

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 1996

Commission file number: 0-11917

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

Ohio
(State of Incorporation)

34-0176110
(IRS Employer Identification No.)

1500 North Mantua Street
P. O. Box 5193
Kent, Ohio
(Address of principal executive offices)

44240-5193
(Zip Code)

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

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

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

Common Shares, \$1 par value

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

Yes No

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

The aggregate "market value" (See Item 5 hereof) of voting stock held by non-affiliates of the Registrant at March 17, 1997 (excluding the total number of Common Shares reported in Item 12 hereof), was \$82,192,256.

Common Shares outstanding at March 17, 1997: 4,516,058.

Documents incorporated by reference: Portions of the Registrant's definitive Proxy Statement for its 1997 Annual Meeting of Shareholders (Part III).

Index to Exhibits is located on sequential page 14.

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, commercial, 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, line clearing for public utilities, and related consultation and inventory services. 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 project to the customers a thorough knowledge of horticulture and utilization of modern, well-maintained equipment. 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 1996, the Registrant had sales of approximately \$55,000,000 (21% of total sales) to Pacific Gas & Electric Company.

REGULATION AND ENVIRONMENT. The Registrant's facilities and operations, in common with those of the industry generally, are subject to governmental regulations designed to protect the environment. This is particularly important with respect to the Registrant's services regarding insect and disease control, because these services involve to a considerable degree the blending and application of spray materials, which require formal licensing in most areas. The constant changes in environmental conditions, environmental awareness, technology and social attitudes make it necessary for the Registrant to maintain a high degree of awareness of the impact such changes have on the market for its services. The Registrant believes that it is in substantial compliance with existing federal, state and local laws regulating the use of materials in its spraying operations as well as the other aspects of its business that are subject to any such regulation.

MARKETING. The Registrant solicits business from residential 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 generally use agents and does not franchise its name or business.

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

OTHER FACTORS. Rapid changes in equipment technology require a constant updating of equipment and processes to ensure competitive services to the Registrant's clients. Also, the Registrant must continue to assure its compliance with the Occupational Safety and Health Act. In keeping with these requirements, and to equip the Registrant for continued growth, capital expenditures in 1996 and 1995 were approximately \$18,121,000 and \$13,297,000, respectively.

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

EMPLOYEES. The Registrant employs between 5,200 and 5,800, depending upon the season, and considers its employee relations to be good.

FOREIGN AND DOMESTIC OPERATIONS. The Registrant and its Canadian subsidiaries sell the Registrant's service to customers in the United States and Canada.

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

ITEM 2. PROPERTIES.

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

<u>LOCATION</u>	<u>ACREAGE</u>	<u>BUILDING SQ. FT.</u>
Cincinnati, Ohio	2.5	8,800
Livermore, California	12.0	29,737
Winter Park, Florida	1.0	5,850
Chamblee, Georgia	1.9	6,200
East Dundee, Illinois	4.0	7,500
Indianapolis, Indiana	1.5	5,000
Troy, Michigan	2.0	7,200
Cheektowaga, New York	6.9	2,800
Bayport, New York	2.0	7,000
Charlotte, North Carolina	3.1	4,900
Kent, Ohio (multiple parcels) - Corporate Headquarters	105.0	111,608
Toledo, Ohio	.5	4,300
Wooster, Ohio - Nursery	322.8	13,194
Columbus, Ohio	8.0	15,925
West Babylon, New York	.9	14,100
Chantilly, Virginia	4.0	5,700
Downsview, Ontario, Canada	.5	3,675
Baltimore, Maryland	3.4	22,500
Lancaster, New York	3.0	6,624
Bettendorf, Iowa	.5	478
Richmond, Virginia	.7	2,586
Mecklenburg County, North Carolina	15.6	-0-
Stow, Ohio	7.4	14,100
West Carlton Twp., Ontario, Canada	3.1	4,000
Nanaimo, British Columbia, Canada	1.0	4,742
Edmonton, Alberta, Canada	.7	2,900
Houston, Texas	1.5	7,800
Plymouth, Minnesota	2.7	11,750
Gaithersburg, Maryland	2.1	7,200
Lachine, Quebec, Canada	.5	2,300
Gibsonia, Pennsylvania	5.9	7,100
Lawrence, Pennsylvania	3.5	7,200
Jacksonville, Florida - Nursery	279.0	5,300

The Registrant also rents approximately 60 other premises for office, warehouse 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 legal proceedings, other than ordinary routine litigation incidental to the business, to which the Registrant or any of its subsidiaries is a party or of which any of their property is the subject. This routine litigation is not material to the Registrant.

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

No matter was submitted during the fourth quarter of 1996 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>
R. Douglas Cowan	President and Chief Executive Officer	56
David E. Adante	Executive Vice President, Chief Financial Officer and Secretary-Treasurer	45
Karl J. Warnke	Executive Vice President and General Manager, Utility Services	45
Howard D. Bowles	Vice President and General Manager, Davey Tree Surgery Company	53
C. Kenneth Celmer	Vice President and General Manager, Residential Services	50
Bradley L. Comport, CPA	Corporate Controller	45
Dr. Roger C. Funk	Vice President and General Manager, The Davey Institute	52
Rosemary T. Nicholas	Assistant Secretary	53
Gordon L. Ober	Vice President - New Ventures	47
Richard A. Ramsey	Vice President and General Manager, Commercial Services	47
Wayne M. Parker	Vice President - Northern Operations, Utility Services	41

Mr. Cowan was elected President and Chief Executive Officer in May 1988 and prior to that time served as President and Chief Operating Officer.

Mr. Adante was elected Executive Vice President, Chief Financial Officer and Secretary-Treasurer in May 1993. He served as Vice President, Chief Financial Officer and Secretary-Treasurer from July 1992 to June 1993. Prior to that time, he served as Vice President, Chief Financial Officer and Secretary since before 1992.

Mr. Warnke was elected Executive Vice President and General Manager-Utility Services in May 1993. Prior to that time, he served as Vice President and General Manager-Utility Services since before 1992.

Mr. Bowles was elected Vice President and General Manager of Davey Tree Surgery Company in January 1992. From that date and since before 1992, he served as Vice President and Co-General Manager.

Mr. Celmer was elected Vice President and General Manager - Residential Services in January, 1995. He served as Vice President-Eastern Operations, Residential and Commercial Services from January 1992 to January 1995. Prior to that time, he served as Vice President-Operations, Residential and Commercial Services since before 1992.

Mr. Comport was elected Corporate Controller in May 1990.

Dr. Funk was elected Vice President and General Manager - The Davey Institute in May, 1996. Prior to that time he served as Vice President - Human and Technical Resources since before 1992.

Ms. Nicholas was elected Assistant Secretary in May 1982.

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

Mr. Ramsey was elected Vice President and General Manager-Commercial Services in January, 1995. He served as Vice President-Western Operations, Residential and Commercial Services from January 1992 to January 1995. Prior to that time, he served as Vice President and Co-General Manager of Davey Tree Surgery Company since before 1992.

Mr. Parker was elected Vice President - Northern Operations, Utility Services in May, 1994. Prior to that time and since before 1992, he served in several positions in utility operations.

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

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

At December 31, 1996, 1995, and 1994 the number of Common Shares issued were 8,728,440 for each date. At those respective dates, the number of shares in the treasury were 4,209,623, 4,104,976 and 3,842,434.

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

The Registrants' board of directors declared a 2 for 1 stock split in the form of a stock dividend on September 27, 1996. (See Note 1 to the Financial Statements on page F-9 of this Annual Report on Form 10-K.)

As of March 17, 1997, there were 1,668 recorded holders of the Registrant's Common Shares. During the years ended December 31, 1996, December 31, 1995 and December 31, 1994, the Registrant paid dividends of \$.295, \$.275, and \$.26, respectively, per share. Approximately one quarter of the total dividend paid is paid in each of the four quarters. The Registrant's agreements with its lenders allow for the payment of cash dividends provided that the terms and conditions of the agreements, particularly those dealing with its shareholders equity, fixed charge coverage ratio and maximum consolidated funded debt to consolidated funded debt plus consolidated net worth ratio, are maintained. (See Note 5 to the Financial Statements on page F-13 of this Annual Report on Form 10-K.)

ITEM 6. SELECTED FINANCIAL DATA.

	<u>Years Ended December 31</u>				
	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>
	<i>(Dollars in Thousands, except per share data)</i>				
Operating Results:					
Revenues	\$ 266,934	\$ 229,682	\$ 209,683	\$ 218,521	\$ 206,054
Earnings from Continuing Operations	\$ 8,759	\$ 6,137	\$ 4,189	\$ 6,107	\$ 5,345
Earnings from Continuing Operations Per Common Share	\$ 1.86	\$ 1.27	\$.84	\$ 1.17	\$ 1.00
At Year End:					
Total Assets	\$ 111,386	\$ 104,161	\$ 98,486	\$ 99,780	\$ 92,722
Total Long-Term Debt	\$ 19,640	\$ 17,049	\$ 21,124	\$ 26,778	\$ 27,113
Cash Dividends Per Common Share	\$.295	\$.275	\$.26	\$.24	\$.22

In 1995 the Registrant sold its interior plant care business. Operating results for all years presented have accordingly been restated for this discontinued operation. (See Note 13 to the Financial Statements on page F-19 of this Annual Report on Form 10-K.)

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

LIQUIDITY AND CAPITAL RESOURCES

Despite record net earnings in 1996, operating activities provided \$17,104,000, a \$4,088,000 decrease when compared to the \$21,192,000 generated in 1995. The decrease was principally the result of an increase in other assets, a lower increase in accounts payable and accrued liabilities, and a reduction of other liabilities, offset by an increase in insurance liabilities.

Net earnings of \$8,759,000 increased \$2,386,000 or 37.4% when compared to the \$6,373,000 earned in 1995. This improvement was mainly due to higher operating earnings in most of the Registrant's service lines, particularly its Residential and Consulting services. Residential services benefited generally from favorable economic conditions in 1996, and specifically from a continued emphasis on sales, as well as productivity gains. The Registrant's Consulting and Utility services benefited from additional work with a major Western U.S. customer; although some of this work had been completed in 1996, the Registrant's Consulting services have now been retained to continue through most of 1997. Revenues and earnings also were enhanced from additional work obtained as a result of the storm damage caused by Hurricane Fran in September.

In that the increase in accounts receivable of \$5,183,000 was comparable to the increase experienced in 1995, it did not affect the net change in cash provided by operating activities. Nonetheless, it did adversely impact cash flows provided by operating activities in 1996. The increase resulted primarily from the additional work performed for its major Western U.S. customer, some renegotiated and new utility contracts, and amounts due related to the Registrant's new Commercial services. The current year increase also caused consolidated days outstanding to rise 5.9 days to 59.7 days. Based upon certain collections realized subsequent to year end, the Registrant believes this increase in days outstanding to be temporary. The Registrant also performs ongoing credit evaluations of its customers' financial condition for collection purposes, and when determined necessary, it provides an allowance for doubtful accounts.

Other assets used \$966,000 in cash, a \$1,013,000 change when compared to the \$47,000 provided last year. The change was primarily due to an increase in operating supplies necessary to support the Registrant's expanded Utility and Residential services, as well as an increase in its prepaid pension expense.

Even though accounts payable increased commensurate with the increase in revenues, on a combined basis accounts payable and accrued liabilities increased only \$637,000, \$4,475,000 less than the increase experienced in 1995. This change was primarily attributable to a slight reduction in the current portion of the Registrant's self-insurance liabilities, compared to an increase of 3,448,000 in 1995. The change in the current year should be evaluated in conjunction with the \$2,627,000 increase in long-term insurance liabilities. In the aggregate, all self-insurance liabilities increased only \$1,941,000 compared to a \$4,778,000 increase in 1995. Both the reduction of the current portion and the significantly lower total increase are a function of continued favorable claims experience along with further stabilization in the level of estimated ultimate costs resulting from a relatively mature self-insurance program. The most significant estimates made by the Registrant that affect the amounts reported in the financial statements and accompanying notes are those relating to its insurance liabilities. (See Note 2 on page F-10 of this Annual Report on Form 10-K.)

Other liabilities used \$2,868,000 in cash, an increase of \$5,013,000 when compared to the \$2,145,000 provided during 1995. This change resulted primarily from an acceleration of estimated income tax payments in the current year, the result of substantially higher earnings.

Investing activities used \$17,263,000 in 1996, an increase of \$5,769,000 when compared to the \$11,494,000 used in 1995. The increase was attributable to higher capital expenditures in the current year, coupled with proceeds received in 1995 related to the sale of certain Interiorcare assets (See Note 13 to the Financial Statements on page F-19 of this Annual Report on Form 10-K). The Registrant believes its capital expenditures and 1997 capital budget of approximately \$17,800,000 are consistent with its plan to expand services, maintain equipment on existing operations, and provide for appropriate branch office facilities.

In 1996, financing activities used \$684,000, a decrease of \$8,517,000 when compared to the \$9,201,000 used in the prior year. The decrease was due mostly to higher net borrowings under the Registrant's revolving credit agreement necessitated by the increase in accounts receivable and capital expenditures. Also, the Registrant's current year repurchase of its common shares declined substantially when compared to last year, primarily due to a significant repurchase in 1995 of shares held by a former vice president.

At December 31, 1996, the Registrant's principal source of liquidity consisted of \$627,000 in cash and cash equivalents; short-term lines of credit and amounts available to be borrowed from banks via notes payable totaling \$3,817,000, of which \$875,000 had been used at the end of the year; and a revolving credit agreement in the amount of \$35,000,000, of which \$14,100,000 had been drawn and \$7,277,000 was considered drawn to cover outstanding standby letters of credit. Including the outstanding balance on the term note agreement of \$7,200,000, the Registrant's credit facilities now total \$46,000,000. The Registrant believes its available credit will exceed credit requirements, and that its liquidity is adequate.

LIQUIDITY MEASUREMENTS

Management uses these measurements to gauge the Registrant's ability to meet current working capital requirements and the extent by which capital expenditures are funded by internally generated "cash flow".

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Working Capital	\$ 19,283	\$ 12,493	\$ 12,583
Current Ratio	1.7:1	1.4:1	1.5:1
Cash Flow from Net Earnings, Depreciation & Amortization	\$ 23,449	\$ 19,574	\$ 17,302
Capital Expenditures	\$ 18,121	\$ 13,297	\$ 8,598
Cash Flow to Capital Expenditures Ratio	1.3:1	1.5:1	2.0:1
Cash Flow as % of Revenues	8.8%	8.5%	8.3%

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>1996</u>	<u>1995</u>	<u>1994</u>
Equity to Debt Ratio	.89:1	.81:1	.83:1
Debt as % of Assets	52.9%	55.3%	54.8%
Equity as % of Assets	47.1%	44.7%	45.2%

At the end of 1996, these measurements improved over the prior two years primarily due to higher net earnings and further maturation of insurance liabilities.

COMMON SHARE MEASUREMENTS

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

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Net earnings per share	\$ 1.86	\$ 1.32	\$.81
Dividends per Share	\$.295	\$.275	\$.26
Book Value per Share	\$ 11.61	\$ 10.07	\$ 9.12
ESOT Market Valuation per Share	\$ 18.20	\$ 13.56	\$ 12.19

Earnings per share measurements are shown as if all outstanding stock options had been exercised at December 31 of the years presented. Dividends were again increased in 1996. In 1996, they were increased by a total of \$.02 per share, or 7.3% over 1995, compared to an increase in 1995 of \$.015 per share or 5.8% over 1994. It is the Registrant's objective to provide a fair return on investment to its shareholders through improved dividends as long as the Registrant can financially justify this policy. The fact that dividends have increased each year since 1979 reflects that objective.

ASSET UTILIZATION MEASUREMENTS

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

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Average Assets Employed (in 000's)	\$ 107,774	\$ 101,324	\$ 99,133
Asset Turnover (Revenues to Average Assets)	2.5	2.3	2.1
Return on Average Assets	8.1%	6.2%	4.1%

RESULTS OF OPERATIONS

Revenues of \$266,934,000 for the year increased \$37,252,000 or 16.2% when compared to the \$229,682,000 generated in 1995. This compares with an increase in revenues of 9.5% in 1995 and a decrease of 4.0% in 1994. The current year improvement was primarily due to increased revenues realized by the Registrant's Residential and Commercial services, Western Utility operations and Consulting services. As previously noted, Residential and Commercial services continue to be favorably influenced by generally good economic conditions and heightened sales efforts. The increase in Western Utility and Consulting revenues was mainly due to the additional work obtained with the Registrant's major Western U.S. customer. The 1996 revenues of \$55,000,000 earned by the Registrant with this customer represent a significant concentration (See Note 10 to the Financial Statements on page F-18 of this Annual Report on Form 10-K). The Registrant believes that a slight favorable trend in revenues will continue in 1997, despite the highly competitive nature of the utility market taken as a whole.

Operating costs of \$183,427,000 increased \$24,117,000 over 1995 but as a percentage of revenues they decreased .7% to 68.7%. The percentage reduction was mainly due to lower operating costs associated primarily with higher Residential and Consulting service revenues. These services, when compared to other services, positively influence operating costs in that they are generally higher priced services with inherently higher gross margins and attendant lower operating costs. In particular, Consulting services are far less capital intensive and any increase in these revenues relative to the Registrant's other services will benefit its cost structure. Even though the Registrant will continue to emphasize these services, it anticipates that in 1997 these costs as a percentage of revenues will approximate 1996 levels.

Selling costs for 1996 increased \$4,946,000 to \$33,575,000 when compared to the \$28,629,000 experienced last year, and as a percentage of revenues they increased .1% to 12.6%. These costs were affected primarily by higher commissions associated with improved Residential services revenue and operating earnings.

Although general and administrative expense of \$18,216,000 was \$2,327,000 higher than in 1995, as a percentage of revenues these costs declined .1% to 6.8%. The dollar increase resulted primarily from professional services related to the Registrant's upgrade of its information service technologies and administrative costs associated with its expansion of Commercial and Consulting services.

Depreciation and amortization increased \$1,489,000 to \$14,690,000, but declined .2% to 5.5% as a percentage of revenues. The lower percentage was primarily attributable to relatively lower capital expenditures in the prior two years, coupled with higher, less capital intensive Consulting service revenues in 1996. In 1997, the Registrant anticipates that depreciation expense will approximate \$14,800,000.

Interest Expense of \$2,457,000 was \$268,000 lower than last year, and as a percentage of revenues declined .3% to .9%. The reduction was mainly due to an approximate 60 basis point reduction in rates on the Registrant's bank debt.

As a result of the above factors, earnings before income taxes increased \$4,730,000 to \$14,841,000 or 5.6% as a percentage of revenues. The tax provisions for 1996, 1995 and 1994 resulted in effective tax rates of 41.0%, 39.3% and 40.3%, respectively. (See Note 9 of the Financial Statements on page F-18 on this annual report on Form 10-K).

The Registrant's net earnings of \$8,759,000 increased \$2,386,000 or 37.4% compared to 1995 and as a percentage of revenues they improved .5% to 3.3%.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

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

Not Applicable

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

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

The information regarding directors of the Registrant appearing under the heading "Election of Directors" in the Registrant's definitive Proxy Statement for its 1997 Annual Meeting of Shareholders is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information regarding compensation of the Registrant's executive officers appearing under the heading "Remuneration of Executive Officers" in the Registrant's definitive Proxy Statement for its 1997 Annual Meeting of Shareholders is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information regarding the security ownership of certain beneficial owners and management appearing under the heading "Ownership of Common Shares" in the Registrant's definitive Proxy Statement for its 1997 Annual Meeting of Shareholders is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information regarding certain relationships and related transactions appearing under the headings "Election of Directors" and "Indebtedness of Management" in the Registrant's definitive Proxy Statement for its 1997 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 14 of this Annual Report on Form 10-K.

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

SIGNATURES

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

THE DAVEY TREE EXPERT COMPANY

By: /s/ R. D. COWAN
R. D. Cowan, President and
Chief Executive Officer

March 17, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 17, 1997.

/s/ J. W. JOY
J. W. JOY, Director and
Chairman of the Board

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

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

/s/ THOMAS G. MURDOUGH, JR.
THOMAS G. MURDOUGH, JR., Director

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

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

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

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

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

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

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

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

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>	<u>LOCATION SEQUENTIAL PAGE</u>
(2)	Plan of acquisition, reorganization, arrangement, liquidation or succession.	Not Applicable.
(3)(i)	1991 Amended Articles of Incorporation	16-19
(3)(ii)	1987 Amended and Restated Regulations of The Davey Tree Expert Company.	20-31
(4)	Instruments defining the rights of security holders, including indentures	The Company is a party to certain instruments, copies of which will be furnished to the Securities and Exchange Commission upon request, defining the rights of holders of long-term debt identified in Note 5 of Notes to Consolidated Financial Statements on page F-13 of this Annual Report on Form 10-K.
(9)	Voting Trust Agreement	Not Applicable.
(10)(a)	1985 Incentive Stock Option Plan	Incorporated by reference to Exhibit 10 (a) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992.
(10)(b)	1987 Incentive Stock Option Plan	Incorporated by reference to Exhibit 10 (b) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992.
(10)(c)	1994 Omnibus Stock Plan	Incorporated by reference to Exhibit 10 (c) to the Registrant's Form 10-Q for the quarter ended July 2, 1994.
(11)	Statement re computation of per share earnings	Not Applicable.

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>	<u>LOCATION SEQUENTIAL PAGE</u>
(12)	Statement re computation of ratios	Not Applicable.
(13)	Annual Report to security holders, Form 10-Q or quarterly report to security holders	Not Applicable.
(16)	Letter re change in certifying accountant	Not Applicable.
(18)	Letter re change in accounting principals	Not Applicable.
(21)	Subsidiaries of the Registrant	32
(22)	Published report regarding matters submitted to vote of security holders	Incorporated by reference to Part II, Item 4 to the Registrant's Form 10-Q for the quarter ended June 29, 1996.
(23)	Consent of independent auditors to incorporation of their report in Registrant's Statements on Form S-8 (File Nos. 2-73052, 2-77353, 33-5755, 33-21072, and 33-59347) and Form S-2 (File No. 33-30970)	33
(24)	Power of Attorney	Not Applicable.
(27)	Financial Data Schedule	34

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

**1991 AMENDED ARTICLES OF INCORPORATION
OF
THE DAVEY TREE EXPERT COMPANY**

FIRST. The name of the Company is THE DAVEY TREE EXPERT COMPANY.

SECOND. The place in the State of Ohio where the principal office of the Company is located is the City of Kent, in Portage County.

THIRD. The purposes for which the Company is formed are:

(a) To engage in all phases of the tree and lawn care business, including without limitation, the care, treatment, preservation, propagation, cultivation, planting, removal and sale of trees, plants, shrubs and vines, the practice of landscape architecture, the trimming of trees and other forms of line clearing, including right-of-way clearance for power and telephone companies or others, the publication of books, pamphlets, periodicals and other literature for free distribution or sale, the manufacturing, jobbing, buying and selling at wholesale or retail of any and all tools, materials, supplies, implements or equipment, the practice of forestry, the logging, sawing, milling, processing and marketing of forest products, the development of recreation areas and facilities and the acquisition, operation and sales of farms, manufacturing establishments and other enterprises;

(b) To manufacture, to purchase, lease or otherwise acquire, to hold and use, to sell, lease or otherwise dispose of and to deal in or with personal property of any description and any interest therein;

(c) To purchase, lease or otherwise acquire, to invest in, hold, use and encumber, to sell, lease, exchange, transfer or otherwise dispose of and to construct, develop, improve, equip, maintain and operate structures and real property of any description and any interest therein;

(d) To borrow money, to issue, sell and pledge its notes, bonds and other evidence of indebtedness, to secure any of its obligations by mortgage, pledge or deed of trust of all or any of its property and to guarantee and secure obligations of any person, firm or corporation, all to the extent necessary, useful or conducive to carrying out any of the other purposes of the Company;

(e) To invest its funds in any shares or other securities of another corporation, business or undertaking of a government, governmental authority or governmental subdivision; and

(f) To do whatever is deemed necessary, useful or conducive to carrying out any of the purposes of the Company and to engage in any lawful activity for which corporations may be formed under the Ohio General Corporation Law.

FOURTH. The authorized number of shares of the Company is 16,000,000, consisting of 4,000,000 Preferred Shares, without par value (the “Preferred Shares”), and 12,000,000 Common Shares with par value of \$1 each (the “Common Shares”).

DIVISION A. Express Terms of Preferred Shares.

The Preferred Shares shall be issuable only to holders of Common Shares of the Company as a class, unless the holders of Common Shares as a class waive such right of issuance, and the Directors, without any further action by the shareholders, may, at any time and from time to time, adopt an amendment or amendments to the Articles of Incorporation of the Company in respect of any Preferred Shares which constitute unissued or treasury shares at the time of such adoption, for the purpose of dividing any or all of such Preferred Shares into such series as the Directors shall determine, each of which series shall bear such distinguishing designation as the Directors shall determine and within the limitations prescribed by the provisions of the Ohio General Corporation Law, fix the express terms of any such series of Preferred Shares, which may include statements specifying:

(a) Dividend rights, which may be cumulative or non-cumulative, at a specified rate, amount or proportion, with or without further participation rights, and in preference to, junior to, or on a parity in whole or in part with dividend rights of shares of any other class or series;

(b) Liquidation rights, preferences, and price;

(c) Redemption rights and price or prices, if any;

(d) Sinking fund requirements, if any, which may require the Company to provide a sinking fund out of earnings or otherwise for the purchase or redemption of such shares or for dividends thereon;

(e) Conversion rights, if any, and the conversion rate or rates or price or prices and the adjustments thereof, if any, and all other terms and conditions upon which conversions may be made; and

(f) Restrictions on the issuance of shares of any class or series of the Company.

DIVISION B. Express Terms of Common Shares.

The Common Shares shall be subject to the express terms of the Preferred Shares and any series thereof. Each Common Share shall be equal to every other common share. The holders of Common Shares shall be entitled to one vote for each share held by them upon all matters presented to the shareholders.

FIFTH. The Company, by action of its directors and without action by its shareholders, may purchase its own shares in accordance with the provisions of the Ohio General Corporation Law. Such purchases may be made either in the open market or at public or private sale, in such manner and amounts, from such holder or holders of outstanding shares of the Company and at such prices as the directors may from time to time determine.

SIXTH. When a shareholder, or a shareholder's estate upon the death of a shareholder, proposes to sell, give or otherwise transfer Common Shares, whether voluntarily or involuntarily, other than (i) transfers to a current Employee (as defined), (ii) transfers by a current or former Employee to members of his or her Immediate Family (as defined), and (iii) transfers by a deceased current or former Employee to members of his or her Immediate Family, the Company and the ESOT (as defined) shall have the right, at their option, to purchase all (but not less than all) of the Common Shares held by the shareholder on the terms and conditions set forth in this article SIXTH.

(a) For purposes of this Article SIXTH, the following definitions apply:

(i) "Employee" means an hourly or salaried employee of the Company or of any subsidiary of the Company. For this purpose, a "subsidiary" is another corporation of which the Company owns, directly or indirectly through another subsidiary, more than 50% of the voting power.

(ii) "ESOT" means the trust for the Company's Employee Stock Ownership Plan, or any replacement or substitute for that Plan, as amended from time to time.

(iii) Member of an Employee's "Immediate Family" means the Employee's spouse, children (including any adopted children and step children), and any trust established for the benefit of one or more of them.

(b) The purchase price per share shall be the most recent available valuation of the Common Shares conducted for the ESOT, provided that these valuations continue to be made at least once a year. If these valuations are no longer made or are made less frequently than once a year, the purchase price per Common Share shall be the fair market value per Common Share determined using another method established from time to time by the Company's Board of Directors.

(c) In the event of the death of a shareholder and the proposed transfer of the shareholder's Common Shares to anyone other than an Employee or a member of an Employee's Immediate Family, the right of the Company and the ESOT to purchase the Common Shares may be exercised by written notice to the representatives of the shareholder's estate. The notice of exercise may be delivered at any time on or before the 30th day after the Company receives written notice of (i) the shareholder's death and (ii) the identity and address of the representatives of the shareholder's estate. Upon delivery of the notice of exercise on or before the 30th day and tender of the purchase price for the Common Shares by the Company, all rights of the representatives in respect of the Common Shares shall cease, and the representatives shall deliver to the Company any certificate or certificates representing the Common Shares. If the Company and the ESOT fail to deliver the notice of exercise on or before the 30th day, the representatives of the shareholder's estate and heirs can take and hold the Common Shares, subject to the restrictions set forth in this Article SIXTH.

(d) In the event of a proposed sale, gift, or other transfer of Common Shares to anyone other than an Employee of the Company or a member of an Employee's Immediate Family, the right of the Company and the ESOT to purchase the Common Shares may

be exercised at any time within 30 days after the certificate or certificates representing the Common Shares have been surrendered to the Company or its transfer agent for transfer. Upon delivery of the notice of exercise within the 30-day period and tender of the purchase price for the Common Shares by the Company, all rights of the former shareholder in respect of the Common Shares shall cease, and the Company may retain the certificate or certificates representing the Common Shares. If the Company and the ESOT fail to deliver the notice of exercise within the 30-day period, the shareholder may proceed with the proposed transfer, and the recipient can take and hold the Common Shares, subject to the restrictions set forth in this Article SIXTH.

(e) Whenever both the Company and the ESOT desire to purchase Common Shares under this Article SIXTH, the Company shall have the first right to purchase the Common Shares, and the ESOT shall have the right to purchase any Common Shares not purchased by the Company.

(f) All Common Shares shall bear a legend referring to the restrictions on transfer set forth in this Article SIXTH.

SEVENTH. These 1991 Amended Articles of Incorporation supersede the existing 1987 Amended Articles of Incorporation of the Company and all amendments thereto.

THE DAVEY TREE EXPERT COMPANY**1987 AMENDED AND RESTATED REGULATIONS****ADOPTED: May 19, 1987****ARTICLE I
SHAREHOLDERS**

SECTION 1. ANNUAL MEETING. The annual meeting of Shareholders of the Company for the election of directors, the consideration of reports to be laid before such meeting, and the transaction of such other business as may properly be brought before such meeting shall be held, at the principal office of the Company in the City of Kent, in Portage County, or at such other place either within or without the State of Ohio as may be designated by the Board of Directors, by the Chairman of the Board, or by the President and specified in the notice of such meeting, at two o'clock p.m. on the third Tuesday of May in each year, if not a legal holiday, and, if a legal holiday, then on the next succeeding business day, or such other date or time as may be designated by the Board of Directors, by the Chairman of the Board of Directors, or by the President and specified in the notice of the meeting.

SECTION 2. SPECIAL MEETINGS. Special meetings of the shareholders of the Company may be held on any business day, when called by the Chairman of the Board, by the Vice Chairman of the Board, by the President, by an Executive Vice President, by a Senior Vice President, by a Vice President, or by the Board of Directors acting at a meeting, or by a majority of the directors acting without a meeting, or by the persons who hold twenty-five percent of all the shares outstanding and entitled to vote thereat. Upon request in writing delivered either in person or by registered mail to the President or the Secretary by any persons entitled to call a meeting of shareholders, such officer shall forthwith cause to be given to the shareholders entitled thereto notice of a meeting to be held on a date not less than seven or more than sixty days after the receipt of such request, as such officer may fix. If such notice is not given within thirty days after the delivery or mailing of such request, the person calling the meeting may fix the time of the meeting and give notice thereof in the manner provided by law or as provided in these Regulations, or cause such notice to be given by any designated representative. Each special meeting shall be called to convene between nine o'clock a.m. and four o'clock p.m., shall be held at the principal office of the Company, unless the same is called by the directors, acting with or without a meeting, in which case such meeting may be held at any place either within or without the State of Ohio designated by the Board of Directors and specified in the notice of such meeting.

SECTION 3. NOTICE OF MEETINGS. Not less than seven or more than sixty days before the date fixed for a meeting of shareholders, written notice stating the time, place and purposes of such meeting shall be given by or at the direction of the Secretary, or Assistant Secretary, or any other person or persons required or permitted by these Regulations to give such notice. The notice shall be given by personal delivery or by mail to each shareholder

entitled to notice of the meeting who is of record as of the day next preceding the day on which notice is given or, if a record date therefore is duly fixed, of record as of said date; if mailed, the notice shall be addressed to the shareholders at their respective addresses as they appear on the records of the Company. Notice of the time, place, and purposes of any meeting of shareholders may be waived in writing, either before or after the holding of such meeting, by any shareholder, which writing shall be filed with or entered upon the records of the meeting. The attendance of any shareholder at any such meeting without protesting, prior to or at the commencement of the meeting, the lack of proper notice shall be deemed to be a waiver by him or notice of such meeting.

SECTION 4. QUORUM; ADJOURNMENT. Except as may be otherwise provided by law or by the Articles of Incorporation, at any meeting of the shareholders the holders of shares entitling them to exercise a majority of the voting power of the Company present in person or by proxy shall constitute a quorum for such meeting; provided, however, that no action required by law, by the Articles, or by these Regulations to be authorized or taken by a designated proportion of the shares of any particular class or of each class of the Company may be authorized or taken by a less proportion; and provided, further, that the holders of a majority of the voting shares represented thereat, whether or not a quorum is present, may adjourn such meeting from time to time; if any meeting is adjourned, notice of such adjournment need not be given if the time and place to which such meeting is adjourned are fixed and announced at such meeting.

SECTION 5. PROXIES. Persons entitled to vote shares or to act with respect to shares may vote or act in person or by proxy. The person appointed as proxy need not be a shareholder. Unless the writing appointing a proxy otherwise provides, the presence at a meeting of the person having appointed a proxy shall not operate to revoke the appointment. Notice to the Company, in writing or in open meeting, of the revocation of the appointment of a proxy shall not affect any vote or act previously taken or authorized.

SECTION 6. APPROVAL AND RATIFICATION OF ACTS OF OFFICERS AND BOARD OF DIRECTORS. Except as otherwise provided by the Articles of Incorporation or by law, any contract, act, or transaction, prospective or past, of the Company, or of the Board of Directors, or of the officers may be approved or ratified by the affirmative vote at a meeting of the shareholders, or by the written consent, with or without a meeting, of the holders of record of shares entitling them to exercise a majority of the voting power of the Company, and such approval or ratification shall be as valid and binding as though affirmatively voted for or consented to by every shareholder of the Company.

ARTICLE 11 BOARD OF DIRECTORS

SECTION 1. NUMBER AND CLASSIFICATION. The Board of Directors will be divided into three classes consisting of not less than three directors each. The number of directors may be fixed or changed by the shareholders at any meeting of shareholders called to elect directors at which a quorum is present, by the vote of the holders of a majority of

the shares represented at the meeting and entitled to vote on the proposal. The terms in office of the directors in each of the classes will expire in consecutive years. At each annual election of directors, directors will be elected to the class whose term in office expires in that year and will hold office for a term of three years and until their respective successors are elected. In case of any increase in the number of directors of any class, the additional director or directors elected to that class will hold office for the remainder of the term in office of that class.

SECTION 2. RESIGNATION; REMOVAL; VACANCIES. Any director may resign at any time by oral statement made at a meeting of the Board of Directors or in a writing delivered to the secretary; the resignation will take effect immediately or at such other time as the director may specify. No director may be removed prior to the expiration of his term except for gross negligence or willful misconduct in the performance of his duties as a director. No reduction in the number of directors of any class, and no modification or elimination of the classification of the Board of Directors, will of itself have the effect of shortening the term of any incumbent director. In the event of any vacancy or vacancies in the Board of Directors, however caused, the directors then in office, though less than a majority of the authorized number of directors, may, by the vote of a majority of their number, fill each vacancy for the remainder of the term in office of the director whose resignation, removal, or death resulted in the vacancy.

SECTION 3. NOMINATION OF CANDIDATES FOR ELECTION AS DIRECTORS. At a meeting of shareholders at which directors are to be elected, only persons nominated as candidates will be eligible for election as directors. Candidates may be nominated either by the Board of Directors or by any shareholder entitled to vote at the meeting. Nominations by the Board of Directors may be made at a meeting or in an action without a meeting, not less than 30 days prior to the meeting at which the directors are to be elected. Each candidate nominated by the board will, at the request of the secretary, provide the company with all of the information about himself required, under rules of The Securities and Exchange Commission, to be included in the company's proxy statement for the meeting. Any shareholder who proposes to nominate one or more candidates for election as director must, not less than 30 days prior to the meeting at which the directors are to be elected, notify the secretary of his intention to make the nomination and provide the company with all of the information about each of the candidates as would be required, under the rules of The Securities and Exchange Commission, to be included in a proxy statement soliciting proxies for the election of the candidate, including (i) his name, age, and business and residence addresses, (ii) his principal occupations or employment during the last five years, (iii) the number of shares of the company beneficially owned by him, and (iv) transactions between him and the Company. In the event that a candidate validly nominated by the Board or by a shareholder thereafter becomes unable or unwilling to stand for election as a director, the Board or the shareholder who nominated the candidate, as the case may be, may nominate a substitute candidate. If the Chairman or other officer presiding at the meeting determines that one or more candidates were not nominated in accordance with these procedures, he may rule the nomination of these candidates to be out-of-order and void.

SECTION 4. ORGANIZATION MEETING. Immediately after each annual meeting of the shareholders, the newly elected directors shall hold an organization meeting for the purpose of electing officers and transacting any other business. Notice of such meeting need not be given.

SECTION 5. REGULAR MEETINGS. Regular meetings of the Board of Directors may be held at such times and places within or without the State of Ohio as may be provided for in bylaws or resolutions adopted by the Board of Directors and upon such notice, if any, as shall be so provided.

SECTION 6. SPECIAL MEETINGS. Special meetings of the Board of Directors may be held at any time within or without the State of Ohio upon call by the Chairman of the Board, the Vice Chairman of the Board, the President, an Executive Vice President, Senior Vice President, or a Vice President or any two directors. Written notice of the time and place of each such meeting shall be given to each director either by personal delivery or by mail, telegram, or cablegram at least two days before the meeting, which notice need not specify the purposes of the meeting; provided, however, that attendance of any director at any such meeting without protesting, prior to or at the commencement of the meeting, the lack of proper notice shall be deemed to be a waiver by him of notice of such meeting and such notice may be waived in writing, either before or after the holding of such meeting, by any director, which writing shall be filed with or entered upon the records of the meeting. Unless otherwise indicated in the notice thereof, any business may be transacted at any organization, regular, or special meeting.

SECTION 7. QUORUM; ADJOURNMENT. A quorum of the Board of Directors shall consist of a majority of the directors then in office; provided, that a majority of the directors present at a meeting duly held, whether or not a quorum is present, may adjourn such meeting from time to time, if any meeting is adjourned, notice of such adjournment need not be given if the time and place to which such meeting is adjourned are fixed and announced at such meeting. At each meeting of the Board of Directors at which a quorum is present, all questions and business shall be determined by a majority vote of those present except as in these Regulations otherwise expressly provided.

SECTION 8. ACTION WITHOUT A MEETING. Any action which may be authorized or taken at a meeting of the Board of Directors may be authorized or taken without a meeting in a writing or writings signed by all of the directors, which writing or writings shall be filed with or entered upon the records of the Company.

SECTION 9. COMMITTEES. The Board of Directors may at any time appoint from its members an Executive, Finance, or other committee or committees, consisting of such number of members, not less than three, as the Board of Directors may deem advisable, together with such alternates as the Board of Directors may deem advisable, to take the place of any absent member or members at any meeting of such committee. Each such member and each such alternate shall hold office during the pleasure of the Board of Directors. Any such committee shall act only in the intervals between meetings of the Board of Directors and shall have such authority to fill vacancies in the Board of Directors or in any committee of the Board of Directors. Subject to the aforesaid exceptions, any person dealing with the Company shall be

entitled to rely upon any act or authorization of an act by any such committee, to the same extent as an act or authorization of the Board of Directors. Each committee shall keep full and complete records of all meetings and actions, which shall be open to inspection by the directors. Unless otherwise ordered by the Board of Directors, any such committee may prescribe its own rules for calling and holding meetings, and for its own method of procedure, and may act at a meeting by a majority of its members or without a meeting by a writing or writings signed by all of its members.

SECTION 10. DIRECTORS ADVISORY COMMITTEE. The Board of Directors may establish a Directors Advisory Committee and appoint to such Committee such number of persons as the Board of Directors may deem advisable. No member of the Board of Directors shall serve on the Directors Advisory Committee, but the Board of Directors may appoint to such Committee any former directors or officers of the Company and such other persons as it may deem advisable. Each member of the Directors Advisory Committee shall be appointed for a term of three years, and no member of the Directors Advisory Committee shall serve for more than two such three-year terms. The Directors Advisory Committee shall exercise an advisory function with respect to only such matters as the Board of Directors may specifically submit to such Committee, provided, however, that the Directors Advisory Committee shall in no event have any authority whatsoever with respect to the operations or management of the Company or to authorize, require, or approve any expenditure, payment, or donation of any funds of the Company.

ARTICLE III OFFICERS

SECTION 1. ELECTION AND DESIGNATION OF OFFICERS.

The Board of Directors shall elect a President, a Secretary, a Treasurer, and, in its discretion, may elect a Chairman of the Board, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as the Board of Directors may deem necessary. The Chairman of the Board, the Vice Chairman of the Board, and the President shall be directors, but no one of the other officers need be a director. Any two or more of such offices may be held by the same person, but no officer shall execute, acknowledge, or verify any instrument in more than one capacity, if such instrument is required to be executed, acknowledged, or verified by two or more officers.

SECTION 2. TERM OF OFFICE; VACANCIES. The officers of the Company shall hold office until the next organization meeting of the Board of Directors and until their successors are elected, except in case of resignation, removal from office, or death. The Board of Directors may remove any officer at any time with or without cause by a majority vote of the directors then in office. Any vacancy in any office may be filled by the Board of Directors.

SECTION 3. CHAIRMAN OF THE BOARD. The Chairman of the Board shall preside at all meetings of the Board of Directors and shall have such authority and shall perform such other duties as may be determined by the Board of Directors.

SECTION 4. PRESIDENT. The President shall preside at all meetings of the shareholders and shall preside at all meetings of the Board of Directors, except for meetings of the Board of Directors at which the Chairman of the Board, if any, presides in accordance with the preceding Section. Subject to directions of the Board of Directors, the President shall have general executive supervision over the property, business, and affairs of the Company. He may execute all authorized deeds, mortgages, bonds, contracts, and other authority and shall perform such other duties as may be determined by the Board of Directors.

SECTION 5. VICE CHAIRMAN OF THE BOARD. The Vice Chairman of the Board shall exercise all of the authority of, and perform all of the duties, of the Chairman in case of the absence or inability of the Chairman to act and shall have such other authority and perform such other duties as may be determined by the Board of Directors.

SECTION 6. EXECUTIVE VICE PRESIDENTS. The Executive Vice Presidents shall, respectively, have such authority and perform such duties as may be determined by the Board of Directors.

SECTION 7. SENIOR VICE PRESIDENTS. The Senior Vice Presidents shall, respectively, have such authority and perform such duties as may be determined by the Board of Directors.

SECTION 8. VICE PRESIDENTS. The Vice Presidents shall, respectively, have such authority and perform such duties as may be determined by the Board of Directors.

SECTION 9. SECRETARY. The Secretary shall keep the minutes of the shareholders and of the Board of Directors. He shall keep such books as may be required by the Board of Directors, shall give notices of shareholders meetings and of Board meetings required by law, or by these Regulations, or otherwise, and shall have such authority and shall perform such other duties as may be determined by the Board of Directors.

SECTION 10. TREASURER. The Treasurer shall receive and have in charge all money, bills, notes, bonds, stocks in other corporations, and similar property belonging to the Company, and shall do with the same as may be ordered by the Board of Directors. He shall keep accurate financial accounts and hold the same open for the inspection and examination of the directors and shall have such authority and shall perform such other duties as may be determined by the Board of Directors.

SECTION 11. OTHER OFFICERS. The Assistant Secretaries and Assistant Treasurers, if any, and any other officers whom the Board of Directors may elect shall, respectively, have such authority and perform such other duties as may be determined by the Board of Directors.

SECTION 12. DELEGATION OF AUTHORITY AND DUTIES.

The Board of Directors is authorized to delegate the authority and duties of any officer to any other officer and generally to control the action of the officers and to require the performance of duties in addition to those mentioned herein.

ARTICLE IV COMPENSATION

SECTION 1. DIRECTORS AND MEMBERS OF COMMITTEES.

Members of the Board of Directors and members of any committee of the Board of Directors shall, as such, receive such compensation, which may be either a fixed sum for attendance at each meeting of the Board of Directors, or at each meeting of the committee, or stated compensation payable at intervals, or shall otherwise be compensated as may be determined by or pursuant to authority conferred by the Board of Directors or any committee of the Board of Directors, which compensation may be in different amounts for various members of the Board of Directors or any committee. No member of the Board of Directors and no member of any committee of the Board of Directors shall be disqualified from being counted in the determination of a quorum or from acting at any meeting of the Board of Directors or of a committee of the Board of Directors by reason of the fact that matters affecting his own compensation as a director, member of a committee of the Board of Directors, officer, or employee are to be determined.

SECTION 2. OFFICERS AND EMPLOYEES. The compensation of officers and employees of the Company, or the method of fixing such compensation, shall be determined by or pursuant to authority conferred by the Board of Directors or any committee of the Board of Directors. Such compensation may include pension, disability, and death benefits, and may be by way of fixed salary, or on the basis of earnings of the Company, or any combination thereof, or otherwise, as may be determined or authorized from time to time by the Board of Directors or any committee of the Board of Directors.

ARTICLE V INDEMNIFICATION

SECTION 1. THIRD PARTY ACTIONS. The Company shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (other than an action or suit by or in the right of the Company), by reason of the fact that he is or was a director, officer, employee, or agent of the Company, or is or was serving at the request of the Company as a director, trustee, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by him in connection with the action, suit, or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company

and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit, or proceeding by judgment, order, settlement, or conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company or that, with respect to any criminal action or proceeding, he had reasonable cause to believe that his conduct was unlawful.

SECTION 2. DERIVATIVE ACTIONS. Other than in connection with an action or suit in which the liability of a director under Section 1701.95 of the Ohio Revised Code is the only liability asserted, the Company shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action or suit by or in the right of the Company to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee, or agent to the Company, or is or was serving at the request of the Company as a director, trustee, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of the action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, except that:

(a) no indemnification of a director shall be made if it is proved by clear and convincing evidence in a court of competent jurisdiction that his action or failure to act involved an act or omission undertaken with deliberate intent to cause injury to the Company or undertaken with reckless disregard for the best interests of the Company; and

(b) no indemnification of an officer, employee, or agent, regardless of his status as a director, shall be made in respect of any claim, issue, or matter as to which he is adjudged to be liable for negligence or misconduct in the performance of his duty to the Company;

unless and only to the extent that the Court of Common Pleas or the court in which the action or suit was brought determines upon application that, despite the adjudication of liability but in view of all the circumstances of the case, he is fairly and reasonably entitled to indemnity for such expenses as the Court of Common Pleas or the other court shall deem proper.

SECTION 3. RIGHTS AFTER SUCCESSFUL DEFENSE. To the extent that a director, trustee, officer, employee, or agent has been successful on the merits or otherwise in defense of any action, suit, or proceeding referred to in Section 1 or Section 2, or in defense of any claim, issue, or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the action, suit or proceeding.

SECTION 4. OTHER DETERMINATIONS OF RIGHTS. Except in a situation governed by Section 3, any indemnification under Section 1 or Section 2 (unless ordered by a court) shall be made by the Company only as authorized in the specific case upon a

determination that indemnification of the director, trustee, officer, employee, or agent is proper in the circumstances because he has met the applicable standard or conduct set forth in Section 1 or Section 2. The determination shall be made (a) by a majority vote, at a meeting of directors, of those directors who constitute a quorum and who also were not and are not parties to or threatened with any such action, suit, or proceeding or (b) if such a quorum is not obtainable (or even if obtainable) and a majority of disinterested directors so directs, in a written opinion by independent legal counsel (compensated by the Company) or (c) by the affirmative vote in person or by proxy of the holders of record of a majority of the shares held by persons who were not and are not parties to or threatened with any such action, suit, or proceeding and entitled to vote in the election of directors, without regard to voting power which may thereafter exist upon a default, failure, or other contingency or (d) by the Court of Common Pleas or the court in which such action, suit, or proceeding was brought.

SECTION 5. ADVANCES OF EXPENSES. Unless at the time of a director's act or omission that is the subject of an action, suit, or proceeding referred to in Section 1 or Section 2 hereof, the only liability asserted against a director in the action, suit, or proceeding referred to in Section 1 or Section 2 hereof is pursuant to Section 1701.95 of the Revised Code:

(a) expenses, including attorney's fees, incurred by a director in defending the action, suit, or proceeding shall be paid by the company as they are incurred, in advance of the final disposition of the action, suit, or proceeding upon receipt or an undertaking by or on behalf of the director in which he agrees both: (i) to repay the amount if it is proved by clear and convincing evidence in a court of competent jurisdiction that his action or failure to act involved an act or omission undertaken with deliberate intent to cause injury to the company or undertaken with reckless disregard for the best interests of the company and (ii) to reasonably cooperate with the company concerning the action, suit, or proceeding.

(b) expenses (including attorney's fees), incurred by a director, officer, employee, or agent in defending any action, suit or proceeding referred to in Section 1 or Section 2 of this Article V may be paid by the Company, as they are incurred, in advance of final disposition of the action, suit, or proceeding, as authorized by the Board of Directors in the specific case, upon receipt of an undertaking by or on behalf of the director, officer, employee, or agent to repay the amount if it is ultimately determined that he is not entitled to be indemnified by the Company.

SECTION 6. PURCHASE OF INSURANCE. The Company may purchase and maintain insurance or furnish similar protection, including but not limited to trust funds, letters of credit, or self-insurance, on behalf of or for any person who is or was a director, officer, employee, or agent of the Company, or is or was serving at the request of the Company as a director, trustee, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against any liability asserted against him and incurred by him in any capacity, or arising out of his status as such, whether or not the Company would have the

power to indemnify him against liability under the provisions of this Article or of the Ohio General Corporation Law. Insurance may be purchased from or maintained with a person in which the Company has a financial interest.

SECTION 7. MERGERS. In the case of a merger into this Company of a constituent corporation which, if its separate existence had continued, would have been required to indemnify directors, trustees, officers, employees, or agents in specified situations, any person who served as a director, officer, employee or agent of the constituent corporation, or served at the request of the constituent corporation as a director, trustee, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, shall be entitled to indemnification by this Company (as the surviving corporation) to the same extent he would have been entitled to indemnification by the constituent corporation if its separate existence had continued.

SECTION 8. NON-EXCLUSIVITY; HEIRS. Indemnification authorized by this Article shall not be exclusive of, and shall be in addition to, any other rights granted to those seeking indemnification as a matter of law or under the Articles, these Regulations, any agreement, a vote of shareholders or disinterested directors, any insurance purchased by the Company, any action by the directors to take into account amendments to the Ohio General Corporation Law that expand the authority of the Company to indemnify a director, officer, employee, or agent of the Company, or otherwise, both as to action in his official capacity and as to action in another capacity while holding an office, and shall continue as to a person who has ceased to be a director, trustee, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person.

ARTICLE VI RECORD DATE

For any lawful purpose, including, without limitation, the determination of the shareholders who are entitled to receive notice of or to vote at a meeting of shareholders, the Board of Directors may fix a record date in accordance with the provisions of the Ohio General Corporation Law. The record date for the purpose of the determination of the shareholders who are entitled to receive notice of or to vote at a meeting of shareholders shall continue to be the record date for all adjournments of such meeting, unless the Board of Directors or the persons who shall have fixed the original record date shall, subject to the limitations set forth in the Ohio General Corporation Law, fix another date, and, in case a new record date is so fixed, notice thereof and of the date to which the meeting shall have been adjourned shall be given to shareholders of record as of such date in accordance with the same requirements as those applying to a meeting newly called. The Board of Directors may close the share transfer books against transfers of shares during the whole or any part of the period provided for in this Article, including the date of the meeting of shareholders and the period ending with the date, if any, to which adjourned. If no record date is fixed therefore, the record for determining the shareholders who are entitled to receive notice of or to vote at a meeting of shareholders shall be the date next preceding the day on which notice is given, or the date next preceding the day on which the meeting is held, as the case may be.

**ARTICLE VII
CERTIFICATES FOR SHARES**

SECTION 1. FORM OF CERTIFICATES AND SIGNATURES.

Each holder of shares shall be entitled to one or more certificates, signed by the Chairman of the Board, the Vice Chairman of the Board, the President, an Executive Vice President, Senior Vice President, or a Vice President and by the Secretary, an Assistant Secretary, the Treasurer, or an Assistant Treasurer of the Company, which shall certify the number of class of shares held by him in the Company, but no certificate for shares shall be executed or delivered until such shares are fully paid. When such a certificate is countersigned by an incorporated transfer agent or registrar, the signature of any of said officers of the Company may be facsimile, engraved, stamped, or printed. Although any officer of the Company whose manual or facsimile signature is affixed to such a certificate ceases to be such officer before the certificate is delivered, such certificate nevertheless shall be effective in all respects when delivered.

SECTION 2. TRANSFER OF SHARES. Shares of the Company shall be transferable upon the books of the Company by the holders thereof, in person, or by a duly authorized attorney, upon surrender and cancellation of certificates for a like number of shares of the same class or series, with duly executed assignment and power of transfer endorsed thereon or attached thereto, and with such proof of the authenticity of the signatures to such assignment and power of transfer as the Company or its agents may reasonably require.

SECTION 3. LOST, STOLEN, OR DESTROYED CERTIFICATES.

The Company may issue a new certificate for shares in place of any certificate theretofore issued by it and alleged to have been lost, stolen, or destroyed, and the Board of Directors may, in its discretion, require the owner, or his legal representatives, to give the Company a bond containing such terms as the Board of Directors may require to protect the Company or any person injured by the execution and delivery of a new certificate.

SECTION 4. TRANSFER AGENT AND REGISTRAR. The Board of Directors may appoint, or revoke the appointment of, transfer agents and registrars and may require all certificates for shares to bear the signature of such transfer agents and registrars, or any of them.

**ARTICLE VIII
CORPORATE SEAL**

The corporate seal of this Company shall be circular in form and shall contain the name of the Company. Failure to affix the corporate seal to any instrument executed on behalf of the Company shall not affect the validity of such instrument.

**ARTICLE IX
AMENDMENTS**

The Regulations of the Company may be amended, or new Regulations may be adopted, by the shareholders at a meeting held for such purpose, by affirmative vote of the holders of shares entitling them to exercise a majority of the voting power on such proposal or, without a meeting, by the written consent of the holders of shares entitling them to exercise two-thirds of the voting power on such proposal. If the Regulations are amended or new Regulations are adopted without a meeting of the shareholders, the Secretary of the Company shall mail a copy of the amendment or the new Regulations to each shareholder who would have been entitled to vote thereon and did not participate in the adoption thereof.

SUBSIDIARIES OF THE REGISTRANT

The Registrant has three wholly-owned subsidiaries, Davey Tree Surgery Company (incorporated in Ohio), Davey Tree Expert Co. of Canada, Limited (incorporated in Canada) and B.D. Wilhelm Company (incorporated in Colorado), each of which did business in 1996 under its corporate name.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 2-73052, as amended, 2-77353, 33-5755, 33-21072 and 33-59347 on Forms S-8 relating to The Davey Tree Expert Company 1980 Employee Stock Option Plan, The Davey Tree Expert Company 1982 Employee Stock Option Plan, The Davey Tree Expert Company 1985 Incentive Stock Option Plan, The Davey Tree Expert Company 1987 Incentive Stock Option Plan and The Davey Tree Expert Company 1994 Omnibus Stock Plan, and in Registration Statement No. 33-30970 on Form S-2 relating to The Davey Tree Expert Company 1989 Stock Subscription Plan and in the related prospectuses, of our report dated February 14, 1997, appearing in this Annual Report on Form 10-K of The Davey Tree Expert Company for the year ended December 31, 1996.

/s/DELOITTE & TOUCHE LLP

Cleveland, Ohio
March 25, 1997

Financial Data Schedule

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors
The Davey Tree Expert Company

We have audited the accompanying consolidated balance sheets of The Davey Tree Expert Company and subsidiary companies as of December 31, 1996, 1995, and 1994, and the related consolidated statements of net earnings, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Davey Tree Expert Company and subsidiary companies as of December 31, 1996, 1995, and 1994, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

/s/Deloitte & Touche LLP
Cleveland, Ohio
February 14, 1997

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

	1996	December 31 1995	1994
	<i>(Dollars in Thousands)</i>		
ASSETS			
<i>CURRENT ASSETS:</i>			
Cash and cash equivalents	\$ 627	\$ 1,470	\$ 973
Accounts receivable	39,805	34,622	29,313
Operating supplies	2,477	2,136	2,568
Prepaid expenses and other assets	2,023	1,791	1,840
Deferred income taxes	<u>1,786</u>	<u>2,697</u>	<u>1,898</u>
Total current assets	46,718	42,716	36,592
<i>PROPERTY AND EQUIPMENT:</i>			
Land and land improvements	6,178	6,446	6,376
Buildings and leasehold improvements	16,682	15,956	15,806
Equipment	<u>148,204</u>	<u>139,711</u>	<u>132,708</u>
	171,064	162,113	154,890
Less accumulated depreciation	<u>113,980</u>	<u>107,977</u>	<u>100,466</u>
Net property and equipment	57,084	54,136	54,424
<i>OTHER ASSETS AND INTANGIBLES</i>	7,584	7,309	7,470
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$111,386</u>	<u>\$104,161</u>	<u>\$ 98,486</u>

See notes to consolidated financial statements.

	1996	December 31 1995	1994
	<i>(Dollars in Thousands)</i>		
LIABILITIES AND SHAREHOLDERS' EQUITY			
<i>CURRENT LIABILITIES:</i>			
Accounts payable	\$ 11,564	\$ 9,918	\$ 9,160
Accrued liabilities	12,944	13,953	9,599
Income taxes payable	218	3,171	1,307
Notes payable, bank	75	400	99
Current maturities of long-term debt	<u>2,634</u>	<u>2,781</u>	<u>3,844</u>
Total current liabilities	27,435	30,223	24,009
<i>LONG-TERM DEBT</i>	19,640	17,049	21,124
<i>DEFERRED INCOME TAXES</i>	1,952	3,182	3,256
<i>INSURANCE LIABILITIES</i>	9,007	6,380	5,050
<i>OTHER LIABILITIES</i>	<u>882</u>	<u>797</u>	<u>516</u>
<i>TOTAL LIABILITIES</i>	58,916	57,631	53,955
<i>SHAREHOLDERS' EQUITY:</i>			
Preferred shares			
Common shares	8,728	8,728	8,728
Additional paid-in capital	3,876	3,472	3,167
Retained earnings	<u>75,324</u>	<u>67,922</u>	<u>62,851</u>
	87,928	80,122	74,746
<i>LESS:</i>			
Treasury shares, at cost	35,451	33,198	29,416
Subscriptions receivable from employees	7	297	606
Future contributions to ESOT	<u> </u>	<u>97</u>	<u>193</u>
<i>TOTAL SHAREHOLDERS' EQUITY</i>	<u>52,470</u>	<u>46,530</u>	<u>44,531</u>
<i>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</i>	<u>\$111,386</u>	<u>\$104,161</u>	<u>\$ 98,486</u>

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF NET EARNINGS

	Years Ended December 31					
	1996		1995		1994	
	<i>(Dollars in Thousands, Except Per Share Amounts)</i>					
<i>REVENUES</i>	\$ 266,934	100.0%	\$ 229,682	100.0%	\$ 209,683	100.0%
<i>COSTS AND EXPENSES:</i>						
Operating	183,427	68.7	159,310	69.4	146,617	69.9
Selling	33,575	12.6	28,629	12.5	26,080	12.4
General and administrative	18,216	6.8	15,889	6.9	14,345	6.9
Depreciation and amortization	<u>14,690</u>	<u>5.5</u>	<u>13,201</u>	<u>5.7</u>	<u>13,263</u>	<u>6.3</u>
	<u>249,908</u>	<u>93.6</u>	<u>217,029</u>	<u>94.5</u>	<u>200,305</u>	<u>95.5</u>
<i>EARNINGS FROM OPERATIONS</i>	17,026	6.4	12,653	5.5	9,378	4.5
<i>INTEREST EXPENSE</i>	2,457	.9	2,725	1.2	2,641	1.3
<i>OTHER INCOME - NET</i>	<u>(272)</u>	<u>(.1)</u>	<u>(183)</u>	<u>(.1)</u>	<u>(278)</u>	<u>(.1)</u>
<i>EARNINGS BEFORE INCOME TAXES</i>	14,841	5.6	10,111	4.4	7,015	3.3
<i>INCOME TAXES</i>	<u>6,082</u>	<u>2.3</u>	<u>3,974</u>	<u>1.7</u>	<u>2,826</u>	<u>1.3</u>
<i>EARNINGS FROM CONTINUING OPERATIONS</i>	8,759	3.3	6,137	2.7	4,189	2.0
<i>DISCONTINUED OPERATION - NET EARNINGS (LOSS)</i>	<u> </u>	<u> </u>	<u>236</u>	<u>.1</u>	<u>(150)</u>	<u>(.1)</u>
<i>NET EARNINGS</i>	<u>\$ 8,759</u>	<u>3.3%</u>	<u>\$ 6,373</u>	<u>2.8%</u>	<u>\$ 4,039</u>	<u>1.9%</u>
<i>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING INCLUDING COMMON STOCK EQUIVALENTS</i>	<u>4,714,607</u>		<u>4,813,538</u>		<u>4,977,090</u>	
<i>NET EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS</i>	<u>\$ 1.86</u>		<u>\$ 1.27</u>		<u>\$.84</u>	
<i>NET EARNINGS PER COMMON SHARE</i>	<u>\$ 1.86</u>		<u>\$ 1.32</u>		<u>\$.81</u>	

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994
(Dollars in Thousands, Except Per Share Amounts)**

	Common Shares	Additional Paid-In Capital
<i>BALANCE, JANUARY 1, 1994</i>	\$ 8,728	\$ 2,822
Receipts from subscriptions receivable		
Shares purchased		
Shares sold to employees		408
Options exercised		(63)
Contributions to ESOT		
Net earnings		
Dividends, \$.26 per share		
Net adjustment for foreign currency translation		
	<hr/>	<hr/>
<i>BALANCE, DECEMBER 31, 1994</i>	8,728	3,167
Receipts from subscriptions receivable		
Shares purchased		
Shares sold to employees		281
Options exercised		24
Contributions to ESOT		
Net earnings		
Dividends, \$.275 per share		
Net adjustment for foreign currency translation		
	<hr/>	<hr/>
<i>BALANCE, DECEMBER 31, 1995</i>	8,728	3,472
Receipts from subscriptions receivable		
Shares purchased		
Shares sold to employees		373
Options exercised		31
Contributions to ESOT		
Net earnings		
Dividends, \$.295 per share		
Net adjustment for foreign currency translation		
	<hr/>	<hr/>
<i>BALANCE, DECEMBER 31, 1996</i>	<u>\$ 8,728</u>	<u>\$ 3,876</u>

See notes to consolidated financial statements.

Retained Earnings	Treasury Shares	Subscriptions Receivable From Employees	Contributions To ESOT	Total
\$ 60,263	\$ (26,491)	\$ (975)	\$ (289)	\$ 44,058
		369		369
	(4,409)			(4,409)
	832			1,240
	652			589
4,039			96	96
(1,290)				4,039
<u>(161)</u>				<u>(1,290)</u>
62,851	(29,416)	(606)	(193)	44,531
		309		309
	(4,853)			(4,853)
	953			1,234
	118			142
6,373			96	96
(1,292)				6,373
<u>(10)</u>				<u>(1,292)</u>
67,922	(33,198)	(297)	(97)	46,530
		290		290
	(3,045)			(3,045)
	716			1,089
	76			107
8,759			97	97
(1,341)				8,759
<u>(16)</u>				<u>(1,341)</u>
<u>\$ 75,324</u>	<u>\$ (35,451)</u>	<u>\$ (7)</u>	<u>\$</u>	<u>\$ 52,470</u>

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	1996	1995	1994
	<i>(Dollars in Thousands)</i>		
CASH FROM OPERATING ACTIVITIES:			
Net earnings	\$ 8,759	\$ 6,373	\$ 4,039
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	14,338	12,827	12,963
Amortization	352	374	300
Deferred income taxes	(319)	(873)	(563)
Other	<u>(273)</u>	<u>(834)</u>	<u>(431)</u>
	22,857	17,867	16,308
Change in operating assets and liabilities:			
Accounts receivable	(5,183)	(5,309)	(1,025)
Other assets	(966)	47	(729)
Accounts payable and accrued liabilities	637	5,112	(331)
Insurance liabilities	2,627	1,330	1,839
Other liabilities	<u>(2,868)</u>	<u>2,145</u>	<u>143</u>
Net cash provided by operating activities	<u>17,104</u>	<u>21,192</u>	<u>16,205</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of property and equipment	1,678	898	945
Acquisitions	(820)	(395)	(1,755)
Proceeds from sale of business		1,300	
Capital expenditures:			
Land and buildings	(727)	(504)	(423)
Equipment	<u>(17,394)</u>	<u>(12,793)</u>	<u>(8,175)</u>
Net cash used in investing activities	<u>(17,263)</u>	<u>(11,494)</u>	<u>(9,408)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
ESOT payment of debt guaranteed by Company	97	96	96
Net borrowings (payments) under notes payable, bank	(325)	301	19
Principal payments of long-term debt	(2,704)	(7,162)	(3,876)
Proceeds from issuance of long-term debt	5,148	2,024	416
Sales of treasury shares	1,196	1,376	1,829
Receipts from stock subscriptions	290	309	369
Dividends paid	(1,341)	(1,292)	(1,290)
Repurchase of common shares	<u>(3,045)</u>	<u>(4,853)</u>	<u>(4,409)</u>
Net cash used in financing activities	<u>(684)</u>	<u>(9,201)</u>	<u>(6,846)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(843)	497	(49)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,470</u>	<u>973</u>	<u>1,022</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 627</u>	<u>\$ 1,470</u>	<u>\$ 973</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, 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Use of Estimates

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

Fiscal Year

The Company's fiscal year ends on the Saturday closest to December 31; 1996, 1995, and 1994 were fiscal years comprised of 52 weeks ended December 28, 1996, December 30, 1995, and December 31, 1994, respectively. For presentation purposes, all years were presumed to have ended on December 31.

Revenue Recognition

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

Earnings Per Share

The earnings per common share from continuing operations and the earnings per common share were calculated by using the weighted average number of common shares outstanding, including common stock equivalents.

Cash and Cash Equivalents, Accounts Receivable and Accounts Payable

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

Accounts Receivable

The Company had allowances of \$314,000 and \$330,000 in 1996 and 1995, respectively; no allowance was considered necessary in 1994.

Intangible Assets

Intangible assets represent goodwill, employment contracts, client lists and similar assets resulting from business acquisitions and are being amortized on a straight-line basis over their estimated useful lives ranging from 3 to 20 years.

Property and Equipment

The Company records property and equipment at cost. Generally, land improvements, leasehold improvements and buildings are depreciated by the straight-line method while the declining balance method is used for equipment. The estimated useful lives used in computing depreciation are: land improvements, 5-20 years; buildings and leasehold improvements, 5-40 years; equipment, 3-10 years.

Stock Split

The Company's board of directors declared a 2 for 1 stock split on September 27, 1996. The additional shares as a result of the split were distributed on October 10, 1996 to shareholders of record as of October 1, 1996. Common shares issued, treasury shares, and per common share amounts have been restated for all periods presented to give retroactive effect to the stock split.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

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

2. INSURANCE LIABILITIES

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

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

At December 31, 1996, 1995, and 1994, the present value of these liabilities, which are discounted at 6 1/4% at December 31, 1996 and 5 1/2% at December 31, 1995 and 1994, were \$15,112,000, \$13,171,000 and \$8,393,000, respectively. The increases in 1996 and 1995 resulted from an additional year's exposure to self-insured claims as well as their continued maturation. The change in the discount rate reduced insurance costs by approximately \$200,000 in 1996. The discounted insurance liabilities are classified as current and noncurrent liabilities based on the timing of future estimated cash payments. At December 31, 1996, 1995, and 1994, the gross value of those liabilities was approximately \$18,740,000, \$16,911,000 and \$10,487,000, respectively.

3. COMMON AND PREFERRED SHARES

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

The number of common shares authorized is 12,000,000, par value \$1.00. At December 31, 1996, 1995 and 1994, the number of common shares issued was 8,728,440 and the number of shares in the treasury were 4,209,623, 4,104,976, and 3,842,434, respectively.

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

Since 1979, the Company has provided a ready market for all shareholders through its direct purchase of their common shares. During 1996, these purchases totaled 201,850 shares for \$3,045,000 in cash; the Company also had direct sales, to directors and employees, excluding those shares sold through either the exercise of options or the employee stock purchase plan below, of 6,997 shares for \$90,000. Uniform restrictions apply to the transfer of the Company's common shares. These restrictions generally give the Company or the trust of the Company's Employee Stock Ownership Plan the right to purchase the common shares whenever a shareholder proposes to transfer the shares to anyone, other than transfers to a current employee of the Company or transfers by a current or former employee to members of their immediate family.

3. **COMMON AND PREFERRED SHARES (Continued)**

Stock-Based Compensation Plans

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

Shares available for grant at December 31, 1996 were 22,871, which were based on the number available upon ratification of the plan less: the options granted presented below; the director options granted; and shares purchased in 1996, 1995, and 1994 under the stock purchase plan. On May 22, 1996, the non-employee directors were granted options to purchase 2,000 common shares at \$13.56 per share, expiring in 2002; on May 17, 1995, they were granted options to purchase 6,000 common shares at \$12.19 per share, expiring in 2001; on May 18, 1994, they were granted options to purchase 20,000 common shares at \$14.82 per share, expiring in 2000. On August 21, 1996, 2,000 director options were exercised at \$14.82 per share.

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

Purchases under the plan have been as follows:

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Number of employees participating	787	772	907
Annual shares purchased	80,006	90,798	96,418
Average price paid	\$12.44	\$10.49	\$11.43
Cumulative shares purchased	1,422,174	1,342,168	1,251,370

Prior to adoption of the 1994 Omnibus Stock Plan, the Company had two qualified stock option plans available for officers and management employees; the final grant of awards under either of the two plans was December 10, 1993. The Company has applied APB Opinion 25 and related interpretations in accounting for awards granted under the three plans. Accordingly, no compensation cost has been recognized for either the fixed options granted under these plans or the employee stock purchase plan. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, "Accounting for Stock-Based Compensation" (the standard), the Company's net earnings and net earnings per common share would have been reduced by \$201,000 and \$.04 respectively in 1996, and by \$180,000 and \$.03 respectively in 1995. In calculating the pro forma impact on earnings, the following assumptions were used for the grants in 1996: initial annual dividends of \$.31 per share with annual increases of \$.02 per share; a risk free interest rate of 6.25%; an expected life of 5 years; and an estimated forfeiture rate of 8%. The 1996 options vest at the rate of 20% annually. The pro forma amounts for 1996 and 1995 include \$190,000 and \$180,000, respectively, attributable to compensation cost for shares acquired under the employee stock purchase plan.

3. COMMON AND PREFERRED SHARES (Continued)

A summary of the status of the Company's three stock option plans as of December 31, 1996, 1995, and 1994, and changes during the years ending on those dates is presented below:

Fixed Options	1996		1995		1994	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	708,800	\$11.88	763,670	\$ 11.88	852,070	\$ 11.34
Granted	265,000	15.80				
Exercised	(8,200)	10.56	(16,670)	9.40	(85,400)	6.55
Forfeited	-0-		(38,200)	12.90	(3,000)	10.41
Outstanding at end of year	<u>965,600</u>	12.97	<u>708,800</u>	11.88	<u>763,670</u>	11.88
Options exercisable at year end	646,600		492,800		276,270	
Weighted average fair value of options granted during the year	\$2.65					

The following table summarizes information about fixed stock options outstanding at December 31, 1996:

Exercise Price	Options Outstanding		Number Exercisable at 12/31/96
	Number Outstanding at 12/31/96	Remaining Contractual Life	
\$ 9.40	219,200	3.0 years	219,200
11.89	30,000	6.0	30,000
12.44	235,400	5.3	235,400
13.83	216,000	7.0	162,000
15.80	<u>265,000</u>	9.9	-0-
	<u>965,600</u>		<u>646,600</u>

Stock Subscription Offering

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

4. ACCRUED LIABILITIES

Accrued liabilities consisted of:

	December 31		
	1996	1995	1994
	(Dollars in Thousands)		
Compensation	\$ 4,009	\$ 3,521	\$ 3,101
Vacation	1,620	1,658	1,419
Insurance liabilities	6,105	6,791	3,343
Taxes, other than taxes on income	600	607	721
Other	<u>610</u>	<u>1,376</u>	<u>1,015</u>
	<u>\$ 12,944</u>	<u>\$ 13,953</u>	<u>\$ 9,599</u>

5. NOTES PAYABLE, BANK AND LONG-TERM DEBT

Notes Payable, Bank

The Company has a bank operating loan which is repayable on demand and charges interest at the bank's prime rate. Additionally, the Company has unused short-term lines of credit with three banks totaling \$2,942,000, generally at the banks' prime rate, which was 8.25% at December 31, 1996.

Long-Term Debt

	1996	December 31 1995	1994
	<i>(Dollars in Thousands)</i>		
Revolving credit agreement:			
Prime rate borrowings	\$ 3,100	\$ 2,900	\$ 2,700
London Interbank Offered Rate (LIBOR) borrowings	11,000	6,000	
Term note agreement	7,200	9,600	12,000
Notes payable	<u> </u>	<u> </u>	<u>8,000</u>
	21,300	18,500	22,700
Long-term debt of ESOT		97	193
Subordinated notes - stock redemption	515	673	212
Term loans and other	<u>459</u>	<u>560</u>	<u>1,863</u>
	22,274	19,830	24,968
Less current maturities	<u>2,634</u>	<u>2,781</u>	<u>3,844</u>
	<u>\$ 19,640</u>	<u>\$ 17,049</u>	<u>\$ 21,124</u>

The total annual installments required to be paid on long-term debt in years 1997 to 2001 are as follows: 1997, \$2,634,000; 1998, \$2,548,000; 1999, \$2,552,000; 2000, \$155,000; 2001, \$40,000. Excluded from these installments are the revolving credit agreement and notes payable which are classified as long-term debt since it is expected that these amounts will be outstanding throughout the ensuing year.

Revolving Credit Agreement

The Company has a Revolving Credit Agreement (Revolver) with two banks, which permits borrowings, as defined, up to \$35,000,000. It provides the Company an option of borrowing funds at either the prime interest rate or rates based on LIBOR, plus a commitment fee of 3/16 of 1% on the average daily unborrowed commitment. Borrowings may be converted, at the Company's option, to four-year loans. The agreement has an expiration date of April 30, 1999, and provides for one year extensions beyond that date annually.

Under the most restrictive covenants of the Revolver and the Term Note Agreement ("Term Note") below, the Company is obligated to maintain a minimum shareholders' equity, as defined, of \$32,000,000 plus 25% of annual consolidated earnings from December 31, 1994; a maximum ratio of consolidated funded debt to consolidated funded debt plus consolidated net worth of .45 to 1; and a fixed charge coverage ratio of not less than 2.25 to 1.0.

Term Note Agreement

In 1992 the Company borrowed \$12,000,000 under the Term Note which provides for twenty consecutive quarterly principal installments of \$600,000 commencing January 1, 1995 plus interest at either LIBOR plus 1-5/16% or prime plus 1/4%. The average adjusted LIBOR rate during 1996 was 5.61%; LIBOR was 6.96%, 5.63%, and 6.50% at December 31, 1996, 1995 and 1994, respectively.

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

Notes Payable

Notes payable consisted of borrowings from banks for periods of up to six months at rates based either on LIBOR or a money market option rate, which were generally less than the U.S. prime rate. The Company's intent was to refinance these obligations either through continued uninterrupted renewal of the notes or borrowing under the Revolver.

Long-Term Debt of ESOT

Commencing March 31, 1992, the agreement provided for twenty equal quarterly installments of \$24,098 plus interest of 8.4% with the final installment due December 31, 1996.

Subordinated Notes

In 1995, 1992, and 1990, the Company redeemed shares of its common stock from shareholders for cash and five-year subordinated promissory notes bearing interest at a rate equal to the average of the prime rate and the prevailing local bank basic savings rate, which was 5.3% in 1996. There were 31,574 shares redeemed in 1995 for cash of \$174,147 and notes of \$595,627. In 1992, 16,800 shares were redeemed for cash of \$223,830 and notes of \$193,986. In 1990, 32,937 shares were redeemed for cash of \$179,730 and notes of \$478,022.

Term Loans and Other

The weighted average interest on the term loans approximates 10.13% and the amounts outstanding are being repaid primarily in equal monthly installments through 1999.

Interest on Debt

The Company made cash payments for interest on all debt of \$2,475,000, \$2,732,000, and \$2,487,000 in 1996, 1995, and 1994, respectively.

6. **FINANCIAL INSTRUMENTS**

The Company uses interest rate swap agreements (swaps) with its principal bank to reduce the impact of changes in interest rates on its borrowings under the Term Note. Management's authority to utilize these agreements is restricted by the Board of Directors, and they are not used for trading purposes. At December 31, 1996, 1995, and 1994, the outstanding swaps had a total notional amount of \$7,200,000, \$9,600,000, and \$12,000,000, which effectively changes the interest rate exposure on the Term Note to a fixed 7.22% over the same maturity period. On December 16, 1993, a "reverse" swap was entered into which effectively changed the fixed interest rate on one-half of the Term Note to a variable rate for two years.

Amounts receivable or payable under the swaps are settled by the parties on a quarterly basis, and are accrued over the related periods of the swaps. These amounts are included in the consolidated balance sheets on a net basis as accrued liabilities and are treated either as an increase or decrease in interest expense. Interest expense was increased by \$25,000, \$80,000, and \$216,000 in 1996, 1995 and 1994 respectively from these agreements.

The fair value of the swaps is the quoted amount that the Company would receive or pay to terminate the swap agreements as provided by the bank, taking into account current interest rates. Had these agreements been terminated as of December 31 each year, the Company would have received \$1,000, paid \$50,000, and received \$345,000 in 1996, 1995, and 1994 respectively.

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

7. EMPLOYEE STOCK OWNERSHIP PLAN AND 401KSOP

On March 15, 1979, the Company consummated a plan which transferred control of the Company to its employees. As a part of this plan, the Company sold 2,880,000 common shares to the Company's new Employee Stock Ownership Trust (ESOT) for \$2,700,000.

The Employee Stock Ownership Plan, in conjunction with the related trust (ESOT), provided for the grant to certain employees of certain ownership rights in, but not possession of, the common shares held by the trustee of the Trust. Annual allocations of shares have been made to individual accounts established for the benefit of the participants.

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

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

The number of shares released from collateral and available for allocation to ESOP participants was determined by dividing the sum of the current year loan principal and interest payments by the sum of the current and future years' loan principal and interest payments. The Company made annual cash contributions to the ESOP, net of dividends paid on the shares held as collateral, sufficient to pay the principal and interest on the ESOT debt; such contributions are reflected as an expense of the Company.

Dividends on allocated shares are credited to participants' accounts and charged against retained earnings. ESOP shares that have been released and committed to be released are considered outstanding for purposes of computing earnings per share.

The contributions to the ESOT were:

	1996	1995	1994
	<i>(Dollars in Thousands)</i>		
Principal repayment	\$ 97	\$ 96	\$ 96
Interest	<u>5</u>	<u>14</u>	<u>22</u>
Total cash contributions required	102	110	118
Less dividends paid on collateral shares	<u>12</u>	<u>23</u>	<u>33</u>
ESOT expense	<u>\$ 90</u>	<u>\$ 87</u>	<u>\$ 85</u>
Annual release of shares from collateral	<u>38,970</u>	<u>42,216</u>	<u>45,432</u>
Cumulative release of shares from collateral	<u>2,880,000</u>	<u>2,841,030</u>	<u>2,798,814</u>
Number of shares remaining in collateral	<u>0</u>	<u>38,970</u>	<u>81,186</u>

Effective January 1, 1997, the Company will commence operation of the "Davey 401KSOP and Employee Stock Ownership Plan", which retains the existing ESOP participant accounts and incorporates a deferred savings plan (401(k) plan) feature. Participants in the new plan will be allowed to make before-tax contributions, within Internal Revenue Service established limits, through payroll deductions. The Company will match, in either cash or Company stock, 50% of each participants before-tax contribution, limited to the first 3% of the employees' compensation deferred each year. Eligibility to participate will remain the same as that provided under the Employee Stock Ownership Plan.

8. PENSION PLANS

Description of Plans

Substantially all of the Company's employees are covered by two defined benefit pension plans. One of these plans is for non-bargaining unit employees and, through 1996, was non-contributory with respect to annual compensation up to a defined level, with voluntary employee contributions beyond the specified compensation levels. Concurrent with the introduction of the Davey 401KSOP, benefits earned under this plan through December 31, 1996 were locked-in through retirement, and as of January 1, 1997, the plan was amended to become non-contributory. The other plan is for bargaining unit employees not covered by union pension plans, is non-contributory, and provides benefits at a fixed monthly amount based upon length of service.

Funding Policy

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

Expense Recognition

Pension expense (income) was calculated as follows:

	1996	1995	1994
	<i>(Dollars in Thousands)</i>		
Service cost - increase in benefit obligations earned	\$ 368	\$ 358	\$ 504
Interest cost on projected benefit obligation	906	880	879
Return on plan assets (earnings)	(3,290)	(3,841)	(1,354)
Deferral (amortization) of unrecognized net assets	<u>1,454</u>	<u>2,303</u>	<u>(105)</u>
Net pension income	<u>\$ (562)</u>	<u>\$ (300)</u>	<u>\$ (76)</u>

Funded Status

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

	1996	1995	1994
	<i>(Dollars in Thousands)</i>		
Plan assets at fair market value	\$ 21,488	\$ 19,143	\$ 16,382
Projected benefit obligation	<u>(12,091)</u>	<u>(12,462)</u>	<u>(11,051)</u>
Excess of assets over projected benefit obligation	9,397	6,681	5,331
Unrecognized initial asset	(1,082)	(1,154)	(1,226)
Unrecognized gain	(4,639)	(3,172)	(2,054)
Unrecognized prior service cost	<u>(697)</u>	<u>62</u>	<u>66</u>
Prepaid pension expense recognized as other assets in balance sheets	<u>\$ 2,979</u>	<u>\$ 2,417</u>	<u>\$ 2,117</u>

The projected benefit obligation was determined using an assumed discount rate of 7.25% in 1996 and 1995, and 8.25% in 1994. The assumed long-term compensation rate increase was 5.0%. The assumed long-term rate of return on plan assets was 9.0% in 1996 and 1995, and 7.5% in 1994.

8. **PENSION PLANS (Continued)**

The projected benefit obligation, which includes the effect of annual compensation rate increases, is based on an accumulated benefit obligation of \$10,530,000, \$10,367,000, and \$9,411,000 at December 31, 1996, 1995 and 1994, respectively. It includes vested benefits of \$10,390,000, \$10,115,000, and \$9,231,000, respectively. The January 1, 1997 amendment to the Davey Tree Expert Company Employee Retirement Plan reduced the projected benefit obligation and increased the prior service cost incurred by \$755,000 in 1996.

Multiemployer Plans

The Company also contributes to several multiemployer plans which provide defined benefits to unionized workers who do not participate in the Company sponsored bargaining unit plan. Amounts charged to pension cost and contributed to the plans in 1996, 1995 and 1994 totaled \$395,000, \$309,000, and \$380,000, respectively.

9. **INCOME TAXES**

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

	1996	1995	1994
	<i>(Dollars in Thousands)</i>		
CURRENT			
Assets:			
Non-deductible accruals for:			
Compensated absences	\$ 294	\$ 217	\$ 269
Insurance	1,346	2,419	1,591
Other - net	<u>146</u>	<u>61</u>	<u>38</u>
Net current	<u>1,786</u>	<u>2,697</u>	<u>1,898</u>
NON-CURRENT			
Assets:			
Insurance	2,997	1,883	1,360
Liabilities:			
Accelerated depreciation for tax purposes	(4,300)	(4,228)	(4,005)
Pensions	(1,016)	(822)	(720)
Other - net	<u>367</u>	<u>(15)</u>	<u>109</u>
Net noncurrent	<u>(1,952)</u>	<u>(3,182)</u>	<u>(3,256)</u>
Net deferred tax liability	<u>\$ (166)</u>	<u>\$ (485)</u>	<u>\$ (1,358)</u>

Significant components of income tax expense from continuing operations includes:

	1996	1995	1994
	<i>(Dollars in Thousands)</i>		
Taxes currently payable:			
U.S. Federal	\$ 5,057	\$ 3,721	\$ 2,852
Canadian	144	246	(54)
State and local	<u>1,200</u>	<u>880</u>	<u>591</u>
	<u>6,401</u>	<u>4,847</u>	<u>3,389</u>
Deferred tax expense (benefit):			
U.S.	(341)	(891)	(560)
Canadian	<u>22</u>	<u>18</u>	<u>(3)</u>
	<u>(319)</u>	<u>(873)</u>	<u>(563)</u>
	<u>\$ 6,082</u>	<u>\$ 3,974</u>	<u>\$ 2,826</u>

9. INCOME TAXES (Continued)

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

	1996	1995	1994
U.S. Federal statutory tax rate	34.3%	34.0%	34.0%
State and local income taxes	5.3	5.6	5.7
Canadian income taxes	.5	1.1	(.1)
Miscellaneous	<u>.9</u>	<u>(1.4)</u>	<u>.7</u>
Effective tax rate	<u>41.0%</u>	<u>39.3%</u>	<u>40.3%</u>

Earnings before income taxes by country are as follows:

	1996	1995	1994
	<i>(Dollars in Thousands)</i>		
U.S.	\$ 14,555	\$ 9,669	\$ 7,157
Canadian	<u>286</u>	<u>442</u>	<u>(142)</u>
	<u>\$ 14,841</u>	<u>\$ 10,111</u>	<u>\$ 7,015</u>

The Company made cash payments for income taxes of \$9,354,000, \$3,324,000, and \$3,638,000 in 1996, 1995 and 1994, respectively.

10. NATURE OF OPERATIONS AND CUSTOMER CONCENTRATION

The Company provides a broad line of horticultural services to corporate, institutional and residential customers throughout most of the United States and Canada. The Company's major service line, utility line clearance, represented approximately 62% of the outstanding accounts receivable at December 31, 1996, 1995 and 1994. The Company had revenues from one utility customer under multiple year contracts aggregating approximately \$55,000,000 in 1996, \$37,000,000 in 1995, and \$27,000,000 in 1994. The Company had revenues from a second utility customer under multiple year contracts of approximately \$19,000,000 in 1996, \$21,000,000 in 1995, and \$24,000,000 in 1994. The Company performs ongoing credit evaluations of its customers' financial conditions and generally requires no collateral.

11. OPERATING LEASES

The Company primarily leases facilities which are used for district office and warehouse operations. These leases extend for varying periods of time up to four years and, in some cases, contain renewal options. Total rental expense under such operating leases amounted to approximately \$1,693,000, \$1,539,000, and \$1,394,000 for 1996, 1995 and 1994, respectively. As of December 31, 1996, future minimum rental payments, including taxes and other operating costs, for all operating leases having noncancelable lease terms in excess of one year, totaled \$2,989,000, and are expendable as follows: 1997, \$1,266,000; 1998, \$855,000; 1999, \$494,000, 2000, \$273,000 and 2001, \$101,000.

12. COMMITMENTS AND CONTINGENCIES

The Company is party to a number of lawsuits, threatened lawsuits and other claims arising out of the normal course of business. Management is of the opinion that liabilities which may result are adequately covered by insurance, or to the extent not covered by insurance or accrued, would not be material in relation to the financial statements.

At December 31, 1996, the Company was contingently liable to its principal banks in the amount of \$7,277,000 for outstanding letters of credit for insurance coverage and guarantees of debt for one of its subsidiaries.

13. DISCONTINUED OPERATION

On March 31, 1995 the Company sold substantially all of the operating assets, excluding real estate, of its interior plant care business; in December, 1996 it sold the real estate related to this business at an amount approximating its carrying value.

Amounts related to the discontinued operation and recognized in the financial statements are as follows:

	1995	1994
	<i>(Dollars in Thousands)</i>	
Revenues	<u>\$ 553</u>	<u>\$ 2,986</u>
Loss from discontinued operation, net of applicable income tax benefits of \$116,000 and \$77,000 in 1995 and 1994, respectively.	(168)	(150)
Gain on sale of assets, less applicable income taxes of \$280,000	<u>404</u>	
Discontinued operation, net	<u>\$ 236</u>	<u>\$ (150)</u>


14. ACQUISITIONS

In 1996 and 1995, the Company completed acquisitions of organizations providing horticultural services for a total purchase price of \$820,000 and \$2,150,000, respectively. They were accounted for as a purchase and their results of operations, which were not material in either year, are included in the accompanying financial statements from their respective dates of acquisition. Goodwill and other intangibles recognized in connection with these purchases are being amortized over 3 to 15 years.

SIGNATURES

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

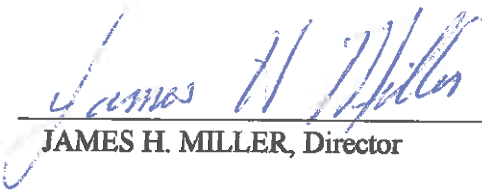
THE DAVEY TREE EXPERT COMPANY


By: 
R. D. Cowan, President and
Chief Executive Officer

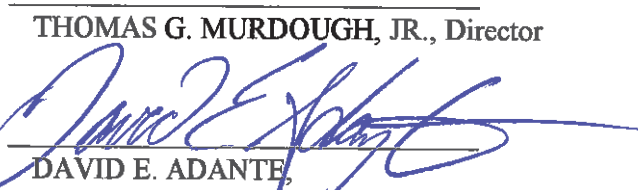
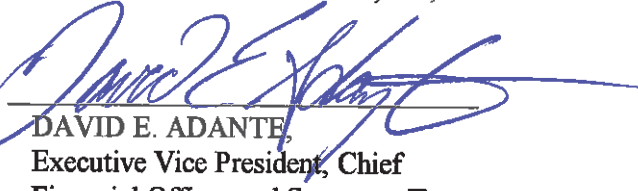
March 26 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March __, 1997.


J. W. JOY, Director and
Chairman of the Board

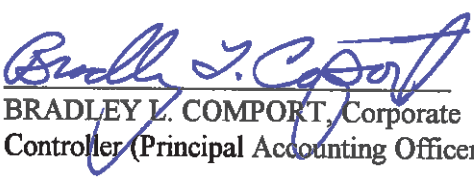

JAMES H. MILLER, Director


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


THOMAS G. MURDOUGH, JR., Director

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

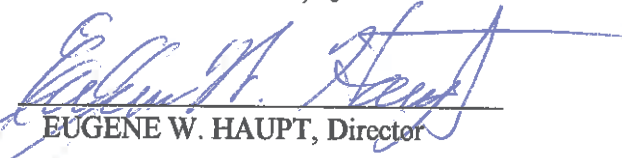

R. CARY BLAIR, Director


RICHARD E. DUNN, Director


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


WILLIAM D. GINN, Director


RICHARD S. GRAY, Director


EUGENE W. HAUPT, Director