

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

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

For the fiscal year ended December 31, 2003

OR

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

For the transition period from _____ to _____

Commission file number 0-11917

THE DAVEY TREE EXPERT COMPANY

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

34-0176110
(I.R.S. Employer Identification Number)

**1500 North Mantua Street
P.O. Box 5193
Kent, Ohio 44240**
(Address of principal executive offices) (Zip code)

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

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

Securities registered pursuant to Section 12(g) of the Act:
Common Shares, \$1.00 par value

Indicate by check mark whether 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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if 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.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

There were 7,817,297 Common Shares outstanding as of March 1, 2004. The aggregate market value of the Common Shares held by nonaffiliates of the registrant as of June 28, 2003 was \$82,907,542. For purposes of this calculation, it is assumed that the registrant's affiliates include the registrant's Board of Directors and its executive officers.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2004 Annual Meeting of Shareholders, to be held on May 18, 2004 are incorporated by reference into Part III (to be filed).

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations," "Item 7A - Quantitative and Qualitative Disclosures About Market Risk," and elsewhere. These statements relate to future events or our future financial performance. In some cases, forward-looking statements may be identified by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to differ materially from what is expressed or implied in these forward-looking statements. Some important factors that could cause actual results to differ materially from those in the forward-looking statements include:

- Our business, other than tree services to utility customers, is highly seasonal, and weather dependent.
- Significant customers, particularly utilities, may experience financial difficulties, resulting in payment delays or delinquencies.
- Because no public market exists for our common shares, the ability of shareholders to sell their common shares is limited.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these statements. We are under no duty to update any of the forward-looking statements after the date of this annual report on Form 10-K to conform these statements to actual future results.

THE DAVEY TREE EXPERT COMPANY
FORM 10-K
For the Fiscal Year Ended December 31, 2003

TABLE OF CONTENTS

	<u>Page</u>
Note Regarding Forward-Looking Statements	2
PART I	
Item 1: Business	4
Item 2: Properties	7
Item 3: Legal Proceedings	7
Item 4: Submission of Matters to a Vote of Security Holders	8
Item 4A: Executive Officers of the Registrant	8
PART II	
Item 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	10
Item 6: Selected Financial Data	12
Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 7A: Quantitative and Qualitative Disclosures About Market Risk	22
Item 8: Financial Statements and Supplementary Data	22
Item 9: Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	22
Item 9A: Controls and Procedures	22
PART III	
Item 10: Directors and Executive Officers of the Registrant	23
Item 11: Executive Compensation	23
Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters	23
Item 13: Certain Relationships and Related Transactions	23
Item 14: Principal Accountant Fees and Services	23
PART IV	
Item 15: Exhibits, Financial Statement Schedules and Reports on Form 8-K	24
Signatures	25
Exhibit Index	26

PART I

Item 1. *Business.*

General

The Davey Tree Expert Company, which was founded in 1880 and incorporated in 1909, and its subsidiaries ("we" or "us") have two primary operating segments which provide a variety of horticultural services to our customers throughout the United States and Canada.

Our Residential and Commercial services segment provides for the treatment, preservation, maintenance, cultivation, planting and removal of trees, shrubs and other plant life; its services also include the practices of landscaping, tree surgery, tree feeding and tree spraying, as well as the application of fertilizers, herbicides and insecticides.

Our Utility services segment is principally engaged in the practice of line clearing for public utilities, including the clearing of tree growth from power lines, clearance of rights-of-way and chemical brush control.

We also provide other services related to natural resource management and consulting, urban and utility forestry research and development and environmental planning. We also maintain research, technical support and laboratory diagnostic facilities.

Competition and Customers

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

Principal methods of competition in both operating segments are advertising, customer service, image, performance and reputation. Our program to meet our competition stresses the necessity for our employees to have and project to customers a thorough knowledge of all horticultural services provided, and utilization of modern, well-maintained equipment. Pricing is not always a critical factor in a customer's decision with respect to Residential and Commercial services; however, pricing is generally the principal method of competition for our Utility services, although in most instances consideration is given to reputation and past production performance.

We provide 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 2003, we had sales of approximately \$48.8 million to Pacific Gas & Electric Company ("PG&E"), one of our largest customers.

On April 6, 2001, PG&E filed a voluntary bankruptcy petition under Chapter 11 of the U. S. Bankruptcy Code. Subsequent to the bankruptcy petition date, the Company continued to provide services under the terms of its contracts with PG&E. The Company continues to perform services for PG&E and receives payment for post-petition date services performed, as part of PG&E's administrative expenses.

On September 20, 2001, PG&E filed a reorganization plan as part of its Chapter 11 bankruptcy proceeding that seeks to pay all of its creditors in full. In addition to PG&E's reorganization plan, there was a competing alternative proposed plan of reorganization filed by the California Public Utilities Commission and the Official Committee of Unsecured Creditors ("CPUC/OCC plan"). The bankruptcy court began confirmation hearings in December 2002 to determine whether to confirm the PG&E plan, the CPUC/OCC plan or neither plan. The bankruptcy court subsequently suspended the confirmation trial process in early 2003 and ordered mandatory settlement discussions.

On June 19, 2003, it was announced that Pacific Gas & Electric Corporation ("PG&E Corporation," the parent company of PG&E), the staff of the California Public Utilities Commission ("CPUC"), and PG&E entered into a proposed settlement agreement that contemplates a new plan of reorganization (the "Settlement Plan") to supersede the competing plans. Subsequently, PG&E Corporation, PG&E, and the Official Committee of Unsecured Creditors ("OCC"), as co-proponents, filed the Settlement Plan with the bankruptcy court. The Settlement Plan contemplates the payment of all creditors, in full and in cash.

Confirmation hearings were concluded in the U.S. Bankruptcy Court for the Northern District of California and the Settlement Plan was confirmed and the confirmation order was signed on December 22, 2003. In addition, the CPUC held hearings on the Settlement Plan and on December 18, 2003 voted three-to-two in favor of the plan that was confirmed by the bankruptcy court. Certain appeals and legal challenges are currently pending with regard to both the bankruptcy court order and the CPUC decision. The effective date of the plan of reorganization as contemplated in the confirmation order entered by the bankruptcy court is March 31, 2004. That date may be changed to a date in the second quarter of 2004 to accommodate contingencies that must be met before the plan can become effective. Legal challenges and the appeals filed in response to the confirmation order and the CPUC decision could lead to other delays.

Management has monitored the situation closely and will continue to assess the collectibility of its receivables from PG&E. In management's opinion, the prepetition receivables from PG&E are collectible. Because of the uncertainty as to when payment will be received, the prepetition receivables are classified as noncurrent other assets.

The balance of prepetition accounts receivable, \$11,931, has been reduced from the initial April 6, 2001 balance outstanding, \$13,326, by interest payments received from PG&E totaling \$559 during 2003 and \$836 during 2002.

Regulation and Environment

Our 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 our 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. Constant changes in environmental conditions, environmental awareness, technology and social attitudes make it necessary for us to maintain a high degree of awareness of the impact such changes have on the market for our services. We believe that we are in substantial compliance with existing federal, state and local laws regulating the use of materials in our spraying operations as well as the other aspects of our business that are subject to any such regulation.

Marketing

We solicit business from residential customers principally through direct mail programs and to a lesser extent through the placement of advertisements in national magazines and trade journals, local newspapers and "yellow pages" telephone directories. Business from utility customers is obtained principally through negotiated contracts and competitive bidding. We carry out all of our sales and services through our employees. We do not generally use agents and do not franchise our name or business.

Seasonality

Our 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 our Utility customers. Because of this seasonality, we have 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. We borrow primarily against bank commitments in the form of a revolving credit agreement to provide the necessary funds for our operations. You can find more information about our bank commitments in "Liquidity and Capital Resources" under "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 17-20 of this report.

Other Factors

Due to rapid changes in equipment technology, we must constantly update our equipment and processes to ensure that we provide competitive services to our customers. Also, we must continue to assure our compliance with the Occupational Safety and Health Act.

We own 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, we believe that these trademarks have become of value in the identification and acceptance of our products and services.

Employees

We employed approximately 5,100 employees at December 31, 2003. However, employment levels fluctuate due to seasonal factors affecting our business. We consider our employee relations to be good.

Domestic and Foreign Operations

We sell our services to customers in the United States and Canada.

We do not consider our foreign operations to be material and consider the risks attendant to our business with foreign customers, other than currency exchange risks, to be not materially different from those attendant to our business with domestic customers.

Financial Information About Segments and Geographic Areas

Certain financial information regarding our operations by segment and geographic area is contained in Note O to our consolidated financial statements, which are included in Part II, Item 8 of this report.

Access to Company Information

Davey Tree's internet address is <http://www.davey.com>. Through our internet website, by hyperlink to the SEC's website (<http://www.sec.gov>), Davey Tree makes available, free of charge, its Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports. Availability of the reports occurs contemporaneous with the electronic posting to the SEC's website as the reports are electronically filed with or furnished to the Securities and Exchange Commission.

The following documents are also made available on the Company's website and a copy will be mailed, without charge, upon request to our Corporate Secretary:

- Code of Ethics
- Code of Ethics for Financial Matters

Item 2. *Properties.*

Our corporate headquarters campus is located in Kent, Ohio which, along with several other properties in the surrounding area, includes the Davey Resource Group's research, technical support and laboratory diagnostic facilities.

We conduct administrative functions through our headquarters and our offices in Livermore, California (Utility Services). Our Canadian operations' administrative functions are conducted through properties located in the provinces of Ontario and British Columbia. We believe our properties are well maintained, in good condition and suitable for our present operations. A summary of our properties follows:

<u>Segment</u>	<u>Number of Properties</u>	<u>How Held</u>	<u>Square Footage</u>	<u>Number of States or Provinces</u>
Residential and Commercial	20	Owned	167,457	12
Residential, Commercial and Utility	2	Owned	12,400	2
Utility	5	Owned	40,587	5
Canada	3	Owned	9,975	2

We also rent approximately 70 properties in 27 states and three provinces.

None of our owned or rented properties used by our business segments is individually material to our operations.

Item 3. *Legal Proceedings.*

We are a party to routine litigation incidental to our business. We do not believe that this litigation, individually or in the aggregate, will have a material affect on our business, financial condition or results of operations.

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

No matters were submitted to a vote of our shareholders during the fourth quarter of 2003.

Item 4A. *Executive Officers of the Registrant.*

Our executive officers and their present positions and ages as of March 5, 2004 follows:

<u>Name</u>	<u>Position</u>	<u>Age</u>
R. Douglas Cowan	Chairman and Chief Executive Officer	63
Karl J. Warnke	President and Chief Operating Officer	52
David E. Adante	Executive Vice President, Chief Financial Officer and Secretary	52
Howard D. Bowles	Senior Vice President and General Manager, Davey Tree Surgery Company	60
C. Kenneth Celmer	Senior Vice President and General Manager, Residential and Commercial Services	57
Bradley L. Comport, CPA (inactive)	Treasurer	52
Marjorie L. Conner, Esquire	Assistant Secretary	46
Dr. Roger C. Funk	Vice President and General Manager, The Davey Institute	59
Frederick W. Johnson	Corporate Vice President	59
Steven A. Marshall	Vice President and General Manager, Eastern Utility Services	52
Rosemary T. Nicholas	Assistant Secretary	60
Gordon L. Ober	Vice President - Personnel Recruiting and Development	54
Richard A. Ramsey	Vice President and General Manager, Canadian Operations	54
Nicholas R. Sucic, CPA	Corporate Controller	57

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

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

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

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

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

Mr. Comport was elected Treasurer in May 2001. Prior to that time, he served as Corporate Controller.

Ms. Conner was elected Assistant Secretary in May 1998. Prior to that time, she served as Manager of Legal and Treasury Services.

Dr. Funk was elected Vice President and General Manager - The Davey Institute in May 1996.

Mr. Johnson was elected Corporate Vice President in January 2003. From 1999 to January 2003, he served as Vice President of Operations Support Services. Prior to joining us, Mr. Johnson served in various capacities, including director of operations and director of sales, at Lesco, Inc., a specialty provider of products for the professional turf care and green industry markets, from 1986 to 1999. Prior to joining Lesco, Mr. Johnson held various management positions at TruGreen/Chemlawn, a provider of lawn care, tree and shrub services and a segment of The Servicemaster Company, from 1979 to 1986.

Mr. Marshall was elected Vice President and General Manager of Eastern Utility Services in January 2003. Prior to that time, he served as Vice President – Northern Operations, Utility Service.

Ms. Nicholas was elected Assistant Secretary in May 1982.

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

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

Mr. Susic was elected Corporate Controller in November 2001 when he joined the Company. He is a certified public accountant. Prior to joining us, Mr. Susic served as chief financial officer of Vesper Corporation, a manufacturer of products for industry, from 2000 to 2001; of Advanced Lighting Technologies, Inc., a designer, manufacturer and marketer of metal halide lighting products, from 1996 to 2000; and of various asset management units at The Prudential Investment Corporation, from 1989 to 1996. Prior to joining Prudential, Mr. Susic was a partner with Ernst & Young LLP, having been associated with that firm since 1970.

Our officers serve 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, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common shares are not listed or traded on an established public trading market and market prices are, therefore, not available. Semiannually, for purposes of our 401KSOP, the fair market value of our common shares, based upon our performance and financial condition, is determined by an independent stock valuation firm. Since 1979, the Company has provided a ready market for all shareholders through its direct purchase of their common shares.

Record Holders and Common Shares

On March 1, 2004, we had 2,425 record holders of our common shares.

On March 1, 2004, we had 7,817,297 common shares outstanding, options exercisable to purchase 496,870 common shares, partially-paid subscriptions for 808,555 common shares and purchase rights outstanding for 257,900 common shares.

The partially-paid subscriptions related to common shares purchased at \$12.00 per share, in connection with the stock subscription offering completed in August 2002, whereby some employees opted to finance their subscription with a down-payment of at least 10% of their total purchase price and a seven-year promissory note for the balance due, with interest at 4.75%. Promissory note payments, of both principal and interest, are made either by payroll deduction or annual lump-sum payment. The promissory notes are collateralized with the common shares subscribed and the common shares are only issued when the related promissory note is paid-in-full. Dividends are paid on all unissued subscribed shares.

The purchase rights outstanding were granted to purchase one additional common share at the price of \$12.00 per share for every two common shares purchased in connection with the stock subscription offering completed in August 2002. Each right may be exercised at the rate of one-seventh per year and will expire seven years after the date that the right was granted. Employees may not exercise a right should they cease to be employed by the Company.

Dividends

The following table sets forth, for the periods indicated, the dividends declared on our common shares (in cents):

<u>Quarter</u>	<u>Year Ended December 31,</u>	
	<u>2003</u>	<u>2002</u>
1	6.0	6.0
2	6.0	6.0
3	6.0	6.0
4	<u>6.5</u>	<u>6.0</u>
Total	<u>24.5</u>	<u>24.0</u>

We presently expect to pay comparable cash dividends in 2004.

Recent Sale of Unregistered Securities

None.

Equity Compensation Plan Information

The following table summarizes the information about our equity compensation plans as of December 31, 2003.

Equity Compensation Plan Information ⁽¹⁾

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options and rights</u> (a)	<u>Weighted-average exercise price of outstanding options and rights</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u> ⁽³⁾ (c)
Equity compensation plans approved by security holders	<u>1,277,979</u>	<u>\$11.16</u>	<u>557,500</u>
Equity compensation plans not approved by security holders ⁽²⁾	None	None	None

- (1) The equity compensation plans included in this table consist of stock options which were granted under the 1987 Incentive Stock Option Plan or the 1994 Omnibus Stock Plan, which were approved by the security holders at the Company's annual meeting in 1987 and 1994, respectively. The table also includes stock rights granted to employees under the 2002 Stock Subscription Plan, which was authorized under the 1994 Omnibus Stock Plan. All options and rights were granted at the fair market value of the stock, as determined by the independent stock valuation firm, as of the date of the grant.
- (2) No equity securities have been issued or authorized for issuance under any plan that has not been approved by the security holders of the Company.
- (3) Reflects common shares reserved under the 1994 Omnibus Stock Plan for stock option grants that have not been granted or forfeited.

Item 6. Selected Financial Data.

	Fiscal Year Ended December 31,				
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(In thousands, except ratio and per share data)				
Operating Statement Data:					
Revenues	\$ 346,263	\$ 319,273	\$ 321,284	\$ 322,236	\$ 308,144
Costs and expenses:					
Operating	226,454	211,549	212,783	226,441	210,628
Selling	56,758	50,865	50,564	49,978	45,403
General and administrative	25,947	22,800	22,567	23,015	21,742
Depreciation	19,274	19,370	19,054	20,722	20,019
Amortization of intangible assets	<u>1,501</u>	<u>692</u>	<u>466</u>	<u>459</u>	<u>393</u>
Income from operations	16,329	13,997	15,850	1,621	9,959
Interest expense	(2,062)	(3,121)	(4,993)	(6,217)	(4,947)
Gain on sale of assets	931	2,054	1,023	1,172	1,487
Other expense	<u>(465)</u>	<u>(993)</u>	<u>(744)</u>	<u>(60)</u>	<u>(349)</u>
Income (loss) before income taxes	14,733	11,937	11,136	(3,484)	6,150
Income taxes (benefit)	<u>6,016</u>	<u>4,716</u>	<u>4,405</u>	<u>(1,080)</u>	<u>2,435</u>
Net income (loss)	<u>\$ 8,717</u>	<u>\$ 7,221</u>	<u>\$ 6,731</u>	<u>\$ (2,404)</u>	<u>\$ 3,715</u>
Net income (loss) per share--diluted	<u>\$.99</u>	<u>\$.85</u>	<u>\$.82</u>	<u>\$ (.30)</u>	<u>\$.42</u>
Shares used for computing per share amounts--diluted (a)	<u>8,806</u>	<u>8,508</u>	<u>8,231</u>	<u>7,929</u>	<u>8,872</u>
Other Financial Data:					
Depreciation and amortization	\$ 20,775	\$ 20,062	\$ 19,520	\$ 21,181	\$ 20,412
Capital expenditures	19,975	16,127	11,692	17,476	20,580
Cash flow provided by (used in):					
Operating activities	28,263	29,427	29,813	31,267	(3,835)
Investing activities	(19,740)	(16,670)	(10,356)	(14,209)	(18,707)
Financing activities	(8,903)	(12,572)	(19,108)	(17,058)	21,335
Dividends per share (a)	<u>\$.24</u>	<u>\$.24</u>	<u>\$.22</u>	<u>\$.22</u>	<u>\$.20</u>

	As of December 31,				
	2003	2002	2001	2000	1999
	(In thousands, except ratio and per share data)				
Balance Sheet Data:					
Working capital	\$ 20,208	\$ 15,422	\$ 16,255	\$ 35,386	\$ 46,714
Current ratio	1.42	1.33	1.39	2.09	2.62
Property and equipment, net	66,753	66,863	70,111	78,076	84,008
Total assets	166,837	161,156	155,473	159,382	176,682
Long-term debt	30,178	36,605	41,887	57,414	65,904
Other long-term liabilities	26,323	24,335	21,904	22,078	19,826
Shareholders' equity	<u>62,147</u>	<u>54,135</u>	<u>50,250</u>	<u>47,392</u>	<u>56,240</u>
Common shares (a):					
Issued	10,728	10,728	10,728	10,728	10,728
In treasury	<u>2,924</u>	<u>3,048</u>	<u>3,000</u>	<u>2,932</u>	<u>2,601</u>
Net outstanding	<u>7,804</u>	<u>7,680</u>	<u>7,728</u>	<u>7,796</u>	<u>8,127</u>
Stock options (a):					
Outstanding	1,019	868	1,205	1,342	1,395
Exercisable	507	868	1,205	1,236	1,183
ESOT valuation per share	<u>\$ 15.70</u>	<u>\$ 12.80</u>	<u>\$ 12.00</u>	<u>\$ 11.00</u>	<u>\$ 13.00</u>

- (a) On May 19, 1999, the Company's Board of Directors declared a 2-for-1 stock split in the form of a 100% stock dividend on outstanding shares, to shareholders of record as of June 1, 1999. To effect the stock split, the Board of Directors authorized the retirement of 1,981,894 common shares held in treasury. Common share disclosures have also been restated, where appropriate, to reflect the 2-for-1 stock split.

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

(Amounts in thousands, except share data)

You should read the following discussion in conjunction with our consolidated financial statements for the three-year period ended December 31, 2003, and the notes thereto, included elsewhere in this annual report.

GENERAL

We provide a wide range of horticultural services to residential, commercial, utility and institutional customers throughout the United States and Canada.

Our operating results are reported in two segments: Residential and Commercial Services and Utility Services for operations in the United States. Residential and Commercial Services provides for the treatment, preservation, maintenance, cultivation, planting and removal of trees, shrubs and other plant life; its services also include the practice of landscaping, tree surgery, tree feeding and tree spraying, as well as the application of fertilizer, herbicides and insecticides. Utility Services is principally engaged in the practice of line clearing for investor-owned and municipal utilities, including the clearing of tree growth from power lines, clearance of rights-of-way and chemical brush control.

We also have two nonreportable segments: Canadian operations, which provides a comprehensive range of Davey horticultural services, and Davey Resource Group, which provides services related to natural resource management and consulting, forestry research and development, and environmental planning. In addition, the Davey Resource Group also maintains research, technical support and laboratory diagnostic facilities.

RESULTS OF OPERATIONS

The following table sets forth our consolidated results of operations as a percentage of revenues.

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Operating	65.5	66.3	66.2
Selling	16.4	15.9	15.7
General and administrative	7.5	7.1	7.1
Depreciation	5.6	6.1	6.0
Amortization of intangible assets	<u>.4</u>	<u>.2</u>	<u>.1</u>
	<u>95.4</u>	<u>95.6</u>	<u>95.1</u>
Income from operations	4.6	4.4	4.9
Other income (expense):			
Interest expense	(.6)	(1.0)	(1.5)
Gain on sale of assets	.3	.6	.3
Other	<u>(.1)</u>	<u>(.3)</u>	<u>(.2)</u>
Income before income taxes	4.2	3.7	3.5
Income taxes	<u>1.7</u>	<u>1.4</u>	<u>1.4</u>
Net income	<u>2.5%</u>	<u>2.3%</u>	<u>2.1%</u>

Overview

Revenues of \$346,263 were 8.5% higher than last year's revenues of \$319,273. All operating segments experienced revenue increases from the prior year. Utility Services revenues increased 9.6% while Residential and Commercial Services were up 6.8%. All other revenues, comprised of the Canadian operations and Davey Resource Group, were up 11.7%.

Overall, income from operations of \$16,329 increased 16.7% from the \$13,997 experienced in the prior year. Utility Services increased 11.0%, a reflection of the strong demand for Utility services. Residential and Commercial Services increased 8.5% due to continuing strong demand for these services. All other operations, comprised of the Canadian operations and Davey Resource Group, were up 30.3%.

Net income of \$8,717 was \$1,496 or 20.7% higher than the \$7,221 earned in 2002 and was favorably impacted not only by higher income from operations but also by a decrease in interest expense of \$1,059, the result of our continuing efforts to aggressively manage our cash flow, reduce debt and increase our equity-to-debt ratio. As of December 31, 2003 our bank debt, consisting of borrowings on our revolving credit facility had declined \$5,100 from the prior year end.

As we await final resolution to the Pacific Gas and Electric Company ("PG&E") bankruptcy and payment of our prepetition accounts receivable of \$11,931, we continue to receive interest payments. As of December 31, 2003, interest of \$1,395 has been received and is reflected as a reduction to the initial prepetition receivable of \$13,326. We remain confident that we will be paid in full once a final resolution is reached.

Fiscal 2003 Compared to Fiscal 2002

Revenues--Revenues of \$346,263 increased \$26,990 over the \$319,273 in 2002. Utility Services increased \$12,763 or 9.6% from the prior year and is the result of additional contracts and pricing adjustments within our western utility operations as well as additional revenues in our eastern utility operations due to additional storm-damage work in North Carolina. Residential and Commercial Services increased \$10,635 or 6.8% over 2002, primarily related to acquisitions made in 2003 and the latter half of 2002 as well as more favorable weather conditions during the year.

Operating Expenses--Operating expenses of \$226,454 increased \$14,905 from the prior year, but as a percentage of revenues decreased .8% to 65.5%. Utility Services experienced an increase of \$11,756 from the prior year, the result of labor and equipment costs associated with new contracts obtained within our western utility operations. Residential and Commercial increased \$3,785 primarily the result of storm-damage work in North Carolina.

Selling Expenses--Selling expenses of \$56,758 increased \$5,893 from 2002 and as a percentage of revenues increased .5% to 16.4%. Residential and Commercial Services increased \$6,214, primarily for field management wages, branch office expenses and wages associated with purchased operations that were acquired in 2003 and the latter half of 2002. All other segments combined decreased \$321.

General and Administrative Expenses--General and administrative expenses increased \$3,147 to \$25,947 or 13.8% from the \$22,800 experienced in 2002. The increase is attributable to: (a) an increase in professional services of \$1,197, arising from a \$600 credit in 2002 from the resolution of disputed services; (b) the recognition of pension expense in 2003 as compared to income in 2002, a change of \$1,025; and, (c) an increase in employee wage and incentive expense of \$550.

Depreciation and Amortization Expense--Depreciation and amortization expense of \$20,775 increased \$713 from the prior year but as a percentage of revenues decreased .3% to 6.0%. The \$713 increase is the result of additional capital expenditures for equipment and business acquisitions within Residential and Commercial Services. Depreciation and amortization expense in 2004 is anticipated to increase over 2003 as a result of acquisitions.

Interest Expense--Interest expense of \$2,062 declined \$1,059 or 33.9% from the \$3,121 incurred in 2002. Lower average debt-levels and lower interest rates on bank borrowings account for the decrease.

Gain on Sale of Assets--For 2003, the gain on the sale of assets was \$931. Last year, the gain on the sale of assets totaled \$2,054, including a \$919 from the 2002 sale of a facility associated with our Residential and Commercial Services operations.

Income Taxes--Income tax expense for 2003 was \$6,016. The 2003 effective rate of 40.8% includes a 6.7% effect of state income taxes.

Net Income--Net income of \$8,717 exceeded 2002's net income by \$1,496, or an increase of .2% as a percentage of revenues.

Fiscal 2002 Compared to Fiscal 2001

Revenues--Revenues of \$319,273 declined \$2,011 over the \$321,284 in 2001. Utility Services declined \$15,420 from 2001, the result of contract reductions and shutdowns (reduced work volume or cessation of work for certain Utility customers) both in our eastern and western operations. Despite a slower economy, Residential and Commercial Services increased \$9,966, or 6.8% due principally to the Asian Longhorned Beetle contracts in New York. Increases in all other segments of \$3,443 also served to offset the reduction in Utility Services.

Operating Expenses--Operating expenses of \$211,549 declined \$1,234 from the prior year, but increased .1% as a percentage of revenues. Utility Services experienced a decrease of \$12,444 from the prior year, the result of contract reductions and shutdowns in our operations. Residential and Commercial Services increased 10.7% from the prior year, the result of additional subcontractor costs associated with the Asian Longhorned Beetle contracts in New York.

Selling Expenses--Selling expenses increased \$301 over 2001 and as a percentage of revenues increased .2% to 15.9%. Increases in Residential and Commercial Services for field management wages, branch office expenses and marketing costs were partially offset by reductions in labor and supervision expense within Utility Services, the result of contract reductions and shutdowns.

General and Administrative Expenses--General and administrative expenses increased 1.0% to \$22,800 from the \$22,567 experienced in 2001, the result of higher employee incentive expense and a decrease in pension income.

Depreciation and Amortization Expense--Depreciation and amortization expense of \$20,062 increased \$542 from the prior year and as a percentage of revenues increased to 6.3% from 6.1%. The increase is the result of additional capital expenditures for equipment and acquisitions within Residential and Commercial Services.

Interest Expense--Interest expense of \$3,121 declined \$1,872 from the \$4,993 incurred in 2001. This decrease is the result of our continued focus on debt reduction and lower interest rates than those experienced in the prior year.

Gain on Sale of Assets--Gain on the sale of assets increased to \$2,054, or a \$1,031 increase from 2001. The increase reflects a gain of \$919 from the sale of a facility associated with our Residential and Commercial Services operations.

Income Taxes--Income tax expense for 2002 was \$4,716. The 2002 effective rate of 39.5% includes a 4.6% effect of state income taxes.

Net Income--Net income of \$7,221 exceeded 2001's net income by \$490, or an increase of .2% as a percentage of revenues.

LIQUIDITY AND CAPITAL RESOURCES

Our principal financial requirements are for capital spending, working capital and business acquisitions.

Cash decreased \$380 during the year ended December 31, 2003. Net cash provided by operating activities of \$28,263 were offset by uses of cash consisting of \$19,740 for investing activities and \$8,903 for financing activities.

Net Cash Provided by Operating Activities

Operating activities in 2003 provided cash of \$28,263, or \$1,164 lower than the \$29,427 provided in 2002. The \$1,164 net decline was due to an increase in accounts receivable and deferred taxes, lower increases in prepaid insurance premiums and gain on the sale of property which were partially offset by increases in self-insurance accruals and lower increases in accounts payable and accrued expenses.

Net income of \$8,717 increased \$1,496 when compared to the \$7,221 in 2002.

Overall, accounts receivable dollars increased \$4,017 in 2003 as compared to the \$689 increase experienced in 2002. The "day-sales-outstanding" in accounts receivable decreased 3 days as at December 31, 2003 as compared with the prior year end. We continue to strive to collect accounts receivable dollars and reduce days-sales-outstanding.

On April 6, 2001, one of the Company's largest utility customers, PG&E filed a voluntary bankruptcy petition under Chapter 11 of the U. S. Bankruptcy Code. Subsequent to the bankruptcy petition date, the Company continued to provide services under the terms of its contracts with PG&E. The Company continues to perform services for PG&E and receives payment for post-petition date services performed, as part of PG&E's administrative expenses.

On September 20, 2001, PG&E filed a reorganization plan as part of its Chapter 11 bankruptcy proceeding that seeks to pay all of its creditors in full. In addition to PG&E's reorganization plan, there was a competing alternative proposed plan of reorganization filed by the California Public Utilities Commission and the Official Committee of Unsecured Creditors ("CPUC/OCC plan"). The bankruptcy court began confirmation hearings in December 2002 to determine whether to confirm the PG&E plan, the CPUC/OCC plan or neither plan. The bankruptcy court subsequently suspended the confirmation trial process in early 2003 and ordered mandatory settlement discussions.

On June 19, 2003, it was announced that Pacific Gas & Electric Corporation ("PG&E Corporation," the parent company of PG&E), the staff of the California Public Utilities Commission ("CPUC"), and PG&E entered into a proposed settlement agreement that contemplates a new plan of reorganization (the "Settlement Plan") to supersede the competing plans. Subsequently, PG&E Corporation, PG&E, and the Official Committee of Unsecured Creditors ("OCC"), as co-proponents, filed the Settlement Plan with the bankruptcy court. The Settlement Plan contemplates the payment of all creditors, in full and in cash.

Confirmation hearings were concluded in the U.S. Bankruptcy Court for the Northern District of California and the Settlement Plan was confirmed and the confirmation order was signed on December 22, 2003. In addition, the CPUC held hearings on the bankruptcy Settlement Plan and on December 18, 2003 voted three-to-two in favor of the plan that was confirmed by the bankruptcy court. Certain appeals and legal challenges are currently pending with regard to both the bankruptcy court order and the CPUC decision. The effective date of the plan of reorganization as contemplated in the confirmation order entered by the bankruptcy court is March 31, 2004. That date may be changed to a date in the second quarter of 2004 to accommodate contingencies that must be met before the plan can become effective. Legal challenges and the appeals filed in response to the confirmation order and the CPUC decision could lead to other delays.

Management has monitored the situation closely and will continue to assess the collectibility of its receivables from PG&E. In management's opinion, the prepetition receivables from PG&E are collectible. Because of the uncertainty as to when payment will be received, the prepetition receivables are classified as noncurrent other assets.

The balance of prepetition accounts receivable, \$11,931, has been reduced from the initial April 6, 2001 balance outstanding, \$13,326, by interest payments received from PG&E totaling \$559 during 2003 and \$836 during 2002.

Accounts payable and accrued expenses increased \$379 in 2003, a decrease of \$3,209 when compared to the increase of \$3,588 experienced in 2002. The increase is primarily attributable to an increase in self-insured medical claims, commercial insurance liabilities, income taxes payable and accrued vacation. These increases were partially offset by decreases in trade payables, employee compensation and tax liabilities.

Self-insurance accruals increased \$4,534 in 2003, \$1,242 more than the increase experienced in 2002. The increase occurred in all classifications, workers compensation, general liability and vehicle liability and resulted primarily from an overall increase in deductible amounts under commercial insurance, or the self-insured risk retention.

Other assets increased \$906 in 2003, a change of \$1,668 over the \$2,574 increase in 2002. The increase is the result of advance payments for insurance premiums related to our workers compensation, vehicle liability and general liability policies.

Net Cash Used in Investing Activities

Investing activities used \$19,740 in cash, or \$3,070 more than that used in 2002, the result of higher expenditures for equipment and business acquisitions. The expenditures were offset by lesser proceeds from the sale of property and equipment. We anticipate the level of capital expenditures in 2004 will exceed that of 2003.

Net Cash Used in Financing Activities

Financing activities used \$8,903 in 2003, a decrease of \$3,669 over the \$12,572 used in 2002. Net borrowings outstanding, from the revolving credit agreement, decreased by \$5,100. The continued decrease was consistent with our planned efforts to reduce debt levels. Borrowings of notes payable increased \$638 and other debt and capital lease obligations decreased \$2,825. Purchases of common shares for treasury of \$5,987 was offset by cash received from the sale of common shares of \$5,245 and \$1,210 of cash received on our common share subscription. Dividends paid during 2003 totaled \$2,084.

Revolving Credit Facility--The Company has a \$90,000 three-year revolving credit facility with a group of banks, which will expire in November 2005 and permits borrowings, as defined, up to \$90,000 with a letter of credit sublimit of \$40,000 (amended in January 2004 to \$40,000 from a previous \$30,000 letter of credit sublimit). The revolving credit facility contains certain affirmative and negative covenants customary for this type of facility and includes financial covenant ratios, as defined, with respect to interest coverage, funded debt to EBITDA (earnings before interest, taxes, depreciation and amortization), and funded debt to capitalization.

Contractual Obligations Summary

The following is a summary of our long-term contractual obligations, as at December 31, 2003 to make future payments for the periods indicated.

<u>Description</u>	<u>Total</u>	<u>Contractual Obligations Due--Year Ending December 31,</u>					<u>Thereafter</u>
		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	
Revolving credit facility	\$ 29,300	\$ -	\$ 29,300	\$ -	\$ -	\$ -	\$ -
Term loans	2,403	1,525	473	365	40	-	-
Capital lease obligations	3,049	660	804	619	966	-	-
Operating lease obligations	5,608	1,931	1,303	958	736	359	321
Self-insurance accruals	30,173	10,449	7,082	4,367	2,213	1,192	4,870
	<u>\$ 70,533</u>	<u>\$ 14,565</u>	<u>\$ 38,962</u>	<u>\$ 6,309</u>	<u>\$ 3,955</u>	<u>\$ 1,551</u>	<u>\$ 5,191</u>

The self-insurance accruals in the summary above reflect the total of the undiscounted amount accrued as at December 31, 2003. The amounts estimated to be due each year may differ from actual payments required to fund claims.

As at December 31, 2003, we were contingently liable to our principal banks in the amount of \$32,036 of which \$27,806 is committed under the revolving credit facility. Substantially all of these letters of credit, which expire within a year, are planned for renewal as necessary.

Also, as is common with our industry, we have performance obligations that are supported by surety bonds, which expire during 2004 through 2007. We intend to renew the performance bonds where appropriate and as necessary.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements which had a material effect on the financial statements or which are reasonably likely to have a material future effect on our financial statements or financial outlook.

Capital Resources

Cash generated from operations and our revolving credit facility are our primary sources of capital.

Business seasonality results in higher revenues during the second and third quarters as compared with the first and fourth quarters of the year, while our methods of accounting for fixed costs, such as depreciation and interest expense, are not significantly impacted by business seasonality. Capital resources during these periods are equally effected. We satisfy seasonal working capital needs and other financing requirements with the revolving credit facility and several other short-term lines of credit. We are continuously reviewing our existing sources of financing and evaluating alternatives. At December 31, 2003, we had working capital of \$20,208, short-term lines of credit approximating \$3,549, and \$32,894 available under our revolving credit facility.

Our sources of capital presently allow us the financial flexibility to meet our capital spending plan and to complete business acquisitions.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented.

On an ongoing basis, we evaluate our estimates and assumptions, including those related to accounts receivable, specifically those receivables under contractual arrangements primarily arising from Utility Services customers; allowance for doubtful accounts; and, self-insurance accruals. We base our estimates on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

We believe the following are our “critical accounting policies and estimates”--those most important to the financial presentations and those that require the most difficult, subjective or complex judgments.

Revenue Recognition--Revenues from Residential and Commercial Services are recognized as the services are provided and amounts are determined to be collectible. Revenues from contractual arrangements, primarily with Utility Services customers, are recognized based on costs incurred to total estimated contract costs. Changes in estimates and assumptions related to total estimated contract costs may have a material effect on the amounts reported as receivables arising from contractual arrangements and the corresponding amounts of revenues and profit.

Utility Services Customers--We generate a significant portion of revenues and corresponding accounts receivable from our Utility Services customers in the utility industry. One Utility Services customer, PG&E, approximated 14% of revenues during 2003, 13% during 2002 and 16% during 2001. Adverse conditions in the utility industry or individual utility customer operations may affect the collectibility of our receivables or our ability to generate ongoing revenues.

Allowance for Doubtful Accounts--In determining the allowance for doubtful accounts, we evaluate the collectibility of our accounts receivables based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us (e.g., bankruptcy filings), we record a specific allowance for doubtful accounts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize allowances for doubtful accounts based on the length of time the receivables are past due. If circumstances change (e.g., unexpected material adverse changes in a major customer's ability to meet its financial obligation to us or higher than expected customer defaults), our estimates of the recoverability of amounts could differ from the actual amounts recovered.

Self-Insurance Accruals--We are generally self-insured for losses and liabilities related primarily to workers' compensation, vehicle liability and general liability claims. We use commercial insurance as a risk-reduction strategy to minimize catastrophic losses. We accrue ultimate losses based upon estimates of the aggregate liability for claims incurred using certain actuarial assumptions followed in the insurance industry and based on our specific experience.

Our self-insurance accruals include claims for which the ultimate losses will develop over a period of years. Accordingly, our estimates of ultimate losses can change as claims mature. Our accruals also are affected by changes in the number of new claims incurred and claim severity. The methodology for estimating ultimate losses and the total cost of claims were determined by third-party consulting actuaries; the resulting accruals are continually reviewed by us, and any adjustments arising from changes in estimates are reflected in income currently.

Our self-insurance accruals are based on estimates and, while we believe that the amounts accrued are adequate, the ultimate claims may be in excess of or less than the amounts provided.

Market Risk Information

In the normal course of business, we are exposed to market risk related to changes in interest rates and changes in foreign currency exchange rates. We do not hold or issue derivative financial instruments for trading or speculative purposes.

Interest Rate Risk

We are exposed to market risk related to changes in interest rates on long-term debt obligations. The interest rates on substantially all of our long-term debt outstanding are variable. We have entered into interest rate swaps to limit our exposure to interest rate volatility (Interest rate “swaps” are the exchange of interest rate payments based on fixed versus floating interest rates which reduce the risk of interest-rate changes on future interest expense—“hedging.”).

The following table provides information, as of December 31, 2003, about our debt obligations and interest rate swaps. For debt obligations, the table presents principal cash flows, weighted-average interest rates by expected maturity dates and fair values. For the interest rate swaps, the table presents the underlying face (notional) amount, weighted-average interest rate by contractual maturity dates and the fair value to settle the swaps at December 31, 2003. Weighted-average interest rates used for variable rate obligations are based on rates as derived from published spot rates, in effect as at December 31, 2003.

	December 31,					Thereafter	Total	Fair Value December 31, 2003
	2004	2005	2006	2007	2008			
Liabilities								
Long-term debt								
Fixed rate	\$ 38	\$ 36	\$ 40	\$ 40	\$ -	\$ -	\$ 154	\$ 153
Average interest rate	10.1%	10.0%	10.0%	10.0%				
Variable rate	\$ 1,488	\$29,736	\$ 325	\$ -	\$ -	\$ -	\$ 31,549	\$ 31,544
Average interest rate	3.1%	4.4%	6.9%					
Interest rate derivative instruments								
Interest rate swap:								
Pay fixed, notional amount	\$ -	\$15,000	\$ -	\$ -	\$ -	\$ -	\$ 15,000	\$ 259
Average pay rate	2.89%	2.89%						
Average receive rate	1.39%	2.77%						

Interest rates, as of December 31, 2003, on the fixed-rate debt ranged from 10.0% to 12.7% and interest rates on the variable-rate debt ranged from 2.6% to 6.9%.

The interest rate swap has an underlying face (notional) amount of \$15,000, which is used to calculate the cash flow to be exchanged and does not represent the exposure to credit loss. If we were to settle the swap agreement at December 31, 2003 (fair value), we would pay \$259.

Foreign Currency Rate Risk

We are exposed to market risk related to foreign currency exchange rate risk resulting from our operations in Canada, where we provide a comprehensive range of horticultural services.

Our financial results could be affected by factors such as changes in the foreign currency exchange rate or differing economic conditions in the Canadian markets as compared with the markets for our services in the United States. Our earnings are affected by translation exposures from currency fluctuations in the value of the U. S. dollar as compared to the Canadian dollar. Similarly, the Canadian dollar-denominated assets and liabilities may result in financial exposure as to the timing of transactions and the net asset / liability position of our Canadian operations.

For the year ended December 31, 2003, the result of a hypothetical 10% uniform change in the value of the U.S. dollar as compared with the Canadian dollar would not have a material effect on our results of operations or our financial position. Our sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices.

Impact of Inflation

The impact of inflation on the results of operations has not been significant in recent years.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information set forth in "Market Risk Information" under Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

Our consolidated financial statements are attached hereto and listed on page F-1 of this annual report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

As of the end of the period covered by this Form 10-K, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were operating effectively in alerting them on a timely basis to material information required to be included in our periodic filings with the SEC.

There have been no significant changes in our internal control over financial reporting or in other factors that have materially affected or are reasonably likely to materially affect these internal controls over financial reporting subsequent to the date we carried out our evaluation.

PART III

Item 10. *Directors and Executive Officers of the Registrant.*

Information about our executive officers is in the section "Executive Officers of the Registrant" at Part I, Item 4A of this report.

Information about our directors is in the section "Election of Directors" of our 2004 Proxy Statement, which is incorporated into this report by reference.

Information about our audit committee financial experts is in the section "Report of the Audit Committee" of our 2004 Proxy Statement, which is incorporated into this report by reference.

Information required by Item 405 of Regulation S-K is in the section "Section 16(a) Beneficial Ownership Reporting Compliance" of our 2004 Proxy Statement, which is incorporated into this report by reference.

Our Code of Ethics for Financial Matters is attached as Exhibit 14 to this report.

Item 11. *Executive Compensation.*

Information about director compensation is in the section "Compensation of Directors" and information about executive compensation is in the section "Compensation of Executive Officers" of the 2004 Proxy Statement, which are incorporated into this report by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.*

Information about ownership of our common shares by certain persons is in the section "Ownership of Common Shares" of the 2004 Proxy Statement, which is incorporated into this report by reference. Information about our securities authorized for issuance under equity compensation plans is in the section "Equity Compensation Plans Information" at Part II, Item 5 of this report.

Item 13. *Certain Relationships and Related Transactions.*

Information about certain transactions between the Company and their affiliates and certain other persons is in the section "Election of Directors" of our 2004 Proxy Statement, which is incorporated into this report by reference.

Item 14. *Principal Accountant Fees and Services*

Information about our principal accountant's fees and services is in the section "Independent Auditors, Fees and Other Matters" of our 2004 Proxy Statement, which is incorporated into this report by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) (1) and (a) (2) Financial Statements and Schedules.

The response to this portion of Item 15 is set forth on page F-1 of this report.

(a) (3) Exhibits.

The exhibits to this Form 10-K are submitted as a separate section of this report. See Exhibit Index.

(b) Reports on Form 8-K.

No reports on Form 8-K have been filed during the fourth quarter 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 16, 2004.

THE DAVEY TREE EXPERT COMPANY

By: /s/ R. Douglas Cowan
R. Douglas Cowan, Chairman and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 16, 2004.

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

/s/ Robert A. Stefanko
Robert A. Stefanko, Director

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

/s/ Karl J. Warnke
Karl J. Warnke, Director,
President and Chief Operating Officer

/s/ Dr. Carol A. Cartwright
Dr. Carol A. Cartwright, Director

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

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

/s/ Nicholas R. Sucic
Nicholas R. Sucic, Corporate Controller
(Principal Accounting Officer)

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

/s/ Willard R. Holland
Willard R. Holland, Director

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

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>	
3.3	2003 Amended Articles of Incorporation (Incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 27, 2003).	
3.2	1987 Amended and Restated Regulations of The Davey Tree Expert Company (Incorporated by reference to Exhibit (3)(ii) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).	
10.1	1987 Incentive Stock Option Plan	Filed Herewith
10.2	1994 Omnibus Stock Plan (Incorporated by reference to Exhibit (10)(b) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 1999).	
10.3	Credit Agreement by and among the Company and KeyBank National Association, as lead arranger, syndication agent and administrative agent and National City Bank, as documentation agent, for various lending institutions dated as of November 8, 2002 (Incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).	
10.4	Amendment No. 1 to Credit Agreement by and among the Company and KeyBank National Association, as lead arranger, syndication agent and administrative agent and National City Bank, as documentation agent, for various lending institutions dated as of November 8, 2002	Filed Herewith
14	Code of Ethics for Financial Matters	Filed Herewith
21	Subsidiaries of the Registrant	Filed Herewith
23	Consent of Ernst & Young LLP, Independent Auditors	Filed Herewith
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished Herewith
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished Herewith

The documents listed as Exhibits 10.1 and 10.2 constitute management contracts or compensatory plans or arrangements.

The Registrant 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.

**THE DAVEY TREE EXPERT COMPANY
1987 INCENTIVE STOCK OPTION PLAN**

**Plan Adopted by Board of Directors on April 20, 1987
Plan Approved by Shareholders on May 19, 1987**

1. PURPOSE. This 1987 Incentive Stock Option Plan (the "Plan") is designed to promote the interest of the Company by enabling the Company, by grant of options to purchase Common Shares of the Company, to retain and attract key employees for the Company and its affiliates, and to provide additional incentive to those employees through increased stock ownership in the Company. Options granted under the Plan ("Options") shall be incentive stock options within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended, as now in effect or as hereafter further amended (the "Code"). The term "affiliates" where used in the Plan means subsidiary corporations as defined in Section 425 of the Code.

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

3. EMPLOYEES WHO MAY PARTICIPATE IN THE PLAN. Employees to whom options are granted shall be designated by the Committee. An Option may be granted to any full-time salaried key employee of the Company or of an affiliate, including any director or officer who is a key employee. An employee may hold more than one Option. No employee may, however, be granted incentive stock options under any and all stock option plans of the Company that become exercisable for the first time by the employee during any calendar year for shares that exceed an aggregate fair market value (determined on the date(s) of grant) of \$100,000.

4. SHARES SUBJECT TO THE PLAN. The aggregate number of Common Shares that may be delivered upon the exercise of all Options granted under the Plan may not exceed 100,000, subject, however, to adjustment as provided in Section 13. The Common Shares to be issued under the Plan shall be the Company's authorized Common Shares and may be unissued shares or treasury shares as the Committee, with the concurrence of the Board of Directors, may from time to time determine. To the extent the Company shall reacquire Common Shares for such purposes, shares may be reacquired at the time Options are exercised, or from time to time in advance, whenever the Board of Directors may deem their purchase advisable. If an option is surrendered or for any other reason ceases to be exercisable in whole or in part, the Common Shares that are subject to the Option, but as to which the option has not been exercised, shall again become available for offering under the Plan, subject to the limitations contained in the first sentence of this Section 4.

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

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

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

8. EXERCISE OF OPTIONS. No Option granted under the Plan may be exercised prior to the completion of one year of continuous employment with the Company or an affiliate after the date of grant, unless an Option is accelerated as provided in Section 10(b), and under no circumstances later than the expiration date of the Option. An Option may be exercised only while the optionee is in the employ of the Company or an affiliate, except as otherwise provided in Section 9 or as may be permitted pursuant to substitute Options granted under Section 14. An option shall become exercisable at such time or times, in whole or in part, on a cumulative or non-cumulative basis, as the Committee may determine at the time the Option is granted. No fraction of a share may be purchased upon exercise of an Option.

9. EXERCISE OF OPTIONS AFTER TERMINATION OF EMPLOYMENT. Subject to the provision found in Section 8, that under no circumstances may an Option be exercised later than the expiration date of the Option, an Option may be exercised after termination of the optionee's employment only in the following situations:

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

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

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

10. TERMINATION OF OPTIONS.

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

(b) In the event of a proposed lease, sale, or other disposition of all or substantially all of the assets of the Company to other corporations, firms, or individuals or a proposed merger, consolidation, combination (as defined in Section 1701.01(Q), Ohio Revised Code), or majority share acquisition (as defined in Section 1701.01(R), Ohio Revised Code) involving the Company and as a result of which the holders of shares of the Company prior to the transaction would become, by reason of the transaction, the holders of such number of shares of the surviving or acquiring corporation as entitle them to exercise less than one-third of the voting power of the surviving or acquiring corporation in the election of directors, the Board of Directors of the Company may accelerate the date on which any outstanding Option or any portion of an outstanding Option becomes exercisable. If the Board of Directors so accelerates the date (i) the Board of Directors shall give the optionee written notice of the acceleration and the reasons therefor; (ii) the optionee may, not more than ten days prior to the anticipated effective date of the proposed transaction, exercise the Option to purchase any or all shares then subject to the Option; (iii) any such exercise shall be conditioned upon the consummation of the transaction and shall become effective immediately prior to the consummation date, in which event the employee need not make payment for the shares to be purchased upon exercise of the option until five days after written notice by the Company to the employee that the transaction has been consummated; (iv), if the proposed transaction is consummated, each Option, to the extent not previously exercised prior to the date specified in the foregoing notice, shall terminate on the effective date of the consummation, and (v), if the proposed transaction is abandoned, the shares then subject to the Option shall continue to be available for purchase in accordance with the other provisions of the Plan, and any acceleration of the date on which any outstanding Option, or part thereof, becomes exercisable shall be deemed to have been rescinded. In addition to the foregoing, the Committee may authorize the purchase by the Company, from the optionee, of options previously granted to any person who, at the time of any transaction described in the first sentence of this paragraph (b) of Section 10, is a director or officer of the Company for a price equal to the difference between the consideration per share payable pursuant to the terms of the transaction and the option price.

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

11. NOTICE OF EXERCISE; PAYMENT FOR COMMON SHARES. No certificate for Common Shares purchased upon exercise of an option shall be delivered until full payment of the purchase price for the Common Shares has been made. An employee to whom an option has been granted shall have none of the rights of a shareholder with respect to the Common Shares subject thereto until the Option is exercised by delivery of written notice of exercise to the Company. Following exercise of the Option, the employee shall have all of the rights of a shareholder with respect to the Common Shares purchased upon the exercise, except that he shall not have the right to vote the shares or to receive dividends with respect thereto until payment therefore has been made in full. Payment of the Option price must be made only in cash.

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

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

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

15. PURCHASE FOR INVESTMENT. Each employee exercising an option may be required by the Company, in its sole discretion, to give a representation that he is acquiring the shares other than with a view to the distribution thereof. The Company may release any investment representation obtained if it subsequently determines that the representation is no longer required to insure that a sale or other disposition of the shares would not involve a violation of the provisions of the Securities Act of 1933, as amended, or of applicable state blue sky laws.

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

17. DURATION AND TERMINATION OF THE PLAN. The Plan shall remain in effect until April 20, 1997, and shall then terminate, unless terminated at an earlier date by action of the Board of Directors. Except as provided in Section 19, termination of the Plan shall not affect Options granted prior thereto.

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

19. SHAREHOLDER APPROVAL. Approval of the Plan must be obtained by no later than June 30, 1987, by the affirmative vote of the holders of shares of the Company entitling them to exercise at least a majority of the voting power on the approval. Options may be granted prior to approval of the Plan by shareholders, but no option may be exercised until after the Plan has been approved by shareholders.

AMENDMENT NO. 1 TO CREDIT AGREEMENT

This Amendment No. 1 to Credit Agreement (this "Amendment") is dated as of January 21, 2004, by and among THE DAVEY TREE EXPERT COMPANY, an Ohio corporation ("Borrower"), the banking institutions listed on Schedule 1 to the Credit Agreement, as hereinafter defined (the "Banks"), and KEYBANK NATIONAL ASSOCIATION, as agent for the Banks ("Agent").

WHEREAS, Borrower, Agent and the Banks are parties to a certain Credit Agreement, dated as of November 8, 2002, as the same may from time to time be amended, restated or otherwise modified, which provides, among other things, for revolving loans, letters of credit and other financial accommodations, all upon certain terms and conditions stated therein (the "Credit Agreement");

WHEREAS, Borrower, Agent and the Banks desire to amend the Credit Agreement to modify certain provisions thereof; and

WHEREAS, each capitalized term used herein shall be defined in accordance with the Credit Agreement;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained and for other valuable considerations, Borrower, Agent and the Banks hereby agree as follows:

1. Amendment to Definitions. Article I of the Credit Agreement is hereby amended to delete the definition of "Letter of Credit Commitment" therefrom and to insert in place thereof the following:

"Letter of Credit Commitment" shall mean the commitment of Agent, on behalf of the Banks, to issue Letters of Credit in an aggregate outstanding face amount of up to Forty Million Dollars (\$40,000,000), during the Commitment Period, on the terms and conditions set forth in Section 2.1B hereof.

2. Amendment to Financial Covenants. Section 5.7(c) of the Credit Agreement is hereby amended and restated as follows:

(c) BALANCE SHEET LEVERAGE RATIO. Borrower shall not suffer or permit at any time the Balance Sheet Leverage Ratio to exceed 0.55 to 1.00.

3. Concurrently with the execution of this Amendment, Borrower shall:

(a) cause Guarantor of Payment to consent and agree to and acknowledge the terms of this Amendment;

(b) pay to Agent, for the pro rata benefit of the Banks, an amendment fee in the amount of \$30,000; and

(c) pay all legal fees and expenses of Agent in connection with this Amendment.

4. Borrower hereby represents and warrants to Agent and the Banks that (a) Borrower has the legal power and authority to execute and deliver this Amendment, (b) the officers executing this Amendment have been duly authorized to execute and deliver the same and bind Borrower with respect to the provisions hereof, (c) the execution and delivery hereof by Borrower and the performance and observance by Borrower of the provisions hereof do not violate or conflict with the organizational agreements of Borrower or any law applicable to Borrower or result in a breach of any provision of or constitute a default under any other agreement, instrument or document binding upon or enforceable against Borrower, (d) no Default or Event of Default exists under the Credit Agreement, nor will any occur immediately after the execution and delivery of this Amendment or by the performance or observance of any provision hereof, (e) Borrower is not aware of any claim or offset against, or defense or counterclaim to, any of Borrower's obligations or liabilities under the Credit Agreement or any Related Writing, and (f) this Amendment constitutes a valid and binding obligation of Borrower in every respect, enforceable in accordance with its terms.

5. Borrower, by signing below, hereby waives and releases Agent and each of the Banks and their respective directors, officers, employees, attorneys, affiliates and subsidiaries from any and all claims, offsets, defenses and counterclaims of which Borrower is aware, such waiver and release being with full knowledge and understanding of the circumstances and effect thereof and after having consulted legal counsel with respect thereto.

6. Each reference that is made in the Credit Agreement or any Related Writing to the Credit Agreement shall hereafter be construed as a reference to the Credit Agreement as amended hereby. Except as herein otherwise specifically provided, all provisions of the Credit Agreement shall remain in full force and effect and be unaffected hereby. This Amendment is a Related Writing, as defined in the Credit Agreement.

7. This Amendment may be executed in any number of counterparts, by different parties hereto in separate counterparts and by facsimile signature, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement.

8. The rights and obligations of all parties hereto shall be governed by the laws of the State of Ohio, without regard to principles of conflicts of laws.

[Remainder of page intentionally left blank.]

9. JURY TRIAL WAIVER. BORROWER, AGENT AND EACH OF THE BANKS HEREBY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, AMONG BORROWER, AGENT AND THE BANKS, OR ANY THEREOF, ARISING OUT OF, IN CONNECTION WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS AGREEMENT OR ANY NOTE, OR OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED THERETO.

THE DAVEY TREE EXPERT COMPANY

By: /s/ David E. Adante
David E. Adante, Executive Vice
President, Chief Financial Officer and
Secretary

and /s/ Bradley L. Comport
Bradley L. Comport, Treasurer

KEYBANK NATIONAL ASSOCIATION,
as Agent and as Bank

By: /s/ Donald B. Hayes, Jr.
Donald B. Hayes, Jr.,
Senior Vice President

NATIONAL CITY BANK

By: /s/ Jennifer C. Simpson
Jennifer C. Simpson, AVP

FIRST MERIT BANK, N.A.

By: /s/ Kathryn B. Nielsen
Kathryn B. Nielsen, Vice President

WELLS FARGO BANK, NATIONAL
ASSOCIATION

By: /s/ Andrew T. Cavallari
Andrew T. Cavallari, Vice President

GUARANTOR ACKNOWLEDGMENT AND AGREEMENT

The undersigned consents and agrees to and acknowledges the terms of the foregoing Amendment No. 1 to Credit Agreement. The undersigned further agrees that the obligations of the undersigned pursuant to the Guaranty of Payment of Debt executed by the undersigned shall remain in full force and effect and be unaffected hereby.

The undersigned hereby waives and releases Agent and each of the Banks and their respective directors, officers, employees, attorneys, affiliates and subsidiaries from any and all claims, offsets, defenses and counterclaims of which the undersigned is aware, such waiver and release being with full knowledge and understanding of the circumstances and effect thereof and after having consulted legal counsel with respect thereto.

JURY TRIAL WAIVER. THE UNDERSIGNED, AGENT AND EACH OF THE BANKS HEREBY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, AMONG BORROWER, THE UNDERSIGNED, AGENT AND THE BANKS, OR ANY THEREOF, ARISING OUT OF, IN CONNECTION WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS AGREEMENT OR ANY NOTE OR OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED THERETO.

DAVEY TREE SURGERY COMPANY

By: /s/ David E. Adante
David E. Adante, Executive Vice
President and Chief Financial Officer

**The Davey Tree Expert Company
Code of Ethics for Financial Matters**

The Davey Tree Expert Company maintains a Code of Ethics that sets forth the fundamental principles and key standards requiring all personnel to conduct Davey's business affairs according to the highest standards of corporate and personal ethics.

This Code of Ethics for Financial Matters supplements the Davey Code of Ethics and is intended to ensure compliance with legal requirements, specifically the Sarbanes-Oxley Act of 2002 and related rules and regulations.

This Code of Ethics for Financial Matters applies to the Chief Executive Officer, the Chief Financial Officer, the Chief Accounting Officer, or Controller or persons performing similar or related functions, and persons engaged in any financial matters with or for the Company. All such individuals will be held accountable for adhering to this Code, and will:

1. Act with honesty and integrity, avoiding actual or apparent conflicts of interest in personal and professional relationships.
2. Provide business-related information that is accurate, complete, objective, relevant, timely and understandable.
3. Comply with applicable rules and regulations of federal, state, provincial, and local governments, and other appropriate private and public regulatory agencies.
4. Act responsibly and in good faith with due care, competence and diligence; without misrepresenting material facts or allowing one's independent judgment to be subordinated.
5. Respect the confidentiality of information acquired in the course of one's work except when authorized or otherwise legally obligated to disclose. Confidential information acquired in the course of one's work will not be used for personal advantage.
6. Share knowledge and maintain skills important and relevant to the needs of internal and external business partners.
7. Actively promote ethical behavior as a responsible partner among peers, in the work environment and the community.
8. Ensure responsible use of and control over all assets and resources employed or entrusted.
9. Report known or suspected violations of this Code to the Chief Executive Officer or the Chairman of the Audit Committee of the Board of Directors, whichever person is deemed most appropriate by the individual making such report.

SUBSIDIARIES OF THE REGISTRANT

<u>Name</u>	<u>Jurisdiction of Organization</u>
Davey Tree Surgery Company	Ohio
Davey Tree Expert Co. of Canada, Limited	Canada

Consent of Independent Auditors

We consent to the incorporation by reference of our report dated February 18, 2004, with respect to the consolidated financial statements of The Davey Tree Expert Company included in this Annual Report (Form 10-K) for the year ended December 31, 2003, in the following Registration Statements and in the related Prospectuses:

<u>Registration Number</u>	<u>Description of Registration Statement</u>
33-21072	The Davey Tree Expert Company 1987 Incentive Stock Option Plan - Form S-8
33-28041	The Davey Tree Expert Company 1989 Stock Subscription Plan - Amendment No. 2 to Form S-2
33-59347	The Davey Tree Expert Company 1994 Omnibus Stock Plan - Form S-8
333-24155	The Davey 401KSOP and ESOP - Form S-8

/s/ Ernst & Young LLP

Akron, Ohio
March 12, 2004

Certification

Certification of Chief Executive Officer

I, R. Douglas Cowan, certify that:

1. I have reviewed this annual report on Form 10-K of The Davey Tree Expert Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 16, 2004

/s/ R. Douglas Cowan
 R. Douglas Cowan
 Chairman and Chief Executive Officer

Certification of Chief Financial Officer

I, David E. Adante, certify that:

1. I have reviewed this annual report on Form 10-K of The Davey Tree Expert Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 16, 2004

/s/ David E. Adante

David E. Adante

Executive Vice President, Chief Financial Officer and
Secretary

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Certification of Chief Executive Officer

I, R. Douglas Cowan, Chairman and Chief Executive Officer of The Davey Tree Expert Company (the "Company"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and,
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 16, 2004

/s/ R. Douglas Cowan
R. Douglas Cowan
Chairman and Chief Executive Officer

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Certification of Chief Financial Officer

I, David E. Adante, Executive Vice President, CFO and Secretary of The Davey Tree Expert Company (the "Company"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1.) The Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and,
- (2.) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 16, 2004

/s/ David E. Adante
David E. Adante
Executive Vice President, CFO and Secretary

ANNUAL REPORT ON FORM 10-K

ITEM 8, ITEM 15 (a)(1) AND (2)

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CERTAIN EXHIBITS

FINANCIAL STATEMENT SCHEDULES

YEAR ENDED DECEMBER 31, 2003

THE DAVEY TREE EXPERT COMPANY

KENT, OHIO

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

FORM 10-K - ITEM 15(a)(1) AND (2)

THE DAVEY TREE EXPERT COMPANY

The following consolidated financial statements of The Davey Tree Expert Company are included in Item 8:

Audited Consolidated Financial Statements:

Report of Ernst & Young LLP, Independent Auditors	F-2
Consolidated Balance Sheets -- December 31, 2003 and 2002	F-3
Consolidated Statements of Operations -- Years ended December 31, 2003, 2002 and 2001	F-4
Statements of Consolidated Shareholders' Equity -- Years ended December 31, 2003, 2002 and 2001	F-5
Consolidated Statements of Cash Flows -- Years ended December 31, 2003, 2002 and 2001	F-6
Notes to Consolidated Financial Statements -- December 31, 2003	F-7

Financial Statement Schedules:

None

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of The Davey Tree Expert Company as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Davey Tree Expert Company at December 31, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Akron, Ohio
February 18, 2004

THE DAVEY TREE EXPERT COMPANY
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share dollar amounts)

	December 31,	
	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	\$ 211	\$ 591
Accounts receivable, net	53,773	49,197
Operating supplies	3,396	2,857
Prepaid expenses	6,160	4,768
Other current assets	4,857	4,090
Total current assets	68,397	61,503
Property and equipment:		
Land and land improvements	6,629	6,569
Buildings and leasehold improvements	17,826	17,289
Equipment	214,181	205,180
	238,636	229,038
Less accumulated depreciation	171,883	162,175
	66,753	66,863
Other assets		
Identified intangible assets and goodwill, net	24,164	25,230
	7,523	7,560
	\$ 166,837	\$ 161,156
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	\$ 1,880	\$ 1,242
Accounts payable	16,727	18,097
Accrued expenses	18,408	16,659
Self-insurance accruals	10,513	9,433
Current portion of capital lease obligations	661	650
Total current liabilities	48,189	46,081
Long-term debt		
Capital lease obligations	30,178	36,605
Self-insurance accruals	2,388	3,098
Deferred income taxes	16,947	13,493
Other liabilities	6,098	7,081
	890	663
	104,690	107,021
Common shareholders' equity:		
Common shares, \$1.00 par value, per share; 24,000 shares authorized; 10,728 shares issued and outstanding as of December 31, 2003 and 2002	10,728	10,728
Additional paid-in capital	6,528	5,710
Common shares subscribed, unissued	9,720	9,817
Retained earnings	89,158	82,525
Accumulated other comprehensive income (loss)	(146)	(1,057)
	115,988	107,723
Less: Cost of Common shares held in treasury:		
2,924 in 2003 and 3,048 in 2002	46,516	44,956
Common shares subscription receivable	7,325	8,632
	62,147	54,135
	\$ 166,837	\$ 161,156

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share dollar amounts)

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues	\$ 346,263	\$ 319,273	\$ 321,284
Costs and expenses:			
Operating	226,454	211,549	212,783
Selling	56,758	50,865	50,564
General and administrative	25,947	22,800	22,567
Depreciation	19,274	19,370	19,054
Amortization of intangible assets	1,501	692	466
	<u>329,934</u>	<u>305,276</u>	<u>305,434</u>
Income from operations	16,329	13,997	15,850
Other income (expense):			
Interest expense	(2,062)	(3,121)	(4,993)
Gain on sale of assets	931	2,054	1,023
Other	(465)	(993)	(744)
Income before income taxes	14,733	11,937	11,136
Income taxes	6,016	4,716	4,405
Net income	<u>\$ 8,717</u>	<u>\$ 7,221</u>	<u>\$ 6,731</u>
Net income per share:			
Basic	<u>\$ 1.03</u>	<u>\$.89</u>	<u>\$.87</u>
Diluted	<u>\$.99</u>	<u>\$.85</u>	<u>\$.82</u>
Weighted average shares outstanding:			
Basic	<u>8,470</u>	<u>8,125</u>	<u>7,757</u>
Diluted	<u>8,806</u>	<u>8,508</u>	<u>8,231</u>

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY
STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY
(In thousands, except per share amounts)

	2003		2002		2001	
	Shares	Amount	Shares	Amount	Shares	Amount
Common shares						
At beginning and end of year	10,728	\$ 10,728	10,728	\$ 10,728	10,728	\$ 10,728
Additional paid-in capital						
At beginning of year		5,710		5,163		4,308
Shares sold to employees		988		660		918
Options exercised		(176)		(190)		(63)
Subscription shares, issued		6		77		-
At end of year		<u>6,528</u>		<u>5,710</u>		<u>5,163</u>
Common shares subscribed, unissued						
At beginning of year	818	9,817	-	-	-	-
Common shares, subscribed	-	-	836	10,032	-	-
Common shares, issued	(1)	(17)	(16)	(194)	-	-
Cancellations	(7)	(80)	(2)	(21)	-	-
At end of year	<u>810</u>	<u>9,720</u>	<u>818</u>	<u>9,817</u>	<u>-</u>	<u>-</u>
Retained earnings						
At beginning of year		82,525		77,358		72,328
Net income		8,717		7,221		6,731
Dividends, \$.22 per share		-		-		(1,701)
Dividends, \$.24 per share		(2,084)		(2,054)		-
At end of year		<u>89,158</u>		<u>82,525</u>		<u>77,358</u>
Accumulated other comprehensive income (loss), net of tax						
At beginning of year		(1,057)		(1,209)		(745)
Currency translation adjustment		846		13		(99)
Derivatives: Cumulative effect of accounting change		-		-		(105)
Unrealized gain (loss) on interest rate swaps		65		139		(260)
Other comprehensive income (loss)		911		152		(464)
At end of year		<u>(146)</u>		<u>(1,057)</u>		<u>(1,209)</u>
Common shares held in treasury						
At beginning of year	3,048	(44,956)	3,000	(41,790)	2,932	(39,227)
Shares purchased	456	(5,987)	578	(7,051)	492	(5,541)
Shares sold to employees	(220)	1,708	(201)	1,588	(284)	2,021
Options exercised	(359)	2,709	(313)	2,179	(140)	957
Subscription shares, issued	(1)	10	(16)	118	-	-
At end of year	<u>2,924</u>	<u>(46,516)</u>	<u>3,048</u>	<u>(44,956)</u>	<u>3,000</u>	<u>(41,790)</u>
Common shares subscription receivable						
At beginning of year	(818)	(8,632)	-	-	-	-
Shares subscribed	-	-	(836)	(10,032)	-	-
Payments	1	1,227	16	1,379	-	-
Cancellations	7	80	2	21	-	-
At end of year	<u>(810)</u>	<u>(7,325)</u>	<u>(818)</u>	<u>(8,632)</u>	<u>-</u>	<u>-</u>
Common Shareholders' Equity at December 31	<u>7,804</u>	<u>\$ 62,147</u>	<u>7,680</u>	<u>\$ 54,135</u>	<u>7,728</u>	<u>\$ 50,250</u>
Comprehensive Income						
Net income		\$ 8,717		\$ 7,221		\$ 6,731
Other comprehensive income (loss)		911		152		(464)
Comprehensive income		<u>\$ 9,628</u>		<u>\$ 7,373</u>		<u>\$ 6,267</u>

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2003	2002	2001
Operating activities			
Net income	\$ 8,717	\$ 7,221	\$ 6,731
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	19,274	19,370	19,054
Amortization	1,501	692	466
Gain on sale of property	(931)	(2,054)	(1,023)
Deferred income taxes	(2,111)	408	(342)
Other	1,823	173	(194)
	28,273	25,810	24,692
Changes in operating assets and liabilities:			
Accounts receivable	(4,017)	(689)	(4,475)
Accounts payable and accrued expenses	379	3,588	5,985
Self-insurance accruals	4,534	3,292	2,798
Other assets, net	(906)	(2,574)	813
	(10)	3,617	5,121
Net cash provided by operating activities	28,263	29,427	29,813
Investing activities			
Capital expenditures			
Equipment	(19,578)	(15,791)	(11,593)
Land and buildings	(397)	(336)	(99)
Proceeds from sales of property and equipment	1,215	3,745	1,419
Purchases of businesses	(980)	(4,288)	(83)
	(19,740)	(16,670)	(10,356)
Net cash used in investing activities	(19,740)	(16,670)	(10,356)
Increase in cash before financing activities	8,523	12,757	19,457
Financing activities			
Revolving credit facility payments, net	(5,100)	(6,900)	(15,100)
Borrowings (payments) of notes payable	638	(1,109)	288
Payments of long-term debt and capital leases	(2,825)	(1,074)	(887)
Purchases of Common shares for treasury	(5,987)	(7,051)	(5,541)
Sales of Common shares from treasury	5,245	4,237	3,833
Cash received on Common share subscriptions	1,210	1,379	-
Dividends	(2,084)	(2,054)	(1,701)
	(8,903)	(12,572)	(19,108)
Net cash used in financing activities	(8,903)	(12,572)	(19,108)
(Decrease) Increase in cash and cash equivalents	(380)	185	349
Cash and cash equivalents, beginning of year	591	406	57
Cash and cash equivalents, end of year	\$ 211	\$ 591	\$ 406

See notes to consolidated financial statements.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements
December 31, 2003
(In thousands, except share data)

A. The Company's Business

The Davey Tree Expert Company and its subsidiaries (the "Company") provides a wide range of horticultural services to residential, commercial, utility and institutional customers throughout the United States and Canada.

Residential and Commercial Services provides for the treatment, preservation, maintenance, cultivation, planting and removal of trees, shrubs and other plant life; its services also include the practice of landscaping, tree surgery, tree feeding, and tree spraying, as well as the application of fertilizer, herbicides and insecticides.

Utility Services is principally engaged in the practice of line clearing for public utilities, including the clearing of tree growth from power lines, clearance of rights-of-way and chemical brush control.

Resource Group provides services related to natural resource management and consulting, forestry research and development, and environmental planning and also maintains research, technical support and laboratory diagnostic facilities.

B. Accounting Policies

Principles of Consolidation--The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Accounting Estimates--The consolidated financial statements and notes prepared in accordance with accounting principles generally accepted in the United States include estimates and assumptions made by management that affect reported amounts. Actual results could differ from those estimates.

Fiscal Year--The Company's fiscal year ends on the Saturday closest to December 31. The fiscal years reported are for the 53-week period ended January 3, 2004 and the 52-week periods ended December 28, 2002 and December 29, 2001. For purposes of the consolidated financial statements, the year-end is referred to as December 31 for all years presented.

Cash Equivalents--Cash equivalents are highly liquid investments with maturities of three months or less when purchased.

Revenue Recognition--Revenues from residential and commercial services are recognized as the services are provided and amounts are determined to be collectible. Revenues from contractual arrangements, primarily with utility services customers, are recognized based on costs incurred to total estimated contract costs. During the performance of such contracts, estimated final contract prices and costs are periodically reviewed and revisions are made, as required, to the revenue recognized. On cost-plus-fee contracts, revenue is recognized to the extent of costs incurred plus a proportionate amount of fees earned, and on time-and-material contracts revenue is recognized to the extent of billable rates times hours worked, plus material and other reimbursable costs incurred. Revisions arise in the normal course of providing services to utility services customers and generally relate to changes in contract specifications and cost allowability. Such revisions are recorded when realization is probable and can be reliably estimated.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

B. Accounting Policies (continued)

Concentration of Credit Risk--Credit risk represents the accounting loss that would be recognized if the counterparties failed to perform as contracted. The principal financial instruments subject to credit risk follows:

Cash and Cash Equivalents, and Derivative Financial Instruments: To limit its exposure, the Company transacts its business and maintains interest rate swaps with high credit quality financial institutions.

Accounts Receivable: The Company's residential and commercial customers are located geographically throughout the United States and Canada and, as to commercial customers, within differing industries; thus, minimizing credit risk. The credit exposure of utility services customers is directly affected by conditions within the utility industries as well as the financial condition of individual customers. One utility services customer approximated 14% of revenues during 2003, 13% during 2002 and 16% during 2001. To reduce credit risk, the Company evaluates the credit of customers, but generally does not require advance payments or collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition.

Property and Equipment--Property and equipment are stated at cost. Repair and maintenance costs are expensed as incurred. Depreciation is computed for financial reporting purposes by the straight-line method for land improvements; building and leasehold improvements and by the double-declining method for equipment, based on the estimated useful lives of the assets, as follows:

Land improvements.....	5 to 20 years
Buildings	5 to 20 years
Equipment	3 to 10 years
Leasehold improvements.....	Shorter of lease term or estimated useful life; ranging from 5 to 20 years

The amortization of assets acquired under capital leases is included in depreciation expense.

Intangible Assets--Intangible assets with finite lives, primarily customer lists, noncompete agreements and tradenames, are amortized by the straight-line method based on their estimated useful lives, ranging from one to ten years.

Long-Lived Assets--The Company assesses potential impairment to its long-lived assets, other than goodwill, only when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely and the carrying amount of the asset exceeds the estimated future undiscounted cash flow. In the event the assessment indicates that the carrying amounts may not be recoverable, an impairment loss would be recognized to reduce the asset's carrying amount to its estimated fair value based on the present value of the estimated future cash flows.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

B. Accounting Policies (continued)

Stock Compensation Arrangements--The Company accounts for stock compensation arrangements using the intrinsic value method in APB Opinion No. 25, "Accounting for Stock Issued to Employees." Under the intrinsic value method, no compensation expense is recorded for stock options when granted, if the option prices are set at the market value of the underlying stock.

In accordance with the intrinsic value method, the Company has not recognized any expense related to stock options, as holders of stock options have historically had to pay an amount equal to the market value of the shares at the date of grant.

The alternative policy, in FAS No. 123, "Accounting for Stock-Based Compensation," the fair value method, is based on the fair value of the stock option awarded, determined by an option pricing model, net of any amount the holders must pay for the stock options when granted. If the Company had used the fair value method, the after-tax expense relating to the stock options would have been \$14 in 2003, \$13 in 2002 and \$357 in 2001. In calculating the fair value of the stock options, the following assumptions were used: initial annual dividend rate of 1.5% per share; a risk free interest rate of 6.25% and an expected life of five years. The following table presents the pro forma net income as if the fair value method had been applied to the stock options.

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net income as reported	\$ 8,717	\$ 7,221	\$ 6,731
Deduct stock-based compensation, determined under fair value	<u>14</u>	<u>13</u>	<u>357</u>
Pro forma net income, FAS 123 adjusted	<u>\$ 8,703</u>	<u>\$ 7,208</u>	<u>\$ 6,374</u>
Net income per share -- basic			
As reported	\$ 1.03	\$.89	\$.87
Pro forma, FAS 123 adjusted	1.03	.89	.82
Net income per share -- diluted			
As reported	\$.99	\$.85	\$.82
Pro forma, FAS 123 adjusted	.99	.85	.77

Derivative Financial Instruments--Derivative financial instruments such as interest rate swaps are used by the Company to reduce interest rate risks. The Company does not hold or issue derivative financial instruments for trading purposes.

Self-Insurance Accruals--The Company is generally self-insured for losses and liabilities related primarily to workers' compensation, vehicle liability and general liability claims. The Company uses commercial insurance as a risk-reduction strategy to minimize catastrophic losses. Ultimate losses are accrued based upon estimates of the aggregate liability for claims incurred using certain actuarial assumptions followed in the insurance industry and based on Company-specific experience.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

B. Accounting Policies (continued)

The self-insurance accruals include claims for which the ultimate losses will develop over a period of years. Accordingly, the estimates of ultimate losses can change as claims mature. The accruals also are affected by changes in the number of new claims incurred and claim severity. The methods for estimating the ultimate losses and the total cost of claims were determined by external consulting actuaries; the resulting accruals are continually reviewed by management, and any adjustments arising from changes in estimates are reflected in income currently. The self-insurance accruals are based on estimates, and while management believes that the amounts accrued are adequate, the ultimate claims may be in excess of or less than the amounts provided.

Income Taxes--The Company computes taxes on income in accordance with the tax rules and regulations where the income is earned. The income tax rates imposed by these taxing authorities vary. Taxable income may differ from pretax income for financial reporting purposes. To the extent differences are due to revenue and expense items reported in one period for tax purposes and in another period for financial reporting purposes, provision for deferred taxes is made. Changes in tax rates and laws are reflected in income in the period when such changes are enacted.

Net Income Per Share and Common Shares--Basic net income per share is determined by dividing the income available to common shareholders by the weighted-average number of common shares outstanding. Diluted net income per share is computed similar to basic net income per share except that the weighted-average number of shares is increased to include the effect of stock options that were granted and outstanding during the period and the assumed exercise of stock subscription rights.

Foreign Currency Translation--All assets and liabilities of the Company's Canadian operations are translated into United States dollars at year-end exchange rates while revenues and expenses are translated at weighted-average exchange rates in effect during the year. Translation adjustments are recorded as accumulated other comprehensive income (loss) in shareholders' equity.

Comprehensive Income (Loss)--Comprehensive income (loss) includes net income and other comprehensive income or loss. Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but are excluded from net income as these amounts are recorded directly as an adjustment to shareholders' equity, net of tax. The Company's other comprehensive income (loss) is composed of foreign currency translation adjustments and unrealized gains and losses from its interest rate swaps.

Fair Values--The carrying amount of cash and cash equivalents, receivables, accounts payable and debt approximates fair value.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

B. Accounting Policies (continued)

Accounting Standard Previously Adopted--Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("FAS") No.141, "Business Combinations," and FAS 142, "Goodwill and Other Intangible Assets." FAS 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets apart from goodwill. FAS 142 requires that purchased goodwill and certain indefinite-lived intangibles no longer be amortized, but instead be tested for impairment at least annually. There was no impairment of goodwill upon adoption of FAS 142. We performed an impairment analysis during 2003 and 2002 and concluded that the carrying amount of goodwill was appropriate. Supplemental comparative disclosure, as if the change had been retroactively applied, follows:

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Cease goodwill amortization	\$ -	\$ -	\$ 150
Net income as reported	\$ 8,717	\$ 7,221	\$ 6,731
Cease goodwill amortization, net of tax	-	-	105
Pro forma net income, FAS 142 adjusted	<u>\$ 8,717</u>	<u>\$ 7,221</u>	<u>\$ 6,836</u>
Net income per share - basic			
As reported	\$ 1.03	\$.89	\$.87
Pro forma net income, FAS 142 adjusted	1.03	.89	.88
Net income per share - diluted			
As reported	\$.99	\$.85	\$.82
Pro forma net income, FAS 142 adjusted	.99	.85	.83

Recently Issued Disclosure Pronouncement--In December 2003, the FASB issued FAS 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits." FAS 132 (revised 2003) requires additional disclosures which have been included in these financial statements.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

C. Accounts Receivable, Net

Accounts receivable, net, consisted of the following:

	December 31,	
	2003	2002
Accounts receivable	\$ 62,986	\$ 57,376
Receivables under contractual arrangements	4,458	5,880
	67,444	63,256
Less prepetition accounts receivable from PG&E classified as noncurrent other assets	11,931	12,490
	55,513	50,766
Less allowances for doubtful accounts	1,740	1,569
	\$ 53,773	\$ 49,197

Receivables under contractual arrangements consist of work-in-process in accordance with the terms of contracts, primarily with utility services customers.

On April 6, 2001, one of the Company's largest utility customers, Pacific Gas and Electric Company ("PG&E") filed a voluntary bankruptcy petition under Chapter 11 of the U. S. Bankruptcy Code. Subsequent to the bankruptcy petition date, the Company continued to provide services under the terms of its contracts with PG&E. The Company continues to perform services for PG&E and receives payment for post-petition date services performed, as part of PG&E's administrative expenses.

On September 20, 2001, PG&E filed a reorganization plan as part of its Chapter 11 bankruptcy proceeding that seeks to pay all of its creditors in full. In addition to PG&E's reorganization plan, there was a competing alternative proposed plan of reorganization filed by the California Public Utilities Commission and the Official Committee of Unsecured Creditors ("CPUC/OCC plan"). The bankruptcy court began confirmation hearings in December 2002 to determine whether to confirm the PG&E plan, the CPUC/OCC plan or neither plan. The bankruptcy court subsequently suspended the confirmation trial process in early 2003 and ordered mandatory settlement discussions.

On June 19, 2003, it was announced that Pacific Gas & Electric Corporation ("PG&E Corporation," the parent company of PG&E), the staff of the California Public Utilities Commission ("CPUC"), and PG&E entered into a proposed settlement agreement that contemplates a new plan of reorganization (the "Settlement Plan") to supersede the competing plans. Subsequently, PG&E Corporation, PG&E, and the Official Committee of Unsecured Creditors ("OCC"), as co-proponents, filed the Settlement Plan with the bankruptcy court. The Settlement Plan contemplates the payment of all creditors, in full and in cash.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

C. Accounts Receivable, Net (continued)

Confirmation hearings were concluded in the U.S. Bankruptcy Court for the Northern District of California and the Settlement Plan was confirmed and the confirmation order was signed on December 22, 2003. In addition, the CPUC held hearings on the Settlement Plan and on December 18, 2003 voted three-to-two in favor of the plan that was confirmed by the bankruptcy court. Certain appeals and legal challenges are currently pending with regard to both the bankruptcy court order and the CPUC decision. The effective date of the plan of reorganization as contemplated in the confirmation order entered by the bankruptcy court is March 31, 2004. That date may be changed to a date in the second quarter of 2004 to accommodate contingencies that must be met before the plan can become effective. Legal challenges and the appeals filed in response to the confirmation order and the CPUC decision could lead to other delays.

Management has monitored the situation closely and will continue to assess the collectibility of its receivables from PG&E. In management's opinion, the prepetition receivables from PG&E are collectible. Because of the uncertainty as to when payment will be received, the prepetition receivables are classified as noncurrent other assets.

The balance of prepetition accounts receivable, \$11,931, has been reduced from the initial April 6, 2001 balance outstanding, \$13,326, by interest payments received from PG&E totaling \$559 during 2003 and \$836 during 2002.

D. Supplemental Balance Sheet and Cash Flow Information

The following items comprise the amounts included in the balance sheets:

Other currents assets	December 31,	
	2003	2002
Refundable income taxes	\$ -	\$ 360
Deferred income taxes	4,857	3,730
Total	<u>\$ 4,857</u>	<u>\$ 4,090</u>

Other assets	December 31,	
	2003	2002
Prepaid pension costs	\$ 10,766	\$ 11,324
Prepetition accounts receivable from PG&E	11,931	12,490
Deposits	1,467	1,416
Total	<u>\$ 24,164</u>	<u>\$ 25,230</u>

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

D. Supplemental Balance Sheet and Cash Flow Information (continued)

Identified intangibles and goodwill, net	December 31,	
	2003	2002
Customer lists	\$ 5,925	\$ 5,381
Noncompete agreements	1,892	1,674
Tradenames	249	195
Goodwill	<u>5,288</u>	<u>4,638</u>
	13,354	11,888
Less accumulated amortization	<u>5,831</u>	<u>4,328</u>
Total	<u>\$ 7,523</u>	<u>\$ 7,560</u>

Accrued expenses	December 31,	
	2003	2002
Employee compensation	\$ 6,358	\$ 6,526
Accrued vacation	2,692	2,491
Self-insured medical claims	1,653	1,029
Commercial insurance payable	3,897	3,444
Income taxes payable	920	-
Taxes, other than income	955	1,087
Other	<u>1,933</u>	<u>2,082</u>
Total	<u>\$ 18,408</u>	<u>\$ 16,659</u>

Supplemental cash flow information follows:

	Year Ended December 31,		
	2003	2002	2001
Interest paid	\$ 2,183	\$ 3,046	\$ 5,330
Income taxes paid (refunds received), net	7,405	4,585	2,465
Noncash transactions:			
Debt issued for purchase of business	799	2,860	-
Common share subscriptions	-	10,032	-
Detail of acquisitions:			
Assets acquired:			
Equipment	384	1,706	63
Intangibles	1,395	5,699	20
Liabilities assumed	-	(257)	-
Debt issued for purchase of businesses	<u>(799)</u>	<u>(2,860)</u>	<u>-</u>
Cash paid	<u>\$ 980</u>	<u>\$ 4,288</u>	<u>\$ 83</u>

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

E. Pension Plans

Substantially all of the Company's domestic employees are covered by two noncontributory defined benefit pension plans.

The plan for nonbargaining employees provides a benefit based primarily on annual compensation up to a defined level and years of credited service. The other plan is for bargaining employees not covered by union pension plans and provides benefits at a fixed monthly amount based upon length of service. The Company's funding policy is to make the annual contributions necessary to fund the plans within the range permitted by applicable regulations.

Summarized information on the Company's defined benefit pension plans follows:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 17,216	\$ 15,419
Service cost	873	875
Interest cost	1,184	1,083
Actuarial loss	2,327	1,461
Benefit payments	<u>(1,637)</u>	<u>(1,622)</u>
Projected benefit obligation at end of year	<u>\$ 19,963</u>	<u>\$ 17,216</u>
Accumulated benefit obligation at end of year	<u>\$ 17,743</u>	<u>\$ 15,476</u>

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	\$ 22,813	\$ 29,413
Actual return on plan assets	4,155	(4,978)
Benefit payments	<u>(1,637)</u>	<u>(1,622)</u>
Fair value of plan assets at end of year	<u>\$ 25,331</u>	<u>\$ 22,813</u>

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Funded status		
Fair value of plan assets at end of year	\$ 25,331	\$ 22,813
Projected benefit obligation at end of year	<u>19,963</u>	<u>17,216</u>
Plan assets in excess of benefit obligation	5,368	5,597
Unrecognized net actuarial loss	5,930	6,328
Unrecognized prior service cost	39	42
Unrecognized transition asset	<u>(571)</u>	<u>(643)</u>
Prepaid pension costs recognized in balance sheet	<u>\$ 10,766</u>	<u>\$ 11,324</u>

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

E. Pension Plans (continued)

The assumptions used in developing the benefit obligations were as follows:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Weighted-average assumptions		
Discount rate used to determine projected benefit obligation	6.25%	6.75%
Expected return on plan assets	8.00	8.00
Rate of increase in compensation	4.50	4.50

Net periodic benefit expense (income) associated with the defined benefit pension plans included the following components:

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Components of pension expense (income)			
Service costs -- increase in benefit obligation earned	\$ 873	\$ 875	\$ 786
Interest cost on projected benefit obligation	1,184	1,083	973
Expected return on plan assets	(1,767)	(2,287)	(2,732)
Amortization of net actuarial loss (gains)	336	(6)	(491)
Amortization of prior service cost	4	4	(34)
Amortization of transition asset	(72)	(72)	(72)
Net pension expense (income) of defined benefit pension plans	<u>\$ 558</u>	<u>\$ (403)</u>	<u>\$ (1,570)</u>

In addition to the Company sponsored defined benefit plans, the Company contributes to several multiemployer plans. Total pension expense for multiemployer plans was \$171 in 2003, \$180 in 2002, and \$289 in 2001.

The percentage of the fair value of total plan assets, by major category, were as follows, along with the target range-of-percentage allocations for 2004 used as investment strategy.

Plan assets - asset category	Percentage of Plan Assets at December 31,		Target Allocations 2004
	<u>2003</u>	<u>2002</u>	
Equity securities	71%	62%	60% to 75%
Debt securities	29	38	25% to 40%
Total	<u>100%</u>	<u>100%</u>	

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

E. Pension Plans (continued)

Target range-of-percentage allocations to major categories of plan assets are based on the expected returns for the following 12-to-18 months. Equity securities are expected to be well-diversified with 35-to-50 issues, with no single holding exceeding 7% of total equity securities. Debt securities consist of issues rated as investment-grade, generally with a laddered-maturity structure ranging from 1-to-12 years. There is no specific prohibition to investing in real estate or international equity securities, but the categories must not exceed 10% of total plan assets. Derivatives, options or leverage are not used.

Rate-of-return-on-assets assumptions are made by major category of plan assets according to historical analysis, tempered for an assessment of possible future influences that could cause the returns to exceed or trail long-term patterns. The overall expected long-term rate-of-return-on-plan assets, as at December 31, 2003, was 8.3%.

The benefits, as of December 31, 2003, expected to be paid to defined-benefit plan participants in each of the next five years and in the aggregate for the five years thereafter, follows.

Estimated future payments	Participants Benefits
Year ending December 31, 2004	\$ 1,020
2005	1,022
2006	1,028
2007	1,031
2008	1,033
Years 2009 to 2013	<u>5,547</u>

The Company expects, as of December 31, 2003, that it will not be necessary to make contributions to the defined benefit pension plans in 2004.

F. Short-Term and Long-Term Debt

Short-term debt consisted of the following:

	December 31,	
	2003	2002
Notes payable	\$ 355	\$ 810
Current portion of long-term debt	<u>1,525</u>	<u>432</u>
	<u>\$ 1,880</u>	<u>\$ 1,242</u>

The \$355 note payable, with interest approximating 4.0%, is due on September 1, 2004.

At December 31, 2003, the Company also had unused short-term lines of credit with several banks totaling \$3,549, generally at the banks' prime rate.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

F. Short-Term and Long-Term Debt (continued)

Long-term debt consisted of the following:

	December 31,	
	2003	2002
Revolving credit facility		
Prime rate borrowings	\$ 3,300	\$ 400
LIBOR borrowings	26,000	34,000
	29,300	34,400
Subordinated notes, share redemptions	-	389
Term loans	2,403	2,248
	31,703	37,037
Less current portion	1,525	432
	\$ 30,178	\$ 36,605

Revolving Credit Facility--The Company has a \$90,000 three-year revolving credit facility with a group of banks, which will expire in November 2005 and permits borrowings, as defined, up to \$90,000 with a letter of credit sublimit of \$40,000 (amended in January 2004 to \$40,000 from a previous \$30,000 letter of credit sublimit). The revolving credit facility contains certain affirmative and negative covenants customary for this type of facility and includes financial covenant ratios, as defined, with respect to interest coverage, funded debt to EBITDA (earnings before interest, taxes, depreciation and amortization), and funded debt to capitalization.

As of December 31, 2003, the Company had unused commitments under the facility approximating \$32,894, with \$57,106 committed under the agreement, consisting of borrowings of \$29,300 and issued letters of credit of \$27,806. Borrowings outstanding bear interest, at the Company's option, at the agent bank's prime rate or LIBOR plus a margin adjustment ranging from 1.0% to 2.0%, based on a ratio of funded debt to EBITDA. A commitment fee ranging from .20% to .45% is also required based on the average daily unborrowed commitment.

Term Loans--The weighted-average interest on the term loans approximated 4.47% (5.46% at December 31, 2002).

Aggregate Maturities of Long-Term Debt--Aggregate maturities of long-term debt for the four years subsequent to December 31, 2003 were as follows: 2004--\$1,525; 2005--\$29,773; 2006--\$365 and 2007--\$40.

Interest rate swaps--The Company uses interest rate swaps to effectively convert a portion of variable-rate revolving credit borrowings to a fixed rate, thus reducing the impact of interest-rate changes on future interest expense. As of December 31, 2003, the Company had an interest rate swap outstanding, with an underlying notional amount totaling \$15,000, requiring interest to be paid at 4.14% and maturing in November 2005. The fair value of the swap is the amount quoted by the financial institution that the Company would pay to terminate the agreements, a liability of \$259 at December 31, 2003.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

G. Self-Insurance Accruals

Components of the Company's self-insurance accruals for workers' compensation, vehicle liability and general liability follow:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Workers' compensation	\$ 19,255	\$ 15,782
Present value discount	<u>2,713</u>	<u>2,193</u>
	16,542	13,589
Vehicle liability	5,542	5,176
General liability	<u>5,376</u>	<u>4,161</u>
Total	27,460	22,926
Less current portion	<u>10,513</u>	<u>9,433</u>
Noncurrent portion	<u>\$ 16,947</u>	<u>\$ 13,493</u>

The table below reconciles the changes in the self-insurance accruals for losses and related payments and sets forth the discount rate used for the workers compensation accrual.

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Balance, beginning of year	\$ 22,926	\$ 19,634
Provision for claims	18,927	19,227
Change in discount rate	-	99
Payment for claims	<u>14,393</u>	<u>16,034</u>
Balance, end of year	<u>\$ 27,460</u>	<u>\$ 22,926</u>
Workers' compensation discount rate	<u>4.50%</u>	<u>4.50%</u>

H. Lease Obligations

Assets acquired under capital leases and included in property and equipment consisted of the following:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Equipment	\$ 5,121	\$ 5,125
Less accumulated amortization	<u>2,705</u>	<u>2,103</u>
	<u>\$ 2,416</u>	<u>\$ 3,022</u>

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

H. Lease Obligations (continued)

The Company also leases facilities under noncancelable operating leases, which are used for district office and warehouse operations. These leases extend for varying periods of time up to five years and, in some cases, contain renewal options. Minimum rental commitments under all capital and noncancelable operating leases, as of December 31, 2003 were as follows:

	<u>Lease Obligations</u>	
	<u>Capital</u>	<u>Operating</u>
Minimum lease obligations		
Year ending December 31, 2004	\$ 844	\$ 1,931
2005	934	1,303
2006	705	958
2007	981	736
2008	-	359
2009 and after	-	321
Total minimum lease payments	<u>3,464</u>	<u>\$ 5,608</u>
Amounts representing interest	<u>415</u>	
Present value of net minimum lease payments	3,049	
Less current portion	<u>661</u>	
Long-term capital lease obligations, December 31, 2003	<u>\$ 2,388</u>	

Total rent expense under all operating leases was \$2,813 in 2003, \$2,567 in 2002 and \$2,437 in 2001.

I. Common Shares 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 24,000,000, par value \$1.00. The number of common shares issued was 10,728,440 during each of the three years in the period ended December 31, 2003. The number of shares in the treasury for each of the three years in the period ended December 31, 2003 were as follows: 2003--2,924,235; 2002-- 3,048,073; and, 2001-- 2,999,526.

The Company's stock is not listed or traded on an active stock market, and market prices are, therefore, not available. Semiannually, 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 2003, purchases of common shares totaled 456,725 shares for \$5,987 in cash; the Company also had direct sales, to directors and employees of 5,798 shares for \$76, excluding those shares issued through either the exercise of options or the employee stock purchase plan. It also sold 86,055 shares from the Company's 401(k) plan for \$1,112 and issued 45,217 shares to participant accounts to satisfy its liability for the 2002 employer match in the amount of \$579. The liability accrued at December 31, 2003 for the 2003 employer match was \$718. There were also 83,061 shares purchased during 2003 under the employee stock purchase plan.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

I. Common Shares and Preferred Shares (continued)

Common Shares Outstanding--The table below reconciles the activity of the common shares outstanding.

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Shares outstanding, beginning of year	7,680,367	7,728,914
Shares purchased	(456,725)	(578,092)
Shares sold to employees and directors	220,131	200,824
Stock subscription offering - cash purchases	1,387	16,207
Options exercised	<u>359,045</u>	<u>312,514</u>
	<u>123,838</u>	<u>(48,547)</u>
Shares outstanding, end of year	<u>7,804,205</u>	<u>7,680,367</u>

On December 31, 2003, the Company had 7,804,205 common shares outstanding, options exercisable to purchase 506,870 common shares, partially-paid subscriptions for 809,972 common shares and purchase rights outstanding for 258,609 common shares.

The partially-paid subscriptions relate to common shares purchased at \$12.00 per share, in connection with the stock subscription offering completed in August 2002, whereby some employees opted to finance their subscription with a down-payment of at least 10% of their total purchase price and a seven-year promissory note for the balance due, with interest at 4.75%. Promissory note payments, of both principal and interest, are made either by payroll deduction or annual lump-sum payment. The promissory notes are collateralized with the common shares subscribed and the common shares are only issued when the related promissory note is paid-in-full. Dividends are paid on all unissued subscribed shares.

The purchase rights outstanding were granted to purchase one additional common share at the price of \$12.00 per share for every two common shares purchased in connection with the stock subscription offering completed in August 2002. Each right may be exercised at the rate of one-seventh per year and will expire seven years after the date that the right was granted. Employees may not exercise a right should they cease to be employed by the Company.

J. Employee Stock Ownership Plan and 401KSOP

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

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

The Davey Tree Expert Company
Notes to Consolidated Financial Statements—(Continued)
December 31, 2003
(In thousands, except share data)

J. Employee Stock Ownership Plan and 401KSOP (continued)

Effective January 1, 1997, the Company commenced operation of the "The Davey 401KSOP and ESOP," which retained the existing ESOP participant accounts and incorporated a deferred savings plan (401(k) plan) feature. Participants in the plan are allowed to make before-tax contributions, within Internal Revenue Service established limits, through payroll deductions. The Company will match, in either cash or Company stock, 50% of each participant's before-tax contribution, limited to the first 3% of the employee's compensation deferred each year. All nonbargaining domestic employees who attained age 21 and completed one year of service are eligible to participate. The Company's cost of this plan, consisting principally of the employer match, was \$718 in 2003, \$586 in 2002, and \$500 in 2001.

K. Employee Stock Purchase Plan and Stock Option Plans

Employee Stock Purchase Plan--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. Purchases under the plan, at 85% of the fair market value of the common shares, have been as follows:

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Number of employees participating	900	775	900
Shares purchased during the year	83,061	105,609	132,963
Weighted average per share purchase price paid	\$ 11.18	\$ 10.36	\$ 9.59
Cumulative shares purchased since 1982	3,627,232	3,544,171	3,438,562

Stock Option Plans--The 1994 Omnibus Stock Plan (Stock Plan) consolidated into a single plan provisions for the grant of stock options and other stock based incentives and maintenance of the employee stock purchase plan. Prior to adoption of the Stock Plan, the Company had two qualified stock option plans available for officers and management employees; the final grant of awards under those plans was December 10, 1993. The maximum number of shares that may be issued upon exercise of stock options, other than director options and nonqualified stock options, is 1,600,000 during the ten-year term of the Stock Plan. Shares purchased since 1994 under the stock purchase plan were 1,317,328. Each nonemployee director elected or appointed, and reelected or reappointed, will receive a director option that gives the right to purchase, for six years, 4,000 common shares at the fair market value per share at date of grant. The director options are exercisable six months from the date of grant. The aggregate number of common shares available for grant and the maximum number of shares granted annually are based on formulas defined in the Stock Plan. The grant of awards, other than director options, is at the discretion of the compensation committee of the Board of Directors. Shares available for grant at December 31, 2003 were 10,868.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

K. Employee Stock Purchase Plan and Stock Option Plans (continued)

A summary of the Company's stock option activity, excluding director options, is presented below:

	2003		2002		2001	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding, beginning of year	819,915	\$ 7.49	1,161,147	\$ 7.15	1,301,696	\$ 7.07
Granted	512,500	13.50	-	-	-	-
Exercised	(351,045)	6.97	(312,514)	6.36	(140,549)	6.36
Forfeited	(10,000)	6.91	(28,718)	6.14	-	-
Outstanding, end of year	<u>971,370</u>	10.82	<u>819,915</u>	7.49	<u>1,161,147</u>	7.15

The following table summarizes information about stock options outstanding and exercisable, excluding director options at December 31, 2003:

Exercise Price	Options Outstanding			Options Exercisable	
	Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
\$ 7.90	458,870	2.9 years	\$ 7.90	458,870	\$ 7.90
\$ 13.50	<u>512,500</u>	9.9 years	\$ 13.50	-	-
	<u>971,370</u>			<u>458,870</u>	

A summary of the status of the Company's director options is presented below:

	2003		2002		2001	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding, beginning of year	48,000	\$ 12.39	44,000	\$ 12.16	40,000	\$ 11.60
Granted	8,000	12.80	8,000	12.00	12,000	11.00
Exercised	(8,000)	10.79	-	-	-	-
Forfeited	-	-	(4,000)	9.10	(8,000)	7.41
Outstanding and exercisable, end of year	<u>48,000</u>	12.72	<u>48,000</u>	12.39	<u>44,000</u>	12.16

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

L. Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) follows:

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Comprehensive Income			
Net income	\$ 8,717	\$ 7,221	\$ 6,731
Other comprehensive income (loss)			
Foreign currency translation adjustment	846	13	(99)
Derivative instruments:			
Cumulative effect of accounting change			(170)
Change in fair value of interest rate swap	105	225	(419)
	<u>105</u>	<u>225</u>	<u>(589)</u>
Other comprehensive income (loss), before income taxes	951	238	(688)
Income tax benefit (expense), related to items of other comprehensive income	(40)	(86)	224
Other comprehensive income	<u>911</u>	<u>152</u>	<u>(464)</u>
Comprehensive income	<u>\$ 9,628</u>	<u>\$ 7,373</u>	<u>\$ 6,267</u>

	<u>December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Accumulated comprehensive income (loss)			
Foreign currency translation adjustments	\$ 15	\$ (831)	\$ (844)
Fair value of interest rate swap	(161)	(226)	(365)
Accumulated comprehensive income (loss)	<u>\$ (146)</u>	<u>\$ (1,057)</u>	<u>\$ (1,209)</u>

M. Income Taxes

Income before income taxes were attributable to the following sources:

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
United States	\$ 13,324	\$ 11,023	\$ 10,287
Canada	1,409	914	849
Total	<u>\$ 14,733</u>	<u>\$ 11,937</u>	<u>\$ 11,136</u>

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

M. Income Taxes (continued)

Income taxes have been provided as follows:

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Currently payable:			
Federal	\$ 6,131	\$ 3,143	\$ 3,180
State	1,493	826	900
Canadian	<u>543</u>	<u>425</u>	<u>442</u>
 Total current	 8,167	 4,394	 4,522
Deferred taxes	<u>(2,151)</u>	<u>322</u>	<u>(117)</u>
Total taxes on income	<u>\$ 6,016</u>	<u>\$ 4,716</u>	<u>\$ 4,405</u>

Deferred income taxes reflect the tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's current net deferred tax assets at December 31, were as follows:

	<u>Year Ended December 31,</u>	
	<u>2003</u>	<u>2002</u>
Deferred tax assets:		
Accrued compensated absences	\$ 524	\$ 491
Self-insurance accruals	3,551	2,812
Other	<u>782</u>	<u>427</u>
Net deferred income tax assets--current	<u>\$ 4,857</u>	<u>\$ 3,730</u>

Significant components of the Company's noncurrent net deferred tax assets and liabilities at December 31, were as follows:

	<u>Year Ended December 31,</u>	
	<u>2003</u>	<u>2002</u>
Deferred tax assets:		
Self-insurance accruals	\$ 5,738	\$ 4,349
Other	<u>851</u>	<u>281</u>
	6,589	4,630
Deferred tax liabilities:		
Tax over financial reporting depreciation and amortization	9,050	7,884
Prepaid pension costs	<u>3,637</u>	<u>3,827</u>
	12,687	11,711
Net deferred income tax liability--noncurrent	<u>\$ (6,098)</u>	<u>\$ (7,081)</u>

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

M. Income Taxes (continued)

A reconciliation of the expected statutory U.S. federal rate to the Company's actual effective income tax rate follows:

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Statutory U.S. federal tax rate	34.0 %	34.0 %	34.0 %
State income taxes, net of federal benefit	6.7	4.6	5.4
Effect of Canadian income taxes	.4	1.0	(.1)
Meals disallowance	1.4	1.5	.9
Other	(1.7)	(1.6)	(.6)
Effective income tax rate	<u>40.8 %</u>	<u>39.5 %</u>	<u>39.6 %</u>

N. Net Income Per Share

Net income per share is computed as follows:

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Income available to common shareholders:			
Net income	<u>\$ 8,717</u>	<u>\$ 7,221</u>	<u>\$ 6,731</u>
Weighted average shares:			
Basic:			
Outstanding	7,659,901	7,781,902	7,756,949
Partially-paid share subscriptions	<u>809,972</u>	<u>342,915</u>	<u>-</u>
Basic weighted average shares	<u>8,469,873</u>	<u>8,124,817</u>	<u>7,756,949</u>
Diluted:			
Basic from above	8,469,873	8,124,817	7,756,949
Incremental shares from assumed:			
Exercise of stock subscription purchase rights	22,750	4,322	-
Exercise of stock options	<u>312,891</u>	<u>379,047</u>	<u>473,740</u>
Diluted weighted average shares	<u>8,805,514</u>	<u>8,508,186</u>	<u>8,230,689</u>
Net income per share:			
Basic	<u>\$ 1.03</u>	<u>\$.89</u>	<u>\$.87</u>
Diluted	<u>\$.99</u>	<u>\$.85</u>	<u>\$.82</u>

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

O. Operations by Segment and Geographic Information

The Company's operating results are reported in two segments: Residential and Commercial Services, and Utility Services, for operations in the United States. Residential and Commercial Services provides for the treatment, preservation, maintenance, cultivation, planting and removal of trees, shrubs and other plant life; its services also include the practice of landscaping, tree surgery, tree feeding, and tree spraying, as well as the application of fertilizer, herbicides and insecticides. Utility Services is principally engaged in the practice of line clearing for investor-owned and municipal utilities, including the clearing of tree growth from power lines, clearance of rights-of-way and chemical brush control.

The Company also has two nonreportable segments: Canadian operations, which provides a comprehensive range of Davey horticultural services, and Davey Resource Group, which provides services related to natural resource management and consulting, forestry research and development, and environmental planning and also maintains research, technical support and laboratory diagnostic facilities. Canadian operations and Davey Resource Group are presented below as "All Other."

Measurement of Segment Profit and Loss and Segment Assets--The Company evaluates performance and allocates resources based primarily on operating income and also actively manages business unit operating assets.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies except that (a) the Company computes and recognizes depreciation expense for its segments only by the straight-line method and (b) state income taxes are allocated to the segments. Corporate expenses are substantially allocated among the operating segments, but the nature of expenses allocated may differ from year-to-year. There are no intersegment revenues. Segment assets are those generated or directly used by each segment, and include accounts receivable, inventory, and property and equipment.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

O. Operations by Segment and Geographic Information (continued)

Information on reportable segments and reconciliation to the consolidated financial statements follows:

	Utility Services	Residential Commercial Services	All Other	Reconciling Adjustments		Consolidated
Fiscal Year 2003						
Revenues	\$ 145,638	\$ 166,324	\$ 34,301	\$ -		\$ 346,263
Income (loss) from operations	<u>2,107</u>	<u>13,994</u>	<u>2,555</u>	(2,327)	(a)	16,329
Interest expense				2,062		2,062
Other income (expense), net				<u>466</u>		<u>466</u>
Income before income taxes						<u>14,733</u>
Depreciation	\$ 7,651	\$ 6,927	\$ 1,903	\$ 2,793	(b)	\$ 19,274
Capital expenditures	8,158	5,910	2,863	3,044		19,975
Segment assets, total	<u>44,596</u>	<u>46,925</u>	<u>12,401</u>	<u>62,915</u>	(c)	<u>166,837</u>
Fiscal Year 2002						
Revenues	\$ 132,875	\$ 155,689	\$ 30,709	\$ -		\$ 319,273
Income (loss) from operations	<u>1,898</u>	<u>12,901</u>	<u>2,032</u>	(2,834)	(a)	13,997
Interest expense				3,121		3,121
Other income (expense), net				<u>1,061</u>		<u>1,061</u>
Income before income taxes						<u>11,937</u>
Depreciation	\$ 8,160	\$ 7,127	\$ 1,559	\$ 2,524	(b)	\$ 19,370
Capital expenditures	5,456	5,580	2,151	2,940		16,127
Segment assets, total	<u>40,727</u>	<u>43,159</u>	<u>11,706</u>	<u>65,564</u>	(c)	<u>161,156</u>
Fiscal Year 2001						
Revenues	\$ 148,295	\$ 145,723	\$ 27,266	\$ -		\$ 321,284
Income (loss) from operations	<u>3,535</u>	<u>14,331</u>	<u>1,155</u>	(3,171)	(a)	15,850
Interest expense				4,993		4,993
Other income (expense), net				<u>279</u>		<u>279</u>
Income before income taxes						<u>11,136</u>
Depreciation	\$ 8,302	\$ 6,830	\$ 1,400	\$ 2,522	(b)	\$ 19,054
Capital expenditures	4,209	3,576	1,907	2,000		11,692
Segment assets, total	<u>45,571</u>	<u>37,812</u>	<u>9,101</u>	<u>62,989</u>	(c)	<u>155,473</u>

Reconciling adjustments from segment reporting to consolidated external financial reporting include unallocated corporate items:

- (a) Reclassification of depreciation expense and allocation of corporate expenses.
- (b) Reduction to straight-line depreciation expense from declining balance method and depreciation and amortization of corporate assets.
- (c) Corporate assets include cash and cash equivalents, prepaid expenses, corporate facilities, enterprise-wide information systems, intangibles, and deferred and other nonoperating assets.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

O. Operations by Segment and Geographic Information (continued)

Geographic Information--The following presents revenues and long-lived assets by geographic territory:

	Year Ended December 31,		
	2003	2002	2001
Revenues			
United States	\$ 325,454	\$ 301,075	\$ 304,109
Canada	20,809	18,198	17,175
	<u>\$ 346,263</u>	<u>\$ 319,273</u>	<u>\$ 321,284</u>

	Year Ended December 31,		
	2003	2002	2001
Long-lived assets, net			
United States	\$ 67,313	\$ 69,309	\$ 68,512
Canada	6,963	5,114	4,127
	<u>\$ 74,276</u>	<u>\$ 74,423</u>	<u>\$ 72,639</u>

P. Commitments and Contingencies

At December 31, 2003, the Company was contingently liable to its principal banks in the amount of \$32,036 for letters of credit outstanding primarily related to insurance coverage.

In certain circumstances, the Company has performance obligations that are supported by surety bonds in connection with its contractual commitments.

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 reflected in the self-insurance accruals, and would not be material in relation to the financial position or results of operations.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2003
(In thousands, except share data)

Q. Quarterly Results of Operations (Unaudited)

The following is a summary of the results of operations for each quarter of 2003 and 2002.

	Fiscal 2003, Three Months Ended			
	Mar 30	Jun 29	Sep 28	Dec 28
Revenues	\$ 68,094	\$ 93,348	\$ 92,619	\$ 92,202
Gross profit	19,868	34,615	33,719	31,607
Income (loss) from operations	(3,956)	9,324	7,130	3,831
Net income (loss)	<u>(2,908)</u>	<u>5,462</u>	<u>3,959</u>	<u>2,204</u>
Earnings (loss) per share -- Basic	<u>\$ (.37)</u>	<u>\$.69</u>	<u>\$.51</u>	<u>\$.28</u>
Earnings (loss) per share -- Diluted	<u>\$ (.37)</u>	<u>\$.67</u>	<u>\$.48</u>	<u>\$.27</u>
ESOT Valuation per share	\$ 12.80	\$ 13.50	\$ 13.50	\$ 15.70

	Fiscal 2002, Three Months Ended			
	Mar 31	Jun 30	Sep 29	Dec 29
Revenues	\$ 64,373	\$ 93,354	\$ 80,705	\$ 80,841
Gross profit	19,156	32,524	28,049	27,995
Income (loss) from operations	(2,801)	7,762	3,750	5,286
Net income (loss)	<u>(2,170)</u>	<u>4,778</u>	<u>1,674</u>	<u>2,939</u>
Earnings (loss) per share -- Basic	<u>\$ (.28)</u>	<u>\$.61</u>	<u>\$.20</u>	<u>\$.34</u>
Earnings (loss) per share -- Diluted	<u>\$ (.28)</u>	<u>\$.58</u>	<u>\$.19</u>	<u>\$.33</u>
ESOT Valuation per share	\$ 12.00	\$ 12.40	\$ 12.40	\$ 12.80

* * * * *

