

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.  
20549

FORM 10-K

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

For the fiscal year ended December 31, 1985

Commission file number: 0-11917

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

Ohio 34-0176110  
(State of Incorporation) (IRS Employer Identification No.)

1500 North Mantua Street  
Kent, Ohio 44240  
(Address of principal executive offices) (Zip Code)

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

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

None

(Title of class)

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

Common Shares, \$1 par value

(Title of class)

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

Documents incorporated by reference: Portions of the Registrant's definitive Proxy Statement for its 1986 Annual Meeting of Shareholders (Part III).

The aggregate "market value" (See Item 5 hereof) of voting stock held by non-affiliates of the Registrant at March 15, 1986 (based upon excluding the total number of Common Shares reported in Item 12 hereof), was \$26,474,315.

Common Shares outstanding at March 15, 1986: 747,862.

Index to Exhibits is located on sequential page 18.

FORM 10-K

THE DAVEY TREE EXPERT COMPANY

Year Ended December 31, 1985

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, 1985, the Registrant had sales of approximately \$32,000,000 (25% of total sales) to Pacific Gas & Electric Company.

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

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

Seasonality. The Registrant's business is highly seasonal. Sales and earnings are generally highest in the second and third quarters of the calendar year, and historically the Registrant has incurred losses in the first quarter. This seasonality has historically created heavy demands for additional working capital in the first four to six calendar months ranging from \$2,000,000 to \$8,000,000, and the Registrant borrows against bank commitments for short-term loans in the form of lines of credit and a revolving credit agreement to provide the necessary funds. Services to utility customers show only small fluctuations in volume throughout the year. Extreme fluctuations do exist, however, in horticultural services to private customers.

Other Factors. The constant changes in environmental conditions, environmental awareness, technol-

ogy 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 1984 and 1985 were approximately \$13,592,000 and \$14,350,000, respectively. Capital expenditures for 1985 exclusive of capital expenditures incurred in connection with the completion of the Registrant's new headquarters (the "Corporate Center") were approximately \$11,333,000. In addition, the Registrant must continually assure its compliance with the Occupational Safety and Health Act.

Employees. The Registrant employs between 3500 and 3800 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>
Cincinnati, Ohio	2.5	7,200
Livermore, California	10.0	27,737
Winter Park, Florida	1.0	2,500
Chamblee, Georgia	1.9	7,000
Dundee, Illinois	4.0	7,500
Indianapolis, Indiana	1.4	5,000
Grand Rapids, Michigan	4.0	2,300

<u>Location</u>	<u>Acreage</u>	<u>Building Sq. Ft.</u>
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)	122.0	111,608
Toledo, Ohio	.5	4,300
Wooster, Ohio	228.0	7,800
Pittsburgh, Pennsylvania	2.5	2,000
Ninety-Six, South Carolina	6.2	6,150
Houston, Texas	1.6	8,200
Chantilly, Virginia	2.0	8,900
Downsview, Ontario, Canada	.5	2,800
Baltimore, Maryland	3.3	22,500
Lancaster, New York	3.0	6,600
Bettendorf, Iowa	.5	320
Richmond, Virginia	.5	1,200
Mecklenburg, North Carolina	15.6	-0-
Penn. Twp., Pennsylvania	5.7	-0-
Soco Gap, North Carolina	17.0	-0-

Until June 24, 1985, the Registrant leased its corporate office space in Kent, Ohio, pursuant to a renewed lease which expired on August 1, 1985. In 1985, the Registrant made total rental payments under the lease of approximately \$68,000. During the second quarter of 1985, the Registrant moved its principal corporate offices into the new Corporate Center, a newly constructed headquarters building located in Kent, Ohio. The Registrant also rents some 60 other premises ranging from desk space with parking to disposal and storage use. The Registrant believes that all of these properties have been adequately maintained and are suitable and adequate for its business as presently conducted.

Item 3. Legal Proceedings.

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

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted during the fourth quarter of 1985 to a vote of security holders, through the solicitation of proxies or otherwise.

Executive Officers of the Registrant (included pursuant to Instruction 3 to paragraph (b) of Item 401 of Regulation S-K). The executive officers of the Registrant and their present positions and ages are as follows:

<u>Name</u>	<u>Position</u>	<u>Age</u>
John W. Joy	Chairman of the Board and Chief Executive Officer	63
R. Douglas Cowan	President and Chief Operating Officer	45
Howard L. Eckel, Jr.	Executive Vice President, and General Manager of Kent Operating Company	55
Eugene W. Haupt	Executive Vice President, and President of Davey Tree Surgery Company	63
David E. Adante	Secretary-Treasurer and Chief Financial Officer	34
Paul E. Daniel	Vice President, and Senior Vice President of Davey Tree Surgery Company	57
Dr. Roger C. Funk	Vice President-Human and Technical Resources	41
William F. Heim	Vice President and General Manager-Utility Services	58
James T. Reed	Vice President-Operations Administration	57
Donald J. Shope	Vice President and General Manager-Residential and Commercial Services	52
Edward J. Johnson	Vice President-Personnel, Safety, Equipment and Shops	52
Gordon L. Ober	Vice President and Operations Manager-Residential and Commercial Services	36
C. Robert Klein	Assistant Secretary	64
Rosemary Nicholas	Assistant Secretary	42



Mr. Joy was elected Chairman of the Board and Chief Executive Officer in July, 1985. From January, 1984, he had served as Chairman of the Board, President and Chief Executive Officer and prior to 1984 had served as President and Chief Executive Officer since before 1981.

Mr. Cowan was elected President and Chief Operating Officer in July, 1985. From January, 1984 until July, 1985 he served as Executive Vice President-Finance and Administration, Corporate Group, and prior to holding that position had served as Vice President, Finance, since before 1981.

Mr. Eckel was elected Executive Vice President, and General Manager of Kent Operating Company, in January, 1984, and had served as Vice President-Operations since prior to 1981.

Mr. Haupt was elected Executive Vice President, and President of Davey Tree Surgery Company in July, 1985. From January, 1984 to July 1985 he served as Executive Vice President-General Manager of Davey Tree Surgery Company, and had served as Vice President-General Manager of Davey Tree Surgery Company for more than 5 years prior to January, 1984.

Mr. Adante was elected Secretary-Treasurer and Chief Financial Officer in July, 1985, and had served as Treasurer since January, 1984. He served as Assistant Treasurer beginning in May, 1982, and from prior to 1981 to May, 1982, Mr. Adante was Internal Auditor of the Registrant.

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

Dr. Funk was elected Vice President-Human and Technical Resources in January, 1984 and had served as Vice President, Research and Development since prior to 1981.

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

Mr. Reed was elected Vice President-Operations Administration in 1985 and had served as Controller since May, 1984. Mr. Reed served as Executive Vice President of King Musical Instruments, Inc. from January, 1982 through September, 1983 and served as Vice President and Chief Financial Officer of King Musical Instruments, Inc. for a number of years prior to December, 1981.

Mr. Shope was elected Vice President and General Manager-Residential and Commercial Services in January, 1984, and had served as Vice President and General Manager-Tree Care Services since prior to 1981.

Mr. Johnson was elected Vice President-Personnel, Safety, Equipment and Shops in January, 1984. He served as Vice President, Field Services from September, 1981 to January, 1984. For more than two years prior to September, 1981, he served as Operations Coordinator of Tree Care Services.

Mr. Ober was elected Vice President and Operations Manager-Residential and Commercial Services in January, 1984 after having served as Vice President, Lawnscape Services since May, 1980.

Mr. Klein was elected Assistant Secretary in January, 1984 and had served as Secretary of the Registrant for more than five years prior to that time.

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

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

## PART II

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

There is no established public trading market for the Registrant's Common Shares. As of March 15, 1986 there were 659 record holders of the Registrant's Common Shares. During the year ended December 31, 1984, the Registrant paid a dividend of \$.17 per share in each of the first three quarters and \$.19 per share in the fourth quarter. During the year ended December 31, 1985, the Registrant paid a dividend of \$.19 per share in each of the first three quarters and \$.21 per share in the fourth quarter. The Registrant's agreements with its lenders provide that the payment of cash dividends during any year may not exceed the lesser of (a) 30% of the average of annual net earnings (as defined) for the prior three years



or (b) 10% of consolidated net worth (as defined) as at the first day of that year. See Note D to Consolidated Financial Statements beginning on page [F-11] of the Annual Report on Form 10-K.

Item 6. Selected Financial Data.

	<u>Years Ended December 31,</u>				
	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(000's omitted, except per share data)				
Operating Results:					
Revenues	\$129,221	\$118,915	\$104,557	\$84,618	\$76,724
Net Earnings	\$ 4,256	\$ 4,623	\$ 4,422	\$ 2,682	\$ 2,628
Net Earnings Per Common Share	\$ 5.18	\$ 5.38	\$ 5.19	\$ 3.24	\$ 3.18
At Year End:					
Total Assets	\$ 50,609	\$ 46,769	\$ 36,967	\$29,335	\$26,823
Total Long-Term Debt	\$ 7,499	\$ 8,892	\$ 3,471	\$ 2,998	\$ 4,631
Cash Dividends Per Common Share	\$ .78	\$ .70	\$ .60	\$ .43	\$ .30

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.

	<u>1985</u>	<u>1984</u>	<u>1983</u>
Working Capital (in 000's)	\$ 1,483	\$ 3,069	\$ 1,406
Current Ratio	1.1:1	1.2:1	1.1:1
Cash Flow from Operations (in 000's)	\$14,015	\$13,037	\$11,570
Capital Expenditures (in 000's)	\$14,350	\$13,592	\$11,345
Cash Flow to Capital Expen- ditures Ratio	1.0:1	1.0:1	1.0:1
Cash Flow as % of Revenues	10.8%	11.0%	11.1%

At year end 1985, working capital (current assets less current liabilities) decreased substantially compared to the prior year, and was \$1,586,000 lower than 1984 and \$77,000 higher than 1983. The decrease was due to higher levels of accounts payable and accrued liabilities, and to lower levels of cash. The increase in accounts payable was considered normal due to the higher levels of business activity. The increase in accrued liabilities was due primarily to higher insurance premiums in all areas of the Registrant's casualty insurance programs. The reduction in cash balances was due to the year-end reduction in borrowings under the revolving credit agreement and greater insurance premium payments. Capital expenditures for 1985 were at a record level. The total capital expenditures for 1985 of \$14,350,000, however, included \$3,017,000 for the construction of the now completed Corporate Center, which is financed by Industrial Development Bonds.

Management believes that cash flow is the best measure of the Registrant's liquidity, particularly when related to capital expenditures. In 1985, cash flow increased almost \$1,000,000 from 1984, and more than \$2,400,000 from 1983. As a percentage of revenues, cash flow was at 10.8%, just below the 1983 record of 11.1%. This level enabled the Company to invest \$11,333,000 in capital expenditures (excluding the Corporate Center) and yet stay within the Registrant's cash flow. It continues to be management's objective to finance capital expenditures from internally-generated funds (cash flow) as much as is possible, as long as that posture does not prevent the Registrant from maximizing growth opportunities.

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

	<u>1985</u>	<u>1984</u>	<u>1983</u>
Equity to Debt Ratio	1.0:1	1.0:1	1.2:1
Debt as % of Assets	49.7%	49.1%	44.9%
Equity as % of Assets	50.3%	50.9%	55.1%

The employee acquisition of the Registrant in 1979 resulted in a major restructuring of the debt and equity sections on the Registrant's balance sheet; the equity to debt relationship was completely inverted, and the ratio fell below 1:1 for the first time in years (at year-end 1979, the ratio was .7:1; at year-end 1978, the ratio was 1.5:1). Since that time, the Registrant has had a history of earnings in each succeeding year, and these earnings have both increased stockholders' equity and enabled the Registrant to retire the acquisition debt. At the end of 1985, the relationship of equity to debt remained at 1.0:1 after having risen to 1.2:1 in 1983 from the low point of .7:1 at year-end 1979. The slight decline in 1985 and 1984 in this ratio was caused by the debt incurred in connection with the construction of the Corporate Center and it should be noted that excluding this debt, the equity to debt ratio would have been 1.2:1. Management believes that a ratio of less than 1.0:1 is not necessarily unhealthy, and continues to evaluate opportunities which could require additional debt financing.

The Registrant will continue to finance its operations needs with borrowings under a Revolving Credit Agreement and short-term lines of credit. At March 15, 1986, the Registrant had available \$12,000,000 in credit commitments under all revolving credit and line of credit arrangements. Management believes those arrangements to be sufficient for the Registrant's borrowing needs for operations.

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

	<u>1985</u>	<u>1984</u>	<u>1983</u>
Earnings Per Share	\$ 5.18	\$ 5.38	\$ 5.19
Dividends Per Share	\$ .78	\$ .70	\$ .60
Book Value Per Share	\$33.12	\$29.31	\$24.63
ESOT Market Valuation Per Share	\$35.40	\$32.20	\$29.60

The earnings per share measurements are shown as if all outstanding stock options had been exercised at December 31, 1985.

The earnings in 1985 are reflected in the per share measurements in the table above. Earnings per share in 1985 decreased to \$5.18 per share, down 3.7% from 1984, and 0.2% from 1983. The market value per share increased to \$35.40 per share, up 9.9% from 1984, and 19.6% from 1983.

Dividends paid per share were again increased significantly in 1985. In 1985, they were increased \$.08 per share, or 11.4% over 1984, compared to an increase in 1984 of \$.10 per share, or 16.7% over 1983. Total dividends paid to shareholders in 1985 were \$616,000, compared to \$567,000 in 1984 and \$485,000 in 1983. It is the Registrant's objective to provide a fair return on investment to its shareholders through improved dividends, so long as the Registrant can financially justify such a policy. The increases in each of the last five years reflect this objective.

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

#### RESULTS OF OPERATIONS

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

	<u>1985</u>	<u>1984</u>	<u>1983</u>
Increase in Revenues	8.7%	13.7%	23.6%
Operating Earnings as % of Revenues	6.1%	7.2%	7.7%
Pre-Tax Earnings as % of Revenues	5.4%	6.4%	7.0%
Net Earnings as % of Revenues	3.3%	3.9%	4.2%

Revenues for 1985 of \$129,221,000 set a new record and increased \$10,306,000, or 8.7%, over 1984, compared to a 13.7% increase in revenues in 1984 and 23.6% in 1983. Revenues increased almost uniformly in both the Kent

Operating Company and Davey Tree Surgery Company, and in all of the Registrant's major service lines. Improved economic conditions provided the opportunity for increased residential and commercial revenues in a market that continued to be highly competitive.

Operating costs increased 12.3% over 1984, and as a percentage of revenues, increased to 68.0% as compared with 65.8% in 1984, and 66.1% in 1983. The increase in 1985 was primarily due to higher insurance costs and to the fact that, in 1984 and 1983, favorable insurance adjustments were received on a subsidiary's retrospective insurance program. Due to changes in the insurance policy provisions with its former insurance carrier, any favorable adjustment would not be received by the Registrant from its former insurance carrier until the first quarter of 1986. Any adjustment received under this insurance program is dependent upon the financial strength of the insurance company. As a result of the insurance company's extremely adverse financial condition, management believes that receipt of the earned adjustment is highly unlikely.

Selling, General and Administrative ("S, G&A") costs increased 1.3% in 1985, and at a lower rate than the revenue increase of 8.7%. As a percentage of revenues, these costs decreased to 19.0% in 1985, compared to 20.3% in 1984, and 20.0% in 1983. The closedown of a small division of the Company, Davey Environmental Services, contributed to the decrease in S, G&A expenses. The disappointing performance of this service line in 1984 and 1983 led to its discontinuance in 1985.

Depreciation expense in 1985 increased 11.7% over 1984, compared to an increase of 22.8% in 1984, and an increase of 17.3% in 1983. As a percentage of revenues, depreciation expense was 6.9% in 1985, compared to 6.7% in 1984, and 6.2% in 1983. The company records its depreciation expense on a double-declining balance method, which provides a higher depreciation expense in the early years of asset life. Each year's expense, therefore, is significantly affected by the level of capital expenditures in the current and immediately preceding years. Capital expenditures in 1985 were \$11,333,000 (excluding the Corporate Center), compared to \$10,902,000 in 1984, and \$11,345,000 in 1983.

Interest expense in 1985 increased to \$1,191,000 compared to \$1,087,000 in 1984 and \$834,000 in 1983. Contributing to the higher interest expense in 1985 was \$232,000 in interest expense related to the financing

of the Corporate Center. Excluding the effect of the Corporate Center financing, interest expense declined to \$959,000, as compared to \$1,087,000 in 1984. Management believes that interest expense will remain at or below current levels in the short term.

As a result of the above factors, earnings before income taxes and net earnings decreased, and, as a percentage of revenues, declined to 5.4% and 3.3%, respectively. Management believes that the earnings levels of 1984 and 1983 will be difficult to maintain in the short term, particularly because of the cost effects of higher insurance premiums and the cost effects of the Corporate Center, but is confident that similar or greater results are achievable over the long term.

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

	<u>1985</u>	<u>1984</u>	<u>1983</u>
Average Assets Employed (in 000's)	\$48,689	\$41,868	\$33,151
Asset Turnover (Revenues to Average Assets)	2.7	2.8	3.2
Return on Average Assets	8.7%	11.0%	13.3%

Due to capital expenditures levels for the Corporate Center of \$3,017,000 and \$2,478,000 in 1985 and 1984, respectively, the average assets employed in the asset turnover ratio are somewhat distorted as compared to 1983 and prior years. Excluding the effect of the Corporate Center from the above table, revenues would have increased the respective turnover to 2.9 in 1985 and 1984, and return on average assets would have been 9.5% and 11.4% in each year, respectively. Notwithstanding the effect of the Corporate Center on these measurements, the deterioration in the 1985 return on assets was due to the lower net earnings percentage on revenues (3.3%); and this was principally the result of the impact of insurance costs.

Management believes that the effective insurance costs will continue to adversely affect return on assets for the short-term but is steadfast in its goal to maintain a turnover rate of at least 3.0 and to improve the net earnings percentage to provide a return on assets of 15%.



Item 8. Consolidated Financial Statements and Supplementary Data.

The opinion of independent certified public accountants, the audited consolidated financial statements, and the notes to the audited consolidated financial statements required by this Item 8 appear on pages F-1 through F-19 of this Annual Report on Form 10-K.

Item 9. Disagreements on Accounting and Financial Disclosure.

Within the 24 months prior to the date of the most recent financial statements, no Form 8-K under the Exchange Act has been filed to report a change of accountants and a disagreement on any matter of accounting principles or practices or financial statement disclosure.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information regarding directors of the Registrant appearing under the heading "Nominees for Board of Directors" in the Registrant's definitive Proxy Statement for its 1986 Annual Meeting of Shareholders is hereby incorporated by reference.

Item 11. Executive Compensation.

The information regarding compensation of the Registrant's executive officers appearing under the heading "Compensation of Executive Officers" in the Registrant's definitive Proxy Statement for its 1986 Annual Meeting of Shareholders is hereby incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information regarding the security ownership of certain beneficial owners and management appearing under the heading "Beneficial Ownership of Voting Stock" in the Registrant's definitive Proxy Statement for its 1986 Annual Meeting of Shareholders is hereby incorporated by reference.

Item 13. Certain Relationships and Related Transactions.

The information regarding certain relationships and related transactions appearing under the headings "Nominees for Board of Directors" and "Compensation of Executive Officers" in the Registrant's definitive Proxy Statement for its 1986 Annual Meeting of Shareholders is hereby incorporated by reference.

PART IV

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

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

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

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

SIGNATURES

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

THE DAVEY TREE EXPERT COMPANY

/s/ J.W. Joy

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

March 7, 1986

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 7, 1986.

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

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

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

/s/ Eugene W. Haupt  
EUGENE W. HAUPT, Director

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

/s/ J Maurice Struchen  
J MAURICE STRUCHEN, Director

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

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

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

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

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

INDEX TO EXHIBITS

[Item 14(a)(3)]

<u>Exhibit No.</u>	<u>Description</u>	<u>Location or Sequential Page</u>
(3(a))	1983 Amended Articles of Incorporation	Incorporated by reference to Exhibit 3(a) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1983.
(3(b))	1984 Amended Regulations of The Davey Tree Expert Company	Incorporated by reference to Exhibit 3(b) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1984.
(4)	The Company is a party to certain instruments, copies of which will be furnished to the Securities and Exchange Commission upon request, defining the rights of holders of long-term debt identified in Note D of Notes to Consolidated Financial Statements	
(9)	Voting Trust Agreement	Not applicable
(10(a))	1980 Employee Stock Option Plan, as amended	Incorporated by reference to Exhibit 10 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1983
(10(b))	1985 Incentive Stock Option Plan	20

<u>Exhibit No.</u>	<u>Description</u>	<u>Location or Sequential Page</u>
(11)	Statement re computation of per share earnings	Not applicable
(12)	Statement re computation ratios	Not applicable
(13)	Annual report to security holders, Form 10-Q or quarterly report to security holders	Not applicable
(18)	Letter re change in accounting principles	Not applicable
(19)	Previously unfiled documents	Not applicable
(22)	Subsidiaries of the Company	Incorporated by reference to Exhibit 22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1983
(24)	Consent of independent auditors to incorporation of their opinion in Registrant's Statements on Form S-8 (File Nos. 2-73052 and 2-77353)	27
(25)	Power of Attorney	Not applicable
(28)	Additional Exhibits	Not applicable

EXHIBIT 10(b)

THE DAVEY TREE EXPERT COMPANY

1985 INCENTIVE STOCK OPTION PLAN

Plan Adopted by Board of Directors on March 8, 1985  
Plan Approved by Shareholders on May 21, 1985

1. Purpose. This 1985 Incentive Stock Option Plan (the "Plan") is designed to promote the interest of the Company by enabling the Company, by grant of options to purchase Common Shares of the Company, to retain and attract key employees for the Company and its affiliates, and to provide additional incentive to those employees through increased stock ownership in the Company. Options granted under the Plan ("Options") shall be incentive stock options within the meaning of Section 422A of the Internal Revenue Code of 1954 as amended, as now in effect or as hereafter further amended (the "Code"). The term "affiliates" where used in the Plan means subsidiary corporations as defined in Section 425 of the Code.

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

3. Employees Who May Participate In the Plan. Employees to whom Options are granted shall be designated by the Committee. An Option may be granted to any full-time salaried key employee of the Company or of an affiliate, including any director or officer who is a key employee. An employee may hold more than one Option. No employee may, however, be granted Options in any calendar year under all plans of the Company and its affiliates for shares that exceed an aggregate fair market value (determined on the "date of grant") of \$100,000, or such other amount as is provided by Section 422A of the Code, plus any "unused limit carry-over" to that year, as that term is used in Section 422A of the Code.



4. Shares Subject to the Plan. The aggregate number of Common Shares that may be delivered upon the exercise of all Options granted under the Plan may not exceed 60,000, subject, however, to adjustment as provided in Section 13. The Common Shares to be issued under the Plan shall be the Company's authorized Common Shares and may be unissued shares or treasury shares as the Committee, with the concurrence of the Board of Directors, may from time to time determine. To the extent the Company shall reacquire Common Shares for such purposes, shares may be reacquired at the time Options are exercised, or from time to time in advance, whenever the Board of Directors may deem their purchase advisable. If an Option is surrendered or for any other reason ceases to be exercisable in whole or in part, the Common Shares that are subject to the Option, but as to which the Option has not been exercised, shall again become available for offering under the Plan, subject to the limitations contained in the first sentence of this Section 4.

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

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

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

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

9. Exercise of Options After Termination of Employment. Subject to the provision, found in Section 7, that under no circumstances may an Option be exercised later than the expiration date of the Option, an Option may be exercised after termination of the optionee's employment in only the following situations:

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

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

(c) If the termination of employment is due to any reason other than the optionee's

retirement as specified in (a) above or the optionee's permanent and total disability or death as specified in (b) above, the optionee may, provided the Committee or the Board of Directors consents, exercise the Option in whole or in part within the period of three months after the date of termination of employment.

#### 10. Termination of Options.

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

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

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

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

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

dividends with respect thereto until payment therefor has been made in full. Payment of the Option price must be made only in cash.

12. Assignability. Except as otherwise provided in Section 9(b), an Option granted under this Plan shall not be transferred and may be exercised only by the employee to whom granted. Each employee to whom an Option is granted, by accepting the Option, agrees with the Company that, in the event the Company merges into, consolidates with, or sells or otherwise transfers all or a substantial part of its assets to another corporation, he will consent to the assumption of the Option, or accept a new incentive stock option in substitution therefor, if the Committee or the Board of Directors requests him to do so and the Option is not otherwise terminated in accordance with the provisions of Section 10(b).

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

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

15. Purchase for Investment. Each employee exercising an Option may be required by the Company, in its sole discretion, to give a representation that he is acquiring the shares other than with a view to the distribution thereof. The Company may release any investment representation obtained if it subsequently determines that the representation is no longer required to insure that a sale or



other disposition of the shares would not involve a violation of the provisions of the Securities Act of 1933, as amended, or of applicable state blue sky laws.

16. Compliance with Securities Laws and Exchange Requirements. No certificate for shares shall be delivered upon exercise of an Option until the Company shall have taken such action, if any, as is then required to comply with the provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the Ohio Securities Act, as amended, any other applicable state blue sky laws, and with the requirements of any exchange on which the Common Shares may, at the time, be listed.

17. Duration and Termination of the Plan. The Plan shall remain in effect until February 28, 1995, and shall then terminate, unless terminated at an earlier date by action of the Board of Directors. Except as provided in Section 19, termination of the Plan shall not affect Options granted prior thereto.

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

19. Shareholder Approval. Approval of the Plan must be obtained by no later than June 30, 1985, by the affirmative vote of the holders of shares of the Company entitling them to exercise at least a majority of the voting power on the approval. Options may be granted prior to approval of the Plan by shareholders, but no Option may be exercised until after the Plan has been approved by shareholders.



CONSENT OF CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 2-73052 and 2-77353) relating to The Davey Tree Expert Company 1980 Employees Stock Option Plan and to The Davey Tree Expert Company 1982 Employee Stock Purchase Plan, and in the related Prospectuses, of our report, dated February 24, 1986, with respect to the consolidated financial statements of The Davey Tree Expert Company for the year ended December 31, 1985.

*Touche Ross & Co*  
TOUCHE ROSS & CO.

Akron, Ohio  
March 26, 1986

INDEX TO FINANCIAL STATEMENTS  
AND FINANCIAL STATEMENT SCHEDULES  
[Item 14(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, 1985, 1984 and 1983, 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, 1985. 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, 1985, 1984 and 1983 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, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

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

*Touche Ross & Co.*

TOUCHE ROSS & CO.

Akron, Ohio  
February 24, 1986

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

**CONSOLIDATED BALANCE SHEETS**

**(Dollars in Thousands)**

**ASSETS**

	<u>December 31</u>		
	<u>1985</u>	<u>1984</u>	<u>1983</u>
<b>CURRENT ASSETS:</b>			
Cash and short-term investments	\$ 399	\$ 771	\$ 853
Accounts receivable, no allowance considered necessary	13,970	13,276	11,649
Operating supplies	886	812	833
Prepaid expenses	769	419	292
Deferred income taxes	52	36	53
Refundable income taxes	748	389	
<b>TOTAL CURRENT ASSETS</b>	<b>16,824</b>	<b>15,703</b>	<b>13,680</b>
<b>OTHER ASSETS</b>	<b>282</b>	<b>245</b>	<b>264</b>
<b>PROPERTY AND EQUIPMENT:</b>			
Land and land improvements	1,738	1,307	1,045
Buildings and leasehold improvements	8,971	4,186	3,893
Equipment, principally revenue producing	61,467	52,969	45,177
Corporate Center under construction		2,569	91
Short-term investments of funds restricted for construction		2,308	
	<u>72,176</u>	<u>63,339</u>	<u>50,206</u>
Less accumulated depreciation	<u>38,673</u>	<u>32,518</u>	<u>27,183</u>
<b>NET PROPERTY AND EQUIPMENT</b>	<b>33,503</b>	<b>30,821</b>	<b>23,023</b>
<b>TOTAL ASSETS</b>	<b><u>\$50,609</u></b>	<b><u>\$46,769</u></b>	<b><u>\$36,967</u></b>

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31		
	<u>1985</u>	<u>1984</u>	<u>1983</u>
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 6,460	\$ 4,736	\$ 4,676
Accrued liabilities	8,010	6,946	5,748
Income taxes payable	87	67	121
Notes payable, bank			700
Current maturities on long-term debt	<u>784</u>	<u>885</u>	<u>1,029</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>15,341</b>	<b>12,634</b>	<b>12,274</b>
<b>LONG-TERM DEBT</b>	<b>7,499</b>	<b>8,892</b>	<b>3,471</b>
<b>DEFERRED INCOME TAXES</b>	<b>2,017</b>	<b>1,186</b>	<b>802</b>
<b>OTHER LIABILITIES</b>	<u>297</u>	<u>283</u>	<u>275</u>
<b>TOTAL LIABILITIES</b>	<b>25,154</b>	<b>22,995</b>	<b>16,822</b>
<b>SHAREHOLDERS' EQUITY:</b>			
Common shares	1,091	1,084	1,075
Additional paid-in capital	974	557	161
Retained earnings	<u>30,632</u>	<u>27,075</u>	<u>23,051</u>
	<b>32,697</b>	<b>28,716</b>	<b>24,287</b>
<b>Less:</b>			
Treasury shares, at cost	6,209	3,676	2,433
Subscriptions receivable from employees		118	291
Future contributions to ESOT	<u>1,033</u>	<u>1,148</u>	<u>1,418</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>25,455</b>	<b>23,774</b>	<b>20,145</b>
<b>TOTAL LIABILITIES AND SHARE- HOLDERS' EQUITY</b>	<b><u>\$50,609</u></b>	<b><u>\$46,769</u></b>	<b><u>\$36,967</u></b>

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

**CONSOLIDATED STATEMENTS OF EARNINGS**

**(Dollars in Thousands)**

	Year Ended December 31					
	1985		1984		1983	
REVENUES	\$129,221	100.0%	\$118,915	100.0%	\$104,557	100.0%
COSTS AND EXPENSES:						
Operating costs	87,908	68.0	78,252	65.8	69,113	66.1
Selling, general and administrative	24,493	19.0	24,181	20.3	20,946	20.0
Depreciation	8,908	6.9	7,973	6.7	6,492	6.2
	<u>121,309</u>	<u>93.9</u>	<u>110,406</u>	<u>92.8</u>	<u>96,551</u>	<u>92.3</u>
EARNINGS FROM OPERA- TIONS	7,912	6.1	8,509	7.2	8,006	7.7
INTEREST EXPENSE	(1,191)	(.9)	(1,087)	(.9)	(834)	(.8)
OTHER INCOME - NET	212	.2	160	.1	139	.1
EARNINGS BEFORE INCOME TAXES	6,933	5.4	7,582	6.4	7,311	7.0
INCOME TAXES	2,677	2.1	2,959	2.5	2,889	2.8
NET EARNINGS	<u>\$ 4,256</u>	<u>3.3%</u>	<u>\$ 4,623</u>	<u>3.9%</u>	<u>\$ 4,422</u>	<u>4.2%</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING INCLUDING COMMON STOCK EQUIVALENTS	<u>821,139</u>		<u>859,067</u>		<u>851,694</u>	
NET EARNINGS PER COMMON SHARE	<u>\$ 5.18</u>		<u>\$ 5.38</u>		<u>\$ 5.19</u>	

See notes to consolidated financial statements.



THE DAVEY TREE EXPERT COMPANY  
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF  
SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1985, 1984 AND 1983

(Dollars in Thousands)

	<u>Par Value Common Shares</u>	<u>Additional Paid-In Capital</u>
BALANCE, JANUARY 1, 1983	\$ 358	\$ 518
Shares purchased		
Shares sold to employees		170
Options exercised		11
Receipts on subscriptions		
Contributions to ESOT		
Net earnings		
Dividends, \$.60 per share		
Net adjustment for foreign currency translation		
Stock split (3 for 1), effected as 200% stock dividend	<u>717</u>	<u>(538)</u>
BALANCE, DECEMBER 31, 1983	1,075	161
Shares purchased		
Shares sold to employees		304
Options exercised	9	92
Receipts on subscriptions		
Contributions to ESOT		
Net earnings		
Dividends, \$.70 per share		
Net adjustment for foreign currency translation		
BALANCE, DECEMBER 31, 1984	1,084	557
Shares purchased		
Shares sold to employees		319
Options exercised	7	98
Receipts on subscriptions		
Contributions to ESOT		
Net earnings		
Dividends, \$.78 per share		
Net adjustment for foreign currency translation		
BALANCE, DECEMBER 31, 1985	<u>\$1,091</u>	<u>\$ 974</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>
\$19,301	\$(2,487)	\$(476)	\$(1,688)	\$15,526
	(168)			(168)
	145			315
	77			88
		185		185
			270	270
4,422				4,422
(485)				(485)
(8)				(8)
<u>(179)</u>				
23,051	(2,433)	(291)	(1,418)	20,145
	(1,503)			(1,503)
	120			424
	140			241
		173		173
			270	270
4,623				4,623
(567)				(567)
(32)				(32)
<u>(32)</u>				
27,075	(3,676)	(118)	(1,148)	23,774
	(2,815)			(2,815)
	116			435
	166			271
		118		118
			115	115
4,256				4,256
(616)				(616)
(83)				(83)
<u>(83)</u>				
<u>\$30,632</u>	<u>\$(6,209)</u>	<u>\$ -0-</u>	<u>\$(1,033)</u>	<u>\$25,455</u>

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

**CONSOLIDATED STATEMENTS OF  
CHANGES IN FINANCIAL POSITION**

(Dollars in Thousands)

	<u>Year Ended December 31</u>		
	<u>1985</u>	<u>1984</u>	<u>1983</u>
<b>CASH PROVIDED FROM OPERATIONS:</b>			
Net earnings	\$ 4,256	\$ 4,623	\$ 4,422
Items not affecting cash:			
Depreciation and amortization	8,944	8,013	6,529
Deferred income taxes	815	401	619
	<u>14,015</u>	<u>13,037</u>	<u>11,570</u>
 Net book value of property and equipment disposals	 452	 129	 188
 Cash provided (used) by major components of working capital:			
Accounts receivable	(694)	(1,627)	(2,809)
Accounts payable and accrued liabilities	2,788	1,258	1,600
	<u>2,094</u>	<u>(369)</u>	<u>(1,209)</u>
 <b>TOTAL CASH PROVIDED FROM OPERATIONS</b>	 16,561	 12,797	 10,549
 <b>CASH PROVIDED (USED) FROM FINANCING ACTIVITIES:</b>			
Proceeds of long-term borrowings	491	6,305	1,500
Short-term financing - net			700
Short-term investments of funds restricted for construction	2,308	(2,308)	
ESOT payment of debt guaranteed by the Company	115	270	270
Sale of treasury shares:			
Receipts on subscriptions receivable	118	173	185
Proceeds from stock options exercised	271	241	88
Employee stock purchase plan	404	355	245
Other	31	69	70
Other - net			56
	<u>3,738</u>	<u>5,105</u>	<u>3,114</u>
 <b>TOTAL CASH PROVIDED FROM FINANCING ACTIVITIES</b>	 3,738	 5,105	 3,114
 <b>TOTAL CASH PROVIDED</b>	 20,299	 17,902	 13,663

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

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

(Dollars in Thousands)

	<u>Year Ended December 31</u>		
	<u>1985</u>	<u>1984</u>	<u>1983</u>
<b>USES OF CASH:</b>			
Additions to property and equipment	\$11,333	\$11,114	\$11,254
Additions to corporate center	3,017	2,478	91
Purchase of treasury shares	2,815	1,503	168
Reduction of long-term debt	1,985	1,028	1,223
Reduction of notes payable, bank		700	
Other	905	594	325
Dividends	616	567	485
	<u>20,671</u>	<u>17,984</u>	<u>13,546</u>
<b>INCREASE (DECREASE) IN CASH</b>	(372)	(82)	117
<b>CASH, BEGINNING OF YEAR</b>	<u>771</u>	<u>853</u>	<u>736</u>
<b>CASH, END OF YEAR</b>	<u>\$ 399</u>	<u>\$ 771</u>	<u>\$ 853</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, 1985

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Property and equipment are recorded at cost. Generally, the Company depreciates its land improvements, leasehold improvements and buildings by the straight-line method while using the double declining balance method for equipment. The estimated useful lives used in computing depreciation are: land improvements, 5-20 years; buildings and leasehold improvements, 5-40 years; equipment, 3-7 years; furniture and fixtures, 5-10 years.

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

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

Reclassifications - Certain prior year amounts have been reclassified to conform with current year presentation.

B. COMMON SHARES

At December 31, 1985 there were 3,000,000 shares of \$1.00 par value common stock authorized. There were 1,091,055, 1,083,685 and 1,074,855 shares issued and 322,522, 272,475 and 256,859 shares in the treasury at December 31, 1985, 1984 and 1983, respectively.

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

C. ACCRUED LIABILITIES

Accrued liabilities consisted of:

	December 31		
	<u>1985</u>	<u>1984</u>	<u>1983</u>
	(000's omitted)		
Workers' compensation	\$3,504	\$2,516	\$1,767
Wages, salaries, etc.	2,317	2,274	2,085
Taxes, other than taxes on income	1,056	1,002	996
Accrued vacation	963	877	790
Other	<u>170</u>	<u>277</u>	<u>110</u>
TOTAL	<u>\$8,010</u>	<u>\$6,946</u>	<u>\$5,748</u>

D. SHORT-TERM AND LONG-TERM DEBT

Short-Term Debt

At December 31, 1985, the Company had unused short-term lines of credit with four banks totalling \$3,000,000, generally at the banks' prime rate. Within the total commitment, the Company has the option to borrow specific amounts for periods of 30, 60 or 90 days at the London Interbank Offered Rate (LIBOR), which is generally less than the U.S. prime rate.

Long-Term Debt

Long-term debt consists of:

	December 31		
	<u>1985</u>	<u>1984</u>	<u>1983</u>
	(000's omitted)		
8.95% Industrial Development Bonds	\$4,125	\$4,500	
Revolving credit agreement	2,000	3,100	\$2,000
Long-term debt of ESOT	1,033	1,148	1,418
Subordinated notes - stock redemption	775	355	
3% Community Development Block Grant	350	350	
Other		324	1,082
	<u>8,283</u>	<u>9,777</u>	<u>4,500</u>
Less current maturities	<u>784</u>	<u>885</u>	<u>1,029</u>
TOTAL LONG-TERM DEBT	<u>\$7,499</u>	<u>\$8,892</u>	<u>\$3,471</u>



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

Long-Term Debt (Continued)

As of December 31, 1985, the total annual installments required to be paid on long-term debt in the years 1986 to 1990 are as follows: 1986, \$784,000; 1987, \$784,000; 1988, \$784,000; 1989, \$1,458,000; 1990, \$598,000.

Corporate Center Financing

The Company completed construction of its new corporate center during 1985. Financing for the construction of the center was provided by the issuance of 8.95% Industrial Development Bonds, and a 3% Community Development Block Grant in the amounts of \$4,500,000 and \$350,000, respectively.

Interest expense incurred on the Industrial Development Bonds during the period of construction, net of interest earned on the investment of these funds prior to their use for construction, was capitalized and included in the cost of the corporate center. The net interest capitalized was \$122,000 and \$56,000 in 1985 and 1984, respectively.

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

Revolving Credit Agreement

On March 21, 1985, a new Revolving Credit Agreement was executed to permit the Company to borrow, repay and reborrow up to \$9,000,000. The Agreement provides for interest on any borrowings on the "Revolver" at prime, plus a commitment fee of 3/8 of 1% on the unborrowed commitment. In accordance with an informal arrangement, the banks expect the Company to maintain compensating balances equal to approximately 5% of the Revolving Credit Agreement commitment. Borrowings under the "Revolver" may be converted at the Company's option to a 5-year term loan payable in equal quarterly installments plus interest at a floating rate of 1/2 of 1% over the banks' prime rate.

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

Revolving Credit Agreement (Continued)

Under the most restrictive covenants of the Agreement, there is a restriction on dividend payments (\$1,173,000 of retained earnings were unrestricted at December 31, 1985), and the Company is obligated to maintain a minimum shareholders' equity, as defined, of \$15,000,000; a minimum ratio of shareholders' equity to total liabilities, as defined, of .8 to 1 at June 30 of each year and 1 to 1 at December 31 of each year; and a minimum current ratio of 1 to 1.

Long-Term Debt of ESOT

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

Subordinated Notes

M. L. Davey, Jr. and certain members of his family and certain family trusts who owned an aggregate of 188,610 common shares entered into an option agreement with the Company at the time of the employees' purchase of the Company. In 1981, pursuant to the option agreement, the Company purchased 169,749 shares, paying \$510,786 in cash and issuing 8% subordinated installment notes in the principal amount of \$1,313,450, payable in four equal annual installments through March 15, 1985.

In 1985 and 1984, the Company redeemed shares of its common stock from shareholders for cash and 5-year subordinated promissory notes, bearing interest at a rate equal to the average of the prime rate and the prevailing local passbook savings rate. There were 24,000 shares redeemed in 1985 for cash of \$293,100 and notes of \$490,700. In 1984, 15,000 shares were redeemed for cash of \$88,800 and notes of \$355,200.

On January 10, 1986, an additional 11,642 shares were redeemed for cash of \$99,900 and notes of \$287,779. All redemptions were at the then prevailing semi-annual fair value rate.

E. EMPLOYEE STOCK OWNERSHIP PLAN

On March 15, 1979, the Company consummated a plan which transferred control of the Company to its employees. As a part of this plan, the Company sold 360,000 Common Shares to the Company's new Employee Stock Ownership Trust (ESOT) for \$2,700,000.

E. EMPLOYEE STOCK OWNERSHIP PLAN (Continued)

The Employee Stock Ownership Plan, in conjunction with the related trust (ESOT), provides for the grant to certain employees of certain ownership rights in, but not possession of, the Common Shares held by the trustee of the Trust. Annual allocations of shares are made to individual accounts established for the benefit of the participants. The 360,000 Common Shares purchased by the Trust collateralized a \$2,700,000 loan obtained by the Trust to finance its purchase of the shares.

The number of shares released from collateral and available for allocation to ESOT participants is determined by dividing the sum of the current year's loan principal and interest payments by the sum of the current and future years' loan principal and interest payments. The Company makes annual cash contributions to the ESOT, net of dividends paid on the shares held as collateral, in order to repay the principal and to pay the interest on the ESOT debt; such contributions are reflected as an expense of the Company. The contributions to the ESOT for 1985, 1984 and 1983 were:

	<u>1985</u>	<u>1984</u>	<u>1983</u>
	(000's omitted)		
Principal repayment	\$115	\$270	\$270
Interest	<u>136</u>	<u>154</u>	<u>185</u>
Total cash contributions required	251	424	455
Less dividends paid on collateral shares	<u>88</u>	<u>105</u>	<u>114</u>
ESOT expense	<u>\$163</u>	<u>\$319</u>	<u>\$341</u>
Annual release of shares from collateral	<u>16,561</u>	<u>36,536</u>	<u>39,213</u>
Cumulative release of shares from collateral	<u>264,945</u>	<u>248,384</u>	<u>211,848</u>
Number of shares remaining in collateral	<u>95,055</u>	<u>111,616</u>	<u>148,152</u>

F. STOCK OPTION AND STOCK PURCHASE PLANS

Stock Option Plans - The Company has two qualified stock option plans available for officers, directors and key employees. A third option plan (1973 option plan) terminated in 1985 with the exercise of the remaining outstanding options. The status of the terminated plan and the two qualified stock option plans are as follows at December 31, 1985:

	1973	1980				1985
	Option Plan	Option Plan				Option Plan
Grant date	March 7, 1980	July 22, 1980	May 19, 1981	July 21, 1982	May 22, 1985	May 22, 1985
Options granted, net of forfeitures	20,175	36,000	34,200	18,000	1,800	13,900
Exercised in 1981	(2,700)					
Exercised in 1982	(1,275)	(2,100)	(600)			
Exercised in 1983		(8,400)	(1,800)			
Exercised in 1984	(8,830)	(11,400)	(6,990)	(300)		
Exercised in 1985	(7,370)	(14,100)	(5,275)	(2,790)		
Options outstanding, December 31, 1985	<u>-0-</u>	<u>-0-</u>	<u>19,535</u>	<u>14,910</u>	<u>1,800</u>	<u>13,900</u>
Option purchase price	<u>\$ 8.26</u>	<u>\$ 8.26</u>	<u>\$ 9.97</u>	<u>\$14.83</u>	<u>32.20</u>	<u>32.20</u>

The option rights granted may be exercised in full one year after grant and expire five years after grant date.

Stock Purchase Plan - The Company has an employee stock purchase plan for which 90,000 shares have been reserved. The Plan provides the opportunity for all full-time employees with two years' service to purchase shares through payroll deductions. The purchase price for the shares offered under the Plan is 85% of the fair market value of the shares. The Plan will terminate when no more shares are available to be offered or December 31, 1991, whichever occurs first.

F. STOCK OPTION AND STOCK PURCHASE PLANS (Continued)

Purchases under the plan have been as follows:

	<u>1985</u>	<u>1984</u>	<u>1983</u>
Number of employees participating	352	328	273
Annual shares purchased	14,488	13,835	15,502
Average price paid	\$27.84	\$25.73	\$15.84
Cumulative shares purchased	49,192	34,704	20,869
Shares available for future purchase	40,808	55,296	69,131

G. PENSION PLANS

Total pension expense was approximately \$352,800 in 1985, \$274,900 in 1984, and \$345,700 in 1983. Net pension expense increased due primarily to plan amendments in 1985 which enhanced benefits and reduced required contributions of participating employees. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7% in 1985 and 6% in 1984 and 1983.

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:

	<u>1985</u>	<u>1984</u>	<u>1983</u>
	(000's omitted)		
Actuarial present value of accumulated plan benefits:			
Vested	\$6,829	\$6,013	\$5,604
Non-vested	<u>164</u>	<u>154</u>	<u>147</u>
	<u>\$6,993</u>	<u>\$6,167</u>	<u>\$5,751</u>
Net assets available for benefits, at market	<u>\$8,386</u>	<u>\$7,973</u>	<u>\$6,909</u>

H. INCOME TAXES

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

	<u>1985</u>	<u>1984</u>	<u>1983</u>
	(000's omitted)		
Taxes currently payable before tax credits:			
U.S.	\$2,377	\$3,141	\$2,686
Canadian	32	(11)	81
State and local	471	388	413
	<u>2,880</u>	<u>3,518</u>	<u>3,180</u>
Investment tax credits	(980)	(928)	(899)
Other tax credits	<u>(38)</u>	<u>(32)</u>	<u>(11)</u>
	1,862	2,558	2,270
Deferred taxes:			
U.S.	816	417	627
Canadian	<u>(1)</u>	<u>(16)</u>	<u>(8)</u>
	<u>815</u>	<u>401</u>	<u>619</u>
	<u>\$2,677</u>	<u>\$2,959</u>	<u>\$2,889</u>

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

	<u>1985</u>	<u>1984</u>	<u>1983</u>
Statutory tax rate	46.0%	46.0%	46.0%
State and local income taxes	3.7	2.8	3.0
Investment tax credits	(14.1)	(12.2)	(12.3)
Investment tax credit basis reduction	3.4	2.9	2.8
Miscellaneous	<u>(.4)</u>	<u>(.5)</u>	<u>      </u>
Effective tax rate	<u>38.6%</u>	<u>39.0%</u>	<u>39.5%</u>



#### H. INCOME TAXES (Continued)

Deferred income taxes arise because certain income and expense items are recognized on the Company's financial statements in different fiscal years than for tax purposes. The major timing differences and resulting deferred income tax expense are as follows:

	<u>1985</u>	<u>1984</u>	<u>1983</u>
Investment tax credit basis reduction	\$237	\$217	\$206
Capitalized construction interest	35	(58)	
Accrued vacations	(6)	7	(7)
Accelerated depreciation	566	244	403
Other	(16)	7	25
Total U.S.	<u>816</u>	<u>417</u>	<u>627</u>
Outside the U.S.	<u>(1)</u>	<u>(16)</u>	<u>(8)</u>
	<u>\$815</u>	<u>\$401</u>	<u>\$619</u>

#### I. SALES TO A MAJOR CUSTOMER

The Davey Tree Expert Company and its subsidiaries are engaged in the business of providing a broad line of horticultural services to corporate, institutional and residential customers throughout most of the United States and in parts of Canada. The Company had revenues from one customer under multiple long-term contracts aggregating approximately \$32,000,000, \$ 29,500,000 and \$26,000,000 for the years ended December 31, 1985, 1984 and 1983, respectively.

#### J. OPERATING LEASES

The Company leases certain facilities which are used primarily for district office and warehouse operations, and certain automotive and computer equipment. These leases extend for varying periods of time up to five years and, in some cases, contain renewal options. Total rental expenses under such operating leases amounted to approximately \$1,130,000, \$1,163,000 and \$1,030,100 for 1985, 1984 and 1983, respectively. As of December 31, 1985, future minimum rental payments, including taxes and other operating costs, for all operating leases having noncancelable lease terms in excess of one year, are as follows: 1986, \$572,000; 1987, \$440,000; 1988, \$265,000; 1989, \$96,000; and 1990, \$44,000.

K. COMMITMENTS AND CONTINGENCIES

The Company is party to a number of lawsuits, threatened lawsuits and other claims arising out of the normal course of business. Management is of the opinion that liabilities which may result are adequately covered by insurance, or to the extent not covered by insurance, would not be material in relation to the financial statements. However, one of the Company's insurance carriers is experiencing financial difficulties and has been placed in conservatorship by the Insurance Commission of the State of California. This could affect its ability to pay claims asserted against the Company.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT  
AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

(Dollars in Thousands)

Description	Balance at Beginning of Period	Additions At Cost	Retirements	Other Changes Add/(Deduct)	Balance at End of Period
<b>Year-Ended December 31, 1983:</b>					
Land & Land Improvements	\$ 1,018	\$ 67	\$ 40	\$	\$ 1,045
Buildings & Leaseholds	3,487	473	67		3,893
Equipment, Principally Revenue Producing	<u>36,860</u>	<u>10,805</u>	<u>2,389</u>	<u>(8)(A)</u>	<u>45,268</u>
	<u>\$ 41,365</u>	<u>\$ 11,345</u>	<u>\$ 2,496</u>	<u>\$ (8)</u>	<u>\$ 50,206</u>
<b>Year-Ended December 31, 1984:</b>					
Land & Land Improvements	\$ 1,045	\$ 265	\$ 3	\$	\$ 1,307
Buildings & Leaseholds	3,893	294	1		4,186
Equipment, Principally Revenue Producing	45,177	10,555	2,662	(66)(B) (35)(A)	52,969
Corporate Center Under Construction	91	2,478			2,569
Short-Term Investment of Funds Restricted for Construction	<u>          </u>	<u>2,308</u>	<u>          </u>	<u>          </u>	<u>2,308</u>
	<u>\$ 50,206</u>	<u>\$ 15,900</u>	<u>\$ 2,666</u>	<u>\$ (101)</u>	<u>\$ 63,339</u>
<b>Year-Ended December 31, 1985:</b>					
Land & Land Improvements	\$ 1,307	\$ 445	\$ 12	\$ (2)	\$ 1,738
Buildings & Leaseholds	4,186	4,982	192	(5)	8,971
Equipment, Principally Revenue Producing	52,969	11,492	2,954	66(B) (106)(A)	61,467
Corporate Center Under Construction	2,569	(2,569)			
Short-Term Investment of Funds Restricted for Construction	<u>2,308</u>	<u>(2,308)</u>	<u>          </u>	<u>          </u>	<u>          </u>
	<u>\$ 63,339</u>	<u>\$ 12,042</u>	<u>\$ 3,158</u>	<u>\$ (47)</u>	<u>\$ 72,176</u>

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

(B) Write-off of Fully Depreciated Equipment & Canadian Subsidiary.

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	Depreci- ation Expenses	Retirements	Other Changes Add/(Deduct)	Balance at End of Period
Year-Ended December 31, 1983:					
Land & Land Improvements	\$ 49	\$ 17	\$ 1		\$ 65
Buildings & Leaseholds	1,018	172	61		1,129
Equipment, Principally Revenue Producing	<u>21,940</u>	<u>6,303</u>	<u>2,249</u>	<u>(5)(A)</u>	<u>25,989</u>
	<u>\$ 23,007</u>	<u>\$ 6,492</u>	<u>\$ 2,311</u>	<u>\$ (5)(A)</u>	<u>\$ 27,183</u>
Year-Ended December 31, 1984:					
Land & Land Improvements	\$ 65	\$ 15	\$ 1		\$ 79
Buildings & Leaseholds	1,129	217	1		1,345
Equipment, Principally Revenue Producing	<u>25,989</u>	<u>7,739</u>	<u>2,546</u>	<u>(66)(B)</u> <u>(22)(A)</u>	<u>31,094</u>
	<u>\$ 27,183</u>	<u>\$ 7,971</u>	<u>\$ 2,548</u>	<u>\$ (88)</u>	<u>\$ 32,518</u>
Year-Ended December 31, 1985:					
Land & Land Improvements	\$ 79	\$ 14	\$ 7		\$ 86
Buildings & Leaseholds	1,345	293	178	(4)(A)	1,456
Equipment, Principally Revenue Producing	<u>31,094</u>	<u>8,601</u>	<u>2,572</u>	<u>66(B)</u> <u>(58)(A)</u>	<u>37,131</u>
	<u>\$ 32,518</u>	<u>\$ 8,908</u>	<u>\$ 2,757</u>	<u>\$ 4</u>	<u>\$ 38,673</u>

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

(B) Write-off of Fully Depreciated Equipment at Canadian Subsidiary.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE IX - SHORT-TERM BORROWINGS

(Dollars in Thousands)

<u>Notes Payable to Bank</u>	<u>Balance At End Of Period</u>	<u>Weighted Average Interest Rate</u>	<u>Maximum Amount Outstanding During The Period</u>	<u>Average Amount Outstanding During The Period(1)</u>	<u>Weighted Average Interest Rate During The Period(2)</u>
December 31, 1982	\$		\$ 400	\$ 99	14.52%
December 31, 1983	700	11.0%	800	150	10.99%
December 31, 1984			2,807	963	12.36%
December 31, 1985			1,144	201	9.95%

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

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

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT DATA

(Dollars in Thousands)

	<u>Charged to Costs &amp; Expenses</u>		
	Year-Ended December 31,		
	<u>1985</u>	<u>1984</u>	<u>1983</u>
Maintenance and Repairs	\$6,138	\$5,549	\$4,915
Amortization of Intangible Assets	(A)	(A)	(A)
Pre-Operating Costs and Similar Deferrals	(A)	(A)	(A)
Taxes, Other Than Payroll & Income Taxes	(A)	(A)	1,131
Royalties	(A)	(A)	(A)
Advertising	(A)	1,641	1,100

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