required modifications identified after commencement of going live with the new system.

The Registrant completed its assessment of the year 2000 readiness of its non-IT systems, those systems with embedded technology. The Registrant has also completed its assessment of 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 provides such services as lockbox processing, treasury management services, and benefit plan administration.

We have not experienced any adverse impact on our operations because of Year 2000 factors, including any inability or difficulty of our suppliers or customers to operate in the Year 2000. We do not anticipate any adverse impact on our 2000 financial results due to Year 2000 issues.

Depreciation and amortization of \$20,412,000 increased \$478,000 or .3% as a percentage of revenues. The increase is attributable to a relatively higher level of capital expenditures for equipment, particularly in the preceding two years, primarily to support Utility and Residential and Commercial services. It is also due to commencement of depreciation on the Registrant's new enterprise-wide information system.

Interest expense of \$4,947,000 was \$1,556,000 higher than last year, and as a percentage of revenues it increased .5%. The increase has resulted from a higher level of borrowings necessitated mainly by the delays in billing the Registrant's Residential and Commercial customers and the attendant increase in accounts receivable.

Other income of \$1,138,000 for 1999 increased \$573,000 over 1998 due primarily to the sale in June 1999 of the Registrant's Troy, Michigan property.

The Registrant's earnings before income taxes of \$6,150,000 decreased \$11,691,000 from 1998 and as a percentage of revenues they declined 3.7% to 2.0%. The tax provisions for 1999, 1998 and 1997 resulted in effective tax rates of 39.6%, 40.6%, and 41.4% 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 \$3,715,000 decreased \$6,882,000 or 64.9% compared to 1998, and as a percentage of revenues they declined 2.2%.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT 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, 1999 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							Fair Value 12-31-99
	2000	2001	2002	2003	2004	Thereafter	Total	
Long-term debt, including current portion								
Fixed rate	\$ 638	\$ 502	\$ 40	\$ 44	\$ 38	\$ 114	\$ 1,376	\$ 1,371
Average interest rate	7.0%	4.5%	10.8%	10.8%	9.1%	10.0%		
Variable rate:								
a) Term note	\$ 1,500	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 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	\$ 389	\$ 389	\$ 388	-	-	\$ 1,674	\$ 1,674
Average interest rate	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	-	-	-	-	-	\$ 11,600	\$ 11,600	\$ 11,600
Average interest rate	prime	prime	prime	prime	prime	prime		
ii. Libor borrowings	-	-	-	-	-	\$ 45,000	\$ 45,000	\$ 45,000
Average interest rate	LIBOR plus (1.25% to 1.4%)	LIBOR plus (1.25% to 1.4%)	LIBOR plus (1.25% to 1.4%)	LIBOR plus (1.25% to 1.4%)	LIBOR plus (1.25% to 1.4%)	LIBOR plus (1.25% 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	\$ 2,000	\$ 500	\$ 10,000	\$ 177
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%)	6.09% plus (1.00% to 1.50%)		
Average receive rate	LIBOR	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, 1999. All other foreign denominated financial instruments are not material.

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-2 through F-23 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: 
R.D. Cowan, Chairman and
Chief Executive Officer

March 31, 2000

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 31, 2000.


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


DOUGLAS K. HALL, Director

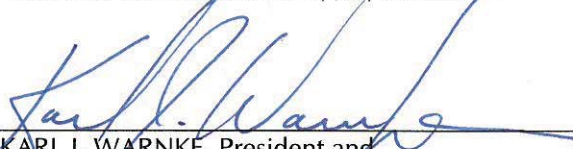
R. CARY BLAIR, Director


JAMES H. MILLER, Director

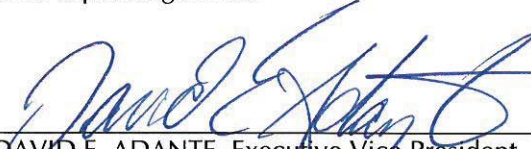
RICHARD E. DUNN, Director

THOMAS G. MURDOUGH, JR., Director


RUSSELL R. GIFFORD, Director


KARL J. WARNKE, President and
Chief Operating Officer


WILLIAM D. GINN, Director


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


RICHARD S. GRAY, Director


BRADLEY L. COMPORT, Corporate Controller
(Principal Accounting Officer)

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

<u>Exhibit No.</u>	<u>Description</u>	<u>Location Sequential Page</u>
(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 Annual Report on Form 10-Q for the quarter ended July 3, 1999.
(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.
(18)	Letter re change in accounting principles	Not Applicable.

<u>Exhibit No.</u>	<u>Description</u>	<u>Location Sequential Page</u>
(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.

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 1999 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 March 23, 2000 appearing in this Annual Report on Form 10-K of The Davey Tree Expert Company for the year ended December 31, 1999.

/s/ DELOITTE & TOUCHE LLP

Cleveland, Ohio
March 31, 2000

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

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INDEPENDENT AUDITORS' REPORT	F-2
FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997:	
Consolidated Balance Sheets	F-3
Consolidated Statements of Net Earnings	F-5
Consolidated Statements of Shareholders' Equity	F-6
Consolidated Statements of Cash Flows	F-8
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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, 1999, 1998 and 1997, 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 auditing standards generally accepted in the United States of America. 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, 1999, 1998 and 1997, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE AND TOUCHE LLP

Cleveland, Ohio
March 23, 2000

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS

	<u>1999</u>	December 31 <u>1998</u>	<u>1997</u>
	(Dollars in Thousands)		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 63	\$ 1,264	\$ 722
Accounts receivable	71,452	51,490	43,896
Operating supplies	2,848	2,644	2,662
Prepaid expenses and other assets	2,494	2,940	2,724
Refundable income taxes	2,375	1,248	
Deferred income taxes	<u>2,014</u>	<u>1,842</u>	<u>2,032</u>
Total current assets	81,246	61,428	52,036
PROPERTY AND EQUIPMENT:			
Land and land improvements	6,495	6,325	6,283
Buildings and leasehold improvements	18,480	18,269	16,142
Equipment	<u>201,997</u>	<u>187,084</u>	<u>166,902</u>
	226,972	211,678	189,327
Less accumulated depreciation	<u>142,964</u>	<u>132,245</u>	<u>123,053</u>
Net property and equipment	<u>84,008</u>	<u>79,433</u>	<u>66,274</u>
OTHER ASSETS AND INTANGIBLES	<u>11,428</u>	<u>8,225</u>	<u>9,515</u>
 TOTAL ASSETS	 <u>\$ 176,682</u>	 <u>\$ 149,086</u>	 <u>\$ 127,825</u>

See notes to consolidated financial statements.

	December 31		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Dollars in Thousands)		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	\$ 14,287	\$ 15,191	\$ 10,187
Accrued liabilities	9,815	11,413	10,822
Insurance liabilities	4,755	5,797	6,738
Income taxes payable			1,647
Notes payable, bank	500		300
Current maturities of long-term debt	3,746	855	3,148
Current obligations under capital leases	<u>296</u>	<u> </u>	<u> </u>
Total current liabilities	33,399	33,256	32,842
LONG-TERM DEBT	65,904	42,893	24,104
LONG-TERM OBLIGATIONS UNDER CAPITAL LEASES	4,361		
DEFERRED INCOME TAXES	4,731	3,588	1,381
INSURANCE LIABILITIES	11,155	10,969	10,913
OTHER LIABILITIES	<u>712</u>	<u>1,112</u>	<u>698</u>
TOTAL LIABILITIES	120,262	91,818	69,938
SHAREHOLDERS' EQUITY:			
Preferred shares			
Common shares	10,728	8,728	8,728
Additional paid-in capital	3,136	5,893	4,625
Accumulated other comprehensive income (loss)	(543)	(745)	(535)
Retained earnings	<u>76,455</u>	<u>94,547</u>	<u>85,510</u>
	89,776	108,423	98,328
LESS:			
Treasury shares, at cost	<u>33,356</u>	<u>51,155</u>	<u>40,441</u>
TOTAL SHAREHOLDERS' EQUITY	<u>56,420</u>	<u>57,268</u>	<u>57,887</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 176,682</u>	<u>\$ 149,086</u>	<u>\$ 127,825</u>

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF NET EARNINGS

	Years Ended December 31					
	<u>1999</u>		<u>1998</u>		<u>1997</u>	
	(Dollars in Thousands, Except Per Share Amounts)					
REVENUES	\$ 308,144	100.0%	\$ 313,887	100.0%	\$ 295,079	100.0%
COSTS AND EXPENSES:						
Operating	210,628	68.3	210,921	67.2	197,726	67.0
Selling	45,403	14.7	39,601	12.6	37,832	12.8
General and administrative	21,742	7.1	22,764	7.2	20,297	6.9
Depreciation and amortization	<u>20,412</u>	<u>6.7</u>	<u>19,934</u>	<u>6.4</u>	<u>17,375</u>	<u>5.9</u>
	<u>298,185</u>	<u>96.8</u>	<u>293,220</u>	<u>93.4</u>	<u>273,230</u>	<u>92.6</u>
EARNINGS FROM OPERATIONS	9,959	3.2	20,667	6.6	21,849	7.4
INTEREST EXPENSE	4,947	1.6	3,391	1.1	2,703	.9
OTHER INCOME – NET	<u>(1,138)</u>	<u>(.4)</u>	<u>(565)</u>	<u>(.2)</u>	<u>(105)</u>	<u> </u>
EARNINGS BEFORE INCOME TAXES	6,150	2.0	17,841	5.7	19,251	6.5
INCOME TAXES	<u>2,435</u>	<u>0.8</u>	<u>7,244</u>	<u>2.3</u>	<u>7,972</u>	<u>2.7</u>
NET EARNINGS	<u>\$ 3,715</u>	<u>1.2%</u>	<u>\$ 10,597</u>	<u>3.4%</u>	<u>\$ 11,279</u>	<u>3.8%</u>
EARNINGS PER COMMON SHARE	<u>\$ 0.47</u>		<u>\$ 1.29</u>		<u>\$ 1.28</u>	
EARNINGS PER COMMON SHARE – ASSUMING DILUTION	<u>\$ 0.42</u>		<u>\$ 1.15</u>		<u>\$ 1.19</u>	

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997 (Dollars in Thousands, Except Per Share Amounts)

	<u>Common Shares</u>	<u>Additional Paid-In Capital</u>
BALANCE, JANUARY 1, 1997	\$ 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		
	<hr/>	<hr/>
BALANCE, DECEMBER 31, 1997	8,728	4,625
Comprehensive income:		
Net earnings		
Other comprehensive income, net of tax		
Foreign currency translation adjustments		
Comprehensive income		
Shares purchased		
Shares sold to employees		1,115
Options exercised		153
Dividends		
	<hr/>	<hr/>
BALANCE, DECEMBER 31, 1998	8,728	5,893
Comprehensive income:		
Net earnings		
Other comprehensive income, net of tax		
Foreign currency translation adjustments		
Comprehensive income		
Stock dividend and share retirement	2,000	(3,982)
Shares purchased		
Shares sold to employees		1,033
Options exercised		192
Dividends		
	<hr/>	<hr/>
BALANCE, DECEMBER 31, 1999	<u>\$ 10,728</u>	<u>\$ 3,136</u>

See notes to consolidated financial statements.

<u>Accumulated Other Compre- hensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Treasury Shares</u>	<u>Subscrip- tions Receivable From Employees</u>	<u>Compre- hensive Income</u>	<u>Total</u>
\$ (401)	\$ 75,725	\$ (35,451)	\$ (7)		\$ 52,470
	11,279			\$ 11,279	
(134)				<u>(134)</u>	11,145
			7	<u>\$ 11,145</u>	7
		(5,918)			(5,918)
		737			1,432
		191			245
<u> </u>	<u>(1,494)</u>	<u> </u>	<u> </u>		<u>(1,494)</u>
(535)	85,510	(40,441)	0		57,887
	10,597			\$ 10,597	
(210)				<u>(210)</u>	10,387
		(12,150)		<u>\$ 10,387</u>	(12,150)
		773			1,888
		663			816
<u> </u>	<u>(1,560)</u>	<u> </u>	<u> </u>		<u>(1,560)</u>
(745)	94,547	(51,155)	0		57,268
	3,715			\$ 3,715	
202				<u>202</u>	3,917
	(19,759)	21,741		<u>\$ 3,917</u>	(5,509)
		(5,509)			626
		(407)			2,166
		1,974			<u>(2,048)</u>
<u> </u>	<u>(2,048)</u>	<u> </u>	<u> </u>		<u>(2,048)</u>
<u>\$ (543)</u>	<u>\$ 76,455</u>	<u>\$ (33,356)</u>	<u>\$ 0</u>		<u>\$ 56,420</u>

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Dollars in Thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 3,715	\$ 10,597	\$ 11,279
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:			
Depreciation	20,019	19,563	17,000
Amortization	393	371	375
Deferred income taxes	971	2,397	(817)
Gain on sale of assets	(1,487)	(587)	(325)
Other	(290)	28	(1)
	<u>23,321</u>	<u>32,369</u>	<u>27,511</u>
Change in operating assets and liabilities:			
Accounts receivable	(19,962)	(7,594)	(4,091)
Other assets	(3,732)	(59)	(2,876)
Accounts payable and accrued liabilities	(2,949)	5,595	2,606
Insurance liabilities	(856)	(885)	2,539
Other liabilities	(400)	(1,233)	1,245
Net cash (used in) provided by operating activities	<u>(4,578)</u>	<u>28,193</u>	<u>26,934</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of property and equipment	2,730	1,880	1,138
Acquisitions	(857)	(712)	(449)
Capital expenditures:			
Land and buildings	(2,574)	(2,617)	(285)
Equipment	(18,006)	(31,392)	(26,718)
Net cash used in investing activities	<u>(18,707)</u>	<u>(32,841)</u>	<u>(26,314)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings (payments) under notes payable, bank	500	(300)	225
Principal payments of long-term debt	(1,071)	(5,547)	(2,778)
Proceeds from issuance of long-term debt	26,973	22,043	7,756
Sales of treasury shares	2,792	2,704	1,677
Receipts from stock subscriptions			7
Dividends paid, \$.20 in 1999; \$.19 in 1998; \$.17 in 1997	(1,601)	(1,560)	(1,494)
Repurchase of common shares	(5,509)	(12,150)	(5,918)
Net cash provided by (used in) financing activities	<u>22,084</u>	<u>5,190</u>	<u>(525)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,201)	542	95
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,264</u>	<u>722</u>	<u>627</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 63</u>	<u>\$ 1,264</u>	<u>\$ 722</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, 1999

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; 1999 was a 52-week year ended January 1, 2000; 1998 was a 52-week year ended January 2, 1999 and 1997 was a 53-week year ended January 3, 1998. 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 \$348,000 at December 31, 1999 and \$314,000 at December 31, 1998 and 1997.

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 \$2,711,000, \$2,318,000, and \$1,947,000 at December 31, 1999, 1998, and 1997, respectively) was \$2,790,000, \$2,631,000, and \$2,550,000 at December 31, 1999, 1998, and 1997, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 included the re-design of certain key business processes, and replaced the Company's legacy systems on April 4, 1999. 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.

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.

Stock Split

On May 19, 1999 the Company's Board of Directors declared a 2-for-1 stock split in the form of a 100% stock dividend on outstanding shares only, to shareholders of record as of June 1, 1999. To effect the stock split, they authorized the retirement of 1,981,894 common shares held in treasury. Per common share amounts have been restated for all periods presented to give retroactive effect to the stock split, and common shares issued, treasury shares and retained earnings have been adjusted to reflect the share retirement. Common share disclosures have also been restated, where appropriate, to reflect the 2-for-1 stock split.

Earnings Per Share

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

	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Dollars in Thousands, Except Per Share Amounts)		
Numerator:			
Net earnings	\$ 3,715	\$ 10,597	\$ 11,279
Denominator:			
For earnings per common share			
weighted average shares outstanding	7,971,810	8,244,366	8,785,938
Effect of dilutive securities			
employee and director stock options	<u>899,742</u>	<u>983,646</u>	<u>665,674</u>
Denominator for earnings per share – assuming dilution	<u>8,871,552</u>	<u>9,228,012</u>	<u>9,451,612</u>
Earnings per common share	\$ <u>.47</u>	\$ <u>1.29</u>	\$ <u>1.28</u>
Earnings per common share – assuming dilution	\$ <u>.42</u>	\$ <u>1.15</u>	\$ <u>1.19</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Standards

In 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." As permitted by SFAS No. 137, the Company expects to adopt this statement in 2001. 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 SFAS No. 133 will have on the earnings and financial position of the Company.

Reclassifications

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

2. OPERATING SEGMENTS

The Company has two primary operating segments which provide a variety of horticultural services to their respective customer groups. Residential and Commercial 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, and environmental planning.

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 is as follows:

	<u>Utility</u>	<u>Residential & Commercial Services</u>	<u>Other</u>	<u>Total</u>
		(Dollars in Thousands)		
1999				
Revenues	\$ 173,654	\$ 129,174	\$ 5,316	\$ 308,144
Earnings from operations	7,076	6,370	195	13,641
Depreciation	10,595	6,273	300	17,168
Segment assets	65,233	64,125	3,582	132,940
Capital expenditures	13,712	7,312	200	21,224

2. OPERATING SEGMENTS (Continued)

	<u>Utility</u>	<u>Residential & Commercial Services</u>	<u>Other</u>	<u>Total</u>
		(Dollars in Thousands)		
1998				
Revenues	\$ 184,768	\$ 122,297	\$ 6,822	\$ 313,887
Earnings from operations	12,849	10,838	159	23,846
Depreciation	11,213	5,928	162	17,303
Segment assets	66,720	40,785	2,247	109,752
Capital expenditures	16,442	8,303	99	24,844
1997				
Revenues	\$ 167,798	\$ 113,977	\$ 13,304	\$ 295,079
Earnings from operations	9,556	10,325	2,569	22,450
Depreciation	9,918	5,214	73	15,205
Segment assets	59,291	33,730	1,223	94,244
Capital expenditures	14,460	6,894	65	21,419
		<u>1999</u>	<u>1998</u>	<u>1997</u>
		(Dollars in Thousands)		
Earnings				
Operating earnings for reportable segments	\$ 13,446	\$ 23,687	\$ 19,881	
Operating earnings for other	195	159	2,569	
Unallocated amounts:				
Other corporate expense	(3,682)	(3,179)	(601)	
Interest expense	(4,947)	(3,391)	(2,703)	
Other income - net	<u>1,138</u>	<u>565</u>	<u>105</u>	
Earnings before tax	<u>\$ 6,150</u>	<u>\$ 17,841</u>	<u>\$ 19,251</u>	
Depreciation				
Depreciation for reportable segments	\$ 16,868	\$ 17,141	\$ 15,132	
Depreciation for other	300	162	73	
Unallocated depreciation	<u>2,851</u>	<u>2,260</u>	<u>1,795</u>	
Total	<u>\$ 20,019</u>	<u>\$ 19,563</u>	<u>\$ 17,000</u>	
Assets				
Assets for reportable segments	\$ 129,358	\$ 107,505	\$ 93,021	
Assets for other	3,582	2,247	1,223	
Unallocated assets	<u>43,742</u>	<u>39,334</u>	<u>33,581</u>	
Total	<u>\$ 176,682</u>	<u>\$ 149,086</u>	<u>\$ 127,825</u>	
Capital Expenditures				
Expenditures for reportable segments	\$ 21,024	\$ 24,745	\$ 21,354	
Expenditures for other	200	99	65	
Unallocated expenditures	<u>4,013</u>	<u>9,165</u>	<u>5,584</u>	
Total	<u>\$ 25,237</u>	<u>\$ 34,009</u>	<u>\$ 27,003</u>	

2. OPERATING SEGMENTS (Continued)

The Company's geographic information is as follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Dollars in Thousands)		
Revenues			
United States	\$ 293,541	\$ 297,705	\$ 280,284
Canada	<u>14,603</u>	<u>16,182</u>	<u>14,795</u>
Total	<u>\$ 308,144</u>	<u>\$ 313,887</u>	<u>\$ 295,079</u>
Property and Equipment, Net of Accumulated Depreciation			
United States	\$ 80,291	\$ 76,489	\$ 63,336
Canada	<u>3,717</u>	<u>2,944</u>	<u>2,938</u>
Total	<u>\$ 84,008</u>	<u>\$ 79,433</u>	<u>\$ 66,274</u>

Customer Concentration

Utility services represented approximately 50%, 59% and 63% of the outstanding accounts receivable at December 31, 1999, 1998, and 1997, respectively. The Company had revenues from one utility customer under multiple year contracts aggregating approximately \$51,000,000 in 1999, \$55,000,000 in 1998, and \$67,000,000 in 1997. The Company had revenues from a second utility customer under multiple year contracts of approximately \$9,000,000 in 1999, \$18,000,000 in 1998, and \$22,000,000 in 1997. 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 are 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 6.25% at December 31, 1999, 4.50% at December 31, 1998, and 5.75% at December 31, 1997, totaled \$15,910,000, \$16,766,000 and \$17,651,000 at December 31, 1999, December 31, 1998, and December 31, 1997, respectively. The change in the discount rate reduced insurance costs by approximately \$1,336,000 in 1999, and increased insurance costs by \$306,000 in 1998 and \$213,000 in 1997. Insurance liabilities are classified as current and noncurrent liabilities based on the timing of future estimated cash payments. At December 31, 1999, 1998, and 1997, the gross value of those liabilities was approximately \$19,015,000, \$18,867,000 and \$20,765,000, 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. The number of common shares issued was 10,728,440 at December 31, 1999 and 8,728,440 (pre-split) at December 31, 1998 and December 31, 1997. The number of shares in the treasury were 2,601,058, 4,736,785 (pre-split), and 4,429,205 (pre-split) at December 31, 1999, 1998 and 1997, 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 1999, these purchases totaled 343,312 shares for \$5,509,000 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 894 shares for \$20,000. It also sold 78,236 shares to the Company's 401(k) plan for \$1,254,000 and issued 28,134 shares to participant accounts to satisfy its liability for the 1998 employer match in the amount of \$450,000. 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.

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, 4,000 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 1,600,000 during the ten-year term of the plan.

Shares available for grant at December 31, 1999 were 531,627, which were based on the number available upon ratification of the plan less: the options granted presented below; the director options granted; and 864,386 shares purchased since 1994 under the stock purchase plan.

A summary of the status of the Company's director options as of December 31, 1999, 1998, and 1997, and changes during the years ending on those dates is presented below:

	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	56,000	\$ 9.07	60,000	\$ 7.86	48,000	\$ 7.03
Granted	4,000	16.00	12,000	13.03	20,000	9.40
Exercised	(16,000)	7.68	(16,000)	7.51	(8,000)	6.76
Forfeited						
Outstanding at end of year	<u>44,000</u>	\$10.20	<u>56,000</u>	\$ 9.07	<u>60,000</u>	\$ 7.86

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, 1999, 1998, and 1997, and changes during the years ending on those dates is presented below:

<u>Fixed Options</u>	<u>1999</u>		<u>1998</u>		<u>1997</u>	
	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
Outstanding at beginning of year	1,772,430	\$ 6.55	1,895,700	\$6.51	1,931,200	\$6.49
Granted						
Exercised	(414,273)	4.93	(119,670)	5.81	(35,500)	5.41
Forfeited	<u>(6,813)</u>	4.70	<u>(3,600)</u>	7.90	<u>—</u>	
Outstanding at end of year	<u>1,351,344</u>	7.05	<u>1,772,430</u>	6.55	<u>1,895,700</u>	6.51
Options exercisable at year end	<u>1,139,344</u>		<u>1,454,430</u>		<u>1,471,700</u>	

The following table summarizes information about fixed stock options outstanding at December 31, 1999:

<u>Exercise Price</u>	<u>Options Outstanding</u>		<u>Number Exercisable at 12/31/99</u>
	<u>Number Outstanding at 12/31/99</u>	<u>Remaining Contractual Life</u>	
\$ 5.95	40,800	3.0 years	40,800
6.22	408,560	2.3	408,560
6.92	388,000	4.0	388,000
7.90	<u>513,984</u>	6.9	<u>301,984</u>
	<u>1,351,344</u>		<u>1,139,344</u>

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:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Number of employees participating	1,025	907	817
Annual shares purchased	103,038	102,688	124,216
Average price paid	\$13.63	\$11.65	\$8.32
Cumulative shares purchased	3,174,290	3,071,252	2,968,564

4. COMMON AND PREFERRED SHARES (Continued)

The Company applies 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 \$405,000 and \$.05 in 1999, \$360,000 and \$.04 in 1998 and \$330,000 and \$.04 in 1997.

In calculating the pro forma impact on earnings, the following assumptions were used for the grants in 1996: initial annual dividends of \$.16 per share with annual increases of \$.01 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 1999, 1998, and 1997 include \$275,000, \$230,000 and \$200,000, respectively, attributable to compensation cost for shares acquired under the employee stock purchase plan.

5. ACCRUED LIABILITIES

Accrued liabilities consisted of:

	December 31		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Dollars in Thousands)		
Compensation	\$ 5,035	\$ 6,666	\$ 5,648
Medical claims	1,280	1,420	1,948
Vacation	2,184	1,927	1,848
Taxes, other than taxes on income	618	779	657
Other	<u>698</u>	<u>621</u>	<u>721</u>
	<u>\$ 9,815</u>	<u>\$ 11,413</u>	<u>\$ 10,822</u>

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 \$3,852,000, generally at the banks' prime rate, which was 8.50% at December 31, 1999.

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

Long-Term Debt

	December 31		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Dollars in Thousands)		
Revolving credit agreement:			
Prime rate borrowings	\$ 11,600	\$ 2,900	\$ 2,800
London Interbank Offered Rate (LIBOR) borrowings	45,000	28,000	18,000
Term note agreement	<u>10,000</u>	<u>10,000</u>	<u>4,800</u>
	66,600	40,900	25,600
Subordinated notes - stock redemption	1,674	2,181	357
Term loans and other	<u>1,376</u>	<u>667</u>	<u>1,295</u>
	69,650	43,748	27,252
Less current maturities	<u>3,746</u>	<u>855</u>	<u>3,148</u>
	<u>\$ 65,904</u>	<u>\$ 42,893</u>	<u>\$ 24,104</u>

The total annual installments required to be paid on long-term debt are as follows: 2000, \$3,746,000; 2001, \$2,890,000; 2002, \$57,427,000; 2003, \$2,432,000; 2004, \$2,038,000; and thereafter \$1,117,000.

Revolving Credit Agreement

In 1999, the Company renegotiated and amended its Revolving Credit Agreement (Revolver) with two banks, which permits borrowings, as defined, up to \$70,000,000 through March 31, 2000, and \$55,000,000 thereafter. It provides the Company an option of borrowing funds at either the prime (8.5% at December 31, 1999) interest rate or rates based on LIBOR (5.24% at December 31, 1999) 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, 2002.

In 1999, 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 May 31, 2000.

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 .58 to 1, and .5 to 1 in 1999 - 2000, and 2001 - 2002, respectively; and a fixed charge coverage ratio of not less than 2.25 to 1.0.

The Company was not in compliance with the fixed charge coverage ratio covenant as of December 31, 1999. The banks effectively waived the non-compliance with this covenant through an amendment to the existing agreement, by substituting in its place, a covenant based on the ratio of EBIT (earnings before interest and taxes on income) to interest expense as of December 31, 1999. The ratio of EBIT to interest expense may not be less than 2.00 to 1.00 at that date through September 29, 2000; 2.25 to 1.00 on September 30, 2000 through December 30, 2000; 2.75 to 1.00 on December 31, 2000 through March 30, 2001; and 3.00 to 1.00 on March 30, 2001 and thereafter. The amendment also provides for an extension of the \$70,000,000 of availability under the Revolver through April 30, 2000; a new revolving credit agreement is expected to be completed prior to that date.

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

Term Note Agreement

Commencing June 30, 2000, the Term Note Agreement 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 1999 was 6.46%; adjusted LIBOR was 6.54%, 6.19%, and 7.09% at December 31, 1999, 1998 and 1997, respectively.

Subordinated Notes

In 1998 and 1995, 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 (4.53% in 1999); 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.

Term Loans and Other

The weighted-average interest on the term loans approximates 8.53% 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 \$4,912,000, \$3,353,000, and \$2,806,000 in 1999, 1998, and 1997, respectively.

7. FINANCIAL INSTRUMENTS

The Company uses 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, 1999, 1998, and 1997, the outstanding swaps had a total notional amount of \$10,000,000, \$10,000,000, and \$4,800,000, 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 1.40% at December 31, 1999.

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 \$82,000, \$35,000, and \$9,000 in 1999, 1998 and 1997 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 received \$177,000, paid \$335,000 and paid \$3,000 in 1999, 1998, and 1997, 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.

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. All nonbargaining employees of the parent company and its domestic subsidiaries who attained age 21 and completed one year of service are eligible to participate. The Company's cost of this plan for 1999, 1998, and 1997, consisting principally of the accruals for the employer match, was \$489,000, \$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, provided a non-contributory benefit 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.

9. PENSION PLANS (Continued)

Expense Recognition

Pension expense (income) was calculated as follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Dollars in Thousands)		
Service cost - increase in benefit obligations earned	\$ 699	\$ 754	\$ 626
Interest cost on projected benefit obligation	887	905	849
Expected return on plan assets	(2,644)	(2,106)	(1,894)
Amortization of prior service cost	(34)	(34)	(34)
Amortization of initial net asset	(72)	(72)	(72)
Recognized gains	<u>(950)</u>	<u>(240)</u>	<u>(141)</u>
Net pension income	<u>\$ (2,114)</u>	<u>\$ (793)</u>	<u>\$ (666)</u>

Funded Status

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

	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Dollars in Thousands)		
Plan assets at fair market value	\$ 38,569	\$ 32,725	\$ 25,561
Projected benefit obligation	<u>(12,778)</u>	<u>(13,595)</u>	<u>(12,502)</u>
Excess of assets over projected benefit obligation	25,791	19,130	13,059
Unrecognized initial asset	(858)	(938)	(1,010)
Unrecognized gain	(17,785)	(13,125)	(7,741)
Unrecognized prior service cost	<u>(596)</u>	<u>(629)</u>	<u>(663)</u>
Prepaid benefit cost recognized as other assets in balance sheets	<u>\$ 6,552</u>	<u>\$ 4,438</u>	<u>\$ 3,645</u>

Reconciliations

The projected benefit obligation is reconciled as follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Dollars in Thousands)		
Balance, beginning of year	\$ 13,595	\$ 12,502	\$ 12,091
Service cost	699	754	626
Interest cost	887	905	849
Participant contributions			13
Settlements	(131)		
Actuarial (gain) loss	(1,217)	607	104
Benefits paid	<u>(1,055)</u>	<u>(1,173)</u>	<u>(1,181)</u>
Balance, end of year	<u>\$ 12,778</u>	<u>\$ 13,595</u>	<u>\$ 12,502</u>

9. PENSION PLANS (Continued)

The fair value of plan assets are reconciled as follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Dollars in Thousands)		
Balance, beginning of year	\$ 32,725	\$ 25,561	\$ 21,488
Actual return on plan assets	7,030	8,337	5,241
Participant contributions			13
Settlements	(131)		
Benefits paid	<u>(1,055)</u>	<u>(1,173)</u>	<u>(1,181)</u>
Balance, end of year	<u>\$ 38,569</u>	<u>\$ 32,725</u>	<u>\$ 25,561</u>

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

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Discount rate used to determine projected benefit obligation	7.50%	6.75%	7.00%
Expected return on plan assets	8.25%	8.25%	8.25%
Rate of compensation increase	5.00%	5.00%	5.00%

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 1999, 1998 and 1997 totaled \$194,000, \$396,000, and \$380,000, 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:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Dollars in Thousands)		
CURRENT			
Assets:			
Compensated absences	\$ 433	\$ 377	341
Insurance	1,455	1,311	1,447
Other - net	<u>126</u>	<u>154</u>	<u>244</u>
Net current	<u>2,014</u>	<u>1,842</u>	<u>2,032</u>
NON-CURRENT			
Assets:			
Insurance	4,096	3,872	3,825
Other - net	162	286	462
Liabilities:			
Accelerated depreciation for tax purposes	(6,746)	(6,222)	(4,421)
Pensions	<u>(2,243)</u>	<u>(1,524)</u>	<u>(1,247)</u>
Net noncurrent	<u>(4,731)</u>	<u>(3,588)</u>	<u>(1,381)</u>
Net deferred tax asset (liability)	<u>\$ (2,717)</u>	<u>\$ (1,746)</u>	<u>\$ 651</u>

10. INCOME TAXES (Continued)

Significant components of income tax expense include:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Dollars in Thousands)		
Current tax expense (benefit):			
U.S. Federal	\$ 1,085	\$ 3,014	6,839
Canadian	(21)	333	309
State and local	<u>400</u>	<u>1,500</u>	<u>1,641</u>
	<u>1,464</u>	<u>4,847</u>	<u>8,789</u>
Deferred tax expense (benefit):			
U.S. Federal	932	1,975	(682)
Canadian	(43)	73	46
State and local	<u>82</u>	<u>349</u>	<u>(181)</u>
	<u>971</u>	<u>2,397</u>	<u>(817)</u>
	<u>\$ 2,435</u>	<u>\$ 7,244</u>	<u>\$ 7,972</u>

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

	<u>1999</u>	<u>1998</u>	<u>1997</u>
U.S. Federal statutory tax rate	34.0%	34.6%	34.9%
State and local income taxes	4.3	5.5	5.5
Canadian income taxes	.2	.7	.7
Miscellaneous	<u>1.1</u>	<u>(.2)</u>	<u>.3</u>
Effective tax rate	<u>39.6%</u>	<u>40.6%</u>	<u>41.4%</u>

Earnings (loss) before income taxes by country are as follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Dollars in Thousands)		
U.S.	\$ 6,364	\$ 17,006	18,604
Canadian	<u>(214)</u>	<u>835</u>	<u>647</u>
	<u>\$ 6,150</u>	<u>\$ 17,841</u>	<u>\$ 19,251</u>

The Company made cash payments for income taxes of \$2,591,000, \$7,742,000, \$7,360,000 in 1999, 1998, and 1997, respectively.

11. LEASES

On December 30, 1999, the Company entered into agreements to lease equipment under capital leases in the amount of \$4,657,000. These amounts have been included in property and equipment. No amortization was recorded in 1999.

As of December 31, 1999, minimum lease obligations under capital leases are as follows:

<u>Year Ending December 31</u>	<u>Total</u> (Dollars in Thousands)
2000	\$ 572
2001	744
2002	744
2003	744
2004	744
Thereafter	<u>2,505</u>
Total minimum capital lease payments	6,053
Amounts representing interest at 6.81%	<u>1,396</u>
Present value of net minimum lease payments	4,657
Less current portion	<u>296</u>
Long-term obligations at December 31, 1999	<u>\$ 4,361</u>

The Company also 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 \$2,000,000, \$1,899,000, and \$1,723,000 for 1999, 1998 and 1997, respectively. As of December 31, 1999, future minimum rental payments, including taxes and other operating costs, for all operating leases having noncancelable lease terms in excess of one year, totaled \$5,390,000, and are expendable as follows: 2000, \$1,795,000; 2001, \$1,441,000; 2002, \$1,033,000; 2003, \$643,000 and 2004, \$478,000.

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, 1999, the Company was contingently liable to its principal banks in the amount of \$12,093,000 for outstanding letters of credit for insurance coverage.

13. ACQUISITIONS

In 1999, 1998, and 1997, the Company completed acquisitions of organizations providing Residential and Commercial services for a total purchase price of \$857,000, \$712,000 and \$449,000, 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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