

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.
20549

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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, 1981

Commission file number: 1933 Act
Registration Nos. 2-63058 and 2-63059

THE DAVEY TREE EXPERT COMPANY
(Exact name of Registrant as specified in its charter)

Ohio
(State of Incorporation)

34-0176110
(IRS Employer Identification No.)

117 South Water Street
Kent, Ohio
(Address of principal executive offices)

44240
(Zip Code)

Registrant's telephone number, including area code: (216) 673-9511

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

(Title of class)

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

(Title of class)

The Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Market value of voting stock: Not applicable; see Item 5.

Common Shares outstanding at March 15, 1982: 264,704

Index to Exhibits is located on sequential page 47.

FORM 10-K

THE DAVEY TREE EXPERT COMPANY

Year Ended December 31, 1981

PART I

Item 1. Business.

General. The Davey Tree Expert Company, which was incorporated in 1909, and its subsidiaries (the Registrant") are in the business of providing horticultural services to a variety of residential, corporate, institutional and governmental customers. Horticultural services include the treatment, preservation, maintenance, cultivation, planting and removal of trees, shrubs and other plant life; and also include the practices of landscaping, tree surgery, tree feeding, tree spraying and line clearing for public utilities. Horticultural services also involve the application of scientifically formulated fertilizers, herbicides and insecticides with hydraulic spray equipment on residential and commercial lawns.

Competition and Customers. The Registrant is one of the largest national organizations in the private horticultural services industry. The Registrant competes with other national and local firms with respect to its services, although the Registrant believes that no other firm, whether national or local, offers the range of services that it offers.

Competition in private horticultural services is generally localized but very active and widespread. The principal methods of competition are advertising, customer service, image, performance and reputation. The Registrant's program to meet its competition stresses the necessity for its employees to have and to project to customers a thorough knowledge of horticulture, and utilization of modern, well maintained equipment and also stresses the Registrant's ability to render technical and diagnostic support for its private horticultural services. Pricing is not always a critical factor in a customer's decision. Pricing is, however, the principal method of competition in providing horticultural services to utility customers, although in most instances

consideration is given to reputation and past production performance.

The Registrant provides a wide range of horticultural services to private companies, public utilities, local, state and Federal agencies, and a variety of industrial, commercial and residential customers. During the fiscal year ended December 31, 1981, the Registrant had sales of approximately \$11,500,000 (15% of total sales) to Pacific Gas & Electric Company.

Regulation and Environment. The Registrant's facilities and operations, in common with those of the industry generally, are subject to governmental regulations designed to protect the environment. This is particularly important with respect to the Registrant's services regarding insect and disease control, because these services involve to a considerable degree the blending and application of spray materials, which require formal licensing in most areas. The Registrant believes that it is in compliance with existing Federal, state and local laws regulating the use of materials in its spraying operations as well as the other aspects of its business that are subject to any such regulation.

Marketing. The Registrant solicits business from residential and commercial customers principally through direct mail programs and to a lesser extent through the placement of advertisements in national magazines and trade journals and in local newspapers and "yellow pages" telephone directories. Business from utility customers is obtained principally through negotiated contracts and competitive bidding. All sales and services are carried out through personnel who are direct employees. The Registrant does not use agents and does not franchise its name or business.

Seasonality. The Registrant's business is highly seasonal. Sales and earnings are generally highest in the second and third quarters of the calendar year, and historically the Registrant has incurred losses in the first quarter. This seasonality has historically created heavy demands for additional working capital in the first four to six calendar months ranging from \$2,000,000 to \$4,000,000, and the Registrant borrows against bank commitments for short-term loans in the form of lines of credit and a revolving credit agreement to provide the necessary funds. Generally, these loans are repaid by the end of the calendar year. Services to utility customers

show only small fluctuations in volume throughout the year. Extreme fluctuations do exist, however, in horticultural services to private customers.

Other Factors. The constant changes in environmental conditions, environmental awareness, technology and social attitudes make it necessary for the Registrant to maintain a high degree of awareness of the impact such changes have on the market for its services. Environmental controls inhibit the economic disposal of debris, which directly affects the Registrant's profitability. The Registrant believes, however, that the opportunities resulting from the environmental consciousness of the general public more than offset most of the environmental controls by which it is affected.

The rapid change in equipment technology requires a constant updating of equipment and processes to insure competitive services. Capital expenditures for 1980 and 1981 were approximately \$5,600,000 and \$9,200,000, respectively. In addition, the Registrant must continually assure its compliance with the Occupational Safety and Health Act.

Employees. The Registrant employs between 2,500 and 3,000 persons, depending upon the season, and considers its employee relations to be good.

Foreign and Domestic Operations. The Registrant and its Canadian subsidiary sell the Registrant's services to customers in the United States and Canada, respectively.

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

Item 2. Properties.

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

<u>Location</u>	<u>Acreage</u>	<u>Building Sq. Ft.</u>
Livermore, California	10.0	17,500
Winter Park, Florida	1.0	2,500
Chamblee, Georgia	1.0	5,000
Dundee, Illinois	4.0	7,500
Indianapolis, Indiana	1.4	5,000
Grand Rapids, Michigan	4.0	2,300
Troy, Michigan	2.0	10,200
Cheektowaga, New York	6.9	3,200
Town of Islip, New York	2.0	7,000
Charlotte, North Carolina	3.1	4,900
Kent, Ohio (multiple)	14.9	71,100
Toledo, Ohio	1.0	9,800
Wooster, Ohio	228.0	7,200
Pittsburgh, Pennsylvania	2.5	2,000
Ninety-Six, South Carolina	6.2	6,150
Houston, Texas	1.6	8,200
Chantilly, Virginia	2.0	7,200
Downsview, Ontario	.5	2,800
Baltimore, Maryland	3.3	22,500

The Registrant leases its corporate offices in Kent, Ohio, pursuant to a lease expiring in 1984 at an annual rental of approximately \$66,000. The Registrant also rents some 60 other premises ranging from desk space with parking to dumping and storage use. The Registrant believes that all of these properties have been adequately maintained and are suitable and adequate for its business as presently conducted.

Item 3. Legal Proceedings.

There are no material legal proceedings, other than ordinary routine litigation incidental to the business, to which the Registrant or any of its subsidiaries is a party or of which any of their property is the subject.

Item 4. Security Ownership of Certain Beneficial Owners and Management.

The following table shows, as of March 31, 1982, information with respect to the beneficial ownership of the Common Shares of the Registrant by each present Director of the Registrant, by each nominee for election as a Director, and by all Directors and officers as a group:

<u>Name of Individual or No. of Persons in Group</u>	<u>No. of Shares Beneficially Owned (1) (2)</u>	<u>Percent of Class (2)</u>
Martin L. Davey, Jr.	3,640 (3)	1.34%
John W. Joy	8,753	3.22%
James H. Pohl	7,250	2.66%
Howard L. Eckel, Jr.	4,100	1.51%
Eugene W. Haupt	8,412	3.09%
R. Douglas Cowan	3,250	1.19%
Thomas W. Blazey	500	.18%
Richard E. Dunn	50	.02%
William D. Ginn	500	.18%
Alexander M. Smith	500	.18%
Edward P. Taylor	500	.18%
Bert D. Stamp	6,400	2.35%
19 Directors and officers as a group, including those listed above	49,145 (3)	18.06%

- (1) Unless otherwise indicated by footnote, beneficial ownership of the Common Shares listed in the table is comprised of sole voting and investment power.
- (2) These include the right upon the exercise of outstanding stock options to purchase 1,050 Common Shares by Mr. Joy, 750 Common Shares by Mr. Pohl, 1,100 Common Shares by Mr. Haupt, 700 Common Shares by Mr. Eckel, 1,100 Common Shares by Mr. Cowan, 550 Common Shares by Mr. Stamp, and 7,950 Common Shares by all Directors and officers as a group.
- (3) These include 2,640 Common Shares held by various trusts for the benefit of Mr. Davey. Messrs. Ginn and Smith and one other individual serve as the trustees of these trusts. Mr. Davey has the power to direct the voting of these shares.

The only shareholder who, as of March 31, 1982, owned of record more than 5% of the outstanding Common Shares of the Registrant was Parness & Co., the

nominee of Central National Bank of Cleveland, which owned of record 120,000 Common Shares as trustee of the Registrant's Employee Stock Ownership Trust. Only 43,569 of these shares are entitled to be voted at the meeting.

Executive Officers of the Registrant

The executive officers of the Registrant and their positions and ages are as follows:

<u>Name</u>	<u>Position</u>	<u>Age</u>
Martin L. Davey, Jr.	Chairman of the Board	64
John W. Joy	President and Chief Executive Officer	59
James H. Pohl	Executive Vice President and Treasurer	58
Howard L. Eckel, Jr.	Sr. Vice President - Operations	51
Eugene W. Haupt	Vice President and General Manager Davey Tree Surgery Company	59
R. Douglas Cowan	Vice President - Finance	41
Dr. Roger C. Funk	Vice President - Research and Development	37
William F. Heim	Vice President and General Manager Utility Services	54
Edward J. Johnson	Vice President-Field Services	48
Gordon L. Ober	Vice President and General Manager Lawnscape Services	32
Donald J. Shope	Vice President and General Manager Tree Care Services	48
C. Robert Klein	Secretary	60
Colette Connors	Assistant Secretary	65

Mr. Davey was elected Chairman of the Board in January, 1979. From November, 1977 to January, 1979, he served as Vice Chairman of the Board. From April, 1976 to November, 1977, he served as Vice President, Operations Coordinator.

Mr. Joy was elected President and Chief Executive Officer in January, 1979. From November, 1977 to January, 1979, he served as President and Chief Operating Officer. From March, 1974 to November, 1977, he served as Senior Vice President, Operations of the Registrant in addition to being a regional Vice President.

Mr. Pohl has served as Executive Vice President and Treasurer since January, 1979, and had served as Senior Vice President, Finance and Administration since April, 1975.

Mr. Eckel was elected Senior Vice President, Operations, January 1979. He had served as Vice President of Utility Services since March, 1977. From March, 1974 to March, 1977, he was a regional Vice President.

Mr. Haupt has been a Vice President of the Registrant and General Manager of Davey Tree Surgery Company for more than five years.

Mr. Cowan was elected Vice President, Finance in January, 1979. He had served as Controller of the Company for more than three years prior to January, 1979.

Dr. Funk was elected Vice President, Research and Development in January, 1979. He has been Director of Research and Development since August, 1978. Prior to August, 1978, Dr. Funk was technical advisor-horticulture for the Registrant.

Mr. Heim was elected Vice President and General Manager, Utility Services in January, 1979, after having served as Central and Midwest Regional Utility Manager from January, 1975.

Mr. Johnson was elected Vice President, Field Services in September, 1981. He served as Operations Coordinator of Tree Care Services from January, 1980 to September, 1981. Prior to January, 1980, he served as Manager of the Parr & Hanson Division.

having served as General Manager of Lawnscape Services since October, 1978. Prior to October, 1978, he served as a District Manager.

Mr. Shope was elected Vice President and General Manager-Tree Care Services in January, 1979, after having served as Sales Manager - Tree Care Services from August, 1977. He served as Division Manager for the MidAtlantic Division from August, 1976 to August, 1977. Prior to 1976, he served as a Sales Representative.

Mr. Klein has been Secretary of the Registrant for more than five years.

Miss Connors has been Assistant Secretary of the Registrant for more than five years.

Officers of the Registrant serve for a term of office from the date of their election to the next organization meeting of the Board of Directors and until their respective successors are elected.

PART II

Item 5. Market for Registrant's Common Shares and Related Security Holder Matters.

There is no principal market in which the Registrant's Common Shares are traded. As of March 15, 1982 there were 279 record holders of the Registrant's Common Shares. During the year ended December 31, 1980, the Registrant paid a dividend of \$.15 per share in each of the first three quarters and \$.20 per share in the fourth quarter. During the year ended December 31, 1981, the Registrant paid a dividend of \$.20 per share in each of the first three quarters and \$.30 per share in the fourth quarter. The Registrant's agreements with its lenders provide cash dividends may not exceed the lesser of (a) 30% of net earnings or (b) net earnings less debt service, in each case as defined, with all such amounts being cumulative from January 1, 1981.

Item 6. Selected Financial Data.

	Years ended December 31,				
	1981	1980	1979	1978	1977
	(000's omitted, except per share data)				
Operating results:					
Revenues	\$76,724	\$67,211	\$60,243	\$52,085	\$42,875

	Years ended December 31,				
	1981	1980	1979	1978	1977
	(000's omitted, except per share data)				
Net earnings	\$ 2,628	\$ 2,467	\$ 1,832	\$ 904	\$ 830
Net earnings per common share	\$ 9.54	\$ 7.72	\$ 5.63	\$ 2.59	\$ 2.44
At year-end:					
Total assets	<u>\$26,823</u>	<u>\$22,851</u>	<u>\$21,845</u>	<u>\$19,406</u>	<u>\$18,132</u>
Total long-term debt	<u>\$ 4,631</u>	<u>\$ 3,416</u>	<u>\$ 5,868</u>	<u>\$ 2,500</u>	<u>\$ 3,500</u>
Cash dividends per common share	\$.90	\$.65	\$.50	\$.48	\$.45

Net earnings, net earnings per common share, and total assets for the years 1977 through 1980 have been restated due to a change in the method of accounting for vacation expense to comply with Statement No. 43 of the Financial Accounting Standards Board. See Notes to Consolidated Financial Statements beginning on page F-9 of this Annual Report on Form 10-K.

Item 7. Management's Discussion and Analysis of
Financial Condition and Results of Operations.

The Registrant's management uses a number of measurements and ratios to gauge the Registrant's financial condition and to monitor trends in key performance areas in operations.

FINANCIAL CONDITION

Liquidity Measurements. Management believes that these measurements are useful in evaluating the Registrant's ability to meet short-term obligations, in evaluating liquidity, and in evaluating the extent to which capital expenditures can be financed from internal cash flow.

	1981	1980	1979
Working Capital (in 000's)	\$ 718	\$2,489	\$2,418
Current Ratio	1.1:1	1.3:1	1.4:1
Cash Flow from Operations (in 000's)	\$7,624	\$6,432	\$5,446
Capital Expenditures (in 000's)	9,146	5,586	4,299
Cash Flow to Capital Expenditures Ratio	.8:1	1.2:1	1.3:1
Cash Flow as % of Revenues	9.9%	9.6%	9.0%

Working capital (current assets less current liabilities) declined dramatically during the last quarter of 1981 and, at year-end, was approximately \$1,700,000 lower than the prior two years. This decline was caused by higher current maturities on long-term debt, as a result of the purchase of the M. L. Davey, Jr. family shares and higher than normal capital expenditures late in the year, which depleted the Registrant's excess cash and forced it to borrow under its revolving credit agreement with two banks. Management decided to accelerate expenditures that had been planned for 1982 back into 1981 to take full advantage of the provisions of the Economic Recovery Tax Act of 1981. This decision, coupled with higher than normal planned expenditures, resulted in 1981 capital additions of \$9,146,000. As can be seen from the above table, capital expenditures in 1981 exceeded cash flow by a substantial amount, the first time this has occurred since 1977.

Management believes that this working capital condition is temporary and that it does not and will not adversely affect the Registrant's liquidity position. It continues to be management's objective to finance capital expenditures from internally-generated funds (cash flow), as much as is possible, so long as that posture does not prevent the Registrant from maximizing growth opportunities.

Leverage Measurements. These ratios measure the extent to which the Registrant has been financed by debt, or, put another way, the proportion of the total assets employed in the business that have been provided by creditors as compared to shareholders. Debt is defined as total liabilities.

	1981	1980	1979
Equity to Debt Ratio	.9:1	1.0:1	.7:1
Debt as % of Assets	52.4%	49.2%	59.4%
Equity as % of Assets	47.6%	50.8%	40.6%

The employees' acquisition of the Registrant in 1979 resulted in a major restructuring of the debt and equity sections of the balance sheet; the equity to debt relationship was completely inverted and the ratio fell below 1:1 for the first time in years. In 1980, as a result of the sale of the Registrant's Pine Knoll property and the corresponding reduction of long-term debt with the proceeds, and the record earnings achieved in both 1979 and 1980, the equity to debt ratio was restored to 1:1. In 1981, the employees' acquisition of the Registrant was

concluded through the purchase of the M. L. Davey, Jr. family shares, and the equity to debt ratio again fell below 1:1 as a result; liabilities were increased and equity was decreased by approximately \$1,650,000.

Management believes this to be a temporary condition and that the ratio will exceed 1:1 in the near future. However, it also believes that a ratio of less than 1:1 is not necessarily unhealthy and continually evaluates opportunities which could require additional debt financing.

The Registrant will continue to finance its business needs with borrowings under the revolving credit agreement and short-term lines of credit. At December 31, 1981, the Registrant had available for use \$6,500,000 in credit commitments under these arrangements, which management believes to be sufficient.

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

	1981	1980	1979
Earnings per Share	\$ 9.54	\$ 7.72	\$ 5.63
Dividends per Share	\$.90	\$.65	\$.50
Book Value per Share	\$48.26	\$36.21	\$27.89
ESOT Market Valuation Per Share	\$44.50	\$29.90	\$24.78

The employees' purchase of the Registrant in 1979 resulted in a decrease in Common Shares outstanding of approximately 34,500 Common Shares, and the purchase of the M. L. Davey, Jr. family shares in 1981 resulted in a decrease of approximately 56,500 Common Shares; both of these transactions had a positive effect on the measurements presented above.

Dividends paid per share were increased significantly for the second year in a row. In 1981, they were increased \$.25 per share, or 38% over 1980, compared to an increase in 1980 of \$.15 per share, or 30% over 1979.

It is the Registrant's objective to provide a fair return on investment to its shareholders through improved dividends, so long as the Registrant can financially justify such a policy, and the increases in 1981 and 1980 reflect this objective.

The Registrant's Common Shares are not listed or actively traded, and market prices are,

therefore, not available. Each year, an independent consultant is retained by the Registrant's Employee Stock Ownership Trust (ESOT) to evaluate the Registrant's performance and financial condition and determine a fair market value, as of the end of the year, for the shares owned by the ESOT. These valuations are presented due to the absence of other market data.

RESULTS OF OPERATIONS

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

	1981	1980	1979
Increase in Revenues	14.2%	11.6%	15.7%
Operating Earnings as % of Revenues	6.4%	5.8%	5.1%
Pre-Tax Earnings as % of Revenues	5.2%	5.9%	4.7%
Net Earnings as % of Revenues	3.4%	3.7%	3.0%

Revenues for 1981 of \$76,724,000 set a new record and increased \$9,513,000, or 14% over 1980, compared to a 12% increase in 1980 and 16% increase in 1979. Revenues increased in all of the Registrant's major service lines, particularly in the California subsidiary, despite the adverse economic conditions in existence generally throughout the country.

Operating costs have declined, as a percentage of revenues, in each of the last three years, due principally to a higher mix of revenues from residential customers, which have a lower relative operating cost percentage.

Selling, general and administrative costs have increased at a slightly faster rate than revenues during the past two years, principally due to the same reason that operating cost percentages have declined -- a higher mix of revenues from residential customers. Selling and administrative costs attendant to these services are higher than those attendant to revenues from utility customers.

Depreciation expense in 1981 increased at a substantially faster rate than revenues, 21%, compared with a 12% increase in 1980 and a 4% increase in 1979. The Registrant records its depreciation expense on a double-declining balance method, which provides a higher depreciation expense in the early years of asset life;

each year's expense, therefore, is significantly affected by the level of capital expenditures in the current and preceding years. Capital expenditures in 1981 were \$9,146,000, or 64% higher than 1980.

Interest expense increased to \$1,213,000 in 1981 compared to \$1,028,000 in 1980 and \$1,027,000 in 1979 due to higher levels of seasonal borrowings during the year and higher prime interest rates.

There were no gains from the sale of real estate in 1981 compared with \$686,000 in 1980 and \$573,000 in 1979. Despite this, and as a result of the above factors, earnings before income taxes and net earnings increased in 1981 to record levels.

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

	<u>1981</u>	<u>1980</u>	<u>1979</u>
Average Assets Employed (in 000's)	\$24,837	\$22,348	\$20,626
Asset Turnover (Revenues to Average Assets)	3.1	3.0	2.9
Return on Average Assets	10.6%	11.0%	8.9%

The return on assets for 1980 and 1979 are somewhat distorted when compared to 1981, due to the large gains on the sale of real estate included in net earnings for those years. Nonetheless, the return on assets employed has improved significantly over the three-year period presented above, principally due to the improvement in net earnings. Management's goals are to maintain an asset turnover rate in excess of 3.0 and gradually improve the net earnings to revenue percentage to provide a return on assets of 15%.

Item 8. Consolidated Financial Statements and
Supplementary Data.

The opinion of independent certified public accountants, the audited consolidated financial statements, and the notes to the audited consolidated financial statements required by this Item 8 appear on pages F-2 through F-18 of this Annual Report on Form 10-K.

PART III

Item 9. Directors and Executive Officers of the Registrant.

(a) Directors. The Registrant's Directors, with information furnished by them to the Registrant as of March 31, 1982, are as follows:

<u>Name (Age)</u>	<u>Principal Occupation, Business Experience and Other Directorships</u>	<u>Director Since</u>
Martin L. Davey, Jr. (64)	Chairman of the Board of the Registrant since January, 1979; Vice Chairman of the Board from November, 1977 to January, 1979; Vice President, Operations Coordinator of the Registrant from April, 1976 to November, 1977.	1946
John W. Joy (59)	Chief Executive Officer of the Registrant since January, 1979, and President and Chief Operating Officer of the Registrant since November, 1977; Senior Vice President, Operations of the Registrant for more than one year prior to 1977.	1964
James H. Pohl (58)	Executive Vice President of the Registrant since January, 1979 and Treasurer of the Registrant for more than five years; Senior Vice President-Finance and Administration of the Registrant for more than three years prior to January, 1979.	1952
Howard L. Eckel, Jr. (51)	Senior Vice President-Operations of the Registrant since January, 1979; Vice President of Utility Services of the Registrant from March, 1977 to January, 1979; Regional Vice President of the Registrant for more than one year prior to March, 1977.	1977

<u>Name (Age)</u>	<u>Principal Occupation, Business Experience and Other Directorships</u>	<u>Director Since</u>
Eugene W. Haupt (59)	Vice President of the Registrant and General Manager of Davey Tree Surgery Company, a subsidiary of the Registrant, for more than five years.	1979
Thomas W. Blazey (62)	Retired; formerly Vice President of The B. F. Goodrich Company, a diversified manufacturer of chemical, plastic, and rubber products for more than five years.	1980(1)(2)
Richard E. Dunn (54)	Vice President for Business Affairs and Treasurer of Kent State University, Kent, Ohio, for more than five years.	1980(1)(2)
William D. Ginn (58)	Partner, Thompson, Hine and Flory, Cleveland, Ohio, attorneys, for more than five years; Director of Nordson Corporation, a manufacturer of industrial equipment.	1973(1)(2)
Alexander M. Smith (59)	Retired; formerly Chairman of the Board and Chief Executive Officer of the Registrant for more than five years prior to January, 1979, and President of the Registrant from May, 1976 to November, 1977.	1945(1)(2)

<u>Name (Age)</u>	<u>Principal Occupation, Business Experience and Other Directorships</u>	<u>Director Since</u>
Edward P. Taylor (72)	Retired; Agriculturist.	1973(1)(2)
Bert D. Stamp (63)	Retired; formerly Senior Vice President- Field Services of the Registrant since January, 1979; Vice President of Field Services of the Registrant from March, 1977 to January, 1979; Regional Vice President of the Registrant for more than one year prior to March, 1977.	1966

- (1) Member of the Compensation Committee, which met four times during 1981 for the purpose of fixing compensation for executive officers of the Registrant and considering employee benefit programs generally.
- (2) Member of the Audit Committee, which met two times during 1981 for the purpose of reviewing the Registrant's internal system of accounting controls, reviewing the scope and results of audits by the Registrant's independent auditors, and recommending the appointment of independent auditors.

During 1981, there were five meetings of the Registrant's Board of Directors, in addition to several meetings of various Committees of the Board of Directors. Each Director attended at least 75 percent of the total number of meetings held by the Board of Directors and the Committees of the Board on which he served. Members of the Board of Directors who are not executive officers of the Registrant are compensated at the rate of \$3,000 per year, plus \$300 for the first and \$150 for each additional Board or Committee meeting attended on the same day. The Board of Directors does not have a Nominating Committee.

(b) Executive Officers. Information regarding the Registrant's executive officers appears under the heading "Executive Officers of the Registrant" in Part I of this Annual Report on Form 10-K.

Item 10. Management Remuneration and Transactions.

The following table sets forth the salaries and bonuses paid or accrued by the Registrant for the year ended December 31, 1981 to each of the five highest paid Directors or executive officers whose aggregate remuneration exceeded \$50,000, and to all Directors and officers as a group:

<u>Cash and Cash Equivalent Forms of Remuneration (1)</u>			
<u>Name of Individual or No. of Persons in Group</u>	<u>Capacity in Which Served</u>	<u>Salaries, Fees, Directors' Fees, Commissions, Bonuses</u>	<u>Aggregate of Contingent Forms of Remuneration(2)</u>
John W. Joy	President and Chief Executive Officer; Director	\$ 130,482	\$ 4,183
James H. Pohl	Executive Vice President and Treasurer; Director	\$ 113,263	\$ 4,183
Howard L. Eckel, Jr.	Senior Vice President - Operations; Director	\$ 94,500	\$ 4,183
Eugene W. Haupt	Vice President and General Manager Davey Tree Surgery Company; Director	\$ 84,598	\$ 3,955
R. Douglas Cowan	Vice President - Finance	\$ 81,174	\$ 4,166
19 Directors and officers as a group, including those listed above		\$1,046,625	\$45,304

(1) Other benefits, including use of the Registrant's cars, officers' medical reimbursement plans, and memberships, amounted to less than \$50,000 for all Directors and officers as a group and therefore are not shown in the table.

(2) This column includes the value of the Registrant's Common Shares allocated to each Director and executive officer under the Registrant's Employee Stock Ownership Plan. To date, the right to receive these Common Shares has not vested.

Stock Options and Stock Appreciation Rights

The following table sets forth information regarding stock options and stock appreciation rights granted or exercised during the year ended December 31, 1981 and held on that date:

<u>Number of Common Shares</u>	<u>John W. Joy</u>	<u>James H. Pohl</u>	<u>Howard L. Eckel, Jr.</u>	<u>Eugene W. Haupt</u>	<u>R. Douglas Cowan</u>	<u>All Directors and Officers as a Group</u>
Granted January 1, 1981 to December 31, 1981:						
Number of options with tandem rights	640	640	640	640	640	5,000
Average per share exercise price	\$29.90	\$29.90	\$29.90	\$29.90	\$29.90	\$29.90
Exercised January 1, 1981 to December 31, 1981:						
Number of options without tandem rights	-0-	400	400	-0-	-0-	800
Net value realized in shares (market value less any exercise price) or cash	\$ -0-	\$ 2,960	\$ 2,960	\$ -0-	\$ -0-	\$ 5,920
Outstanding at December 31, 1981:						
Number of options without tandem rights	1,690	1,390	1,340	1,740	1,740	12,500
Potential (unrealized) value (market value less exercise or base price)	\$30,050	\$24,134	\$23,148	\$31,036	\$31,036	\$219,876

The Company proposes to file an election with the Internal Revenue Service and has taken all other steps required by it to ensure that stock options granted after December 31, 1975 and outstanding on January 1, 1981 meet the requirements of "incentive stock options" within the meaning of Section 422A of the Internal Revenue Code of 1954, as amended by the Economic Tax Recovery Act of 1981. On December 8, 1981, the Company also cancelled all outstanding stock appreciation rights and terminated its 1980 Stock Appreciation Rights Plan.

Pension Plan

The Registrant maintains a basic pension plan for all employees who choose to participate in the plan. The plan is contributory by participating employees, and normal retirement benefits are computed at \$4.50 per month for each year of service.

The Registrant also maintains a supplemental pension plan for salaried and sales employees who choose to participate in the plan. The plan is partially contributory by participating employees, and contributions, as well as benefits, are based on each employee's salary. Normal retirement benefits are generally computed at the rate of 1% of average final annual compensation for each year of credited service. An employee's average final annual compensation includes only salaries and is calculated using the five consecutive years within the last ten years of his employment for which his total compensation was greatest.

The table below shows estimated annual benefits payable under the combined basic pension plan and supplemental pension plan (assuming payments made on a straight line annuity basis and not under any of the survivor options) to an employee, retiring at age 65 on December 31, 1981.

Average Final Annual Compensation	<u>Years of Credited service</u>			
	<u>10 Years</u>	<u>20 Years</u>	<u>30 Years</u>	<u>40 Years</u>
\$ 50,000	\$1,196	\$ 6,466	\$11,736	\$17,006
75,000	3,696	11,466	19,236	27,006
100,000	6,196	16,466	26,736	37,006

As of December 31, 1981, the number of years of credited service for each of the individuals named in the remuneration table was as follows: John W. Joy - 35.1; James H. Pohl - 33.9; Howard L. Eckel, Jr. - 18.6; Eugene W. Haupt - 42.5; and R. Douglas Cowan 7.3.

Employee Stock Ownership Plan

The Employee Stock Ownership Plan and related trust (the "ESOP") was established by the Registrant in accordance with provisions of the Internal Revenue Code as a leveraged ESOP. To implement the acquisition of the Registrant by its employees, the ESOP purchased 120,000 of the Registrant's Common Shares and pledged them as collateral for the loan obtained to finance the purchase. The Common Shares are released from the pledge as the loan is repaid. The Registrant, which has guaranteed the repayment of the loan, makes annual cash contributions to the ESOP in order to repay the principal and interest on the loan and has the right to deduct these cash contributions for Federal income tax purposes.

Common Shares that are released from the pledge at the end of each year are allocated among the ESOP participants in the ratio that each participant's wages bears to the aggregate wages for all participants. Shares held in each participant's account are distributed to him upon retirement. At December 31, 1981, there were 484 participants in the plan.

Other Transactions

Messrs. Smith, Joy, Pohl, Davey, and Stamp are Directors, officers, or shareholders of Davey Investment Company, which rents office space to the Registrant under a lease which expires in 1984 and is renewable for two five-year terms thereafter. Annual rental payments under the lease are approximately \$66,000.

PART IV

Item 11. 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 pages F-1 and F-2 of this Annual Report on Form 10-K.

(a)(3) Exhibits. See the Index to Exhibits on sequentially numbered page 47 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.

Supplemental Information to be Furnished With Reports Filed Pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended, by Registrants Which Have Not Registered Securities Pursuant to Section 12 of that Act.

At the time of the filing of this Annual Report on Form 10-K, the Registrant has not sent to security holders:

(1) the annual report to security holders covering the Registrant's last fiscal year; or

(2) the proxy statement, form of proxy, or other proxy soliciting material with respect to the annual meeting of security holders.

The annual report to security holders and proxy material is to be furnished to security holders subsequent to the filing of this Annual Report on Form 10-K, and the Registrant will furnish copies of these to the Commission when they are sent to security holders.

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES

[Item 11(a)(1) and (2)]

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OPINION OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Davey Tree Expert Company
Kent, Ohio

We have examined the consolidated balance sheets of The Davey Tree Expert Company and subsidiary companies as of December 31, 1981 and 1980, and the related consolidated statements of earnings, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Davey Tree Expert Company and subsidiary companies at December 31, 1981 and 1980 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations also comprehended the schedules listed in the index at Item 11(a)(2). In our opinion, such schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.


TOUCHE ROSS & CO.

Akron, Ohio
February 19, 1982

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>December 31</u>	
	<u>1981</u>	<u>1980</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 4,579	\$ 3,889
Accrued liabilities (Notes B and C)	3,242	2,657
Income taxes payable	191	243
Current maturities on long-term debt	<u>1,170</u>	<u>798</u>
TOTAL CURRENT LIABILITIES	9,182	7,587
LONG-TERM DEBT (Notes D and J)	4,631	3,416
OTHER LIABILITIES	<u>245</u>	<u>249</u>
TOTAL LIABILITIES	14,058	11,252
SHAREHOLDERS' EQUITY (Notes H and J):		
Common shares - \$1.00 par value, authorized 600,000 shares, issued 357,860 shares in 1981 and 356,960 shares in 1980	358	357
Additional paid-in capital	455	433
Retained earnings	<u>16,995</u>	<u>14,630</u>
	17,808	15,420
Less:		
Treasury shares, at cost, 93,356 shares in 1981 and 36,673 shares in 1980	2,455	803
Subscriptions receivable from employees	630	790
Future contributions to ESOT	<u>1,958</u>	<u>2,228</u>
TOTAL SHAREHOLDERS' EQUITY	<u>12,765</u>	<u>11,599</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$26,823</u>	<u>\$22,851</u>

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

CONSOLIDATED STATEMENTS OF EARNINGS

(Dollars in Thousands)

	Year Ended December 31					
	<u>1981</u>		<u>1980</u>		<u>1979</u>	
REVENUES	\$76,724	100.0%	\$67,211	100.0%	\$60,243	100.0%
COSTS AND EXPENSES:						
Operating costs	50,764	66.1	45,379	67.5	41,331	68.6
Selling, general and administrative	16,134	21.0	13,886	20.7	12,225	20.3
Depreciation	4,885	6.5	4,036	6.0	3,609	6.0
	<u>71,783</u>	<u>93.6</u>	<u>63,301</u>	<u>94.2</u>	<u>57,165</u>	<u>94.9</u>
EARNINGS FROM OPERA- TIONS	4,941	6.4	3,910	5.8	3,078	5.1
INTEREST EXPENSE (Notes D and J)	(1,213)	(1.5)	(1,028)	(1.5)	(1,027)	(1.7)
GAIN ON SALE OF REAL ESTATE			686	1.0	573	.9
OTHER INCOME - NET	<u>303</u>	<u>.3</u>	<u>372</u>	<u>.6</u>	<u>225</u>	<u>.4</u>
EARNINGS BEFORE IN- COME TAXES	4,031	5.2	3,940	5.9	2,849	4.7
INCOME TAXES (Note E)	<u>1,403</u>	<u>1.8</u>	<u>1,473</u>	<u>2.2</u>	<u>1,017</u>	<u>1.7</u>
NET EARNINGS	<u>\$ 2,628</u>	<u>3.4%</u>	<u>\$ 2,467</u>	<u>3.7%</u>	<u>\$ 1,832</u>	<u>3.0%</u>
NET EARNINGS PER COMMON SHARE (Notes A and B)	<u>\$ 9.54</u>		<u>\$ 7.72</u>		<u>\$ 5.63</u>	

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF
SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1981, 1980 AND 1979

(Dollars in Thousands)

	Common Shares	Additional Paid-In Capital
BALANCE, JANUARY 1, 1979 AS REPORTED	\$355	\$481
Cumulative adjustment for change in accounting principle (Note B)	—	—
BALANCE, JANUARY 1, 1979 AS RESTATED	355	481
Employee Purchase Plan (Note J):		
Shares purchased		
Shares sold to employees		
Shares sold to ESOT		
Expenses		(92)
Receipts on subscriptions		
Contributions to ESOT		
Net earnings		
Dividends, \$.50 per share	—	—
BALANCE, DECEMBER 31, 1979 AS RESTATED	355	389
Employee Purchase Plan (Note J):		
Receipts on subscriptions		
Contributions to ESOT		
Options exercised	2	44
Net earnings		
Dividends, \$.65 per share	—	—
BALANCE, DECEMBER 31, 1980 AS RESTATED	357	433
Employee Purchase Plan (Note J):		
Shares purchased		
Receipts on subscriptions		
Contributions to ESOT		
Shares purchased/sold, net		
Options exercised	1	22
Net earnings		
Dividends, \$.90 per share		
Net adjustment for foreign currency translation (Note B)	—	—
BALANCE, DECEMBER 31, 1981	<u>\$358</u>	<u>\$455</u>

See notes to consolidated financial statements.

<u>Retained Earnings</u>	<u>Treasury Shares</u>	<u>Subscriptions Receivable From Employees</u>	<u>Future Contributions to ESOT</u>	<u>Total</u>
\$10,979	\$ (27)			\$11,788
<u>(247)</u>	<u> </u>			<u>(247)</u>
10,732	(27)			11,541
(35)	(4,929)			(4,964)
	1,453	\$(945)		508
	2,700		\$(2,700)	(92)
		6		6
			202	202
1,832				1,832
<u>(159)</u>	<u> </u>	<u> </u>	<u> </u>	<u>(159)</u>
12,370	(803)	(939)	(2,498)	8,874
				46
1		149		150
			270	270
2,467				2,467
<u>(208)</u>	<u> </u>	<u> </u>	<u> </u>	<u>(208)</u>
14,630	(803)	(790)	(2,228)	11,599
	(1,649)			(1,649)
		160		160
			270	270
	(3)			(3)
				23
2,628				2,628
<u>(250)</u>	<u> </u>	<u> </u>	<u> </u>	<u>(250)</u>
<u>(13)</u>	<u> </u>	<u> </u>	<u> </u>	<u>(13)</u>
<u>\$16,995</u>	<u>\$ (2,455)</u>	<u>\$(630)</u>	<u>\$(1,958)</u>	<u>\$12,765</u>

THE DAVEY TREE EXPERT COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF
CHANGES IN FINANCIAL POSITION

(Dollars in Thousands)

	Year Ended December 31		
	1981	1980	1979
SOURCE OF FUNDS:			
Net earnings	\$ 2,628	\$ 2,467	\$ 1,832
Add (deduct) items not affecting working capital:			
Depreciation and amortization	4,892	4,038	3,625
Deferred income taxes and other	104	(73)	29
Funds provided from operations	7,624	6,432	5,446
Proceeds of long-term borrowings	2,347		4,662
Net book value of property and equipment disposals	136	1,326	162
Contributions to ESOT	270	270	202
Receipts on subscriptions receivable	160	150	6
Proceeds from stock options exercised	23	46	
Sale of treasury shares (Note J):			
ESOT			2,700
Less future contributions to ESOT			(2,700)
Employees			1,453
Less subscriptions receivable			(945)
TOTAL SOURCE OF FUNDS	10,560	8,224	11,026
APPLICATION OF FUNDS:			
Additions to property and equipment	9,146	5,586	4,299
Reduction of long-term debt	1,132	2,452	1,294
Purchase of treasury shares (Note J)	1,649		4,964
Dividends	250	208	159
Other	154	(94)	376
TOTAL APPLICATION OF FUNDS	12,331	8,152	11,092
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (1,771)</u>	<u>\$ 72</u>	<u>\$ (66)</u>
CHANGES IN WORKING CAPITAL BY COMPONENTS:			
Cash and short-term investments	\$ (1,514)	\$ 1,020	\$ 460
Accounts receivable	1,527	(344)	1,033
Operating supplies	33	226	399
Prepaid expenses	(15)	3	(60)
Deferred income taxes	(207)	29	238
Accounts payable	(690)	(235)	(742)
Accrued liabilities	(585)	(523)	(721)
Income taxes payable	52	(104)	125
Current maturities on long-term debt	(372)		(798)
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (1,771)</u>	<u>\$ 72</u>	<u>\$ (66)</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, 1981

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of The Davey Tree Expert Company and its wholly-owned subsidiary companies, Davey Tree Surgery Company (California) and Davey Tree Expert Co. of Canada, Limited. All significant intercompany transactions, accounts and profits have been eliminated.

Property and equipment are recorded at cost. Generally, the Company depreciates its land improvements, leasehold improvements and buildings by the straight-line method while using the double declining balance method for equipment. The estimated useful lives used in computing depreciation are: land improvements, 5-28 years; buildings and leasehold improvements, 5-40 years; equipment, 3-7 years; furniture and fixtures, 10 years.

Income Taxes - Deferred income taxes are provided to recognize the effect of timing differences between financial statement and income tax reporting for depreciation, deferred compensation, provision for loss on litigation (in 1979) and other items. Investment tax credits are used to reduce the income tax provision in the year in which they are earned.

Pension Plans - The Company has pension plans which cover substantially all of the Company's employees. Two of the plans, which cover the majority of employees, are contributory. The Company's policy is to accrue and contribute the actuarially determined cost for the year, which includes current service cost and amortization of prior service costs over periods from 10 to 30 years.

Earnings Per Share - Net earnings per Common Share is computed by dividing net earnings for the period by the weighted average number of Common Shares outstanding during the period: 275,255 shares in 1981, 319,476 shares in 1980, and 325,604 shares in 1979.

B. ACCOUNTING CHANGES

Vacation Accrual - In 1981, the Company changed its method of accounting for vacation expense to comply with the provisions of Statement No. 43 of The Financial Accounting Standards Board. The Statement requires employers to accrue a liability, with a corresponding charge to current expense, for employees' vacation time earned but not yet taken. Previously, the Company recognized vacation expense when paid. In accordance with this Statement, the change was adopted retroactively; therefore, the 1979 and 1980 financial statements have been restated to reflect this change. The retroactive application of this change resulted in a decrease in 1980 and 1979 net earnings of \$33,000 (\$.10 per share) and \$34,000 (\$.10 per share), respectively. The January 1, 1979 retained earnings balance was reduced \$247,000 to reflect the cumulative effect of this change in net earnings for years prior to 1979. The effect of this change for the year ended December 31, 1981 was to reduce net earnings by \$54,000 (\$.20 per share). The accrued liability for vacation time earned but not taken at December 31, 1979, 1980, and 1981, was \$519,000, \$581,000, and \$681,000, respectively.

Foreign Translation - In December 1981, the Company changed its method of accounting for the translation of foreign currency to comply with the provisions of Statement No. 52 of The Financial Accounting Standards Board. Under the new method, all elements of foreign currency financial statements are translated at current exchange rates and the resulting translation adjustments are accumulated and reported as a component of shareholders' equity. The new accounting policy was not applied retroactively. The effect of this accounting change was not considered material to the consolidated financial statements.

C. ACCRUED LIABILITIES

Accrued liabilities consisted of:

	December 31		
	1981	1980	1979
	(000's omitted)		
Wages, salaries, etc.	\$1,670	\$1,371	\$ 864
Taxes, other than taxes on income	745	655	554
Accrued vacation	681	581	519
Other	146	50	197
TOTAL	<u>\$3,242</u>	<u>\$2,657</u>	<u>\$2,134</u>

D. LONG-TERM DEBT

Long-term debt consisted of:

	December 31		
	1981	1980	1979
	(000's omitted)		
Term loan agreement	\$1,170	\$1,560	\$3,607
Revolving credit agreement	1,000		
Long-term debt of ESOT (Note J)	1,958	2,227	2,498
8% subordinated installment notes - employee purchase (Note J)	289	427	561
8% subordinated installment notes - Davey Option Agreement (Note J)	1,188		
Other	196		
	<u>5,801</u>	<u>4,214</u>	<u>6,666</u>
Less current maturities	<u>1,170</u>	<u>798</u>	<u>798</u>
TOTAL LONG-TERM DEBT	<u>\$4,631</u>	<u>\$3,416</u>	<u>\$5,868</u>

On March 14, 1979, the Company entered into a Loan and Revolving Credit Agreement with two banks obtaining a term loan in the principal amount of \$3,900,000. The term loan requires payments in 27 quarterly installments of \$97,500 commencing June 30, 1979, and a final installment on March 31, 1986, of the remaining unpaid principal balance; however, during 1980, as a result of the sale of real estate, the Company made additional principal payments of \$1,657,500 which were applied to the loan in the inverse order of maturity. The final installment on the term loan is due, therefore, on December 31, 1984.

D. LONG-TERM DEBT (Continued)

The Agreement contains a year-to-year revolving feature which permits the Company to borrow, repay and reborrow up to the lesser of \$4,000,000 or 90% of the Company's net book value of revenue producing equipment. Borrowings under the "Revolver" do not currently require principal payments inasmuch as the "Revolver" is renewable annually by agreement of both the Company and the banks; furthermore, borrowings under the "revolver" may be converted by the Company to a five-year term loan, payable in equal annual installments, at an interest rate of 1/2% over the banks' prime rate. Accordingly, at December 31, 1981, borrowings under the Revolving Credit Agreement have been classified as long-term debt.

The agreement, as amended, requires the Company, at December 31, 1981, to maintain a minimum shareholders' equity, as defined, of \$7,000,000; a minimum ratio of shareholders' equity to total liabilities, as defined, of .75 to 1 (increasing to .9 to 1 at December 31, 1982 and 1 to 1 at December 31, 1983); a minimum working capital of \$1,500,000; and a minimum current ratio of 1.2 to 1. There are certain other restrictions, the more important of which restrict expenditures for plant and equipment, and for the purchase of Company stock. In addition, cash dividends for each of the years 1979 and 1980 cannot exceed the lesser of (a) 30% of net earnings, as defined, or (b) net earnings less debt service, as defined. Commencing with the year 1981, and thereafter, cash dividends will be subject to the same restrictions, except that all amounts will be cumulative from January 1, 1981. Waivers have been granted by the banks when certain of these requirements have not been met.

The agreement provides for interest on the term loan at the banks' prime rate plus 2-1/4%, and interest on any borrowings on the Revolving Credit Agreement at the banks' prime rate plus 1/2% (decreasing to prime rate, effective January 1, 1982), plus a commitment fee of 1/2 of 1% on unborrowed commitments. In accordance with an informal arrangement, the banks expect the Company to maintain compensating balances equal to approximately 15% of the \$4,000,000 Revolving Credit Agreement commitment.

As of December 31, 1981, the total annual installments required to be paid on long-term debt in the years 1982 to 1986 are as follows: 1982, \$1,170,000; 1983, \$1,177,000; 1984, \$978,000; 1985, \$598,000; 1986, \$878,000.

In addition, the Company has short-term lines of credit with six banks totaling \$2,500,000, generally at the banks' prime rate plus 1-2%.

E. INCOME TAXES

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

	<u>1981</u>	<u>1980</u>	<u>1979</u>
	(000's omitted)		
Taxes payable before tax credits:			
U.S.	\$1,290	\$1,467	\$1,111
Canadian	132	85	90
State and local	270	309	198
	<u>1,692</u>	<u>1,861</u>	<u>1,399</u>
Investment tax credits - net	(640)	(396)	(296)
New jobs and WIN credit - net	<u>(2)</u>	<u>(5)</u>	<u>(3)</u>
Taxes currently payable	1,050	1,460	1,100
Deferred taxes:			
U.S.	356	20	(82)
Canadian	<u>(3)</u>	<u>(7)</u>	<u>(1)</u>
	<u>\$1,403</u>	<u>\$1,473</u>	<u>\$1,017</u>

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

	<u>1981</u>	<u>1980</u>	<u>1979</u>
Statutory tax rate	46.0%	46.0%	46.0%
State and local income taxes	3.6	4.2	3.7
Investment tax credit	(16.0)	(9.9)	(10.2)
Capital gains rate-sale of real estate		(3.1)	(3.5)
Miscellaneous	<u>1.2</u>	<u>.2</u>	<u>(.1)</u>
Effective tax rate	<u>34.8%</u>	<u>37.4%</u>	<u>35.9%</u>

The major components of deferred income taxes are as follows:

	<u>1981</u>	<u>1980</u>	<u>1979</u>
Accrued vacations	\$232		
Accelerated depreciation	118		
Other	6	\$ 20	\$ (82)
Total U.S.	<u>356</u>	<u>20</u>	<u>(82)</u>
Outside the U.S.	<u>(3)</u>	<u>(7)</u>	<u>(1)</u>
	<u>\$353</u>	<u>\$ 13</u>	<u>\$ (83)</u>

F. PENSION PLANS

Total pension expense was approximately \$287,500 in 1981, \$357,000 in 1980 and \$285,000 in 1979. Pension expenses have been affected by increases in benefits, increases in the number of employees covered by the plans and certain changes in actuarial assumptions, including a change in the rate of return assumption from 4-1/2% in 1979 to 6% in 1980 and 1981. This rate is similarly used to compute the present value of vested benefits.

Accumulated plan benefit information, as calculated by consulting actuaries, as of January 1 of each year, and plan net assets for the Company's pension plans are:

	Year Ended December 31		
	1981	1980	1979
	(000's omitted)		
Actuarial present value of accumulated plan benefits:			
Vested	\$3,861	\$3,753	\$3,932
Non-vested	127	75	166
	<u>\$3,988</u>	<u>\$3,828</u>	<u>\$4,098</u>
Net assets available for benefits	<u>\$3,999</u>	<u>\$3,416</u>	<u>\$2,926</u>

G. SALES TO A MAJOR CUSTOMER

The Davey Tree Expert Company and its subsidiaries are engaged in the business of providing a broad line of horticultural services to a variety of corporate, institutional and residential customers throughout most of the United States and in parts of Canada. The Company had revenues from one customer under multiple long-term contracts aggregating approximately \$11,500,000, \$10,500,000 and \$8,500,000 for the years ended December 31, 1981, 1980 and 1979, respectively.

H. STOCK OPTION; STOCK PURCHASE AND STOCK APPRECIATION RIGHTS PLANS

In 1973, the shareholders approved a qualified stock option plan and 20,000 Common Shares were reserved for the granting of options to officers, directors and other key employees. On December 5, 1973, options for 17,200 shares were granted at a price of \$10.50 per share. As of December 31, 1979, 4,100 options had expired and 13,100 options had been exercised. On March 6, 1980, the remaining options for 6,900 shares were granted at a price of \$24.78 per share, and at December 31, 1981, options for 900 shares have been exercised and options for 6,000 shares were outstanding. Options granted may be exercised in full one year after the date of grant and expire five years from that date.

H. STOCK OPTION; STOCK PURCHASE AND STOCK APPRECIATION RIGHTS PLANS (Continued)

In 1973, the shareholders approved a stock purchase plan and 20,000 Common Shares were reserved for the offering of shares to officers, directors and other key employees. In addition, 2,175 shares held as treasury shares were made available for offer under the general terms and conditions contained in this plan. On December 5, 1973, 16,800 shares were offered for sale at a price of \$10.50 per share and 13,430 shares were purchased. On February 8, 1980, 8,745 shares were offered for sale at a price of \$22.50 per share and 2,050 shares were purchased. As of December 31, 1981, a total of 15,480 shares have been purchased and 6,695 shares remain available for future offerings.

In 1980, the shareholders approved the 1980 Employees Stock Option Plan and the 1980 Stock Appreciation Rights Plan and 30,000 Common Shares were reserved for the granting of options to officers, directors and other key employees. At a meeting held December 8, 1981, the Board of Directors rescinded the 1980 Stock Appreciation Rights Plan, cancelled all previously granted stock appreciation rights and qualified the options approved under the 1980 Employees Stock Option Plan as Incentive Stock Options under the provisions of the Economic Recovery Tax Act of 1981.

On July 22, 1980, options and stock appreciation rights (subsequently cancelled) for 12,000 Common Shares were granted at a price of \$24.78 per share. On May 19, 1981, options and stock appreciation rights (subsequently cancelled) for 12,000 Common Shares were granted at a price of \$29.90 per share. The options granted may be exercised in full one year after the date of grant and expire five years from that date. At December 31, 1981, options for 24,000 shares were outstanding and options for 6,000 shares remain available for future offerings.

I. OPERATING LEASES

The Company leases its corporate offices, other facilities which are used primarily for district office and warehouse operations, and certain automotive and computer equipment. These leases extend for varying periods of time up to five years and, in some cases, contain renewal options. Total rental expenses under such operating leases amounted to approximately \$842,900, \$789,200 and \$708,700 for 1981, 1980 and 1979, respectively. As of December 31, 1981, future minimum rental payments, excluding taxes and other operating costs, for all operating leases having noncancelable lease terms in excess of one year, are as follows: 1982, \$652,000; 1983, \$461,100; 1984, \$232,800; 1985, \$25,800; and 1986, \$7,800.

J. EMPLOYEES' PURCHASE OF THE COMPANY

On March 15, 1979, the Company consummated a plan which transferred control of the Company to its employees. The principal features of the Employee Purchase Plan included (a) the repurchase by the Company of 219,050 outstanding Common Shares, (b) the sale by the Company of 64,552 Common Shares to certain present employees of the Company (c) the sale by the Company of 120,000 Common Shares to the Company's new Employee Stock Ownership Trust (ESOT) and (d) an option agreement to purchase Common Shares owned by the M.L. Davey, Jr. family and certain family trusts.

Repurchase of Outstanding Common Shares - Of the 219,050 shares repurchased, 186,070 shares were repurchased for cash in the amount of \$4,186,575 and 32,980 shares were repurchased by issuance of the Company's 8% subordinated installment notes in the principal amount of \$593,640 (before discount of \$33,131 for interest imputed at 12% per APB Opinion #21) and cash in the amount of \$230,860. The notes are payable in four equal annual installments commencing March 15, 1980.

Sale of Common Shares to Employees - Of the 64,552 shares sold to employees, 6,780 shares were sold for cash in the amount of \$152,550 and 57,772 shares were sold for 8% promissory notes in the principal amount of \$1,030,546 (before discount of \$86,321 for interest imputed at 12% per APB Opinion #21) and cash in the amount of \$269,324. The notes are payable to the Company in six equal annual installments commencing March 15, 1980 and are reflected as subscriptions receivable in shareholders' equity.

Sale of Common Shares to ESOT - The Employee Stock Ownership Plan, in conjunction with a trust (ESOT) established thereunder, provides for the grant to certain employees of the Company as participants of certain ownership rights in, but not possession of, the Common Shares held by the trustee of the Trust and allocated to individual accounts established for the benefit of the participants. The 120,000 Common Shares purchased by the Trust collateralized a \$2,700,000 loan obtained by the Trust to finance its purchase of the shares in accordance with the applicable provisions of the Internal Revenue Code, and the Company has guaranteed the repayment of the loan. The number of shares released from collateral and available for allocation to ESOT participants is determined by dividing the sum of the current year's loan principal and interest payments by the sum of the current and future years'

J. EMPLOYEES' PURCHASE OF THE COMPANY (Continued)

loan principal and interest payments. The bank loan agreement provides for interest at 11-1/2% and requires principal payments of 27 quarterly installments of \$67,500 commencing June 30, 1979 and a final installment on March 31, 1986, of the remaining unpaid principal balance. The Company will make annual cash contributions to the ESOT in order to repay the principal and to pay the interest on the debt, and such contributions, net of dividends paid on the shares held as collateral, will be reflected as an expense of the Company. The contributions to the ESOT for 1981, 1980 and 1979 were:

	<u>1981</u>	<u>1980</u>	<u>1979</u>
	(000's omitted)		
Principal repayment	\$270	\$270	\$202
Interest	249	278	248
Other cash requirements of ESOT	<u>(4)</u>	<u>5</u>	<u> </u>
Total cash contributions required	515	553	450
Less dividends paid on collateral shares	<u>82</u>	<u>129</u>	<u> </u>
ESOT expense	<u>\$433</u>	<u>\$424</u>	<u>\$450</u>
Annual release of shares from collateral	<u>14,881</u>	<u>15,795</u>	<u>12,893</u>
Cumulative release of shares from collateral	<u>43,569</u>	<u>28,688</u>	<u>12,893</u>
Number of shares remaining in collateral	<u>76,431</u>	<u>91,312</u>	<u>107,107</u>

Option Agreement - M.L. Davey, Jr., Chairman of the Board, and certain members of his family and certain family trusts who owned an aggregate of 62,870 Common Shares entered into an option agreement with the Company at the time of the Employees' purchase of the Company. Under the terms of the agreement, the Company generally had the right to purchase the shares at any time prior to April 15, 1984 and the owners of those shares generally had the right to require the Company to repurchase the shares at any time from April 15, 1984 to April 15, 1989. The purchase price per share would vary in accordance with a formula, depending on the date of exercise of the option.

J. EMPLOYEES' PURCHASE OF THE COMPANY (Continued)

On November 28, 1980, the Company gave notice that it was exercising its option to purchase 62,870 shares, subject to the agreement. On December 2, 1980, the Company was notified that M.L. Davey, Jr., certain members of his family and certain family trusts were exercising their right to exclude a portion of their shares from the option and were retaining 10% or 6,287 shares. The purchase price per share at December 31, 1980 was determined to be \$32.24, or \$1,824,236 for the 56,583 shares. Under the terms of the agreement, 28% of the total purchase price, or \$510,786 was paid in cash on March 15, 1981 and the Company issued 8% subordinated installment notes for the balance in the principal amount of \$1,313,450 (before discount of \$175,000 for interest imputed at 15% per APB Opinion #21). The notes will be paid in four equal annual installments, commencing March 15, 1982.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

(Dollars in Thousands)

Classification	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other Changes Debit and/or Credit	Balance at Close of Period
Year Ended December 31, 1979:					
Property Held for Sale	\$ 1,201	\$	\$		\$ 1,201
Land and Land Improvements	746	127	64		809
Buildings and Leaseholds	1,934	55	79		1,910
Equipment, Principally Revenue Producing	22,753	4,117	1,121		25,749
	<u>\$26,634</u>	<u>\$ 4,299</u>	<u>\$ 1,264</u>		<u>\$29,669</u>
Year Ended December 31, 1980:					
Property Held for Sale	\$ 1,201	\$	\$ 1,201		\$ 838
Land and Land Improvements	809	29			2,368
Buildings and Leaseholds	1,910	460	2		
Equipment, Principally Revenue Producing	25,749	5,097	2,455		28,391
	<u>\$29,669</u>	<u>\$ 5,586</u>	<u>\$ 3,658</u>		<u>\$31,597</u>
Year Ended December 31, 1981:					
Land and Land Improvements	\$ 838	\$ 225	\$ 6	\$ (1)(A)	\$ 1,056
Buildings and Leaseholds	2,368	710	70	(7)(A)	3,001
Equipment, Principally Revenue Producing	28,391	8,211	2,555	(79)(A)	33,968
	<u>\$31,597</u>	<u>\$ 9,146</u>	<u>\$ 2,631</u>	<u>\$ (87)(A)</u>	<u>\$38,025</u>

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

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

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

(Dollars in Thousands)

Description	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Retirements	Other Charges- Add (Deduct)	Balance at End of Period
Year Ended December 31, 1979:					
Property Held for Sale	\$ 24	\$ 10	\$		\$ 34
Land and Land Improvements	12	6			18
Buildings and Leaseholds	680	80	37		723
Equipment, Principally Revenue Producing	14,266	3,513	1,065		16,714
	<u>\$14,982</u>	<u>\$ 3,609</u>	<u>\$ 1,102</u>		<u>\$17,489</u>
Year Ended December 31, 1980:					
Property Held for Sale	\$ 34	\$ 6	\$ 40		\$ 27
Land and Land Improvements	18	9			816
Buildings and Leaseholds	723	93			
Equipment, Principally Revenue Producing	16,714	3,928	2,292		18,350
	<u>\$17,489</u>	<u>\$ 4,036</u>	<u>\$ 2,332</u>		<u>\$19,193</u>
Year Ended December 31, 1981:					
Land and Land Improvements	\$ 27	\$ 10	\$	\$ (6) (A)	\$ 37
Buildings and Leaseholds	816	118	64		864
Equipment, Principally Revenue Producing	18,350	4,757	2,446	(66) (A)	20,595
	<u>\$19,193</u>	<u>\$ 4,885</u>	<u>\$ 2,510</u>	<u>\$ (72) (A)</u>	<u>\$21,496</u>

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

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE IX - SHORT-TERM BORROWINGS

(Dollars in Thousands)

<u>Notes Payable to Banks</u>	<u>Balance at End of Period</u>	<u>Weighted Average Interest Rate</u>	<u>Maximum Amount Outstanding During the Period</u>	<u>Average Amount Outstanding During the Period (1)</u>	<u>Weighted Average Interest Rate During the Period (2)</u>
December 31, 1979			\$1,150	\$ 316	12.10%
December 31, 1980			400	81	19.49%
December 31, 1981			300	40	17.28%

(1) Average amount outstanding during the period is computed by dividing the total of daily outstanding principal balances by 360.

(2) Weighted average interest rate during the period is computed by multiplying the actual outstanding principal balances by the applicable interest rates and by the actual days outstanding and dividing the total by the total days outstanding.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT DATA

(Dollars in Thousands)

	Charged to Costs and Expenses		
	Year Ended December 31,		
	<u>1981</u>	<u>1980</u>	<u>1979</u>
Maintenance and Repairs	<u>\$4,347</u>	<u>\$3,817</u>	<u>\$3,864</u>
Amortization of Intangible Assets	(A)	(A)	(A)
Taxes, Other Than Payroll and Income Taxes	(A)	(A)	(A)
Royalties	(A)	(A)	(A)
Advertising	<u>\$ 796</u>	<u>\$ 818</u>	<u>\$ 769</u>

(A) Amounts are not presented as such amounts are less than 1% of Net Sales.

All other schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.

Separate financial statements of the Registrant have been omitted since it is primarily an operating company, and no minority interests in subsidiaries are owned by and no long-term debt of subsidiaries is held by persons other than the Registrant in amounts which together exceed 5% of the total assets as shown by the Registrant's consolidated balance sheet at December 31, 1981.

SIGNATURES

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

THE DAVEY TREE EXPERT COMPANY

/s/ J. W. Joy

BY J. W. JOY, President and
Chief Executive Officer

March 30, 1982

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 30, 1982.

/s/ J. W. Joy
J. W. JOY, Director;
President and Chief
Executive Officer
(Principal Executive Officer)

/s/ James H. Pohl
JAMES H. POHL, Director;
Executive Vice President
(Principal Financial Officer)

/s/ R. Douglas Cowan
R. DOUGLAS COWAN,
Vice President - Finance
(Principal Accounting Officer)

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

(Unsigned to Date)
THOMAS W. BLAZEY, Director

/s/ Howard L. Eckel, Jr.
HOWARD L. ECKEL, JR.,
Director

/s/ M. L. Davey, Jr.
M. L. DAVEY, JR., Director

(Unsigned to Date)
EUGENE W. HAUPT, Director

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

(Unsigned to Date)
ALEXANDER M. SMITH, Director

(Unsigned to Date)
EDWARD P. TAYLOR, Director

INDEX TO EXHIBITS

[Item 11(a)(3)]

<u>t No.</u>	<u>Description</u>	<u>Location or Sequential Page</u>	<u>n</u>
	Registrant's Articles of Incorporation and Regulations	Incorporated by reference to Exhibits 3(a) and 3(b) to Registrant's Registration Statement on Form S-1 (No. 2-63058) and to Exhibit 5 to Registrant's Quarterly Report on Form 10-Q for quarter ended June 30, 1979	1
	Subsidiaries of the Registrant	48	
bered)	Consent of independent auditors to incorporation of their opinion in Registrant's Registration Statement on Form S-8 (No. 2-73052)	49	

CONSENT OF CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 2-73052) relating to The Davey Tree Expert Company 1980 Employees' Stock Option Plan and in the related Prospectus of our report, dated February 19, 1982, with respect to the consolidated financial statements of The Davey Tree Expert Company for the year ended December 31, 1981.

Touche Ross & Co

TOUCHE ROSS & CO.