

**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, 2019
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 000-11917



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

Ohio

34-0176110

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

1500 North Mantua Street

P.O. Box 5193

Kent, OH 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:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on which Registered
N/A	N/A	N/A

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

Common Shares, \$1.00 par value

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Emerging Growth Company

Non-Accelerated Filer

Smaller Reporting Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

There were 23,181,806 Common Shares outstanding as of March 4, 2020. The aggregate market value of the Common Shares held by nonaffiliates of the registrant as of June 29, 2019 was \$463,691,707. 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 2020 Annual Meeting of Shareholders, to be held on May 19, 2020, are incorporated by reference into Part III (to be filed within 120 calendar days of the registrant's fiscal year end).

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 or materially adversely affect our business, results of operations or financial condition include: our inability to attract and retain a sufficient number of qualified employees for our field operations or qualified management personnel; increases in the cost of obtaining adequate insurance, or the inadequacy of our self-insurance accruals or insurance coverages; inability to obtain, or cancellation of, third-party insurance coverage; the impact of wildfires in California and other areas, as well as other severe weather events and natural disasters; payment delays or delinquencies resulting from financial difficulties of our significant customers, particularly utilities; the outcome of litigation and third-party and governmental regulatory claims against us; an increase in our operating expenses due to significant increases in fuel prices for extended periods of time; our inability to withstand intense competition; the effect of various economic factors that may adversely impact our customers' spending and pricing for our services, and impede our collection of accounts receivable; the impact of regulations initiated as a response to possible changing climate conditions; fluctuations in our quarterly results due to the seasonal nature of our business or changes in general and local economic conditions, among other factors; being contractually bound to an unprofitable contract; a disruption in our information technology systems, including a disruption related to cybersecurity, or the impact of costs incurred to comply with cybersecurity or data privacy regulations; damage to our reputation of quality, integrity and performance; limitations on our shareholders' ability to sell their common shares due to the lack of public market for such shares; our failure to comply with environmental laws resulting in significant liabilities, fines and/or penalties; difficulties obtaining surety bonds or letters of credit necessary to support our operations; uncertainties in the credit and financial markets limiting our access to capital; fluctuations in foreign currency exchange rates; significant increases in health care costs; the impact of events such as natural disasters, public health epidemics, such as the coronavirus, or pandemics, terrorist attacks or other external events; and our inability to properly verify the employment eligibility of our employees.

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. 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 Year Ended December 31, 2019

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“We,” “Us,” “Our,” “Davey” and “Davey Tree,” unless the context otherwise requires, means The Davey Tree Expert Company and its subsidiaries.

PART I

Item 1. *Business.*

General

The Davey Tree Expert Company, which was founded in 1880 and incorporated in Ohio in 1909, and its subsidiaries ("we" or "us") provide a wide range of arboricultural, horticultural, environmental and consulting services to our customers throughout the United States and Canada. We have two reportable operating segments organized by type or class of customer: Residential and Commercial, and Utility.

Our Residential and Commercial segment provides services to our residential and commercial customers including: the treatment, preservation, maintenance, removal and planting of trees, shrubs and other plant life; the practice of landscaping, grounds maintenance, tree surgery, tree feeding and tree spraying; the application of fertilizer, herbicides and insecticides; and natural resource management and consulting, forestry research and development, and environmental planning.

Our Utility segment is principally engaged in providing services to our utility customers--investor-owned, municipal utilities, and rural electric cooperatives--including: the practice of line-clearing and vegetation management around power lines, rights-of-way and chemical brush control; and natural resource management and consulting, forestry research and development and environmental planning.

We also maintain research, technical support and laboratory diagnostic facilities.

Competition and Customers

Our Residential and Commercial segment is one of the largest national tree care organizations in the United States, 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 small, local companies which are engaged primarily in tree care and lawn services. Our Utility segment is the second largest organization in the industry in the United States, and competes principally with one major national competitor, The Asplundh Tree Expert Co., as well as several smaller regional firms.

Principal methods of competition in both operating segments are customer service, marketing, 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 our Residential and Commercial segment; however, pricing is generally the principal method of competition for our Utility segment, 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 2019, we had revenues of approximately \$137 million, or approximately 12% of total revenues, from Pacific Gas & Electric Company ("PG&E"), our largest customer. On January 29, 2019, PG&E filed for Chapter 11 bankruptcy. As a utility company, PG&E serves residential and industrial customers in California and has an ongoing obligation to continue to serve its customers. Therefore, we do not anticipate PG&E's bankruptcy to have a material impact on our future cash flows and results of operations.

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 comply in all material respects 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 referrals, 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. We also employ online marketing and lead generation strategies, including email marketing campaigns, search engine optimization, search engine marketing, and social media communication. Business from utility and commercial customers is obtained principally through negotiated contracts and competitive bidding. We carry out all of our sales and services through our employees. We generally do not 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. We can also be affected to a lesser extent by budget constraints of 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 facility and issue notes to provide the necessary funds for our operations. You can find more information about our bank commitments in "Liquidity and Capital Resources" of this report under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Other Factors

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

We own several trademarks including "Davey," "Davey and Design," "Arbor Green Pro," "Arbor Green," and "Davey Resource Group." 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 9,700 employees at December 31, 2019. 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 the risks associated with our business with foreign customers, other than currency exchange risks, to be materially different from those of our domestic customers.

Access to Company Information

Davey Tree's internet address is <http://www.davey.com>. Through our internet website, by hyperlink to the Securities and Exchange Commission ("SEC") website (<http://www.sec.gov>), we make available, free of charge, our 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 contemporaneously with the electronic posting to the SEC's website as the reports are electronically filed with or furnished to the SEC. The information on our website is not a part of this Annual Report on Form 10-K.

The following documents are also made available on our 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 1A. Risk Factors.

The factors described below represent the principal risks we face. Except as otherwise indicated, these factors may or may not occur and we are not in a position to express a view on the likelihood of any such factor occurring. Other factors may exist that we do not consider to be significant based on information that is currently available or that we are not currently able to anticipate.

We may be unable to employ a sufficient workforce for our field operations.

Our industry operates in an environment that requires heavy manual labor. We may experience slower growth in the labor force for this type of work than in the past. As a result, we may experience labor shortages or the need to pay more to attract and retain qualified employees. Additionally, changes to the laws and regulations that govern the classification or wages of workers may require us to make changes to our operations and may negatively impact our business, increase our costs and expose us to various liabilities.

We could be negatively impacted if our self-insurance accruals or our insurance coverages prove to be inadequate.

We are generally self-insured for losses and liabilities related to workers' compensation, vehicle liability and general liability claims (including any wildfire-related claims, up to certain retained coverage limits). A liability for unpaid claims and associated expenses, including incurred but not reported losses, is actuarially determined and reflected in our consolidated balance sheet as an accrued liability. The determination of such claims and expenses, and the extent of the need for accrued liabilities, are continually reviewed and updated. If we were to experience insurance claims or costs above our estimates and were unable to offset such increases with earnings, our business could be adversely affected. Also, where we self-insure, a deterioration in claims management, whether by our management or by a third-party claims administrator, could lead to delays in settling claims, thereby increasing claim costs, particularly as it relates to workers' compensation. In addition, catastrophic

uninsured claims filed against us or the inability of our insurance carriers to pay otherwise-insured claims would have an adverse effect on our financial condition.

Furthermore, many customers, particularly utilities, prefer to do business with contractors with significant financial resources, who can provide substantial insurance coverage. Should we be unable to renew our excess liability insurance and other commercial insurance policies at competitive rates, this loss would have an adverse effect on our financial condition and results of operations.

The unavailability or cancellation of third-party insurance coverage may have a material adverse effect on our financial condition and results of operations as well as disrupt our operations.

Any of our existing excess insurance coverage may not be renewed upon the expiration of the coverage period or future coverage may not be available at competitive rates for the required limits. In addition, our third-party insurers could fail, suddenly cancel our coverage or otherwise be unable to provide us with adequate insurance coverage. If any of these events occur, they may have a material adverse effect on our financial condition and results of operations as well as disrupt our operations. For example, we have operations in California, which has an environment prone to wildfires. Should our third-party insurers determine to exclude coverage for wildfires in the future, we could be exposed to significant liabilities, having a material adverse effect on our financial condition and results of operations and potentially disrupting our California operations.

We could be materially adversely affected by wildfires in California and other areas and other severe weather events and natural disasters, including negative impacts to our business, reputation, financial condition, results of operations, liquidity and cash flows.

Our financial condition, results of operations, liquidity and cash flows could be materially affected by potential losses resulting from the impact of wildfires and other major weather events and natural disasters, in California and other areas, which have in the past and could in the future expose the Company to litigation and liabilities pursuant to the Company's indemnification obligations to its customers. Such weather events and natural disasters could result in severe business disruptions, property damage, injuries or loss of life. Such events could result in significant decreases in revenues, cost increases, and other financial difficulties to the Company's customers and could cause them to file for bankruptcy protection, as has occurred with PG&E in 2019. Any such event could have a material adverse effect on our business, reputation, financial condition, results of operations, liquidity and cash flows. Further, these events could result in government enforcement actions or regulatory penalties, litigation and/or civil or governmental actions, including investigations, citations and fines, against our customers and against us if any related losses are found to be the result of their or our activities and services. Any litigation relating to wildfires could take a number of years to resolve due to the complexity of the matters, including ongoing investigations into the cause of the fire and the number of claims or parties that may be involved.

Any regulatory responses or wildfire reforms taken by the state of California or any other jurisdiction where we have operations could adversely impact our business, financial condition, results of operations, liquidity and cash flows.

Our business is highly seasonal and weather dependent.

Our business, other than tree services to utility customers, is highly seasonal and weather dependent, primarily due to fluctuations in horticultural services provided to Residential and Commercial customers. We have historically incurred losses in the first quarter, while revenue and operating income are generally highest in the second and third quarters of the calendar year. Inclement weather, such as uncharacteristically low or high (drought) temperatures, in the second and third quarters could dampen the demand for our horticultural services, resulting in reduced revenues that would have an adverse effect on our results of operations.

Financial difficulties or the bankruptcy of one or more of our major customers could adversely affect our results.

Our ability to collect our accounts receivable and future sales depends, in part, on the financial strength of our customers. We grant credit, generally without collateral, to our customers. Consequently, we are subject to credit risk related to changes in business and economic factors throughout the United States and Canada. In the event customers experience financial difficulty, and particularly if bankruptcy results, our profitability may be adversely impacted by our failure to collect our accounts receivable in excess of our estimated allowance for uncollectible accounts. Additionally, our future revenues could be reduced by the loss of a customer due to bankruptcy. Our failure to collect accounts receivable and/or the loss of one or more major customers could have an adverse effect on our net income and financial condition.

On January 29, 2019, our largest customer, PG&E, filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. Our total outstanding pre-petition receivables from PG&E as of December 31, 2019 was approximately \$15 million and we continue to perform work for PG&E under the terms of our contract.

We are subject to third-party and governmental regulatory claims and litigation and adverse litigation judgments or settlements resulting from those claims could materially adversely affect our business.

From time-to-time, customers, vendors, employees, governmental regulatory authorities and others may make claims and take legal action against us. Allegations, claims or proceedings may, for example, relate to personal injury, property damage, general liability claims, vehicle accidents involving our vehicles and our employees, regulatory issues, contract disputes or employment matters and may include class actions. Defending against these and other such claims and proceedings is costly and time consuming and may divert management's attention and personnel resources from our normal business operations, and the outcome of many of these claims and proceedings cannot be predicted. Whether these claims and legal actions are founded or unfounded, if such claims and legal actions are not resolved in our favor, they may result in significant financial liability. Any such financial liability could have a material adverse effect on our financial condition and results of operations. While we carry a broad range of insurance for the protection of our assets and operations, such insurance may not fully cover all material expenses related to potential allegations, claims and proceedings, or any adverse judgments, fines or settlements that may result. We reserve currently for anticipated losses and related expenses in excess of anticipated insurance coverage that may exist.

We are subject to the risk of changes in fuel costs.

The cost of fuel is a major operating expense of our business. Significant increases in fuel prices for extended periods of time will cause our operating expenses to fluctuate. An increase in cost with partial or no corresponding compensation from customers would lead to lower margins that would have an adverse effect on our results of operations.

We are subject to intense competition.

We believe that each aspect of our business is highly competitive. Principal methods of competition in our operating segments are customer service, marketing, image, performance and reputation. Pricing is not always a critical factor in a customer's decision with respect to our Residential and Commercial segment; however, pricing is generally the principal method of competition for our Utility segment, although in most instances consideration is given to reputation and past production performance. 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 small, local companies which are engaged primarily in tree care and lawn services. Our Utility segment competes principally with one major national competitor, as well as several smaller regional firms. Furthermore, competitors may have lower costs because privately-owned companies operating in a limited geographic area may have significantly lower labor and overhead costs. Our

competitors may develop the expertise, experience and resources to provide services that are superior in both price and quality to our services. These strong competitive pressures could inhibit our success in bidding for profitable business and may have a material adverse effect on our business, financial condition and results of operations. We may also seek acquisitions or other transactions to further enhance our competitive position, and have, in the past, acquired businesses aimed at expanding the geography and scope of our services. Such acquisitions or other transactions involve risks and may present financial or operational challenges and may not provide the benefits intended.

Our business is dependent upon service to our utility customers and we may be affected by developments in the utility industry.

We derive approximately 53% of our total revenues from our Utility segment. Significant adverse developments in the utility industry generally, or specifically for our major utility customers, including the January 2019 Chapter 11 filing by PG&E, could result in pressure to reduce costs by utility industry service providers (such as us), delays in payments of our accounts receivable, or increases in uncollectible accounts receivable, among other things. As a result, such developments could have an adverse effect on our results of operations.

We cannot predict the impact that policies regarding changing climate conditions, including legal, regulatory and social responses thereto, may have on our business.

Many scientists, environmentalists, international organizations, political activists, regulators and other commentators believe that global climate change has added, and will continue to add, to the unpredictability, frequency and severity of natural disasters in certain parts of the world. In response, a number of legal and regulatory measures and social initiatives have been introduced in an effort to reduce greenhouse gas and other carbon emissions that these parties believe may be contributors to global climate change. These proposals, if enacted, could result in a variety of regulatory programs, including potential new regulations, additional charges and taxes to fund energy efficiency activities, or other regulatory actions. Any of these actions could result in increased costs associated with our operations and impact the prices we charge our customers.

We cannot predict the impact, if any, that changing climate conditions will have on us or our customers. However, it is possible that the legal, regulatory and social responses to real or perceived climate change could have a negative effect on our results of operations or our financial condition.

Our quarterly results may fluctuate.

We have experienced and expect to continue to experience quarterly variations in revenues and operating income as a result of many factors, including:

- the seasonality of our business;
- the timing and volume of customers' projects;
- budgetary spending patterns of customers;
- the commencement or termination of service agreements;
- costs incurred to support growth internally or through acquisitions;
- changes in our mix of customers, contracts and business activities;
- fluctuations in insurance expense due to changes in claims experience and actuarial assumptions; and
- general and local economic conditions.

Accordingly, our operating results in any particular quarter may not be indicative of the results that you can expect for any other quarter or for the entire year.

We may be adversely affected if we enter into a major unprofitable contract.

Our Residential and Commercial segment and our Utility segment frequently operate in a competitive bid contract environment. As a result, we may misjudge a bid and be contractually bound to an unprofitable contract, which could adversely affect our results of operations.

We may be unable to attract and retain skilled management.

Our success depends, in part, on our ability to attract and retain key managers. Competition for the best people can be intense and we may not be able to promote, hire or retain skilled managers. The loss of services of one or more of our key managers could have a material adverse impact on our business because of the loss of the manager's skills, knowledge of our industry and years of industry experience, and the difficulty of promptly finding qualified replacement personnel.

A disruption in our information technology systems, including a disruption related to cybersecurity, could adversely affect our financial performance.

We rely on the accuracy, capacity and security of our information technology systems. Despite the security measures that we have implemented, including those measures related to cybersecurity, our systems, or the systems of third parties upon whom we rely, could be breached or damaged by computer viruses, natural or man-made incidents or disasters or unauthorized physical or electronic access. A cyberattack or breach involving our information technology systems or those of our suppliers or other partners could result in business disruption including disruptions in critical systems, corruption or loss of data, loss or theft of funds, theft of our intellectual property, trade secrets, customer information or other data and unauthorized access to, or release of, personnel information. To the extent that our business is interrupted or data is lost, destroyed or inappropriately used or disclosed, such disruptions could adversely affect our competitive position, reputation, relationships with our customers, financial condition, operating results and cash flows and could expose us to data loss, allow others to unfairly compete with us, and subject us to litigation, government enforcement actions, regulatory penalties and costly response measures. In addition, we may be required to incur significant costs to protect against the damage caused by these disruptions or security breaches in the future, and we may not have adequate insurance coverage to compensate us for any losses relating to such events.

Because the techniques used to obtain unauthorized access to, or disable, degrade or sabotage, information technology systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques, implement adequate preventative measures or remediate any intrusion on a timely or effective basis. Moreover, the development and maintenance of these preventative and detective measures is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. We, therefore, remain potentially vulnerable to additional known or yet unknown threats, as in some instances, we, or our suppliers and other partners, may be unaware of an incident or its magnitude and effects. We also face the risk that we may expose our customers or partners to cybersecurity attacks. Any of these factors could have a material adverse effect on us.

In addition, we may incur costs in order to comply with cybersecurity or data privacy regulations in the regions in which we operate. Such regulations may impose additional requirements on us and increase our regulatory and litigation risk.

We may be adversely affected if our reputation is damaged.

We are dependent, in part, upon our reputation of quality, integrity and performance. If our reputation were damaged in some way, it may impact our ability to grow or maintain our business.

Because no public market exists for our common shares, the ability of shareholders to sell their common shares may be limited.

Our common shares are not traded on any national exchange, market system or over-the-counter bulletin board. Because no public market exists for our common shares, the ability of shareholders to sell these shares is limited.

Natural disasters, pandemics, terrorist attacks and other external events could adversely affect our business.

Natural disasters, public health epidemics, such as the coronavirus, or pandemics, terrorist attacks and other adverse external events could materially damage our facilities or disrupt our operations, or damage the facilities or disrupt the operations of our customers or vendors, and may pose the risk that we or our employees, contractors, suppliers, customers and other business partners may be prevented from conducting business activities for an indefinite period of time. The occurrence of any such event could adversely affect our business, financial condition and results of operations.

Our failure to comply with environmental laws could result in significant liabilities.

Our facilities and operations are subject to governmental regulations designed to protect the environment, particularly with respect to our services regarding insect and tree, shrub and lawn disease management, because these services involve to a considerable degree the blending and application of spray materials, which require formal licensing in most areas. Continual changes in environmental laws, regulations and licensing requirements, 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 our compliance programs and the market for our services. We are subject to existing federal, state and local laws, regulations and licensing requirements regulating the use of materials in our spraying operations as well as certain other aspects of our business. If we fail to comply with such laws, regulations or licensing requirements, we may become subject to significant liabilities, fines and/or penalties, which could adversely affect our financial condition and results of operations.

We may be adversely affected if we are unable to obtain necessary surety bonds or letters of credit.

We utilize surety bonds and letters of credit on a project-by-project basis and for our self-insurance program. If surety providers were to limit or eliminate our access to bonding, we would need to post other forms of collateral for project performance, such as letters of credit or cash. We may be unable to secure sufficient letters of credit on acceptable terms, or at all. Accordingly, if we were to experience an interruption or reduction in the availability of bonding capacity, our liquidity may be adversely affected.

Economic conditions may adversely impact our customers' future spending as well as pricing and payment for our services, thus negatively impacting our operations and growth.

Various economic factors may adversely impact the demand for our services and potentially result in depressed prices for our services and the delay or cancellation of projects. That may make it difficult to estimate our customers' requirements for our services and, therefore, add uncertainty to customer demand. Various economic factors and customers' confidence in future economic conditions may cause a reduction in our customers' spending for our services and may also impact the ability of our customers to pay amounts owed, which could reduce our

cash flow and adversely impact our debt or equity financing. These events could have a material adverse effect on our operations and our ability to grow at historical levels.

We may not have access to capital in the future due to uncertainties in the financial and credit markets.

We may need new or additional financing in the future to conduct our operations, expand our business or refinance existing indebtedness. Future changes in the general economic conditions and/or financial markets in the United States or globally could affect adversely our ability to raise capital on favorable terms or at all. From time-to-time we have relied, and may also rely in the future, on access to financial markets as a source of liquidity for working capital requirements, acquisitions and general corporate purposes. Our access to funds under our revolving credit facility is dependent on the ability of the financial institutions that are parties to the facility to meet their funding commitments. Those financial institutions may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time. Economic disruptions and any resulting limitations on future funding, including any restrictions on access to funds under our revolving credit facility, could have a material adverse effect on us.

We are subject to the effect of foreign currency exchange rate fluctuations, which may have a material adverse impact on us.

We are exposed 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.

Revenues from customers in Canada are subject to foreign currency exchange. Thus, certain revenues and expenses have been, and are expected to be, subject to the effect of foreign currency fluctuations, and these fluctuations may have a material adverse impact on our operating results, asset values and could reduce shareholders' equity. In addition, if we expand our Canadian operations, exposures to gains and losses on foreign currency transactions may increase.

Increases in our health insurance costs and uncertainty about federal health care policies could adversely affect our results of operations and cash flows.

Our ability to offer affordable health care coverage to our employees is a significant expense to the business. Changes in our employees' behavior, cost of health care programs offered by third party providers or any future legislation or regulations that may be implemented at the federal or state level could impact our ability to provide health care coverage. Significant increases in the cost of health care coverage over time could have a material negative impact on our financial position, results of operations and cash flows and may also limit our ability to attract and retain qualified employees.

Our inability to properly verify the employment eligibility of our employees could adversely affect our business.

We utilize the U.S. government's E-Verify program to assist in verifying the employment eligibility of potential new employees and require all new potential employees provide us with government-specified documentation evidencing their employment eligibility. However, the use of E-Verify does not guarantee that we will successfully identify all applicants who are ineligible for employment. While we believe we are in compliance with applicable laws and regulations of U.S. Immigration and Customs Enforcement, it is possible some of our employees may, without our knowledge, be unauthorized workers. The employment of unauthorized workers may subject the Company to fines, penalties and other costs related to compliance with laws and regulations as well as adverse publicity that negatively impacts our reputation and brand

and may make it more difficult to hire and retain qualified employees. Our operations may also be impacted by additional costs to hire and train new employees. Furthermore, immigration laws have been an area of considerable political focus in recent years, and, from time-to-time, the U.S. government considers or implements changes to federal immigration laws, regulations or enforcement programs. Changes in immigration or work authorization laws may increase our obligations for compliance and oversight, which could subject us to additional costs and potential liability and make our hiring process more cumbersome, or reduce the availability of potential employees.

Item 1B. *Unresolved Staff Comments.*

There are no unresolved comments from the Staff of the SEC.

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 Institute'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:

Segment	Number of Properties	How Held	Square Footage	Number of States or Provinces
Residential and Commercial	30	Owned	308,480	15
Utility	3	Owned	36,307	3
Residential and Commercial, and Utility	4	Owned	43,406	4

We also lease approximately 203 properties in 32 states and five provinces.

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

Item 3. *Legal Proceedings.*

We are party to a number of lawsuits, threatened lawsuits and other claims arising out of the normal course of business. We assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. These legal accruals may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, we do not record an accrual, consistent with applicable accounting guidance. Based on information currently available to us, advice of counsel, and available insurance coverage, we believe that our established accruals are adequate and the liabilities arising from the legal proceedings will not have a material adverse effect on our consolidated financial condition. We note, however, that in light of the inherent uncertainty in legal proceedings there can be no assurance that the ultimate resolution of a matter will not exceed established accruals. As a result, the outcome of a particular matter or a combination of matters may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

In November 2017, a suit was filed in Savannah, Georgia state court ("State Court") against Davey Tree, its subsidiary, Wolf Tree, Inc. ("Wolf Tree"), a former Davey employee, two Wolf Tree employees, and a former Wolf Tree employee alleging various acts of negligence and seeking compensatory and punitive damages for wrongful death and assault and battery of the plaintiff's husband, a Wolf Tree employee, who was

shot and killed in August 2017. The case was mediated unsuccessfully in December 2018 and was set for trial on January 22, 2019. As discussed below, the case was stayed on December 28, 2018.

In July 2018, a related survival action was filed by the deceased's estate against Davey Tree, its subsidiary, Wolf Tree, and four current and former employees in Savannah, Georgia, which arises out of the same allegations, seeks compensatory and punitive damages and also includes three Racketeer Influenced and Corrupt Organizations Act ("RICO") claims under Georgia law seeking compensatory damages, treble damages, and punitive damages. The 2018 case was removed to the United States District Court for the Southern District of Georgia, Savannah Division ("Federal Court"), on August 2, 2018. The Company filed a motion to dismiss the RICO claims. Plaintiffs filed a motion to remand the case to state court, which the Company has opposed. The motions are pending.

On December 6, 2018, a former Wolf Tree employee pled guilty to conspiracy to conceal, harbor, and shield illegal aliens. On December 21, 2018, the United States federal prosecutors filed a motion to stay both actions on the grounds that on December 13, 2018, an indictment was issued charging two former Wolf Tree employees and one other individual with various crimes, including conspiracy to murder the deceased. On December 17, 2018, the United States Attorney's Office for the Southern District of Georgia informed the Company and Wolf Tree that they are also under investigation for potential violations of immigration and other laws relating to the subject matter of the ongoing criminal investigation referenced above. The Company and Wolf Tree are cooperating with the investigation.

On December 28, 2018, the State Court granted the United States' motion to stay but indicated that it would nonetheless consider certain pending matters, including: (1) Plaintiff and a co-defendant's motions that Davey Tree be forced to produce privileged documents and testimony, which had been submitted to a Special Master for recommendation; and (2) the Defendants' motions for summary judgment. On January 11, 2019, the Special Master issued his recommendation that both Plaintiff and the co-defendant's motions to force Davey to disclose privileged information be denied. The State Court judge has not yet moved on the recommendation. On January 29, 2019, the State Court heard oral argument on Defendants' motions for summary judgment, and the motions remain pending.

On January 28, 2019, the Federal Court also granted the United States' motion to stay. On January 29, 2019, the State Court ordered the parties to return to mediation, which occurred on April 17, 2019 but was unsuccessful in resolving the matters.

In both cases, the Company has denied all liability and is vigorously defending the action. It also has retained separate counsel for some of the individual defendants, each of whom has denied all liability and also is vigorously defending the action.

Item 4. *Mine Safety Disclosures.*

Not applicable.

Information about our Executive Officers.

Our executive officers and their present positions and ages as of March 1, 2020 follow:

Name	Age	Position	Years with Company	Served as an Executive Officer Since
Patrick M. Covey	56	Chairman, President and Chief Executive Officer	28	2007
Joseph R. Paul, CPA	58	Executive Vice President, Chief Financial Officer and Secretary	14	2005
Christopher J. Bast, CPA, CTP	52	Vice President and Treasurer	6	2013
James E. Doyle	51	Executive Vice President and General Manager, Davey Tree Expert Co. of Canada, Limited	30	2014
Gregory M. Ina	48	Executive Vice President, The Davey Institute and Employee Development	24	2016
Dan A. Joy	62	Executive Vice President and General Manager, Commercial Landscape Services and Operations Support Services	43	2013
Brent R. Repenning	48	Executive Vice President, U.S. Utility and Davey Resource Group	25	2014
Erika J. Schoenberger	40	Vice President, General Counsel and Assistant Secretary	2	2018
Thea R. Sears, CPA	51	Vice President and Controller	26	2010
James F. Stief	65	Executive Vice President, U.S. Residential Operations	41	2010

Mr. Covey was appointed Chairman effective March 6, 2020, Chief Executive Officer effective July 21, 2017 and served as President and Chief Operating Officer since March 4, 2016 and as a Director since May 20, 2014. He previously served as President and Chief Operating Officer, U.S. Operations, having been appointed in April 2014, and as Chief Operating Officer, U.S. Operations, having been appointed in February 2012. Prior to that time, Mr. Covey served as Executive Vice President, having been appointed in January 2007, Vice President and

General Manager of the Davey Resource Group, having been appointed in March 2005, and Vice President, Southern Operations, Utility Services, having been appointed in January 2003. Previously, having joined Davey Tree in August 1991, Mr. Covey held various managerial positions, including Manager of Systems and Process Management and Administrative Manager, Utility Services.

Mr. Paul was elected Executive Vice President, Chief Financial Officer and Secretary effective March 4, 2016 and previously served as Chief Financial Officer and Secretary, having been appointed in March 2013. Prior to that time, he served as Vice President and Treasurer, having been appointed in May 2011. Mr. Paul joined Davey Tree as Treasurer in December 2005.

Mr. Bast was elected Vice President effective September 18, 2017 having previously served as Treasurer since April 2013. Mr. Bast joined Davey Tree in March 2013 and prior to joining us, served in various management positions from 1994 to 2013 at Diebold, Incorporated, a provider of self-service delivery and security systems.

Mr. Doyle was elected Executive Vice President and General Manager, Davey Tree Expert Co. of Canada, Limited (“Davey Tree Limited”), effective May 21, 2014 and previously served as Vice President and General Manager, Davey Tree Limited, having been appointed in February 2012. Prior to that time, he served as Vice President and General Manager, Operations, Davey Tree Limited, having been appointed in May 2011, and Vice President, Operations, Davey Tree Limited, having been appointed in January 2006. Previously, having joined Davey Tree in 1989, Mr. Doyle held various managerial positions, including District Manager and Operations Manager.

Mr. Ina was elected Executive Vice President, The Davey Institute and Employee Development in July 2017, having previously served as Vice President and General Manager of Research, Recruiting and Human Resource Development effective April 4, 2016, and having previously been elected an officer effective March 4, 2016. Prior to this time, he served as Vice President and General Manager of the Davey Institute, having been appointed in May 2009, and General Manager of the Davey Institute, having been appointed in May 2006. Previously, having joined Davey Tree in 1996, Mr. Ina held various managerial and operational positions in the Davey Institute and Davey Resource Group.

Mr. Joy was elected Executive Vice President and General Manager, Commercial Landscape Services and Operations Support Services, effective August 15, 2014 and previously served as Executive Vice President and General Manager, Commercial Landscape Services, having been appointed in May 2014. Prior to that time, he served as Vice President and General Manager, Commercial Landscape Services, having been appointed in May 2013, and Vice President, Commercial Landscape Services, having been appointed in December 2004. Previously, having joined Davey Tree in 1976, Mr. Joy held various managerial positions, including Operations Manager, District Manager and Assistant District Manager.

Mr. Repenning was elected Executive Vice President, U.S. Utility and Davey Resource Group in July 2017, having previously served as Senior Vice President, Davey Resource Group and Eastern Utility, effective October 2, 2016 and as Vice President and General Manager, Davey Resource Group, having been appointed in June 2010. Prior to that time, he served as Vice President, Davey Resource Group, having been appointed in October 2009. Previously, having joined Davey Tree in 1994, Mr. Repenning held various managerial and operational positions, including Regional Manager, Production Manager and Supervisor.

Ms. Schoenberger was elected Assistant Secretary in September 2018 having joined the Company in August 2018 as Vice President and General Counsel. Prior to joining Davey Tree, Ms. Schoenberger served as General Counsel, Corporate Secretary and Senior Vice President at the Oneida Group, Inc., a global marketer of tabletop and food preparation products from September 2013 until she joined the Company. Prior to that, she was a Partner at Frost Brown Todd, LLC, a national full service law firm.

Ms. Sears was elected Vice President effective September 18, 2017 having served as Controller since September 16, 2016 and prior to that, served as Assistant Controller, having been appointed in May 2010. Prior to that time, she served as Manager of Financial Accounting, having

been appointed in April 1998, and as Supervisor of Financial Accounting, having been appointed in September 1995. Having joined Davey Tree in 1993, Ms. Sears has held a variety of roles in financial reporting, managerial reporting and operations accounting.

Mr. Stief was elected Executive Vice President, U.S. Residential Operations, effective February 12, 2012 and previously served as Vice President and General Manager, Residential/Commercial Services, since January 2010. Prior to that time, Mr. Stief served as Vice President and General Manager, South, West and Central Residential/Commercial Operations, having been appointed in January 2007, and Vice President South, West and Central Residential/Commercial Operations, having been appointed in January 1997. Previously, having joined Davey Tree in 1978, Mr. Stief held various managerial positions, including Operations Manager and District Manager.

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 Company'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 the Davey 401KSOP and ESOP, the fair market value of our common shares is determined by an independent stock valuation firm, based upon our performance and financial condition, using a peer group of comparable companies selected by that firm. The peer group currently consists of: ABM Industries Incorporated; Comfort Systems USA, Inc.; Dycom Industries, Inc.; FirstService Corporation; MYR Group, Inc.; Quanta Services, Inc.; Rollins, Inc.; and Scotts Miracle-Gro Company. The semiannual valuations are effective for a period of six months and the per-share price established by those valuations is the price at which our Board of Directors has determined our common shares will be bought and sold during that six-month period in transactions involving Davey Tree or one of its employee benefit or stock purchase plans. Since 1979, we have provided a ready market for all shareholders through our direct purchase of their common shares, although we are under no obligation to do so (other than for repurchases pursuant to the put option under The Davey 401KSOP and ESOP Plan, as described in Note M). These purchases are added to our treasury stock.

The following table sets forth, for the periods indicated, the high and low common share price (in dollars) and the cash dividends declared per common share (in cents).

	Common Stock Price Range		Cash Dividends Declared
	High	Low	
Fiscal Year 2019			
First quarter ended March 30, 2019	\$ 21.10	\$ 19.70	2.5
Second quarter ended June 29, 2019	21.10	21.10	2.5
Third quarter ended September 28, 2019	22.60	21.10	2.5
Fourth quarter ended December 31, 2019	22.60	22.60	2.5
Fiscal Year 2018			
First quarter ended March 31, 2018	19.10	18.30	2.5
Second quarter ended June 30, 2018	19.10	19.10	2.5
Third quarter ended September 29, 2018	19.70	19.10	2.5
Fourth quarter ended December 31, 2018	19.70	19.70	2.5

We presently expect to pay comparable cash dividends in 2020.

Record Holders and Common Shares

On March 4, 2020 we had 4,026 record holders of our common shares.

On March 4, 2020 we had 23,181,806 common shares outstanding and options exercisable to purchase 937,597 common shares.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities

The following table provides information on purchases made by the Company of our common shares during the fiscal year ended December 31, 2019.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Fiscal 2019				
January 1 to January 26	624	\$ 19.70	—	954,492
January 27 to February 23	1,165	21.10	—	954,492
February 24 to March 30	208,289	21.10	—	954,492
Total First Quarter	210,078	21.10	—	
March 31 to April 27	375,434	21.10	—	954,492
April 28 to May 25	180,505	21.10	—	954,492
May 26 to June 29	236,546	21.10	41,448	913,044
Total Second Quarter	792,485	21.10	41,448	
June 30 to July 27	1,114	21.10	—	913,044
July 28 to August 24	100,558	22.60	—	913,044
August 25 to September 28	88,606	22.60	—	913,044
Total Third Quarter	190,278	22.59	—	
September 29 to October 26	164,933	22.60	—	913,044
October 27 to November 30	182,935	22.60	44,413	868,631
December 1 to December 31	59,886	22.60	2,061	866,570
Total Fourth Quarter	407,754	22.60	46,474	
Total Year to Date	1,600,595	\$ 21.66	87,922	

At the Annual Meeting of Shareholders of the Company held on May 16, 2017, the shareholders of the Company approved proposals to amend the Company's Articles of Incorporation to (i) expand the Company's right of first refusal with respect to proposed transfers of shares of the Company's common shares, (ii) clarify provisions regarding when the Company may provide notice of its decision to exercise its right of first refusal with respect to proposed transfers of common shares by the estate or personal representative of a deceased shareholder, and (iii) grant the Company a right to repurchase common shares held by certain shareholders of the Company.

On May 10, 2017, the Board of Directors of the Company adopted a policy regarding the Company's exercise of the repurchase rights granted to the Company through amendments to the Company's Articles of Incorporation, as approved by shareholders on May 16, 2017.

Until further action by the Board, it is the policy of the Company not to exercise its repurchase rights under the amended Articles with respect to shares of the Company's common shares held by current and retired employees and current and former directors of the Company (subject to exceptions set forth in the policy) (collectively, "Active Shareholders"), their spouses, their first-generation descendants and trusts established exclusively for their benefit.

Until further action by the Board, it is also the policy of the Company not to exercise its rights under the amended Articles to repurchase shares of the Company's common shares proposed to be transferred by an Active Shareholder to his or her spouse, a first-generation descendant, or a trust established exclusively for the benefit of one or more of an Active Shareholder, his or her spouse and first-generation descendants of an Active Shareholder, or upon the death of an Active Shareholder, such transfers from the estate or personal representative of a deceased Active Shareholder. The Board may suspend, change or discontinue the policy at any time without prior notice.

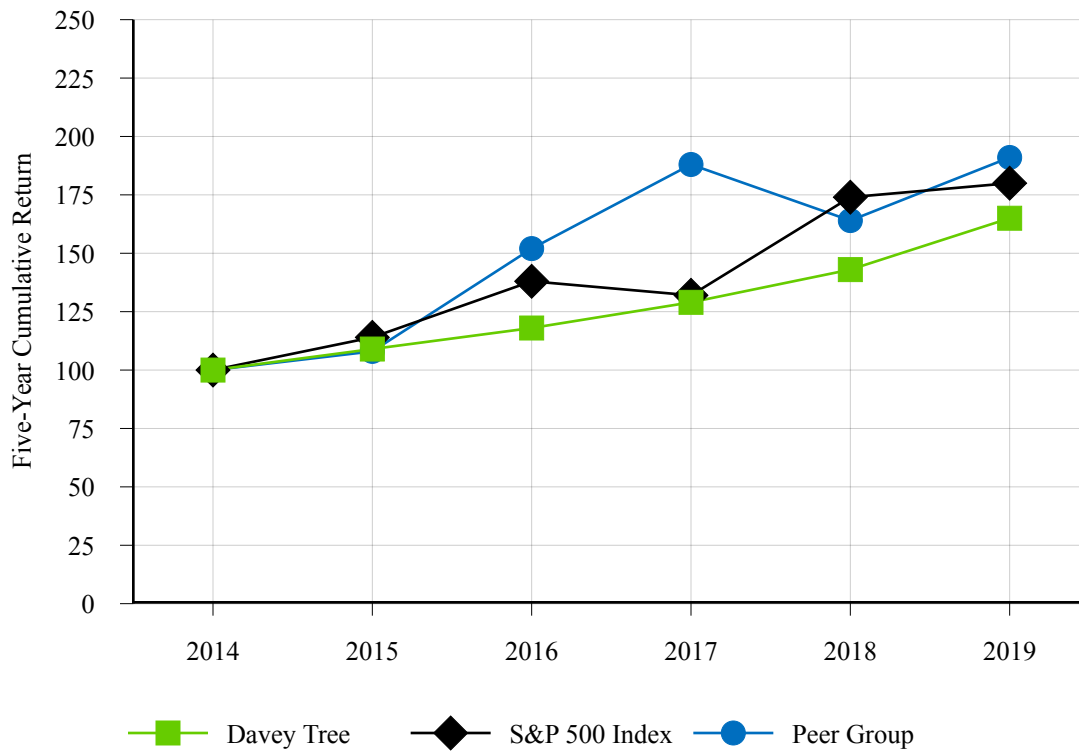
In accordance with the amendments to the Articles approved by the Company's shareholders at the 2017 Annual Meeting on May 17, 2017, the Company's Board of Directors authorized the Company to repurchase up to 200,000 common shares, which authorization was increased by an additional 1,000,000 common shares in May 2018. Of the 1,200,000 total shares authorized, 866,570 remain available under the program. Share repurchases may be made from time to time and the timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors. The Company is not obligated to purchase any shares, and repurchases may be commenced, suspended or discontinued from time to time without prior notice. The repurchase program does not have an expiration date.

Stock Performance Graph

Comparison of five-year cumulative return among The Davey Tree Expert Company, S&P 500 Stock Index and Selected Peer Group Companies Index

The following Performance Graph compares cumulative total shareholder returns (assuming reinvestment of dividends) for The Davey Tree Expert Company common shares during the last five years to the Standard & Poor's 500 Stock Index (the "S&P 500 Index") and to an index of selected peer group companies. The peer group, which is the same group used by Davey's independent stock valuation firm, consists of: ABM Industries Incorporated; Comfort Systems USA, Inc.; Dycom Industries, Inc.; FirstService Corporation; MYR Group, Inc.; Quanta Services, Inc.; Rollins, Inc.; and Scotts Miracle-Gro Company. The peer group are all publicly held companies deemed to be engaged in similar lines of business.

Comparison of Five-Year Cumulative Total Return The Davey Tree Expert Company



	2014	2015	2016	2017	2018	2019
Davey Tree	100	109	118	129	143	165
S&P 500 Index	100	114	138	132	174	180
Peer Group	100	108	152	188	164	191

The Performance Graph and related information above shall not be deemed “soliciting material” or be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

Item 6. Selected Financial Data.

	Fiscal Year Ended December 31,				
	2019	2018	2017	2016	2015
	(In thousands, except ratio and per share data)				
Operating Statement Data:					
Revenues	\$ 1,143,720	\$ 1,024,791	\$ 915,958	\$ 845,678	\$ 821,904
Costs and expenses:					
Operating	730,507	665,388	587,333	541,486	528,899
Selling	209,148	184,388	167,934	152,106	144,234
General and administrative	76,738	67,462	59,403	58,293	55,518
Depreciation	57,292	54,914	50,702	47,284	44,677
Amortization of intangible assets	2,545	2,055	2,384	2,306	2,214
Gain on sale of assets, net	(2,055)	(5,106)	(3,989)	(4,664)	(2,026)
Income from operations	69,545	55,690	52,191	48,867	48,388
Interest expense	(8,514)	(7,039)	(4,886)	(4,393)	(3,355)
Interest income	348	350	292	255	249
Other expense	(8,112)	(11,505)	(9,603)	(7,485)	(10,024)
Income before income taxes	53,267	37,496	37,994	37,244	35,258
Income taxes	12,470	9,519	15,874	14,960	13,460
Net income	<u>\$ 40,797</u>	<u>\$ 27,977</u>	<u>\$ 22,120</u>	<u>\$ 22,284</u>	<u>\$ 21,798</u>
Earnings per share--diluted *	<u>\$ 1.70</u>	<u>\$ 1.10</u>	<u>\$.83</u>	<u>\$.82</u>	<u>\$.78</u>
Shares used for computing per share amounts--diluted *	<u>23,978</u>	<u>25,481</u>	<u>26,697</u>	<u>27,247</u>	<u>27,955</u>
Other Financial Data:					
Depreciation and amortization	\$ 59,837	\$ 56,969	\$ 53,086	\$ 49,590	\$ 46,891
Capital expenditures	58,355	60,410	57,100	56,646	56,047
Cash flow provided by (used in):					
Operating activities	83,353	62,104	56,776	55,370	62,689
Investing activities	(63,322)	(61,377)	(59,518)	(54,808)	(56,046)
Financing activities	(31,824)	9,065	6,410	(7,721)	(7,140)
Cash dividends declared per share *	<u>\$.10</u>	<u>\$.10</u>	<u>\$.10</u>	<u>\$.10</u>	<u>\$.10</u>

	As of December 31,				
	2019	2018	2017	2016	2015
	(In thousands, except ratio and per share data)				
Balance Sheet Data:					
Working capital	\$ 115,753	\$ 115,756	\$ 80,468	\$ 59,868	\$ 48,984
Current ratio	1.70	1.83	1.63	1.50	1.44
Property and equipment, net	199,850	202,285	193,183	179,436	166,422
Total assets	596,862	526,623	473,135	423,939	393,586
Long-term debt	145,149	158,425	119,210	92,623	85,104
Other long-term liabilities	99,581	66,476	63,878	60,565	55,464
Redeemable common shares related to 401KSOP and Employee Stock Ownership Plan (ESOP)	124,555	119,049	123,520	124,201	127,089
Total common shareholders' equity	<u>61,905</u>	<u>43,361</u>	<u>37,870</u>	<u>27,978</u>	<u>14,450</u>
Redeemable common shares *	<u>5,147</u>	<u>5,642</u>	<u>6,467</u>	<u>7,057</u>	<u>7,773</u>
Common shares: *					
Issued	37,767	37,272	36,447	35,857	35,141
Less: In treasury	<u>19,737</u>	<u>20,033</u>	<u>18,693</u>	<u>17,991</u>	<u>17,427</u>
Net outstanding	<u><u>23,177</u></u>	<u><u>22,881</u></u>	<u><u>24,221</u></u>	<u><u>24,923</u></u>	<u><u>25,487</u></u>
Stock options: *					
Outstanding	1,428	1,466	1,529	1,599	1,634
Exercisable	938	890	801	751	834
ESOT valuation per share *	<u><u>\$ 24.20</u></u>	<u><u>\$ 21.10</u></u>	<u><u>\$ 19.10</u></u>	<u><u>\$ 17.60</u></u>	<u><u>\$ 16.35</u></u>

* Years 2015 and 2016 have been adjusted for a two-for-one stock split, effective June 1, 2017.

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

(Amounts in thousands, except share data)

Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") is provided as a supplement to the accompanying consolidated financial statements and notes to help provide an understanding of our financial condition, cash flows and results of operations. MD&A is organized as follows:

- Overview of 2019 Results;
- Results of Operations, including fiscal 2019 compared to fiscal 2018, fiscal 2018 compared to fiscal 2017 and other matters;
- Liquidity and Capital Resources, including cash flow summary, off-balance sheet arrangements, and capital resources;
- Recent Accounting Guidance;
- Critical Accounting Policies and Estimates; and
- Market Risk Information, including interest rate risk and foreign currency exchange rate risk.

OVERVIEW OF 2019 RESULTS

General

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

Our Business--We have two reportable operating segments organized by type or class of customer: Residential and Commercial, and Utility.

Residential and Commercial--Residential and Commercial provides services to our residential and commercial customers including: the treatment, preservation, maintenance, removal and planting of trees, shrubs and other plant life; the practice of landscaping, grounds maintenance, tree surgery, tree feeding and tree spraying; the application of fertilizer, herbicides and insecticides; and natural resource management and consulting, forestry research and development, and environmental planning.

Utility--Utility is principally engaged in providing services to our utility customers--investor-owned, municipal utilities, and rural electric cooperatives--including: the practice of line-clearing and vegetation management around power lines, rights-of-way and chemical brush control; and natural resource management and consulting, forestry research and development and environmental planning.

All other operating activities, including research, technical support and laboratory diagnostic facilities, are included in "All Other."

RESULTS OF OPERATIONS

The following table sets forth our consolidated results of operations as a percentage of revenues and the percentage change in dollar amounts of the results of operations for the periods presented:

	Year Ended December 31,			Percentage Change	
	2019	2018	2017	2019/2018	2018/2017
Revenues	100.0%	100.0%	100.0%	11.6%	11.9%
Costs and expenses:					
Operating	63.9	64.9	64.1	9.8	13.3
Selling	18.3	18.0	18.3	13.4	9.8
General and administrative	6.7	6.6	6.5	13.7	13.6
Depreciation	5.0	5.4	5.5	4.3	8.3
Amortization of intangible assets	.2	.2	.3	23.8	(13.8)
Gain on sale of assets, net	(.2)	(.5)	(.4)	(59.8)	28.0
	93.9	94.6	94.3	10.8	12.2
Income from operations	6.1	5.4	5.7	24.9	6.7
Other income (expense):					
Interest expense	(.7)	(.7)	(.5)	21.0	44.1
Interest income	—	—	—	—	—
Other	(.7)	(1.1)	(1.1)	(29.5)	19.8
Income before income taxes	4.7	3.6	4.1	42.1	(1.3)
Income taxes	1.1	.9	1.7	31.0	(40.0)
Net income	3.6%	2.7%	2.4%	45.8%	26.5%

Fiscal 2019 Compared to Fiscal 2018

A comparison of our fiscal year 2019 results to 2018 follows:

	Year Ended December 31,			
	2019	2018	Change	% Change
Revenues	\$ 1,143,720	\$ 1,024,791	\$ 118,929	11.6%
Costs and expenses:				
Operating	730,507	665,388	65,119	9.8
Selling	209,148	184,388	24,760	13.4
General and administrative	76,738	67,462	9,276	13.7
Depreciation	57,292	54,914	2,378	4.3
Amortization of intangible assets	2,545	2,055	490	23.8
Gain on sale of assets, net	(2,055)	(5,106)	(3,051)	(59.8)
	<u>1,074,175</u>	<u>969,101</u>	<u>105,074</u>	<u>10.8</u>
Income from operations	69,545	55,690	13,855	24.9
Other income (expense):				
Interest expense	(8,514)	(7,039)	(1,475)	21.0
Interest income	348	350	(2)	(.6)
Other	(8,112)	(11,505)	3,393	(29.5)
Income before income taxes	<u>53,267</u>	<u>37,496</u>	<u>15,771</u>	<u>42.1</u>
Income taxes	12,470	9,519	2,951	31.0
Net income	<u>\$ 40,797</u>	<u>\$ 27,977</u>	<u>\$ 12,820</u>	<u>45.8%</u>

Revenues--Revenues of \$1,143,720 increased \$118,929 compared with the \$1,024,791 reported in 2018. Utility increased \$70,072, or 13.0%, from the prior year. The increase is primarily attributable to additional revenues from increased work year-over-year on existing accounts, rate increases and new accounts. Residential and Commercial increased \$48,650, or 10.0%, from 2018. Increases, primarily in tree surgery, plant care, grounds maintenance and consulting services, were partially offset by decreases in storm damage services.

Operating Expenses--Operating expenses of \$730,507 increased \$65,119 from the prior year, but as a percentage of revenues decreased to 63.9% from 64.9%. Utility experienced an increase of \$46,696, or 11.8%, from 2018, but as a percentage of revenues decreased to 72.7% from 73.6%. Increases in employee labor and benefits expense, fuel expense, equipment expense, subcontractor expense, disposal expense and crew expenses associated with the increased revenues account for the increase. Residential and Commercial increased \$26,109, or 10.2%, compared with 2018 but as a percentage of revenue remained at 52.8%. Increases primarily in employee labor and benefits expense, repair and maintenance expense, materials expense, subcontractor expense, disposal expense and crew expense account for the increase.

Fuel costs increased in 2019 as compared with fuel costs for 2018 and impacted operating expenses within both segments. During 2019, fuel expense of \$36,310 increased \$1,764, or 5.1%, from the \$34,546 incurred in 2018. The \$1,764 increase included price increases approximating \$239 and usage increases approximating \$1,525.

Selling Expenses--Selling expenses of \$209,148 increased \$24,760 from 2018 and as a percentage of revenues increased to 18.3% from 18.0%. Utility increased \$14,154, or 24.6%, from 2018 and as a percentage of revenue increased to 11.8% from 10.7%. Increases primarily in wages and incentive expense, travel expense, communications expense and computer expense account for the increase. Residential and Commercial increased \$10,380, or 7.9%, from 2018 but as a percentage of revenue decreased to 26.4% from 26.9%. Increases in field

management wages and incentive expense, office rent and communications expense were partially offset by decreases in office support wage expense and sales and marketing expense.

General and Administrative Expenses--General and administrative expenses increased \$9,276 to \$76,738, an increase of 13.7% from the \$67,462 experienced in 2018 and as a percentage of revenues increased to 6.7% from 6.6%. Increases in salary and incentive expense, computer expense, travel expense and employee development expense were partially offset by a reduction in relocation expense and office expenses.

Depreciation and Amortization Expense--Depreciation and amortization expense of \$59,837 increased \$2,868 from the prior year but as a percentage of revenues decreased to 5.2% from 5.6%. The increase is primarily attributable to higher capital expenditures for equipment in recent years.

Gain on Sale of Assets--Gain on the sale of assets of \$2,055 decreased \$3,051 from the \$5,106 recognized in 2018. The decrease is the result of the sale of two properties in 2018, while we did not have any real estate sales in 2019. In addition, while we sold a comparable number of vehicles and equipment in 2019 as in 2018, our average gain per unit in 2019 was lower as compared with our average gain in 2018.

Interest Expense--Interest expense of \$8,514 increased \$1,475 from the \$7,039 incurred in 2018. The increase is attributable to higher average debt levels and borrowing rates necessary to fund operations and capital expenditures.

Other, Net--Other, net of \$8,112 decreased \$3,393 from the \$11,505 experienced in 2018. Other, net, consisted of nonoperating income and expense, including pension expense and foreign currency gains/losses on the intercompany account balances of our Canadian operations. The decrease was primarily attributable to a reduction in pension expense, resulting from the termination of our qualified defined-benefit pension plan, for which future benefits had previously been frozen.

Income Taxes--Income taxes for 2019 were \$12,470, an effective tax rate of 23.4%, compared with income taxes for 2018 of \$9,519, or an effective tax rate of 25.4%. The decrease of 2.0% in the effective tax rate as compared to 2018 relates primarily to changes in the effect of discrete items, primarily the adjustment of the stranded tax effect of pensions from accumulated other comprehensive income.

Net Income--Net income of \$40,797 was \$12,820 more than the \$27,977 earned in 2018.

Fiscal 2018 Compared to Fiscal 2017

A detailed discussion of the prior year 2018 to 2017 year-over-year changes has been omitted from this Form 10-K and can be found in Part II, Item 7. Management's Discussion and Analysis, in the 2018 Annual Report on Form 10-K filed with the SEC on March 11, 2019; which specific discussion is incorporated herein by reference.

Goodwill—Impairment Tests

Annually, we perform the impairment tests for goodwill during the fourth quarter. Impairment of goodwill is tested at the reporting-unit level, which for us are also our business segments. Impairment of goodwill is tested by comparing the reporting unit's carrying value, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using discounted projected cash flows. If the carrying value of the reporting unit exceeds its fair value, goodwill is considered impaired and an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the carrying value of the goodwill allocated to that reporting unit. We conducted our annual impairment tests and determined that no impairment loss was required to be recognized in 2019 or for any prior periods. There were no events or circumstances from the date of our assessment through December 31, 2019 that would impact this conclusion.

The fair values of the reporting units were estimated using discounted projected cash flows for the goodwill impairment tests and analysis that required judgmental assumptions about revenues, operating margins, growth rates, discount rates, and working capital requirements. In determining those judgmental assumptions, we consider data, including--for each reporting unit--its annual budget for the upcoming year, its longer-term performance expectations, anticipated future cash flows and market data. Assumptions were also made for perpetual growth rates for periods beyond the forecast period.

If the fair values of the reporting units were less than the carrying values of the reporting units (including recorded goodwill), determined through the discounted projected cash flow methodology, goodwill impairment may be present. In such an instance, an impairment charge would be recognized for the amount by which the reporting unit's carrying amount of goodwill exceeded the reporting unit's fair value of goodwill, not to exceed the carrying value of the goodwill allocated to that reporting unit.

The carrying value of the recorded goodwill for all reporting units totaled approximately \$42,285 at December 31, 2019. Based upon the goodwill impairment analysis conducted in the fourth quarter 2019, the determined fair value of the reporting units exceeded their carrying value by more than a significant amount.

LIQUIDITY AND CAPITAL RESOURCES

Our principal financial requirements are for capital spending, working capital and business acquisitions. Cash generated from operations, our revolving credit facility and note issuances are our primary sources of capital.

Cash Flow Summary

Our cash flows from operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flow for the years ended December 31, 2019 and December 31, 2018, are summarized as follows:

	<u>2019</u>	<u>2018</u>
Cash provided by (used in):		
Operating activities	\$ 83,353	\$ 62,104
Investing activities	(63,322)	(61,377)
Financing activities	(31,824)	9,065
Effect of exchange rate changes on cash	132	(252)
(Decrease)/increase in cash	<u>\$ (11,661)</u>	<u>\$ 9,540</u>

Net Cash Provided by Operating Activities--Operating activities in 2019 provided cash of \$83,353 as compared to \$62,104 provided in 2018. The \$21,249 net increase was primarily attributable to (i) a decrease of \$6,889 in the change in self-insurance accruals, (ii) a \$9,158 change from an increase in accounts payable and accrued expenses to a decrease, and (iii) a decrease of \$6,033 in the change in other assets, net, partially offset by (iv) a \$5,744 increase in the change in accounts receivable.

Overall, accounts receivable increased \$32,573 in 2019 as compared to the increase of \$26,829 experienced in 2018. The increase in 2019 was attributable to the timing of payments from utility segment customers including the pre-petition receivables of approximately \$15,000 from PG&E. With respect to the change in accounts receivable arising from business levels, the "days-sales-outstanding" in accounts receivable ("DSO") at the end of 2019 increased by nine days to 73 days, as compared to 2018. The DSO at December 31, 2018 was 64 days, with the current year being impacted by the PG&E pre-petition receivables. DSO excluding PG&E pre-petition receivables would have been 69 days at the end of 2019. We use DSO to monitor trends in customer payment patterns and collection efforts.

Accounts payable and accrued expenses increased \$7,188 in 2019, a \$9,158 change from the decrease of \$1,970 experienced in 2018. Increases in trade payables, income taxes payable and employee compensation accruals were partially offset by a decrease in medical claims. Accounts payable was impacted by lower payables for equipment and income taxes payable were impacted by the timing of estimated payments.

Self-insurance accruals increased \$9,202 in 2019, a change of \$6,889 compared to the increase of \$16,091 experienced in 2018. The increase occurred within our workers compensation and general liability classifications and resulted primarily from an overall increase in deductible amounts under commercial insurance or the self-insured risk retention.

Other assets, net, increased \$3,143 in 2019, as compared to the \$9,176 increase in 2018. Decreases in pension funding, mitigation credits and refundable income taxes were partially offset by an increase in prepaid expenses and deposits. Prepaid expenses were impacted by increased prepaid insurance premiums and refundable payroll taxes.

Net Cash Used in Investing Activities--Investing activities used \$63,322 in cash, \$1,945 more than the \$61,377 used in 2018. Increases in expenditures for land and buildings were partially offset by decreases in expenditures for equipment and proceeds received from the sale of property and equipment.

Net Cash (Used in) Provided by Financing Activities--Financing activities used \$31,824 in cash in 2019, \$40,889 more than the \$9,065 of cash provided in 2018. Our revolving credit facility used \$31,500 as compared with the \$6,500 used during 2018. We use the revolving credit facility primarily for capital expenditures and payments of notes payable, primarily related to acquisitions. Proceeds from notes payable totaled \$114,140 and payments of notes payable totaled \$95,007 during 2019. Purchases of common shares for treasury of \$34,647 were partially offset by net cash received of \$18,789 from the sale of common shares and cash received on our common share subscriptions. Dividends paid during 2019 totaled \$2,317.

The Company currently repurchases common shares at the shareholders' request in accordance with the terms of the Davey 401KSOP and ESOP Plan and also repurchases common shares from time to time at the Company's discretion. The amount of common shares offered to the Company for repurchase by the holders of shares distributed from the Davey 401KSOP and ESOP Plan is not within the control of the Company, but is at the discretion of the shareholders. The Company expects to continue to repurchase its common shares, as offered by its shareholders from time to time, at their then current fair value. However, (other than repurchases pursuant to the put option under the Davey 401KSOP and ESOP Plan, as described in Note M) such purchases are not required, and the Company retains the right to discontinue them at any time. Repurchases of redeemable common shares from the Davey 401KSOP and ESOP at the shareholders' request approximated \$12,051 and \$30,059 in 2019 and 2018, respectively. Purchases of common shares, other than redeemable common shares, approximated \$22,596 and \$21,057 in 2019 and 2018, respectively.

Revolving Credit Facility--In October 2017, we amended and restated our revolving credit facility, as further amended in September 2018, as discussed below. The Amended and Restated Credit Agreement provides for a revolving credit facility with a group of banks under which up to an aggregate of \$250,000 is available, with a letter of credit sublimit of \$100,000 and a swing line commitment of \$25,000. Under certain circumstances, the amount available under the revolving credit facility may be increased to \$325,000.

The Amended and Restated Credit Agreement extended the term of the revolving credit facility to October 6, 2022 from November 7, 2018. The revolving credit facility contains certain affirmative and negative covenants customary for this type of facility and includes financial covenant ratios with respect to a maximum leverage ratio (not to exceed 3.00 to 1.00 with exceptions in case of material acquisitions) and a minimum interest coverage ratio (not less than 3.00 to 1.00), in each case subject to certain further restrictions as described in the Credit Agreement. As of December 31, 2019, we were in compliance with all financial covenants contained in our revolving credit facility.

As of December 31, 2019, we had unused commitments under the facility approximating \$185,123, and \$64,877 committed, which consisted of borrowings of \$62,000 and issued letters of credit of \$2,877. Borrowings outstanding bear interest, at our option, of either (a) the base rate or (b) LIBOR plus a margin adjustment ranging from .875% to 1.50%--with the margin adjustments in both instances based on the Company's leverage ratio at the time of borrowing. The base rate is the greater of (i) the agent bank's prime rate, (ii) LIBOR plus 1.5%, or (iii) the federal funds rate plus .5%. A commitment fee ranging from .10% to .225% is also required based on the average daily unborrowed commitment.

5.09% Senior Unsecured Notes--On July 22, 2010, we issued 5.09% Senior Unsecured Notes, Series A (the "5.09% Senior Notes") in the aggregate principal amount of \$30,000 pursuant to a Master Note Purchase Agreement (the "Purchase Agreement"), between Davey Tree and the purchasers of the 5.09% Senior Notes. The 5.09% Senior Notes are due July 22, 2020.

The 5.09% Senior Notes are equal in right of payment with our revolving credit facility and all other senior unsecured obligations of the Company. Interest is payable semiannually and five equal, annual principal payments commenced on July 22, 2016 (the sixth anniversary of issuance). The Purchase Agreement contains customary events of default and covenants related to limitations on indebtedness and transactions with affiliates and the maintenance of certain financial ratios.

3.99% Senior Unsecured Notes--On September 21, 2018, we issued 3.99% Senior Notes, Series A (the "3.99% Senior Notes"), in the aggregate principal amount of \$50,000. The 3.99% Senior Notes are due September 21, 2028.

The 3.99% Senior Notes were issued pursuant to a Note Purchase and Private Shelf Agreement (the "Note Purchase and Shelf Agreement") between the Company, PGIM, Inc. and the purchasers of the 3.99% Senior Notes. Subsequent series of promissory notes may be issued pursuant to the Note Purchase and Shelf Agreement (the "Shelf Notes") in an aggregate additional principal amount not to exceed \$50,000 (\$25,000 of which was issued on February 5, 2019).

The 3.99% Senior Notes are equal in right of payment with our revolving credit facility and all other senior unsecured obligations of the Company. Interest is payable semiannually and five equal, annual principal payments of \$10,000 commence on September 21, 2024 (the sixth anniversary of issuance). The Note Purchase and Shelf Agreement contains customary events of default and covenants related to limitations on indebtedness and transactions with affiliates and the maintenance of certain financial ratios. The Company may prepay at any time all, or from time to time any part of, the outstanding principal amount of the 3.99% Senior Notes, subject to the payment of a make-whole amount.

In conjunction with the issuance of the 3.99% Senior Notes, on September 21, 2018, the Company entered into an amendment to its revolving credit facility.

The amendment amended certain provisions and covenants in the credit agreement to generally conform them to the corresponding provisions and covenants in the Note Purchase and Shelf Agreement. The amendment also permitted the Company to incur indebtedness arising under the Note Purchase and Shelf Agreement in an aggregate principal amount not to exceed \$75,000, which included the \$50,000 of 3.99% Senior Notes, plus an additional \$25,000 in Shelf Notes (which were issued on February 5, 2019).

4.00% Senior Unsecured Notes--On February 5, 2019, we issued 4.00% Senior Notes, Series B (the "4.00% Senior Notes") pursuant to the Note Purchase and Shelf Agreement in the aggregate principal amount of \$25,000. The notes are due September 21, 2028. Subsequent series of shelf notes may be issued pursuant to the Note Purchase and Shelf Agreement in an aggregate additional principal amount not to exceed \$25,000. A further amendment to the revolving credit facility would be required for such a transaction to be permissible under the revolving credit facility. The 4.00% Senior Notes are equal in right of payment with our revolving credit facility and all other senior unsecured obligations of the Company. Interest is payable semiannually and five equal, annual principal payments commence on September 21, 2024 (the sixth anniversary of issuance of the 3.99% Senior Notes).

The net proceeds of all senior notes were used to pay down borrowings under our revolving credit facility.

As of December 31, 2019, we are in compliance with all financial covenants contained in our senior notes.

Term loans--Periodically, the company will enter into term loans for the procurement of insurance or to finance acquisitions.

Accounts Receivable Securitization Facility--In May 2019, the Company amended its Accounts Receivable Securitization Facility (the "AR Securitization program") to extend the scheduled termination date for an additional one year period, to May 19, 2020.

The AR Securitization program has a limit of \$100,000, of which \$76,732 and \$67,438 were issued for letters of credit ("LCs") as of December 31, 2019 and December 31, 2018, respectively.

Under the AR Securitization program, Davey Tree transfers by selling or contributing current and future trade receivables to a wholly-owned, bankruptcy-remote financing subsidiary which pledges a perfected first priority security interest in the trade receivables--equal to the issued LCs as of December 31, 2019--to the bank in exchange for the bank issuing LCs.

Pre-petition receivables from PG&E Corporation and its regulated utility subsidiary, Pacific Gas and Electric Company (collectively, "PG&E"), which filed voluntary bankruptcy petitions under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Northern District of California, while remaining in the securitized pool, are considered ineligible and are excluded from performance ratios and reserves.

Fees payable to the bank include: (a) an LC issuance fee, payable on each settlement date, in the amount of .90% per annum on the aggregate amount of all LCs outstanding plus outstanding reimbursement obligations (e.g., arising from drawn LCs), if any, and (b) an unused LC fee, payable monthly, equal to (i) .35% per annum for each day on which the sum of the total LCs outstanding plus any outstanding reimbursement obligations is greater than or equal to 50% of the facility limit and (ii) .45% per annum for each day on which the sum of the total LCs outstanding plus any outstanding reimbursement obligations is less than 50% of the facility limit. If an LC is drawn and the bank is not immediately reimbursed in full for the drawn amount, any outstanding reimbursement obligation will accrue interest at a per annum rate equal to a reserve-adjusted LIBOR or, in certain circumstances, a base rate equal to the higher of (i) the bank's prime rate and (ii) the federal funds rate plus .50% and, following any default, 2.00% plus the greater of (a) adjusted LIBOR and (b) a base rate equal to the higher of (i) the bank's prime rate and (ii) the federal funds rate plus .50%.

The agreements underlying the AR Securitization program contain various customary representations and warranties, covenants, and default provisions which provide for the termination and acceleration of the commitments under the AR Securitization program in circumstances including, but not limited to, failure to make payments when due, breach of a representation, warranty or covenant, certain insolvency events or failure to maintain the security interest in the trade receivables, and defaults under other material indebtedness.

Contractual Obligations Summary

The following is a summary of our long-term contractual obligations, at December 31, 2019, to make future payments for the periods indicated:

Description	Total	Contractual Obligations Due -- Year Ending December 31,					
		2020	2021	2022	2023	2024	Thereafter
Revolving credit facility	\$ 62,000	\$ —	\$ —	\$ 62,000	\$ —	\$ —	\$ —
Senior unsecured notes	102,270	9,300	2,995	2,995	2,995	17,995	65,990
Term loans	25,047	18,000	6,115	904	28	—	—
Financing lease obligations	3,261	1,420	1,262	320	120	48	91
Operating lease obligations	42,386	15,863	11,863	8,165	3,739	1,477	1,279
Self-insurance accruals	95,683	31,451	23,057	14,867	8,610	4,595	13,103
Purchase obligations	17,463	17,463	—	—	—	—	—
Other liabilities	12,268	1,238	1,727	1,883	2,143	1,985	2,725
	<u>\$ 360,378</u>	<u>\$ 94,735</u>	<u>\$ 47,019</u>	<u>\$ 91,134</u>	<u>\$ 17,635</u>	<u>\$ 26,100</u>	<u>\$ 83,188</u>

The self-insurance accruals in the summary above reflect the total of the undiscounted amount accrued, for which amounts estimated to be due each year may differ from actual payments required to fund claims. Purchase obligations in the summary above represent open purchase-order amounts that we anticipate will become payable within the next year for goods and services we have negotiated for delivery as of December 31, 2019. Other liabilities include estimates of future expected funding requirements related to retirement plans and other sundry items. Because their future cash outflows are uncertain, accrued income tax liabilities for uncertain tax positions, as of December 31, 2019, have not been included in the summary above. Noncurrent deferred taxes are also not included in the summary.

As of December 31, 2019, total commitments related to issued letters of credit were \$81,619, of which \$2,877 were issued under the revolving credit facility, \$76,732 were issued under the AR securitization facility, and \$2,010 were issued under short-term lines of credit. As of December 31, 2018, total commitments related to issued letters of credit were \$72,565, of which \$3,123 were issued under the revolving credit facility, \$67,438 were issued under the AR securitization facility, and \$2,004 were issued under short-term lines of credit.

Also, as is common with our industry, we have performance obligations that are supported by surety bonds, which expire during 2020 through 2023. We intend to renew the performance bonds where appropriate and as necessary.

Off-Balance Sheet Arrangements

There are no “off-balance sheet arrangements” as that term is defined in Regulation S-K, Item 303(a)(4)(ii) under the Securities Exchange Act of 1934, as amended.

Capital Resources

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

Cash of \$11,000 as of December 31, 2019 included \$8,637 in the U.S. and \$2,363 in Canada, all of which is subject to U.S. federal income taxes and Canadian taxes if repatriated to the U.S. Currently, we do not expect to repatriate any portion of our 2019 Canadian earnings to satisfy our 2020 U.S. based cash flow needs.

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 affected. 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 continually reviewing our existing sources of financing and evaluating alternatives. At December 31, 2019, we had working capital of \$115,753, unused short-term lines of credit approximating \$9,136, and \$185,123 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 for at least the next twelve months and for the foreseeable future.

RECENT ACCOUNTING GUIDANCE

See Note C - Recent Accounting Guidance for a discussion of our recent accounting guidance.

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 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--We recognize revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers. Performance obligations are satisfied as our services are provided to customers. See Note S for a detailed description of our revenue recognition policy.

Allowance for Doubtful Accounts--In determining the allowance for doubtful accounts, we evaluate the collectibility of our accounts receivable 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 evaluate each specific situation to determine the collectibility given the facts and circumstances and if necessary, 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. Self-insurance accruals consist of the projected settlement value of reported and unreported claims. 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.

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 methods for estimating the ultimate losses and the total cost of claims were determined by third-party consulting actuaries; the resulting accruals are reviewed by management, and any adjustments arising from changes in estimates are reflected in income.

The workers' compensation accruals are discounted as the amount and timing of cash payments related to those accruals are reliably determinable given the nature of workers' compensation benefits and the level of historical claim volume to support the actuarial assumptions and judgments used to derive the expected loss payment pattern. The workers' compensation accruals are discounted using an interest rate that approximates the long-term investment yields over the expected payment pattern of unpaid losses.

Our self-insurance accruals are based on estimates and, while we believe that the amounts accrued are adequate and not excessive, the ultimate claims may be in excess of or less than the amounts provided. Changes in claims incurred, claim severity, or other estimates and judgments used by management could have a material impact on the amount and timing of expense for any period.

Stock Valuation--On March 15, 1979, we consummated a plan, which transferred control of the Company to our employees. The Employee Stock Ownership Plan ("ESOP"), in conjunction with the related Employee Stock Ownership Trust ("ESOT"), provided for the grant to certain employees of certain ownership rights in, but not possession of, the common shares held by the trustee of the ESOT. Annual allocations of shares have been made to individual accounts established for the benefit of the participants. Since our common stock is not currently traded on an established securities market, if the owners of distributed shares desire to sell their shares, the Company is required to purchase the shares at fair value for two 60-day periods after distribution of the shares from the Davey 401KSOP and ESOP.

Because there is no trading of the Company's common stock on an established securities market, the market price of the Company's common stock is determined by its Board of Directors. As part of the process to determine the market price, an independent valuation is obtained. The process includes comparing the Company's financial results to those of comparable companies that are publicly traded ("comparable publicly traded companies"). The purpose of the process is to determine a value for the Company's common stock that is comparable to the stock value of comparable publicly traded companies by considering both the results of the stock market and the relative financial results of comparable publicly traded companies. The fair valuation of the shares utilizes two valuation approaches, the Market Approach and the Income Approach to derive a basis of value. Some key assumptions used in the stock valuation include growth rate, discount rate, rate of capital expenditures, net worth, earnings and appropriate valuation multiples.

If circumstances change (e.g., change in the macro economic factors, key assumptions included within valuation), our estimates of the share price could differ from time to time.

MARKET RISK INFORMATION

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

Interest Rate Risk

We are exposed to market risk related to changes in interest rates on long-term debt obligations. We regularly monitor and measure our interest rate risk and, to the extent that we believe we are exposed, from time-to-time we have entered into interest rate swap contracts--derivative financial instruments--with the objective of altering interest rate exposures related to a portion of our variable debt.

The following table provides information, as of December 31, 2019, about our debt obligations, including principal cash flows, weighted-average interest rates by expected maturity dates and fair values. Weighted-average interest rates used for variable-rate obligations are based on rates as derived from published spot rates, in effect as of December 31, 2019.

	Expected Maturity Date					Thereafter	Total	Fair Value December 31, 2019
	2020	2021	2022	2023	2024			
Liabilities								
Long-term debt:								
Fixed rate	\$23,272	\$ 5,959	\$ 758	\$ 26	\$15,000	\$ 60,000	\$105,015	\$ 86,810
Average interest rate	4.0%	4.6%	3.5%	13.0%	2.7%	2.7%		
Variable rate	\$ 30	\$ 30	\$62,000	\$ —	\$ —	\$ —	\$ 62,060	\$ 62,060
Average interest rate	5.4%	5.5%	3.0%	—%	—%	—%		

Interest rates on the variable-rate debt, as of December 31, 2019, ranged from 2.9% to 5.5%.

Foreign Currency Exchange 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, 2019, 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 effect of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices. Presently, we do not engage in hedging activities related to our foreign currency exchange rate risk.

Commodity Price Risk

We are subject to market risk from fluctuating prices of fuel--both diesel and gasoline. In prior years we have used fuel derivatives as "economic hedges" related to fuel consumed by Davey Tree service vehicles. Presently, we are not engaged in any hedging or derivative activities.

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.*

Management's Evaluation of Disclosure 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 (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 as amended (the "Exchange Act")). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this Form 10-K in ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control framework and processes were designed to provide reasonable assurance to management and the Board of Directors that our financial reporting is reliable and that our consolidated financial statements for external purposes have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

Our management recognizes its responsibility for fostering a strong ethical climate so that our affairs are conducted according to the highest standards of personal and corporate conduct.

Our internal control over financial reporting includes policies and procedures that: (i) provide for the maintenance of records that, in reasonable detail, accurately and fairly reflect our business transactions; (ii) provide reasonable assurance that transactions are recorded properly to allow for the preparation of financial statements in accordance with U.S. GAAP; and (iii) provide reasonable assurance that the unauthorized acquisition, use, or disposition of our assets will be prevented or detected in a timely manner. We maintain a dynamic system of internal controls and processes--including internal control over financial reporting--designed to ensure reliable financial recordkeeping, transparent financial reporting and protection of physical and intellectual property.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation as of December 31, 2019, as to the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2019.

Our independent registered public accounting firm has issued an audit report on our internal control over financial reporting, which is included in this report.

/s/ Patrick M. Covey

Patrick M. Covey
Chairman, President and Chief Executive Officer

/s/ Joseph R. Paul

Joseph R. Paul
Executive Vice President, Chief Financial Officer and Secretary

/s/ Thea R. Sears

Thea R. Sears
Vice President and Controller

Kent, Ohio

March 9, 2020

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of The Davey Tree Expert Company (the “Company”) as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated March 9, 2020, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Annual Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Cleveland, Ohio

March 9, 2020

Item 9B. *Other Information.*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance.*

Information about our executive officers is included in the section "Information about our Executive Officers," pursuant to Instruction G of Form 10-K as an unnumbered item to Part I of this report.

Information about our directors is in the sections "Proposal One-Election of Directors" and "Corporate Governance-Board Independence" of our 2020 Proxy Statement, which is incorporated into this report by reference.

Information about our audit committee and our audit committee financial experts is in the section "Corporate Governance- Audit Committee" of our 2020 Proxy Statement, which is incorporated into this report by reference.

Information required by Item 405 of Regulation S-K is in the section "Ownership of Common Shares-Delinquent Section 16(a) Reports" of our 2020 Proxy Statement, which is incorporated into this report by reference. See also the section titled "Corporate Governance-Shareholder Nominations for Director," which is incorporated into this report by reference.

We have adopted a Code of Ethics for Financial Matters that applies to our principal executive officer, principal financial officer and principal accounting officer, or persons performing similar functions. That Code is available on our website or upon request, as described in this report in Item 1. "Business - Access to Company Information." We intend to disclose, on our website at www.davey.com, any amendments to, or waiver of, any provision of that Code that would otherwise be required to be disclosed under the rules of the Securities and Exchange Commission.

Item 11. *Executive Compensation.*

Information about executive and director compensation is in the sections "Compensation Discussion and Analysis," "Report of the Compensation Committee," "Compensation Risk Analysis," "Compensation of Named Executive Officers," "2019 Director Compensation", and "Corporate Governance-Compensation Committee Interlocks and Insider Participation" of our 2020 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 our 2020 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 "Compensation of Named Executive Officers-Equity Compensation Plan Information" of our 2020 Proxy Statement, which is incorporated into this report by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence.*

Information about certain transactions between us and our affiliates and certain other persons and the independence of directors is in the sections "Corporate Governance-Board Independence" and "Corporate Governance-Transactions with Related Persons, Promoters and Certain Control Persons" of our 2020 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 "The Independent Registered Public Accounting Firm" of our 2020 Proxy Statement, which is incorporated into this report by reference.

PART IV

Item 15. *Exhibits and Financial Statement Schedules.*

(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.

(b) Exhibits.

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

Item 16. *Form 10-K Summary.*

None.

EXHIBIT INDEX

Exhibit No.	Description	
3.1	2017 Amended Articles of Incorporation of the Davey Tree Expert Company (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2017).	
3.2	2017 Amended and Restated Regulations of the Davey Tree Expert Company (Incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2017).	
4.1	Description of The Davey Tree Expert Company's Registered Securities.	Filed Herewith
10.1 *	Agreement, effective as of July 22, 2017, between The Davey Tree Expert Company and Karl J. Warnke (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017).	
10.2	Third Amended and Restated Credit Agreement, dated as of October 6, 2017, by and among The Davey Tree Expert Company, as borrower, various lending institutions party thereto, as banks, KeyBank National Association, as lead arranger, syndication agent and administrative agent, and PNC Bank, National Association and Wells Fargo Bank, N.A., as co-documentation agents (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 12, 2017).	
10.3	First Amendment to Third Amended and Restated Credit Agreement, dated September 21, 2018, by and among The Davey Tree Expert Company, as borrower, various lending institutions party thereto, as banks, and KeyBank National Association, as administrative agent (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 27, 2018).	
10.4 *	2004 Omnibus Stock Plan (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004).	
10.5 *	401KSOP Match Restoration Plan (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004).	
10.6 *	First Amendment to The Davey Tree Expert Company 401KSOP Match Restoration Plan, dated December 7, 2007 (Incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018).	
10.7 *	Second Amendment to The Davey Tree Expert Company 401KSOP Match Restoration Plan, effective January 1, 2017 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 9, 2017).	
10.8 *	Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004).	

EXHIBIT INDEX

Exhibit No.	Description
10.9 *	Retirement Benefit Restoration Plan (Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004).
10.10 *	The Davey Tree Expert Company Board of Directors Revised Deferred Compensation Plan (January 1, 2014 Restatement) (Incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013).
10.11 *	2014 Omnibus Stock Plan (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 21, 2014).
10.12	Stock Subscription Agreement for Direct Stock Purchases (Incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014).
10.13 *	Management Incentive Compensation Plan, as last amended as of December 7, 2017 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 13, 2017).
10.14	Receivables Financing Agreement, dated May 9, 2016, among The Davey Tree Expert Company, Davey Receivables LLC, PNC Bank, National Association, and PNC Capital Markets LLC (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 11, 2016).
10.15	Receivables Financing Agreement Amendment No. 1, dated March 27, 2017, by and among The Davey Tree Expert Company, Davey Receivables LLC, and PNC Bank, National Association. (Incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018).
10.16	Receivables Financing Agreement Amendment No. 2, dated May 8, 2017, among The Davey Tree Expert Company, Davey Receivables LLC and PNC Bank, National Association (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 9, 2017).
10.17	Receivables Financing Agreement Amendment No. 3, dated May 7, 2018, by and among The Davey Tree Expert Company, Davey Receivables LLC, and PNC Bank, National Association (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 8, 2018).
10.18	Receivables Financing Agreement Amendment No. 4, dated August 23, 2018, by and among The Davey Tree Expert Company, Davey Receivables LLC, and PNC Bank, National Association (Incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018).

EXHIBIT INDEX

Exhibit No.	Description
10.19	Receivables Financing Agreement Amendment No. 5, dated January 24, 2019, by and among The Davey Tree Expert Company, Davey Receivables LLC, and PNC Bank, National Association (Incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018).
10.20	Receivables Financing Agreement Amendment No. 6, dated April 23, 2019, by and among The Davey Tree Expert Company, Davey Receivables LLC and PNC Bank, National Association (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2019).
10.21	Receivables Financing Agreement Amendment No. 7, dated May 21, 2019, by and among The Davey Tree Expert Company, Davey Receivables LLC and PNC Bank, National Association (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2019).
10.22	Receivables Purchase Agreement, dated May 9, 2016, among The Davey Tree Expert Company, Davey Tree Surgery Company, and Davey Receivables LLC (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 11, 2016).
10.23	Joinder Agreement, dated May 7, 2018, by and among Davey Receivables LLC, and PNC Bank, National Association, to the Receivables Purchase Agreement, dated May 9, 2016 (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 8, 2018).
10.24	Master Note Purchase Agreement, dated July 22, 2010, by and among The Davey Tree Expert Company and each of the Purchasers thereto (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 22, 2010).
10.25	Note Purchase and Private Shelf Agreement, dated September 21, 2018, by and among PGIM, Inc., each of the Purchasers thereto, and The Davey Tree Expert Company (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 27, 2018).
10.26 *	Form of 2014 Omnibus Stock Plan Non-Qualified Stock Option Agreement (Incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018).
10.27 *	Form of 2014 Omnibus Stock Plan Performance Restricted Stock Unit Agreement (Incorporated by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018).

EXHIBIT INDEX

Exhibit No.	Description	
21	Subsidiaries of the Registrant.	Filed Herewith
23.1	Consent of Independent Registered Public Accounting Firm (Deloitte & Touche LLP).	Filed Herewith
23.2	Consent of Independent Registered Public Accounting Firm (Ernst & Young LLP).	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
99.1	Policy of Implementation of Certain Company Rights Under Article Sixth of the Amended Articles of Incorporation (Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 11, 2017).	
101	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2019, formatted in iXBRL (inline Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.	Filed Herewith
104	Cover Page Interactive Data File (embedded within the inline XBRL document)	Filed Herewith

* 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.

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 9, 2020.

THE DAVEY TREE EXPERT COMPANY

/s/ Patrick M. Covey

Patrick M. Covey
Chairman, President 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 9, 2020.

/s/ Donald C. Brown

Donald C. Brown
Director

/s/ Catherine M. Kilbane

Catherine M. Kilbane
Director

/s/ Patrick M. Covey

Patrick M. Covey
*Director, Chairman, President and Chief Executive Officer
(Principal Executive Officer)*

/s/ Charles D. Stapleton

Charles D. Stapleton
Director

/s/ Alejandra Evans

Alejandra Evans
Director

/s/ Karl J. Warnke

Karl J. Warnke
Director

/s/ William J. Ginn

William J. Ginn
Director

/s/ Joseph R. Paul

Joseph R. Paul
*Executive Vice President, Chief Financial Officer
and Secretary
(Principal Financial Officer)*

/s/ Douglas K. Hall

Douglas K. Hall
Director

/s/ Thea R. Sears

Thea R. Sears
*Vice President and Controller
(Principal Accounting Officer)*

/s/ Sandra W. Harbrecht

Sandra W. Harbrecht
Director

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 STATEMENTS SCHEDULES

YEAR ENDED DECEMBER 31, 2019

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:

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Consolidated Statements of Shareholders' Equity -- Years ended December 31, 2019, 2018 and 2017	F-7
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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 Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of The Davey Tree Expert Company (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows, for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provides a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Cleveland, Ohio
March 9, 2020

We have served as the Company's auditor since 2018.

Report of Independent Registered Public Accounting Firm

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows of The Davey Tree Expert Company (the Company) for the year ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of the Company's operations and the Company's cash flows for the year ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We served as the Company's auditor from 2001 to 2018.

Akron, Ohio

March 16, 2018, except for paragraph 1 of Note C, as to which the date is March 11, 2019

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

	December 31,	
	2019	2018
Assets		
Current assets:		
Cash	\$ 11,000	\$ 22,661
Accounts receivable, net	231,311	195,906
Operating supplies	12,127	14,415
Prepaid expenses	25,664	19,529
Other current assets	1,323	2,557
Total current assets	281,425	255,068
Property and equipment, net	199,850	202,285
Right-of-use assets - operating leases	40,033	—
Other assets	22,335	21,769
Intangible assets, net	10,934	9,530
Goodwill	42,285	37,971
Total assets	<u>\$ 596,862</u>	<u>\$ 526,623</u>
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt, finance lease liabilities and short-term debt	\$ 26,503	\$ 23,859
Current portion of operating lease liabilities	14,665	—
Accounts payable	41,191	43,958
Accrued expenses	52,431	44,061
Self-insurance accruals	30,882	27,434
Total current liabilities	165,672	139,312
Long-term debt	68,423	99,683
Senior unsecured notes	74,931	55,880
Lease liabilities - finance leases	1,795	2,862
Lease liabilities - operating leases	25,200	—
Self-insurance accruals	62,113	56,351
Other liabilities	12,268	10,125
Total liabilities	410,402	364,213
Commitments and contingencies (Note U)		
Redeemable common shares related to 401KSOP and Employee Stock Ownership Plan (ESOP): 5,147 and 5,642 shares at redemption value as of December 31, 2019 and 2018		
	124,555	119,049
Common shareholders' equity:		
Common shares, \$1.00 par value, per share; 48,000 shares authorized; 37,767 and 37,272 shares issued and outstanding before deducting treasury shares and which excludes 5,147 and 5,642 shares subject to redemption as of December 31, 2019 and 2018	37,767	37,272
Additional paid-in capital	96,366	82,623
Common shares subscribed	—	6,799
Retained earnings	179,770	157,472
Accumulated other comprehensive loss	(5,403)	(5,034)
	308,500	279,132
Less: Cost of Common shares held in treasury; 19,737 shares in 2019 and 20,033 in 2018	246,595	235,042
Common shares subscription receivable	—	729
Total common shareholders' equity	61,905	43,361
Total liabilities and shareholders' equity	<u>\$ 596,862</u>	<u>\$ 526,623</u>

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2019	2018	2017
Revenues	\$ 1,143,720	\$ 1,024,791	\$ 915,958
Costs and expenses:			
Operating	730,507	665,388	587,333
Selling	209,148	184,388	167,934
General and administrative	76,738	67,462	59,403
Depreciation	57,292	54,914	50,702
Amortization of intangible assets	2,545	2,055	2,384
Gain on sale of assets, net	(2,055)	(5,106)	(3,989)
	<u>1,074,175</u>	<u>969,101</u>	<u>863,767</u>
Income from operations	69,545	55,690	52,191
Other income (expense):			
Interest expense	(8,514)	(7,039)	(4,886)
Interest income	348	350	292
Other	(8,112)	(11,505)	(9,603)
	<u>53,267</u>	<u>37,496</u>	<u>37,994</u>
Income before income taxes	53,267	37,496	37,994
Income taxes	12,470	9,519	15,874
	<u>40,797</u>	<u>27,977</u>	<u>22,120</u>
Net income	\$ 40,797	\$ 27,977	\$ 22,120
Share data:			
Earnings per share--basic	<u>1.78</u>	<u>1.15</u>	<u>.87</u>
Earnings per share--diluted	<u>1.70</u>	<u>1.10</u>	<u>.83</u>
Weighted-average shares outstanding:			
Basic	<u>22,906</u>	<u>24,389</u>	<u>25,557</u>
Diluted	<u>23,978</u>	<u>25,481</u>	<u>26,697</u>

See notes to consolidated financial statements.

THE DAVEY TREE EXPERT COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Year Ended December 31,		
	2019	2018	2017
Net income	\$ 40,797	\$ 27,977	\$ 22,120
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments gains/(losses)	1,186	(2,514)	2,195
Defined benefit pension plans:			
Net loss arising during the year	(147)	(273)	(1,286)
Reclassification to results of operations:			
Amortization of defined benefit pension items:			
Net actuarial (gain) loss	(1,456)	6,084	2,822
Prior service cost	48	62	38
	(1,408)	6,146	2,860
Defined benefit pension plan adjustments	(1,555)	5,873	1,574
Total other comprehensive (loss) income, net of tax	(369)	3,359	3,769
Comprehensive income	\$ 40,428	\$ 31,336	\$ 25,889

See notes to consolidated financial statements.

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

	Common Shares	Additional Paid-in Capital	Common Shares Subscribed, Unissued	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Common Shares Held in Treasury	Common Shares Subscription Receivable	Total Common Shareholders' Equity
Balances at January 1, 2017	\$ 35,857	\$ 41,626	\$ 8,209	\$ 133,951	\$ (12,162)	\$ (176,530)	\$ (2,973)	\$ 27,978
Net income	—	—	—	22,120	—	—	—	22,120
Change in 401KSOP and ESOP related shares	590	9,977	—	(9,885)	—	—	—	682
Shares sold to employees	—	5,690	—	—	—	5,206	—	10,896
Options exercised	—	76	—	—	—	2,634	—	2,710
Subscription shares	—	(35)	(680)	—	—	929	1,198	1,412
Stock-based compensation	—	1,220	—	162	—	—	—	1,382
Dividends, \$.10 per share	—	—	—	(2,513)	—	—	—	(2,513)
Currency translation adjustments	—	—	—	—	2,196	—	—	2,196
Defined benefit pension plans	—	—	—	—	1,573	—	—	1,573
Shares purchased	—	—	—	—	—	(30,566)	—	(30,566)
Balances at December 31, 2017	\$ 36,447	\$ 58,554	\$ 7,529	\$ 143,835	\$ (8,393)	\$ (198,327)	\$ (1,775)	\$ 37,870
Net income	—	—	—	27,977	—	—	—	27,977
Change in 401KSOP and ESOP related shares	825	15,245	—	(11,598)	—	—	—	4,472
Shares sold to employees	—	6,820	—	—	—	10,617	—	17,437
Options exercised	—	145	—	—	—	2,326	—	2,471
Subscription shares	—	(99)	(730)	—	—	1,458	1,046	1,675
Stock-based compensation	—	1,958	—	—	—	—	—	1,958
Dividends, \$.10 per share	—	—	—	(2,387)	—	—	—	(2,387)
Adoption of ASU 2014-09	—	—	—	(355)	—	—	—	(355)
Currency translation adjustments	—	—	—	—	(2,514)	—	—	(2,514)
Defined benefit pension plans	—	—	—	—	5,873	—	—	5,873
Shares purchased	—	—	—	—	—	(51,116)	—	(51,116)
Balances at December 31, 2018	\$ 37,272	\$ 82,623	\$ 6,799	\$ 157,472	\$ (5,034)	\$ (235,042)	\$ (729)	\$ 43,361
Net income	—	—	—	40,797	—	—	—	40,797
Change in 401KSOP and ESOP related shares	495	10,180	—	(16,182)	—	—	—	(5,507)
Shares sold to employees	—	5,604	—	—	—	8,948	—	14,552
Options exercised	—	(1,850)	—	—	—	3,638	—	1,788
Subscription shares	—	(1,988)	(6,799)	—	—	10,508	729	2,450
Stock-based compensation	—	1,797	—	—	—	—	—	1,797
Dividends, \$.10 per share	—	—	—	(2,317)	—	—	—	(2,317)
Currency translation adjustments	—	—	—	—	1,186	—	—	1,186
Defined benefit pension plans	—	—	—	—	(1,555)	—	—	(1,555)
Shares purchased	—	—	—	—	—	(34,647)	—	(34,647)
Balances at December 31, 2019	\$ 37,767	\$ 96,366	\$ —	\$ 179,770	\$ (5,403)	\$ (246,595)	\$ —	\$ 61,905

See notes to condensed consolidated financial statements.

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

	Year Ended December 31,		
	2019	2018	2017
Operating activities			
Net income	\$ 40,797	\$ 27,977	\$ 22,120
Adjustments to reconcile net income to net cash provided by operating activities net of assets/liabilities acquired:			
Depreciation	57,292	54,914	50,702
Amortization	2,545	2,055	2,384
Gain on sale of assets	(2,055)	(5,106)	(3,989)
Deferred income taxes	1,240	4,014	3,753
Other	2,860	134	2,581
Changes in operating assets and liabilities, net of assets acquired:			
Accounts receivable	(32,573)	(26,829)	(20,784)
Accounts payable and accrued expenses	7,188	(1,970)	6,164
Self-insurance accruals	9,202	16,091	4,856
Other assets, net	(3,143)	(9,176)	(11,011)
	<u>42,556</u>	<u>34,127</u>	<u>34,656</u>
Net cash provided by operating activities	83,353	62,104	56,776
Investing activities			
Capital expenditures:			
Equipment	(52,841)	(58,620)	(53,128)
Land and buildings	(5,514)	(1,790)	(3,972)
Proceeds from sales of property and equipment	3,562	7,494	5,034
Purchases of businesses, net of cash acquired	(8,529)	(8,461)	(7,452)
	<u>(63,322)</u>	<u>(61,377)</u>	<u>(59,518)</u>
Financing activities			
Revolving credit facility borrowings	469,500	507,500	328,000
Revolving credit facility payments	(501,000)	(514,000)	(295,000)
Proceeds from notes payable	114,140	74,716	16,610
Payments of notes payable	(95,007)	(26,339)	(23,008)
Payments of financing leases	(1,282)	(891)	(2,294)
Purchase of common shares for treasury	(34,647)	(51,116)	(30,404)
Sale of common shares from treasury	18,060	20,536	13,820
Cash received on common-share subscriptions	729	1,046	1,199
Dividends	(2,317)	(2,387)	(2,513)
	<u>(31,824)</u>	<u>9,065</u>	<u>6,410</u>
Net cash (used in) provided by financing activities	(31,824)	9,065	6,410
Effect of exchange rate changes on cash	132	(252)	447
(Decrease) Increase in cash	(11,661)	9,540	4,115
Cash, beginning of year	22,661	13,121	9,006
Cash, end of year	\$ 11,000	\$ 22,661	\$ 13,121

See notes to consolidated financial statements.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements
December 31, 2019
(In thousands, except share data)

A. Our Business

We provide a wide range of arboricultural, horticultural, environmental and consulting services to residential, utility, commercial and government entities throughout the United States and Canada. We have two reportable operating segments organized by type or class of customer: Residential and Commercial, and Utility.

Residential and Commercial--Residential and Commercial provides services to our residential and commercial customers including: the treatment, preservation, maintenance, removal and planting of trees, shrubs and other plant life; the practice of landscaping, grounds maintenance, tree surgery, tree feeding and tree spraying; the application of fertilizer, herbicides and insecticides; and natural resource management and consulting, forestry research and development, and environmental planning.

Utility--Utility is principally engaged in providing services to our utility customers--investor-owned, municipal utilities, and rural electric cooperatives--including: the practice of line-clearing and vegetation management around power lines, rights-of-way and chemical brush control; and natural resource management and consulting, forestry research and development and environmental planning.

We also maintain research, technical support and laboratory diagnostic facilities.

When we refer to "we," "us," "our," "Davey Tree," and the "Company," we mean The Davey Tree Expert Company, unless the context indicates otherwise.

B. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation--The consolidated financial statements include the accounts of Davey Tree and our wholly-owned subsidiaries and were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in Financial Statement Preparation--The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts. Estimates are used for, but not limited to, accounts receivable valuation, depreciable lives of fixed assets, self-insurance accruals, stock valuation and revenue recognition. Actual results could differ from those estimates.

The Company's fiscal quarters each contain thirteen operating weeks, with the exception of the fourth quarter of a 53-week fiscal year, which contains fourteen operating weeks.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2019
(In thousands, except share data)

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 declining-balance method for equipment, based on the estimated useful lives of the assets, as follows:

Land improvements	5 to 20 years
Buildings	5 to 30 years
Equipment	3 to 20 years
Leasehold improvements	Shorter of lease term or estimated useful life; ranging from 5-to-20 years

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-seven years.

Long-Lived Assets--We assess potential impairment to our long-lived assets, other than goodwill, 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.

Goodwill--Goodwill is recorded when the cost of acquired businesses exceeds the fair value of the identified net assets acquired. Goodwill is not amortized, but tested for impairment annually or when events or circumstances indicate that impairment may have occurred. Annually, we perform the impairment tests for goodwill during the fourth quarter. Impairment of goodwill is tested at the reporting-unit level, which for us are also our business segments. Impairment of goodwill is tested by comparing the reporting unit's carrying value, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using discounted projected cash flows. If the carrying value of the reporting unit exceeds its fair value, goodwill is considered impaired and an impairment loss should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the carrying value of the goodwill allocated to that reporting unit. We conducted our annual impairment tests and determined that no impairment loss was required to be recognized in 2019 or for any prior periods. There were no events or circumstances from the date of our assessment through December 31, 2019 that would impact this conclusion.

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. Self-insurance accruals consist of the projected settlement value of reported and unreported claims. 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.

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 methods for estimating the ultimate losses and the total cost of claims were determined by third-party consulting actuaries; the resulting accruals are reviewed by management, and any adjustments arising from changes in estimates are reflected in income.

The workers' compensation accruals are discounted as the amount and timing of cash payments related to those accruals are reliably determinable given the nature of workers' compensation benefits and the level of historical claim volume to support the actuarial assumptions and judgments

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2019
(In thousands, except share data)

used to derive the expected loss payment pattern. The workers' compensation accruals are discounted using an interest rate that approximates the long-term investment yields over the expected payment pattern of unpaid losses.

Our self-insurance accruals are based on estimates and, while we believe that the amounts accrued are adequate and not excessive, the ultimate claims may be in excess of or less than the amounts provided. Changes in claims incurred, claim severity, or other estimates and judgments used by management could have a material impact on the amount and timing of expense for any period.

Stock-Based Compensation--Stock-based compensation cost for all share-based payment plans is measured at fair value on the date of grant and recognized over the employee service period on the straight-line recognition method for awards expected to vest. The fair value of all stock-based payment plans—stock option plans, stock-settled stock appreciation rights, and performance-based restricted stock units as well as our Employee Stock Purchase Plan—is determined by the number of awards granted and the price of our common stock. The fair value of each award is estimated on the date of grant using a binomial option-pricing model. The binomial model considers a range of assumptions related to volatility, risk-free interest rate and employee exercise behavior. Expected volatilities utilized in the binomial model are based on historical volatility of our share prices and other factors. Similarly, the dividend yield is based on historical experience and expected future changes. The binomial model also incorporates exercise assumptions based on an analysis of historical data. The expected life of the stock-based awards is derived from the output of the binomial model and represents the period of time that awards granted are expected to be outstanding.

Defined Benefit Pension Plans--We record annual expenses relating to our defined benefit pension plans based on calculations that include various actuarial assumptions, including discount rates and expected long-term rates of return on plan assets. Actuarial assumptions are reviewed annually with modifications made to the assumptions, if necessary, based on current rates and trends. The effects of the actuarial gains or losses are amortized over future service periods. The funded status (that is, the projected benefit obligation less the fair value of plan assets) for each plan is reported in our balance sheet using a December 31 measurement date. Changes in the funded status of the plans are recognized in the year in which the changes occur and reported in comprehensive income (loss).

Income Taxes--We compute 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. We compute and recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of our assets and liabilities. Changes in tax rates and laws are reflected in income in the period when such changes are enacted. We account for uncertain tax positions by recognizing the financial statement effects of a tax position only when, based upon the technical merits, it is more-likely-than-not that the position will be sustained upon examination.

Earnings Per Share--Basic earnings per share is determined by dividing the income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per share is computed similarly to basic earnings per share except that the weighted-average number of shares is increased to include the effect of stock awards that were granted and outstanding during the period.

Revenue Recognition--We recognize revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers. See Note S for a detailed description of our revenue recognition policy.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2019
(In thousands, except share data)

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 are as follow:

Cash--To limit our exposure, we transact our business and maintain banking relationships with high credit-quality financial institutions.

Accounts Receivable--Our 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 customer approximated 12% of revenues during 2019, 12% in 2018 and 11% in 2017. To reduce credit risk, we evaluate the credit of customers, but generally do not require advance payments or collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition.

Foreign Currency Translation and Transactions--Assets and liabilities of our Canadian operations are translated into U.S. dollars using year-end exchange rates, and revenues and expenses are translated using exchange rates as determined throughout the year. Gains or losses resulting from translation are included in the consolidated balance sheet, classified in shareholders' equity as a separate component of accumulated other comprehensive income (loss). Gains or losses resulting from Canadian-dollar transactions with the Canadian operations are converted to U.S. dollars at the rates of exchange prevailing at the dates of the transactions. The effect of the transactions gain or loss is classified in the statement of operations as a component of other nonoperating income (expense), net.

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 U.S. GAAP 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.

C. Recent Accounting Guidance

Accounting Standard Adopted in 2018

Accounting Standards Update 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost--In March 2017, the FASB issued ASU 2017-07, "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which changes the presentation of net periodic benefit cost related to employer sponsored defined benefit plans and other postretirement benefits. Under ASU 2017-07, service costs are included within the same income statement line item as other compensation costs arising from services rendered by pertinent employees during the period. The other components of net periodic benefit pension cost are presented separately outside of income from operations. Additionally, only the service cost component of the net periodic benefit cost may be capitalized in assets. The amendments under ASU 2017-07 also provide a practical expedient that permits the use of amounts disclosed in the pension and other postretirement benefit plan footnote for prior year comparative periods as the estimation basis for applying the guidance retrospectively. The Company adopted ASU 2017-07 on January 1, 2018 and chose to use the practical expedient provided when applying the guidance retrospectively. Upon adoption, service costs are recognized in our financial statements as general and administrative expenses while the remaining components of net periodic benefit cost are recognized as other income (expense). Pension expense of \$5,186 for the year ended December 31, 2017 has been reclassified from general and administrative expense to other income (expense).

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2019
(In thousands, except share data)

Accounting Standards Adopted in 2019

Accounting Standards Update 2016-02, Leases (Topic 842)--In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)." ASU 2016-02, along with several subsequent updates, requires lessees to recognize assets and liabilities created by leases on their balance sheet along with additional disclosure information. The Company adopted the standard on January 1, 2019 using the Comparative Under ASC 840 approach, which permitted the Company to not recast historical periods for the adoption, and utilized practical expedients as available. The adoption of the new standard resulted in the recording, as of January 1, 2019, of operating right-of-use assets and lease liabilities of \$37,429. The adoption of the new standard did not impact our consolidated results of operations and had no impact on our cash flows.

Accounting Standards Update 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220)--In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220)." ASU 2018-02 provides an option to reclassify the stranded tax effects within accumulated other comprehensive income to retained earnings as a result of the Tax Cuts and Jobs Act of 2017. The Company adopted ASU 2018-02 effective January 1, 2019 and did not elect to reclassify the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings.

SEC Release No. 33-10532, Disclosure Update and Simplification--In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of shareholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of shareholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. We have incorporated the changes required by SEC Release No. 33-10532 in this report.

Accounting Standards Not Yet Adopted

Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326)--In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)." ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP for most financial instruments, including trade receivables, with an impairment model, known as the current expected credit loss model that is based on expected losses rather than incurred losses. The ASU is effective for fiscal years beginning after December 15, 2019. The Company is evaluating the potential impact of the standard on our consolidated financial statements and related disclosures. We will adopt this standard during the first quarter of fiscal 2020. The adoption of ASU 2016-13 will not have a material impact on our consolidated financial statements.

Accounting Standards Update 2019-12, Income Taxes (Topic 740)– Simplifying the Accounting for Income Taxes--In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (ASU 2019-12), which simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including applicable interim periods. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2019
(In thousands, except share data)

D. Business Combinations

Our investments in businesses were: (a) \$12,620 in 2019, including liabilities assumed of \$1,479 and debt issued of \$2,612; (b) \$13,244 in 2018, including liabilities assumed of \$2,381 and debt issued of \$2,402; and (c) \$13,264 in 2017, including \$2,713 of liabilities assumed and debt issued of \$3,099.

The net assets of the businesses acquired are accounted for under the acquisition method and were recorded at their fair values at the dates of acquisition. The measurement period for purchase price allocations ends as soon as information of the facts and circumstances becomes available, but does not exceed one year from the acquisition date.

The Company's intangible assets consist of tradenames, non-competition agreements and customer relationships. The tradenames and customer relationships intangible assets were assigned an average seven-year useful life, and the non-competition agreements were assigned an average five-year useful life.

The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as an increase in goodwill of approximately \$4,174 in 2019 (\$1,610 of which is deductible for tax purposes), \$2,840 in 2018 (all of which is deductible for tax purposes) and \$5,131 goodwill in 2017 (all of which is deductible for tax purposes).

The results of operations of acquired businesses have been included in the consolidated statements of operations beginning as of the effective dates of acquisition. The effect of these acquisitions on our consolidated revenues and results of operations, either individually or in the aggregate, for the years ended December 31, 2019, 2018 or 2017 was not significant.

E. Accounts Receivable, Net and Supplemental Balance Sheet Information

Accounts receivable, net, consisted of the following:

Accounts receivable, net	December 31,	
	2019	2018
Accounts receivable	\$ 176,849	\$ 158,556
Unbilled receivables	58,277	40,671
	<u>235,126</u>	<u>199,227</u>
Less allowances for doubtful accounts	3,815	3,321
Total	<u>\$ 231,311</u>	<u>\$ 195,906</u>

Unbilled receivables consist of work-in-process in accordance with the terms of contracts, primarily, with utility services customers.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2019
(In thousands, except share data)

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

	December 31,	
	2019	2018
Other current assets		
Refundable income taxes	\$ 339	\$ 1,625
Other	984	932
Total	\$ 1,323	\$ 2,557

	December 31,	
	2019	2018
Property and equipment, net		
Land and land improvements	\$ 19,270	\$ 17,350
Buildings and leasehold improvements	44,414	40,585
Equipment	604,211	581,461
	667,895	639,396
Less accumulated depreciation	468,045	437,111
Total	\$ 199,850	\$ 202,285

	December 31,	
	2019	2018
Other assets, noncurrent		
Assets invested for self-insurance	\$ 15,426	\$ 15,379
Investment--cost-method affiliate	1,314	1,218
Deferred income taxes	—	573
Other	5,595	4,599
Total	\$ 22,335	\$ 21,769

	December 31,	
	2019	2018
Accrued expenses		
Employee compensation	\$ 26,381	\$ 24,086
Accrued compensated absences	10,744	9,711
Self-insured medical claims	1,824	3,343
Customer advances, deposits	1,674	1,322
Income taxes payable	6,420	31
Taxes, other than income	1,775	2,546
Other	3,613	3,022
Total	\$ 52,431	\$ 44,061

	December 31,	
	2019	2018
Other liabilities, noncurrent		
Pension and retirement plans	\$ 6,552	\$ 6,138
Deferred income taxes	567	—
Other	5,149	3,987
Total	\$ 12,268	\$ 10,125

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2019
(In thousands, except share data)

F. Supplemental Cash Flow Information

Supplemental cash flow information follows:

Supplemental cash flow information	Year Ended December 31,		
	2019	2018	2017
Interest paid	\$ 8,463	\$ 6,375	\$ 5,096
Income taxes paid, net	5,758	11,514	10,005
Noncash transactions:			
Debt issued for purchases of businesses	\$ 2,612	\$ 2,402	\$ 3,099
Detail of acquisitions:			
Assets acquired:			
Cash	\$ 3	\$ —	\$ —
Accounts receivable	2,332	1,311	1,753
Operating supplies	84	23	—
Prepaid expense	27	89	128
Equipment	1,837	4,079	1,904
Other assets	96	7	52
Intangible assets	4,067	4,895	4,296
Goodwill	4,174	2,840	5,131
Liabilities assumed	(1,479)	(2,381)	(2,713)
Debt issued for purchases of businesses	(2,612)	(2,402)	(3,099)
Cash paid	\$ 8,529	\$ 8,461	\$ 7,452

G. Intangible Assets and Goodwill, Net

The carrying amount of the intangible assets and goodwill acquired in connection with our acquisitions were as follows:

	Weighted-Average Amortization Period (Years)	December 31, 2019		December 31, 2018	
		Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Amortized intangible assets:					
Customer lists/relationships	4.2 years	\$ 28,301	\$ 20,024	\$ 25,179	\$ 18,251
Employment-related	2.8 years	8,391	7,348	8,133	6,954
Tradenames	4.1 years	7,402	5,788	6,858	5,435
Amortized intangible assets		44,094	\$ 33,160	40,170	\$ 30,640
Less accumulated amortization		33,160		30,640	
Intangible assets, net		\$ 10,934		\$ 9,530	
Goodwill		\$ 42,285		\$ 37,971	

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The changes in the carrying amounts of goodwill, by segment, for the years ended December 31, 2019 and December 31, 2018 were as follow:

	Balance at January 1, 2019	Acquisitions	Translation and Other Adjustments	Balance at December 31, 2019
Utility	\$ 4,911	\$ —	\$ —	\$ 4,911
Residential and Commercial	33,060	4,174	140	37,374
Total	<u>\$ 37,971</u>	<u>\$ 4,174</u>	<u>\$ 140</u>	<u>\$ 42,285</u>

	Balance at January 1, 2018	Acquisitions	Translation and Other Adjustments	Balance at December 31, 2018
Utility	\$ 3,424	\$ 1,487	\$ —	\$ 4,911
Residential and Commercial	32,053	1,353	(346)	33,060
Total	<u>\$ 35,477</u>	<u>\$ 2,840</u>	<u>\$ (346)</u>	<u>\$ 37,971</u>

Future aggregate amortization expense of intangible assets--The aggregate amortization expense of intangible assets, as of December 31, 2019, in each of the next five years was as follows:

	Future Amortization Expense	
Year ending December 31, 2020	\$	2,742
2021		2,113
2022		1,886
2023		1,752
2024		1,464
Thereafter		977
	<u>\$</u>	<u>10,934</u>

H. Short and Long-Term Debt and Commitments Related to Letters of Credit

Short-term debt consisted of the following:

	December 31,	
	2019	2018
Notes payable	\$ 1,853	\$ —
Current portion of long-term debt	23,302	22,514
Current portion of finance leases	1,348	1,345
	<u>\$ 26,503</u>	<u>\$ 23,859</u>

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At December 31, 2019, we also had unused short-term lines of credit with several banks totaling \$9,136, generally at the banks' prime rate or LIBOR plus a margin adjustment of .75% to 1.50%. Long-term debt consisted of the following:

	December 31,	
	2019	2018
Revolving credit facility		
Swing-line borrowings	\$ 10,000	\$ 2,500
LIBOR borrowings	52,000	91,000
	<u>62,000</u>	<u>93,500</u>
5.09% Senior unsecured notes	6,000	12,000
3.99% Senior unsecured notes	50,000	50,000
4.00% Senior unsecured notes	25,000	—
Term loans	24,076	23,176
	<u>167,076</u>	<u>178,676</u>
Less debt issuance costs	420	599
Less current portion	23,302	22,514
	<u>\$ 143,354</u>	<u>\$ 155,563</u>

Revolving Credit Facility--In October 2017, the Company amended and restated its revolving credit facility, as further amended in September 2018, as discussed below. The amended and restated credit agreement, which expires in October 2022, permits borrowings, as defined, up to \$250,000, including a letter of credit sublimit of \$100,000 and a swing-line commitment of \$25,000. Under certain circumstances, the amount available under the revolving credit facility may be increased to \$325,000. The revolving credit facility contains certain affirmative and negative covenants customary for this type of facility and includes financial covenant ratios with respect to a maximum leverage ratio (not to exceed 3.00 to 1.00 with exceptions in case of material acquisitions) and a minimum interest coverage ratio (not less than 3.00 to 1.00), in each case subject to certain further restrictions as described in the credit agreement.

5.09% Senior Unsecured Notes--On July 22, 2010, we issued 5.09% Senior Unsecured Notes, Series A, (the "5.09% Senior Notes"), in the aggregate principal amount of \$30,000 pursuant to a Master Note Purchase Agreement (the "Purchase Agreement"), between the Company and the purchasers of the 5.09% Senior Notes. The 5.09% Senior Notes are due July 22, 2020.

The 5.09% Senior Notes are equal in right of payment with our revolving credit facility and all other senior unsecured obligations of the Company. Interest is payable semiannually and five equal, annual principal payments commenced on July 22, 2016 (the sixth anniversary of issuance). The Purchase Agreement contains customary events of default and covenants related to limitations on indebtedness and transactions with affiliates and the maintenance of certain financial ratios.

3.99% Senior Unsecured Notes--On September 21, 2018, we issued 3.99% Senior Notes, Series A (the "3.99% Senior Notes"), in the aggregate principal amount of \$50,000. The 3.99% Senior Notes are due September 21, 2028. The 3.99% Senior Notes were issued pursuant to a Note Purchase and Private Shelf Agreement (the "Note Purchase and Shelf Agreement") between the Company, PGIM, Inc. and the purchasers of the 3.99% Senior Notes. Subsequent series of promissory notes may be issued pursuant to the Note Purchase and Shelf Agreement (the "Shelf Notes") in an aggregate additional principal amount not to exceed \$50,000 (\$25,000 of which was issued on February 5, 2019).

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The 3.99% Senior Notes are equal in right of payment with our revolving credit facility and all other senior unsecured obligations of the Company. Interest is payable semiannually and five equal, annual principal payments of \$10,000 commence on September 21, 2024 (the sixth anniversary of issuance). The Note Purchase and Shelf Agreement contains customary events of default and covenants related to limitations on indebtedness and transactions with affiliates and the maintenance of certain financial ratios. The Company may prepay at any time all, or from time to time any part of, the outstanding principal amount of the 3.99% Senior Notes, subject to the payment of a make-whole amount.

In conjunction with the issuance of the 3.99% Senior Notes, on September 21, 2018, the Company entered into an amendment to its revolving credit facility. The amendment amended certain provisions and covenants in the credit agreement to generally conform them to the corresponding provisions and covenants in the Note Purchase and Shelf Agreement. The amendment also permitted the Company to incur indebtedness arising under the Note Purchase and Shelf Agreement in an aggregate principal amount not to exceed \$75,000, which included the \$50,000 of 3.99% Senior Notes, plus an additional \$25,000 in Shelf Notes (which were issued on February 5, 2019).

4.00% Senior Unsecured Notes--On February 5, 2019, we issued 4.00% Senior Notes, Series B (the "4.00% Senior Notes") pursuant to the Note Purchase and Shelf Agreement in the aggregate principal amount of \$25,000. The notes are due September 21, 2028. Subsequent series of Shelf Notes may be issued pursuant to the Note Purchase and Shelf Agreement in an aggregate additional principal amount not to exceed \$25,000. A further amendment to the revolving credit facility would be required for such a transaction to be permissible under the revolving credit facility. The 4.00% Senior Notes are equal in right of payment with our revolving credit facility and all other senior unsecured obligations of the Company. Interest is payable semiannually and five equal, annual principal payments commence on September 21, 2024.

The net proceeds of all senior notes were used to pay down borrowings under our revolving credit facility.

As of December 31, 2019, we had unused commitments under the revolving credit facility approximating \$185,123 and \$64,877 committed, which consisted of borrowings of \$62,000 and issued letters of credit of \$2,877. Borrowings outstanding bear interest, at the Company's option, of either (a) the base rate or (b) LIBOR plus a margin adjustment ranging from .875% to 1.50%--with the margin adjustments in both instances based on the Company's leverage ratio at the time of borrowing. The base rate is the greater of (i) the agent bank's prime rate, (ii) LIBOR plus 1.5%, or (iii) the federal funds rate plus .5%. A commitment fee ranging from .10% to .225% is also required based on the average daily unborrowed commitment.

Term loans--Periodically, the Company will enter into term loans for the procurement of insurance or to finance acquisitions.

Term Loans, Weighted-Average Interest Rate--The weighted-average interest on the term loans approximated 4.02% at December 31, 2019 and 4.28% at December 31, 2018.

Aggregate Maturities of Long-Term Debt--Aggregate maturities of long-term debt for the five years subsequent to December 31, 2019 were as follows: 2020--\$23,302; 2021--\$5,989; 2022--\$62,759; 2023--\$26; 2024--\$15,000; and thereafter \$60,000.

Accounts Receivable Securitization Facility--In May 2019, the Company amended its Accounts Receivable Securitization Facility (the "AR Securitization program") to extend the scheduled termination date for an additional one year period, to May 19, 2020.

The AR Securitization program has a limit of \$100,000, of which \$76,732 and \$67,438 were issued for letters of credit ("LCs") as of December 31, 2019 and December 31, 2018, respectively.

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Under the AR Securitization program, Davey Tree transfers by selling or contributing current and future trade receivables to a wholly-owned, bankruptcy-remote financing subsidiary which pledges a perfected first priority security interest in the trade receivables--equal to the issued LCs as of December 31, 2019--to the bank in exchange for the bank issuing LCs.

Pre-petition receivables from PG&E Corporation and its regulated utility subsidiary, Pacific Gas and Electric Company (collectively, "PG&E"), which filed voluntary bankruptcy petitions under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Northern District of California, while remaining in the securitized pool, are considered ineligible and are excluded from performance ratios and reserves.

Fees payable to the bank include: (a) an LC issuance fee, payable on each settlement date, in the amount of .90% per annum on the aggregate amount of all LCs outstanding plus outstanding reimbursement obligations (e.g., arising from drawn LCs), if any, and (b) an unused LC fee, payable monthly, equal to (i) .35% per annum for each day on which the sum of the total LCs outstanding plus any outstanding reimbursement obligations is greater than or equal to 50% of the facility limit and (ii) .45% per annum for each day on which the sum of the total LCs outstanding plus any outstanding reimbursement obligations is less than 50% of the facility limit. If an LC is drawn and the bank is not immediately reimbursed in full for the drawn amount, any outstanding reimbursement obligation will accrue interest at a per annum rate equal to a reserve-adjusted LIBOR or, in certain circumstances, a base rate equal to the higher of (i) the bank's prime rate and (ii) the federal funds rate plus .50% and, following any default, 2.00% plus the greater of (a) adjusted LIBOR and (b) a base rate equal to the higher of (i) the bank's prime rate and (ii) the federal funds rate plus .50%.

The agreements underlying the AR Securitization program contain various customary representations and warranties, covenants, and default provisions which provide for the termination and acceleration of the commitments under the AR Securitization program in circumstances including, but not limited to, failure to make payments when due, breach of a representation, warranty or covenant, certain insolvency events or failure to maintain the security interest in the trade receivables, and defaults under other material indebtedness.

Total Commitments Related to Issued Letters of Credit--As of December 31, 2019, total commitments related to issued letters of credit were \$81,619, of which \$2,877 were issued under the revolving credit facility, \$76,732 were issued under the AR securitization facility and \$2,010 were issued under short-term lines of credit. As of December 31, 2018, total commitments related to issued letters of credit were \$72,565, of which \$3,123 were issued under the revolving credit facility, \$67,438 were issued under the AR securitization facility and \$2,004 were issued under short-term lines of credit.

As of December 31, 2019, we are in compliance with all debt covenants.

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I. Self-Insurance Accruals

Components of our self-insurance accruals for workers' compensation, vehicle liability and general liability were as follow:

	December 31,	
	2019	2018
Workers' compensation	\$ 44,383	\$ 41,577
Present value discount	2,688	3,099
	41,695	38,478
Vehicle liability	12,209	13,342
General liability	39,091	31,965
Total	92,995	83,785
Less current portion	30,882	27,434
Noncurrent portion	\$ 62,113	\$ 56,351

The changes in our self-insurance accruals and the discount rate used for the workers' compensation accrual are summarized in the table below.

	December 31,	
	2019	2018
Balance, beginning of year	\$ 83,785	\$ 67,694
Provision for claims	51,265	51,685
Payment of claims	(42,055)	(35,594)
Balance, end of year	\$ 92,995	\$ 83,785
Workers' compensation discount rate	1.70%	2.50%

J. Leases

We lease certain office and parking facilities, warehouse space, equipment, vehicles and information technology equipment under operating leases. Lease expense for these leases is recognized within the Consolidated Statements of Operations on a straight-line basis over the lease term, with variable lease payments recognized in the period those payments are incurred.

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The following table summarizes the amounts recognized in our Consolidated Balance Sheet related to leases:

	Consolidated Balance Sheet Classification	December 31, 2019
Assets		
Operating lease assets	Right-of-use assets - operating leases	\$ 40,033
Finance lease assets	Property and equipment, net	3,183
Total lease assets		\$ 43,216
Liabilities		
Current operating lease liabilities	Current portion of operating lease liabilities	\$ 14,665
Non-current operating lease liabilities	Lease liabilities - operating leases	25,200
Total operating lease liabilities		39,865
Current portion of finance lease liabilities	Current portion of long-term debt, finance lease liabilities and short-term debt	1,348
Non-current finance lease liabilities	Lease liabilities - finance leases	1,795
Total finance lease liabilities		3,143
Total lease liabilities		\$ 43,008

The components of lease cost recognized within our Consolidated Statement of Operations were as follows:

	Consolidated Statement of Operations Classification	Year Ended December 31, 2019
Operating lease cost	Operating expense	\$ 6,919
Operating lease cost	Selling expense	8,699
Operating lease cost	General and administrative expense	828
Finance lease cost:		
Amortization of right-of-use assets	Depreciation and amortization	1,371
Interest expense on lease liabilities	Interest expense	118
Other lease cost ⁽¹⁾	Operating expense	4,211
Other lease cost ⁽¹⁾	Selling expense	1,062
Other lease cost ⁽¹⁾	General and administrative expense	16
Total lease cost		\$ 23,224

⁽¹⁾ Other lease cost includes short-term lease costs and variable lease costs.

We often have options to renew lease terms for buildings and other assets. The exercise of lease renewal options is generally at our sole discretion. In addition, certain lease agreements may be terminated prior to their original expiration date at our discretion. We evaluate each renewal and termination option at the lease commencement date to determine if we are reasonably certain to exercise the option on the basis of economic factors.

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The table below summarizes the weighted average remaining lease term as of December 31, 2019.

Operating leases	3.4 years
Finance leases	2.8 years

The discount rate implicit within our leases is generally not determinable and therefore the Company determines the discount rate based on its incremental borrowing rate. The incremental borrowing rate for each lease is determined based on its term and the currency in which lease payments are made, adjusted for the impacts of collateral. The table below summarizes the weighted average discount rate used to measure our lease liabilities as of December 31, 2019.

Operating leases	3.58%
Finance leases	3.13%

Supplemental Cash Flow Information Related to Leases

	<u>Year Ended December 31, 2019</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ (17,009)
Operating cash flows from finance leases	(118)
Financing cash flows from finance leases	(1,282)
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	56,478
Finance leases	310

Maturity Analysis of Lease Liabilities

	<u>As of December 31, 2019</u>	
	<u>Operating Leases</u>	<u>Finance Leases</u>
Year ending December 31, 2020	\$ 15,863	\$ 1,420
2021	11,863	1,262
2022	8,165	320
2023	3,739	120
2024	1,477	48
Thereafter	1,279	91
Total lease payments	42,386	3,261
Less interest	2,521	118
Total	<u>\$ 39,865</u>	<u>\$ 3,143</u>

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	As of December 31, 2018
	Operating Leases
Year ending December 31, 2019	\$ 14,023
2020	11,272
2021	7,712
2022	5,129
2023	2,060
Thereafter	1,923
Total lease payments	<u>\$ 42,119</u>

K. Common Shares, Redeemable Common Shares and Preferred Shares

Preferred Shares--We have authorized a class of 4,000,000 preferred shares, no par value, of which none were issued as of December 31, 2019.

Redeemable Common Shares--Our Davey 401KSOP and ESOP Plan includes a put option for shares of the Company's common stock distributed from the plan. Due to the Company's obligation under the put option, shares held in the Davey 401KSOP and ESOP Plan as well as distributed shares subject to the put option are reclassified from permanent equity to temporary equity. The number of redeemable common shares for each of the three years in the period ended December 31, 2019 was as follows: 2019--5,146,882; 2018--5,642,154; and 2017--6,467,027.

Common Shares--The number of common shares authorized is 48,000,000, par value \$1.00. The number of common shares issued during each of the three years in the period ended December 31, 2019 was as follows: 2019--37,766,878; 2018--37,271,606; and 2017--36,446,890. The number of shares in the treasury for each of the three years in the period ended December 31, 2019 was as follows: 2019--19,736,957; 2018--20,033,108; and 2017--18,692,901.

Our common and redeemable common shares are not listed or traded on an established public trading market, and market prices are, therefore, not available. Semiannually, an independent stock valuation firm determines the fair market value of our common and redeemable common shares based upon our performance and financial condition. Since 1979, we have provided a ready market for all shareholders through our direct purchase of their common shares, although we are under no obligation to do so (other than repurchases pursuant to the put option under the Davey 401KSOP and ESOP Plan, as described in Note M). During 2019, purchases of common shares, both redeemable and common, totaled 1,600,595 shares for \$34,647 in cash; we also had direct sales to directors and employees of 23,618 shares for \$516, excluding those shares issued through either the exercise of options or the Employee Stock Purchase Plan. We also sold 153,578 shares to our 401(k) plan for \$3,321 and issued 192,102 shares to participant accounts to satisfy our liability for the 2018 employer match in the amount of \$4,053. The liability accrued at December 31, 2019 for the 2019 employer match was \$4,459. There were also 354,184 shares purchased during 2019 under the Employee Stock Purchase Plan.

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Common and Redeemable Shares Outstanding--The table below reconciles the activity of the common and redeemable shares outstanding:

	Common Shares Net of Treasury Shares	Redeemable Shares	Total
Shares outstanding, December 31, 2017	17,753,832	6,467,027	24,220,859
Shares purchased	(1,530,528)	(1,106,415)	(2,636,943)
Shares sold	679,197	281,543	960,740
Stock subscription offering, employee cash purchases	129,245	—	129,245
Options exercised	206,751	—	206,751
Shares outstanding, December 31, 2018	17,238,497	5,642,155	22,880,652
Shares purchased	(853,738)	(746,857)	(1,600,595)
Shares sold	471,898	251,584	723,482
Stock subscription offering, employee cash purchases	872,390	—	872,390
Options exercised	300,874	—	300,874
Shares outstanding, December 31, 2019	18,029,921	5,146,882	23,176,803

On December 31, 2019, we had 23,176,803 common shares outstanding and employee options exercisable to purchase 937,597 common shares.

Stock Subscription Offering--Beginning May 2012, the Company offered to eligible employees and nonemployee directors the right to subscribe to common shares of the Company at \$9.85 per share in accordance with the provisions of The Davey Tree Expert Company 2004 Omnibus Stock Plan and the rules of the Compensation Committee of the Company's Board of Directors (collectively, the "plan"). The offering period ended on August 1, 2012 and resulted in the subscription of 1,275,428 common shares for \$12,563 at \$9.85 per share.

Under the plan, a participant in the offering purchasing common shares for an aggregate purchase price of less than \$5 had to pay with cash. All participants (excluding Company directors and officers) purchasing \$5 or more of the common shares had an option to finance their purchase through a down-payment of at least 10% of the total purchase price and a seven-year promissory note for the balance due with interest at 2%. Payments on the promissory note were made either by payroll deductions or annual lump-sum payments of both principal and interest.

Common shares purchased under the plan were pledged as security for the payment of the promissory note and the common shares were not issued until the promissory note was paid-in-full. Dividends were paid on all subscribed shares, subject to forfeiture to the extent that payment was not ultimately made for the shares.

All participants in the offering purchasing in excess of \$5 of common shares were granted a "right" to purchase one additional common share at a price of \$9.85 per share for every three common shares purchased under the plan. As a result of the stock subscription, employees were granted rights to purchase 423,600 common shares. Each right could have been exercised at the rate of one-seventh per year and expired seven years after the date that the right was granted. As of December 31, 2019, all rights had expired. Employees could not exercise a right if they ceased to be employed by the Company.

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L. Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income and other adjustments that relate to foreign currency translation adjustments and defined benefit pension plan adjustments. We do not provide income taxes on currency translation adjustments, as the earnings of our Canadian operations are considered to be indefinitely reinvested.

The following summarizes the components of other comprehensive income (loss) accumulated in shareholders' equity:

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2017	<u>\$ (5,500)</u>	<u>\$ (6,662)</u>	<u>\$ (12,162)</u>
Unrealized gains (losses)	2,195	—	2,195
Amounts reclassified from accumulated other comprehensive income (loss)	—	4,822	4,822
Tax effect	—	(1,962)	(1,962)
Unrecognized amounts from defined benefit pension plans	—	(2,169)	(2,169)
Tax effect	—	883	883
Net of tax amount	<u>2,195</u>	<u>1,574</u>	<u>3,769</u>
Balance at December 31, 2017	<u>\$ (3,305)</u>	<u>\$ (5,088)</u>	<u>\$ (8,393)</u>
Unrealized gains (losses)	(2,514)	—	(2,514)
Amounts reclassified from accumulated other comprehensive income (loss)	—	6,291	6,291
Tax effect	—	(145)	(145)
Unrecognized amounts from defined benefit pension plans	—	(279)	(279)
Tax effect	—	6	6
Net of tax amount	<u>(2,514)</u>	<u>5,873</u>	<u>3,359</u>
Balance at December 31, 2018	<u>\$ (5,819)</u>	<u>\$ 785</u>	<u>\$ (5,034)</u>
Unrealized gains (losses)	1,186	—	1,186
Amounts reclassified from accumulated other comprehensive income (loss)	—	(1,551)	(1,551)
Tax effect	—	143	143
Unrecognized amounts from defined benefit pension plans	—	(323)	(323)
Tax effect	—	176	176
Net of tax amount	<u>1,186</u>	<u>(1,555)</u>	<u>(369)</u>
Balance at December 31, 2019	<u>\$ (4,633)</u>	<u>\$ (770)</u>	<u>\$ (5,403)</u>

The amounts reclassified from accumulated other comprehensive income (loss) related to defined benefit pension plans for 2019, 2018 and 2017 are included in net periodic pension expense classified in the statement of operations as general and administrative expense or other income (expense).

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M. The Davey 401KSOP and Employee Stock Ownership Plan

On March 15, 1979, we consummated a plan, which transferred control of the Company to our employees. As a part of this plan, we initially sold 120,000 common shares (presently, 23,040,000 common shares adjusted for stock splits) to our 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 ESOT. Annual allocations of shares have been made to individual accounts established for the benefit of the participants.

Defined Contribution and Savings Plans--Most employees are eligible to participate in The Davey 401KSOP and ESOP. Effective January 1, 1997, the plan commenced operations and retained the existing ESOP participant accounts and incorporated a deferred savings plan (a "401(k) plan") feature. Participants in the 401(k) plan are allowed to make before-tax contributions, within Internal Revenue Service established limits, through payroll deductions. Effective January 1, 2009, we match, in either cash or our common shares, 100% of the first one percent and 50% of the next three percent of each participant's before-tax contribution, limited to the first four percent of the employee's compensation deferred each year. All nonbargaining domestic employees who attained 21 years of age and completed one year of service are eligible to participate. In May 2004, we adopted the 401K Match Restoration Plan, a defined contribution plan that supplements the retirement benefits of certain employees that participate in the savings plan feature of The Davey 401KSOP and ESOP Plan, but are limited in contributions because of tax rules and regulations.

The Davey 401KSOP and ESOP Plan includes a put option for shares of the Company's common stock distributed from the plan. Shares are distributed from the Davey 401KSOP and ESOP Plan to former participants of the plan, their beneficiaries, donees or heirs (each, a "participant"). Since our common stock is not currently traded on an established securities market, if the owners of distributed shares desire to sell their shares, the Company is required to purchase the shares at fair value for two 60-day periods after distribution of the shares from the Davey 401KSOP and ESOP. The fair value of distributed shares subject to the put option totaled \$4,749 and \$6,288 as of December 31, 2019 and December 31, 2018, respectively. The fair value of the shares held in the Davey 401KSOP and ESOP totaled \$119,806 and \$112,761 as of December 31, 2019 and December 31, 2018, respectively. Due to the Company's obligation under the put option, the distributed shares subject to the put option and the shares held in the Davey 401KSOP and ESOP (collectively referred to as 401KSOP and ESOP related shares) are classified as temporary equity in the mezzanine section of the consolidated balance sheets and totaled \$124,555 and \$119,049 as of December 31, 2019 and December 31, 2018, respectively. Changes in the fair value of the Davey 401KSOP and ESOP Plan related shares are reflected in retained earnings while net share activity associated with the Davey 401KSOP and ESOP Plan related shares are first reflected in additional paid-in capital and then retained earnings if additional paid in-capital is insufficient.

Total compensation for these plans, consisting primarily of the employer match, was \$4,600 in 2019, \$4,053 in 2018, and \$3,794 in 2017.

N. Stock-Based Compensation

Our shareholders approved the 2014 Omnibus Stock Plan (the "2014 Stock Plan") at our annual meeting of shareholders on May 20, 2014. The 2014 Stock Plan replaced the expired 2004 Omnibus Stock Plan (the "2004 plan") previously approved by the shareholders in 2004. The 2014 Stock Plan is administered by the Compensation Committee of the Board of Directors and will remain in effect for ten years. All directors of the Company and employees of the Company and its subsidiaries are eligible to participate in the 2014 Stock Plan. The 2014 Stock Plan (similar to the 2004 plan) continues the maintenance of the Employee Stock Purchase Plan, as well as provisions for the grant of stock options

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and other stock-based incentives. The 2014 Stock Plan provides for the grant of five percent of the number of the Company's common shares outstanding as of the first day of each fiscal year plus the number of common shares that were available for grant of awards, but not granted, in prior years. In no event, however, may the number of common shares available for the grant of awards in any fiscal year exceed ten percent of the common shares outstanding as of the first day of that fiscal year. Common shares subject to an award that is forfeited, terminated, or canceled without having been exercised are generally added back to the number of shares available for grant under the 2014 Stock Plan.

Stock-based compensation expense under all share-based payment plans—our Employee Stock Purchase Plan, stock option plans, stock-settled stock appreciation rights, and performance-based restricted stock units—included in the results of operations was as follows:

	Year Ended December 31,		
	2019	2018	2017
Compensation expense, all share-based payment plans	\$ 2,845	\$ 3,370	\$ 4,049
Income tax benefit	404	602	1,315

Stock-based compensation consisted of the following:

Employee Stock Purchase Plan--Under the Employee Stock Purchase Plan, all full-time employees with one year of service are eligible to purchase, through payroll deduction, common shares. Employee purchases under the Employee Stock Purchase Plan are at 85% of the fair market value of the common shares--a 15% discount. Compensation costs are recognized as payroll deductions are made. The 15% discount of total shares purchased under the plan resulted in compensation cost recognized of \$1,118 in 2019, \$998 in 2018 and \$888 in 2017.

Stock Options Plan--The stock options outstanding were awarded under a graded vesting schedule, measured at fair value, and have a term of ten years. Compensation costs for stock options are recognized over the requisite service period on the straight-line recognition method. Compensation cost recognized for stock options was \$550 in 2019, \$663 in 2018 and \$705 in 2017.

Stock-Settled Stock Appreciation Rights--A SSAR is an award that allows the recipient to receive common shares equal to the appreciation in the fair value of our common shares between the date the award was granted and the conversion date of the shares vested. Effective January 1, 2019, management and the Compensation Committee replaced the issuance of future SSARs and replaced the value with performance-based restricted stock units ("RSUs") for certain management employees.

The following table summarizes the SSARs as of December 31, 2019:

Stock-Settled Stock Appreciation Rights	Number of Rights	Weighted- Average Award Date Value	Weighted- Average Remaining Contractual Life	Unrecognized Compensation Cost	Aggregate Intrinsic Value
Unvested, January 1, 2019	380,982	\$ 3.42			
Granted	—	—			
Forfeited	(3,197)	3.43			
Vested	(115,080)	3.31			
Unvested, December 31, 2019	<u>262,705</u>	<u>\$ 3.47</u>	<u>1.9 years</u>	<u>\$ 537</u>	<u>\$ 5,937</u>

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Compensation costs for SSARs are determined using a fair-value method and amortized over the requisite service period. Compensation expense for SSARs totaled \$363 in 2019, \$540 in 2018 and \$1,035 in 2017.

Restricted Stock Units--During the year ended December 31, 2019, the Compensation Committee of the Board of Directors awarded 29,046 PRSUs to certain management employees and 11,942 restricted stock units ("RSUs") to nonemployee directors. The Compensation Committee made similar awards in prior periods. The awards vest over specified periods. The following table summarizes restricted stock units as of December 31, 2019:

Restricted Stock Units	Number of Stock Units	Weighted-Average Grant Date Value	Weighted-Average Remaining Contractual Life	Unrecognized Compensation Cost	Aggregate Intrinsic Value
Unvested, January 1, 2019	247,838	\$ 15.68			
Granted	40,988	20.45			
Forfeited	(4,093)	16.39			
Vested	(60,474)	13.55			
Unvested, December 31, 2019	224,259	\$ 17.11	1.9 years	\$ 1,630	\$ 5,068
Employee PRSUs	192,837	\$ 16.80	2.0 years	\$ 1,312	\$ 4,358
Nonemployee Director RSUs	31,422	\$ 19.01	1.5 years	\$ 318	\$ 710

Compensation cost for awards is determined using a fair-value method, amortized over the requisite service period. "Intrinsic value" is defined as the amount by which the fair market value of a common share exceeds the exercise price of a performance-based restricted stock unit. Compensation expense on restricted stock unit awards totaled \$814 in 2019, \$1,169 in 2018 and \$1,421 in 2017.

The fair value of each award was estimated on the date of grant using a binomial option-pricing model. The binomial model considers a range of assumptions related to volatility, risk-free interest rate and employee exercise behavior. Expected volatilities utilized in the binomial model are based on historical volatility of our share prices and other factors. Similarly, the dividend yield is based on historical experience and expected future changes. The binomial model also incorporates exercise and forfeiture assumptions based on an analysis of historical data. The expected life of the stock-based awards is derived from the output of the binomial model and represents the period of time that awards granted are expected to be outstanding.

The fair values of stock-based awards granted were estimated at the dates of grant with the following weighted-average assumptions:

	Year Ended December 31,		
	2019	2018	2017
Volatility rate	9.9%	10.1%	10.3%
Risk-free interest rate	2.3%	2.7%	2.2%
Expected dividend yield	.7%	.7%	.7%
Expected life of awards (years)	8.8	9.2	8.9

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General Stock Option Information--The following table summarizes activity under the stock option plans for the year ended December 31, 2019:

Stock Options	Number of Options Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Unrecognized Compensation Cost	Aggregate Intrinsic Value
Outstanding, January 1, 2019	1,466,264	\$ 13.94			
Granted	151,145	21.10			
Exercised	(149,853)	10.12			
Forfeited	(39,474)	12.94			
Outstanding, December 31, 2019	<u>1,428,082</u>	\$ 15.13	5.7 years	<u>\$ 1,344</u>	<u>\$ 10,668</u>
Exercisable, December 31, 2019	<u>937,597</u>	\$ 13.40	4.6 years		<u>\$ 8,627</u>

“Intrinsic value” is defined as the amount by which the market price of a common share of stock exceeds the exercise price of an option. Information regarding the stock options outstanding at December 31, 2019 is summarized below:

Stock Options Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable	Weighted- Average Exercise Price
Employee options:					
\$ 8.30	87,000	0.8 years	\$ 8.30	87,000	\$ 8.30
11.60	238,805	3.5 years	11.60	238,805	11.60
13.20	268,027	4.5 years	13.20	268,027	13.20
15.05	208,965	5.5 years	15.05	155,365	15.05
16.35	222,250	6.5 years	16.35	120,250	16.35
17.60	126,900	7.5 years	17.60	49,300	17.60
19.10	133,450	8.5 years	19.10	18,850	19.10
21.10	27,800	9.2 years	21.10	—	21.10
21.10	114,885	9.4 years	21.10	—	21.10
	<u>1,428,082</u>	5.7 years	\$ 15.13	<u>937,597</u>	\$ 13.40

We issue common shares from treasury upon the exercise of stock options, SSARs, PRSUs, RSUs or purchases under the Employee Stock Purchase Plan.

Tax Benefits of Stock-Based Compensation--Our total income tax benefit from share-based awards--as recognized in our consolidated statement of operations--for the last three years was: \$404 in 2019, \$602 in 2018, and \$1,315 in 2017. Tax benefits for share-based awards are accrued as stock compensation expense and recognized in our consolidated statement of operations. Tax benefits on share-based awards are realized when: (a) SSARs are exercised; (b) PRSUs vest; and (c) stock options are exercised.

When actual tax benefits realized exceed the tax benefits accrued for share-based awards, we realize an excess tax benefit. We had excess tax benefits of: \$1,181 in 2019, \$453 in 2018, and \$691 in 2017.

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O. Defined Benefit Pension Plans

We have two defined benefit pension plans covering certain current and retired U.S. employees. Plans include: (i) a Supplemental Executive Retirement Plan (“SERP”) for which future benefit accruals were frozen effective at the end of the second quarter 2015; and (ii) a Benefit Restoration Pension Plan (“Restoration Plan”) for certain key employees hired prior to January 1, 2009.

Both the SERP and the Restoration Plan are defined benefit plans under which nonqualified supplemental pension benefits will be paid, subject to Internal Revenue Service limitations on covered compensation.

Effective December 31, 2008, enhanced benefits were implemented to our defined contribution savings plan--The Davey 401KSOP and ESOP--at which time, the Board of Directors approved an amendment to freeze the Restoration Plan. In connection with the freeze of the Restoration Plan and the SERP, all balances remain intact and participant account balances, as well as service credits for vesting and retirement eligibility, remain intact and continue in accordance with the terms of the plans. Only future accruals were eliminated with: (i) the 2008 freeze of the Restoration Plan and (ii) the 2015 freeze of the SERP.

During the second quarter of 2019, the Company terminated its Employee Retirement Plan (“ERP”) for employees hired prior to January 1, 2009 and for which future benefits were frozen effective December 31, 2008. We purchased a group annuity contract from a third-party insurance company which unconditionally and irrevocably guarantees the full-payment of all annuity payments to the remaining 231 participants in our ERP. The agreement transferred all remaining ERP benefit obligations to the third-party insurance company, resulting in a pretax actuarial settlement loss of \$1,677.

The change in benefit obligations and the fair value of plans assets follows:

	December 31,	
	2019	2018
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 7,064	\$ 19,403
Service cost	45	400
Interest cost	170	718
Actuarial (gains)/losses	323	(77)
Settlements	(1,677)	(13,118)
Benefits paid	(2,660)	(262)
Projected benefit obligation at end of year	<u>\$ 3,265</u>	<u>\$ 7,064</u>
Accumulated benefit obligation at end of year	<u>\$ 3,265</u>	<u>\$ 7,064</u>

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	December 31,	
	2019	2018
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	\$ 3,758	\$ 7,105
Actual return on plan assets	—	239
Plan expenses	—	(364)
Employer contributions	579	10,158
Settlements	(1,677)	(13,118)
Benefits paid	(2,660)	(262)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>\$ 3,758</u>

With the termination of the ERP plan, future benefit payments made to participants under the remaining SERP and Restoration Plan are made from the Company's general assets.

	December 31,	
	2019	2018
Funded status of the plans		
Fair value of plan assets	\$ —	\$ 3,758
Projected benefit obligation	3,265	7,064
Funded status of the plans	<u>\$ (3,265)</u>	<u>\$ (3,306)</u>

	December 31,	
	2019	2018
Funded status by plan		
ERP	\$ —	\$ (332)
SERP	(2,833)	(2,564)
Restoration Plan	(432)	(410)
	<u>\$ (3,265)</u>	<u>\$ (3,306)</u>

	December 31,	
	2019	2018
Amounts reported in the consolidated balance sheets		
Current liability	\$ (202)	\$ (187)
Noncurrent liability	(3,063)	(3,119)
Funded status of the plans	<u>\$ (3,265)</u>	<u>\$ (3,306)</u>

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Amounts included in accumulated other comprehensive income (loss), related to our defined benefit pension plans follow:

	<u>At December 31, 2019</u>		<u>At December 31, 2018</u>	
	<u>Pretax</u>	<u>Net of Tax</u>	<u>Pretax</u>	<u>Net of Tax</u>
Amounts reported in accumulated other comprehensive income				
Unrecognized net actuarial loss	\$ 723	\$ 638	\$ 2,139	\$ (714)
Unrecognized prior service cost	150	132	214	(71)
	<u>\$ 873</u>	<u>\$ 770</u>	<u>\$ 2,353</u>	<u>\$ (785)</u>

To the extent actuarial losses exceed the greater of 10% of the projected benefit obligation or market-related value of plan assets, the unrecognized actuarial losses will be amortized straight-line on a plan-by-plan basis, over the remaining expected future working lifetime of active participants, except for the SERP, which, after the plan freeze, is being amortized based on the remaining life expectancy of plan participants. The total amount of unrecognized prior service cost was amortized straight-line on a plan-by-plan basis.

The total amortization associated with these amounts that is expected to be recognized in net periodic benefit expense for 2020 follows:

	<u>Year ending December 31, 2020</u>	
	<u>Pretax</u>	<u>Net of Tax</u>
Amortization of Costs Expected to be Recognized Next Year		
Unrecognized net actuarial loss	\$ 89	\$ 68
Unrecognized prior service cost	64	49
	<u>\$ 153</u>	<u>\$ 117</u>

The aggregate projected benefit obligation, accumulated benefit obligation and fair value of plan assets for plans in which the fair value of plan assets is less than either the projected benefit obligation or accumulated benefit obligation follow:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
For pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	\$ 3,265	\$ 7,064
Accumulated benefit obligation	3,265	7,064
Fair value of plan assets	—	3,758

The discount rates used to measure the year-end benefit obligation and compute pension expense for the subsequent year were:

	<u>December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarial assumptions - Discount Rate			
SERP	3.34%	4.37%	3.72%
Restoration Plan	3.23%	4.28%	3.60%

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

	Year Ended December 31,		
	2019	2018	2017
Components of pension expense (income)			
Service costs--increase in benefit obligation earned	\$ 75	\$ 400	\$ 530
Interest cost on projected benefit obligation	198	718	1,002
Expected return on plan assets	(59)	(231)	(638)
Settlement loss	1,677	5,499	3,849
Amortization of net actuarial loss	87	728	909
Amortization of prior service cost	64	64	64
Net pension expense of defined benefit pension plans	<u>\$ 2,042</u>	<u>\$ 7,178</u>	<u>\$ 5,716</u>

Expected Benefit Plan Payments--The benefits, as of December 31, 2019, 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, 2020	\$ 205
2021	202
2022	198
2023	195
2024	191
Years 2025 to 2029	<u>945</u>

Multiemployer Defined Benefit Pension Plans--In providing services to our utility services customers, we contribute to multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover certain of our union-represented employees.

These plans generally provide retirement benefits to participants based on their service to contributing employers. We do not administer these multiemployer plans. In general, these plans are managed by a board of trustees with the unions appointing certain trustees and other contributing employers of the plan appointing certain members. We generally are not represented on the board of trustees.

The risks of participating in these multiemployer plans are different from single-employer plans in that: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be assumed by the remaining participating employers; and, (c) if we choose to stop participating in a multiemployer plan, we may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Our participation in the multiemployer defined benefit pension plans is summarized in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number ("EIN") and the three-digit plan number. The most recent Pension Protection Act of 2006 (the "PPA") zone status is from the Form 5500, "Annual Return/Report of Employee Benefit Plan," filed by the plan and certified by the plan's actuary. The PPA zone status describes plans that are underfunded. Among other factors, plans in the "critical" red zone are generally

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less than 65% funded; plans in the “endangered” yellow zone are less than 80% funded; and plans in the “safe” green zone are at least 80% funded.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending Implemented	Davey Tree Contributions			Surcharge Imposed	Expiration Dates of Bargaining Agreement
		2019	2018		2019	2018	2017		
National Electric Benefit Fund	53-0181657/001	Green	Green	No	\$ 904	\$ 768	\$ 785	No	Ranging from December 31, 2019 to December 31, 2022
Eighth District Electrical Pension Fund	84-6100393/001	Green	Green	No	190	142	102	No	December 26, 2020
					<u>\$1,094</u>	<u>\$ 910</u>	<u>\$ 887</u>		

We were not listed in the Form 5500 for either plan as having provided more than 5% of the total contributions.

Both the National Electric Benefit Fund and the Eighth District Electrical Pension Fund are green zone status--safe--which represents at least 80% funded and does not require a “financial improvement plan” (“FIP”) or a “rehabilitation plan” (“RP”).

We are party to ten collective-bargaining agreements with the National Electric Benefit Fund, with expiration dates ranging from December 31, 2019 to December 31, 2022, and one collective-bargaining agreement with Eighth District Electrical Pension Fund which expires on December 26, 2020. Expired agreements are currently being renegotiated.

P. Income Taxes

On December 22, 2017, the President of the United States (“U.S.”) signed into law the Tax Cuts and Jobs Act (the “Tax Reform Act”), which enacted significant changes to U.S. tax laws. Some of the provisions of the new tax law affecting corporations include, but are not limited to lowering the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018, immediate expensing of certain qualified capital expenditures, implementing a territorial tax system and imposing a one-time transitional toll tax on deferred foreign earnings. The Tax Reform Act was the main reason for the reduction of our effective tax rate for the year ended December 31, 2018.

Other provisions of the Tax Reform Act include a new minimum tax on certain foreign earnings (the Global Intangibles Low-taxed Income, or “GILTI”), a new tax on certain payments to foreign related parties (the Base Erosion Anti-Avoidance tax, or “BEAT”), a new incentive for Foreign-derived Intangibles Income (“FDII”), repealing the deduction for domestic production activities, changes to the limitation on the deductibility of certain executive compensation, and new limitations on the deductibility of interest expense. Generally, the tax effect of these other provisions began for the Company in the year ended December 31, 2018 with no material effect.

Income (loss) before income taxes was attributable to the following sources:

	Year Ended December 31,		
	2019	2018	2017
United States	\$ 54,158	\$ 37,377	\$ 38,800
Canada	(891)	119	(806)
Total	<u>\$ 53,267</u>	<u>\$ 37,496</u>	<u>\$ 37,994</u>

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The provision for income taxes follows:

	Year Ended December 31,		
	2019	2018	2017
Current provision (benefit):			
Federal	\$ 7,934	\$ 3,165	\$ 9,914
State	3,624	2,290	2,469
Canadian	(328)	50	(262)
Total current	11,230	5,505	12,121
Deferred taxes	1,240	4,014	3,753
Total taxes on income	<u>\$ 12,470</u>	<u>\$ 9,519</u>	<u>\$ 15,874</u>

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

	Year Ended December 31,		
	2019	2018	2017
Statutory U.S. federal tax rate	21.0%	21.0%	35.0%
State income taxes, net of federal benefit	5.6	5.7	4.9
Effect of Canadian income taxes	—	.1	.3
Nondeductible expenses	2.2	2.1	2.2
Stock compensation	(1.8)	(.7)	(1.0)
ESOP dividend deduction	(.2)	(.3)	(.6)
Uncertain tax adjustments and audit settlement	.2	(3.8)	(.2)
Pension termination	(2.9)	—	—
Income tax reform - deferred rate remeasurement	—	—	2.5
All other, net	(.7)	1.3	(1.3)
Effective income tax rate	<u>23.4%</u>	<u>25.4%</u>	<u>41.8%</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. A valuation allowance is recorded when it is more-likely-than-not that an income tax benefit will not be realized.

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Significant components of our noncurrent net deferred tax assets and liabilities at December 31, were as follows:

	December 31,	
	2019	2018
Deferred tax assets:		
Self-insurance accruals	\$ 19,491	\$ 17,579
Accrued compensated absences	1,389	1,565
Accrued expenses and other liabilities	841	742
Accrued stock compensation	1,906	1,772
Defined benefit pension plans	—	442
Foreign tax credit carryforward	2,137	2,117
Other future deductible amounts, net	4,167	3,271
	<u>29,931</u>	<u>27,488</u>
Less deferred tax asset valuation allowance	1,683	1,683
	<u>28,248</u>	<u>25,805</u>
Deferred tax liabilities:		
Intangibles	1,065	1,178
Prepaid expenses	3,701	3,160
Property and equipment	24,049	20,894
	<u>28,815</u>	<u>25,232</u>
Net deferred tax (liability) asset--noncurrent	<u>\$ (567)</u>	<u>\$ 573</u>

We treat all of our Canadian subsidiary earnings through December 31, 2019 as permanently reinvested and have not provided any U.S. federal or state tax thereon. As of December 31, 2019, approximately \$29,129 of undistributed earnings attributable to our Canadian operations was considered to be indefinitely invested. Presently, our intention is to reinvest the earnings permanently.

If, in the future, these earnings are distributed to the U.S. in the form of dividends or otherwise, or if the Company determines such earnings will be remitted in the foreseeable future, the Company would be subject to Canadian withholding taxes. It is not practicable to estimate the amount of taxes that would be payable upon remittance of these earnings given the various tax planning alternatives that we could employ should we decide to repatriate those earnings.

As of December 31, 2018, we recorded a valuation allowance on foreign tax credit carryforwards that arose due to the transition toll tax on the deemed repatriation of deferred foreign earnings of non-U.S. operations due to the Tax Reform Act and the remaining carryforward credits that were generated in 2010. Management presently believes that it is more-likely-than-not that the deferred tax asset, related to the foreign tax credits that expire in 2020 and 2027, will not be fully realized. The criteria considered in making the determination included the ability to utilize tax-planning strategies, historical and projected operating results, and the period of time over which the foreign tax credit can be utilized.

The amount of income taxes that we pay is subject to audit by U.S. federal, state, local and Canadian tax authorities, which may result in proposed assessments. Our estimate for the potential outcome for any uncertain tax issue is highly judgmental. Uncertain tax positions are recognized only if they are more-likely-than-not to be upheld during examination based on their technical merits. The measurement of the uncertain tax position is based on the largest benefit amount that is more-likely-than-not (determined on a cumulative probability basis) to be

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realized upon settlement of the matter. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If the estimate of tax liabilities proves to be less than the ultimate settlement, a further charge to expense may result.

The balance of unrecognized benefits and the amount of related interest and penalties at December 31, were as follows:

	December 31,	
	2019	2018
Unrecognized tax benefits	\$ 1,850	\$ 1,325
Portion, if recognized, would reduce tax expense and effective tax rate	654	599
Accrued interest on unrecognized tax benefits	64	35

We recognize interest accrued related to unrecognized tax benefits in income tax expense. Penalties, if incurred, would be recognized as a component of income tax expense.

The Company is routinely under audit by U.S. federal, state, local and Canadian authorities in the area of income tax. These audits include questioning the timing and the amount of income and deductions and the allocation of income and deductions among various tax jurisdictions. With the exception of U.S. state jurisdictions and Canada, the Company is no longer subject to examination by tax authorities for the years through 2016. As of December 31, 2019, we believe it is reasonably possible that the total amount of unrecognized tax benefits will not significantly increase or decrease.

The changes in our unrecognized tax benefits are summarized in the table below:

	Year Ended December 31,		
	2019	2018	2017
Balance, beginning of year	\$ 1,325	\$ 2,581	\$ 2,532
Additions based on tax positions related to the current year	547	224	650
Additions for tax positions of prior years	23	20	(21)
Reductions for tax positions of prior years	—	(1,500)	—
Lapses in statutes of limitations	(45)	—	(580)
Balance, end of year	<u>\$ 1,850</u>	<u>\$ 1,325</u>	<u>\$ 2,581</u>

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Q. Earnings Per Share Information

Earnings per share is computed as follows:

	Year Ended December 31,		
	2019	2018	2017
Income available to common shareholders:			
Net income	\$ 40,797	\$ 27,977	\$ 22,120
Weighted-average shares:			
Basic:			
Outstanding	22,906,264	23,698,478	24,793,086
Partially-paid share subscriptions	—	690,260	764,382
Basic weighted-average shares	22,906,264	24,388,738	25,557,468
Diluted:			
Basic from above	22,906,264	24,388,738	25,557,468
Incremental shares from assumed:			
Exercise of stock subscription purchase rights	54,961	141,287	146,453
Exercise of stock options and awards	1,016,864	950,593	993,141
Diluted weighted-average shares	23,978,089	25,480,618	26,697,062
Share data:			
Earnings per share--basic	\$ 1.78	\$ 1.15	\$.87
Earnings per share--diluted	\$ 1.70	\$ 1.10	\$.83

R. Operations by Business Segment and Geographic Information

We provide a wide range of arboricultural, horticultural, environmental and consulting services to residential, utility, commercial and government entities throughout the United States and Canada. We have two reportable operating segments organized by type or class of customer: Residential and Commercial, and Utility.

Residential and Commercial--Residential and Commercial provides services to our residential and commercial customers including: the treatment, preservation, maintenance, removal and planting of trees, shrubs and other plant life; the practice of landscaping, grounds maintenance, tree surgery, tree feeding and tree spraying; the application of fertilizer, herbicides and insecticides; and natural resource management and consulting, forestry research and development, and environmental planning.

Utility--Utility is principally engaged in providing services to our utility customers--investor-owned, municipal utilities, and rural electric cooperatives--including: the practice of line-clearing and vegetation management around power lines, rights-of-way and chemical brush control; and natural resource management and consulting, forestry research and development and environmental planning.

All other operating activities, including research, technical support and laboratory diagnostic facilities, are included in "All Other."

Measurement of Segment Profit and Loss and Segment Assets--We evaluate performance and allocate resources based primarily on operating income and also actively manage 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) we compute and recognize depreciation expense for our segments only by the straight-line method and (b) state income taxes are allocated to the segments. Corporate expenses are substantially allocated among

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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, operating supplies, and property and equipment.

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

	<u>Utility Services</u>	<u>Residential Commercial Services</u>	<u>All Other</u>	<u>Reconciling Adjustments</u>	<u>Consolidated</u>
Fiscal Year 2019					
Revenues	\$ 607,556	\$ 534,655	\$ 1,509	\$ —	\$ 1,143,720
Income (loss) from operations	<u>37,696</u>	<u>52,471</u>	<u>(13,374)</u>	(7,248) (a)	69,545
Interest expense				(8,514)	(8,514)
Interest income				348	348
Other income (expense), net				<u>(8,112)</u>	(8,112)
Income before income taxes					<u>\$ 53,267</u>
Depreciation	\$ 30,304	\$ 23,537	\$ —	\$ 3,451 (b)	\$ 57,292
Amortization	474	2,071	—	—	2,545
Capital expenditures	26,528	24,573	—	7,564	58,665
Segment assets, total	<u>267,982</u>	<u>226,313</u>	<u>—</u>	<u>102,567 (c)</u>	<u>596,862</u>
Fiscal Year 2018					
Revenues	\$ 537,484	\$ 486,005	\$ 1,302	\$ —	\$ 1,024,791
Income (loss) from operations	<u>32,370</u>	<u>47,812</u>	<u>(19,816)</u>	(4,676) (a)	55,690
Interest expense				(7,039)	(7,039)
Interest income				350	350
Other income (expense), net				<u>(11,505)</u>	(11,505)
Income before income taxes					<u>\$ 37,496</u>
Depreciation	\$ 29,526	\$ 21,720	\$ —	\$ 3,668 (b)	\$ 54,914
Amortization	211	1,842	—	2	2,055
Capital expenditures	32,148	22,256	—	6,006	60,410
Segment assets, total	<u>239,426</u>	<u>208,369</u>	<u>—</u>	<u>78,828 (c)</u>	<u>526,623</u>
Fiscal Year 2017					
Revenues	\$ 466,727	\$ 446,028	\$ 3,203	\$ —	\$ 915,958
Income (loss) from operations	<u>18,223</u>	<u>41,158</u>	<u>(2,634)</u>	(4,556) (a)	52,191
Interest expense				(4,886)	(4,886)
Interest income				292	292
Other income (expense), net				<u>(9,603)</u>	(9,603)
Income before income taxes					<u>\$ 37,994</u>
Depreciation	\$ 27,928	\$ 19,384	\$ —	\$ 3,390 (b)	\$ 50,702
Amortization	122	2,240	—	22	2,384
Capital expenditures	26,910	23,199	—	6,991	57,100
Segment assets, total	<u>189,662</u>	<u>197,698</u>	<u>—</u>	<u>85,775 (c)</u>	<u>473,135</u>

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

- (a) Reconciling adjustments from segment reporting to consolidated external financial reporting include reclassification of depreciation expense and allocation of corporate expenses.
- (b) Adjustments to declining-balance method depreciation expense from straight-line method and depreciation and amortization of corporate assets.
- (c) Corporate assets include cash, prepaid expenses, corporate facilities, enterprise-wide information systems and other nonoperating assets.

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

	Year Ended December 31,		
	2019	2018	2017
Revenues			
United States	\$ 1,066,035	\$ 949,317	\$ 847,540
Canada	77,685	75,474	68,418
	<u>\$ 1,143,720</u>	<u>\$ 1,024,791</u>	<u>\$ 915,958</u>
	December 31,		
	2019	2018	2017
Long-lived assets, net			
United States	\$ 288,134	\$ 251,181	\$ 242,118
Canada	27,303	20,374	21,893
	<u>\$ 315,437</u>	<u>\$ 271,555</u>	<u>\$ 264,011</u>

S. Revenue Recognition

We recognize revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers.

Nature of Performance Obligations and Significant Judgments

At contract inception, the Company assesses the goods and services promised in its contracts with customers and identifies a performance obligation for each promised good or service (or bundle of goods and services) that is distinct. To identify the performance obligations, the Company considers all of the goods or services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices. A description of our performance obligations is included below.

- Residential and Commercial Services - We provide a wide array of services for our residential and commercial customers including the treatment, preservation, maintenance, removal and planting of trees, shrubs and other plant life, landscaping, grounds maintenance, the application of fertilizer, herbicides and insecticides, natural resource management and consulting, forestry research and development, and environmental planning. A contract with a customer may include only one of these services, all of these services, or a combination of these services. For contracts in which we provide all, or a combination of, these services, we believe that the nature of our promise is to provide an integrated property management service for our customer. In these contracts, the customer has

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effectively outsourced the care and maintenance of its property grounds to us during the duration of the contract as we are responsible for providing a continuous delivery of outsourced maintenance activities over the contract term. As such, for contracts that contain a combination of services, we have concluded that we have a single performance obligation, which is accounted for as a series of distinct services.

- **Utility Services** - We provide a suite of vegetation management or arboricultural services to our utility customers (investor-owned, municipal utilities, and rural electric cooperatives) including the practice of line-clearing and vegetation management around power lines and rights-of-way, chemical brush control, natural resource management and consulting, forestry research and development, and environmental planning. A contract with a customer may include only one of these services, all of these services, or a combination of these services. For contracts in which we provide all, or a combination of, these services, we believe that the nature of our promise is to provide an integrated overall vegetation management service, rather than the performance of discrete activities or services for the customer. As such, for contracts that contain a combination of services, we have concluded that we have a single performance obligation, which is accounted for as a series of distinct services.

Our contracts with our customers generally originate upon the completion of a quote for services for residential and commercial customers or the receipt of a purchase order (or similar work order) for utility customers. In some cases, our contracts are governed by master services agreements, in which case our contract under ASC 606 consists of the combination of the master services agreement and the quote/purchase order. Many of our contracts have a stated duration of one year or less or contain termination clauses that allow the customer to cancel the contract after a specified notice period, which is typically less than 90 days. Due to the fact that many of our arrangements allow the customer to terminate for convenience, the duration of the contract for revenue recognition purposes generally does not extend beyond the services that we have actually transferred. As a result, many of our contracts are, in effect, day-to-day or month-to-month contracts.

Revenue from our residential, commercial, and utility performance obligations is recognized over time as the customer simultaneously receives and consumes the benefits of our services as we perform them. Many of our contracts compensate us based on an agreed upon price for each increment of service provided to the customer. Therefore, revenue is mainly recognized as each increment of service is provided to the customer at the amount that we are contractually entitled to. For contracts that contain a fixed price, we generally use a units-delivered based output method to measure progress. Revenue from our consulting services is also recognized over time and we use a cost-based input method to measure progress. Payment for our services is generally due within 30 days of such services being provided to the customer.

The transaction price for our contracts is determined upon establishment of the contract that contains the final terms of the sale, including the description, quantity, and price of each service purchased. Certain of our contracts contain variable consideration, including index-based pricing, chargebacks, and prompt payment discounts. The Company estimates variable consideration and performs a constraint analysis for these contracts on the basis of both historical information and current trends. However, these types of variable consideration do not have a material effect on the Company's revenue, either individually or in the aggregate. In addition, although our contracts generally include fixed pricing for each increment of service, the ultimate quantity of services that will be required in order to fulfill our performance obligations is unknown at contract inception. Therefore, our total transaction price ultimately varies based on the quantity and types of services provided to our customer. However, this type of variable consideration is allocated entirely to the distinct services within the series to which it relates.

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Disaggregation of Revenue

The following tables disaggregate our revenue for the years ended December 31, 2019 and December 31, 2018 by major sources:

Year Ended December 31, 2019	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	\$ 448,325	\$ 305,365	\$ (108)	\$ 753,582
Grounds maintenance	—	152,283	—	152,283
Storm damage services	3,096	4,905	—	8,001
Consulting and other	156,135	72,102	1,617	229,854
Total revenues	\$ 607,556	\$ 534,655	\$ 1,509	\$ 1,143,720

Geography:

United States	\$ 567,134	\$ 497,392	\$ 1,509	\$ 1,066,035
Canada	40,422	37,263	—	77,685
Total revenues	\$ 607,556	\$ 534,655	\$ 1,509	\$ 1,143,720

Year Ended December 31, 2018	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	\$ 394,481	\$ 290,940	\$ (1,520)	\$ 683,901
Grounds maintenance	—	117,498	—	117,498
Storm damage services	13,864	9,447	—	23,311
Consulting and other	129,139	68,120	2,822	200,081
Total revenues	\$ 537,484	\$ 486,005	\$ 1,302	\$ 1,024,791

Geography:

United States	\$ 499,242	\$ 448,773	\$ 1,302	\$ 949,317
Canada	38,242	37,232	—	75,474
Total revenues	\$ 537,484	\$ 486,005	\$ 1,302	\$ 1,024,791

Contract Balances

Our contract liabilities consist of advance payments, billings in excess of costs incurred and deferred revenue. The Company has recognized \$2,230 and \$1,443 of revenue for the twelve months ended December 31, 2019 and December 31, 2018, respectively, that was included in the contract liability balance at December 31, 2018 and December 31, 2017, respectively. Net contract liabilities consisted of the following:

	December 31, 2019	December 31, 2018
Contract liabilities - current	\$ 3,129	\$ 2,907
Contract liabilities - noncurrent	2,705	2,287
Net contract liabilities	\$ 5,834	\$ 5,194

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Practical Expedients & Accounting Policy Elections

- *Remaining performance obligations* - The Company's contracts for service revenue have an original duration of one year or less. Therefore, because of the short duration of these contracts, the Company has not disclosed the transaction price for the future performance obligations as of the end of each reporting period or when the Company expects to recognize this revenue.
- *Incremental costs of obtaining a contract* - The Company's contracts for service revenue have an original duration of one year or less. Therefore, the Company has elected to expense these costs as incurred.
- *Right to invoice* - For the Company's contracts in which it has the right to invoice the customer on the basis of actual work performed (i.e., output), the Company has elected to measure the satisfaction of performance obligation(s) on the basis of actual work performed, as the invoiced amount directly corresponds to the value transferred to the customer.
- *Sales taxes* - The Company has, as an accounting policy election, decided to exclude from the measurement of the transaction price all sales taxes assessed by a governmental authority.
- *Significant financing component* - The Company's contracts do not allow for payment terms which exceed one year, and thus need not account for the effects of a significant financing component.

T. Fair Value Measurements and Financial Instruments

Financial Accounting Standards Board Accounting Standard Codification 820, "Fair Value Measurements and Disclosures ("Topic 820")" defines fair value based on the price that would be received to sell an asset or the exit price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market participants are defined as buyers or sellers in the principal or most advantageous market for the asset or liability that are independent of the reporting entity, knowledgeable and able and willing to transact for the asset or liability.

Valuation Hierarchy--Topic 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value. The hierarchy prioritizes the inputs into three broad levels:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 inputs are observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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Our assets and liabilities measured at fair value on a recurring basis at December 31, 2019 and December 31, 2018, were as follows:

Description	Total Carrying Value at December 31, 2019	Fair Value Measurements at December 31, 2019 Using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Assets invested for self-insurance, classified as other assets, noncurrent	\$ 15,402	\$ 15,402	\$ —	\$ —
Defined benefit pension plan assets	—	—	—	—
Liabilities:				
Deferred compensation	\$ 2,786	\$ —	\$ 2,786	\$ —

Description	Total Carrying Value at December 31, 2018	Fair Value Measurements at December 31, 2018 Using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Assets invested for self-insurance, classified as other assets, noncurrent	\$ 15,379	\$ 15,379	\$ —	\$ —
Defined benefit pension plan assets	3,758	—	3,758	—
Liabilities:				
Deferred compensation	\$ 2,459	\$ —	\$ 2,459	\$ —

The estimated fair value of the deferred compensation--classified as Level 2--is based on the value of the Company's common shares, determined by independent valuation.

Fair Value of Financial Instruments--The fair values of our current financial assets and current liabilities, including cash, accounts receivable, accounts payable, and accrued expenses among others, approximate their reported carrying values because of their short-term nature. The assets invested for self-insurance are certificates of deposit and money market funds--classified as Level 1--based on quoted market prices of the identical underlying securities in active markets.

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Financial instruments classified as noncurrent liabilities and their carrying values and fair values were as follows:

	December 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Revolving credit facility, noncurrent	\$ 62,000	\$ 62,000	\$ 93,500	\$ 93,500
Senior unsecured notes	75,000	79,558	56,000	56,002
Term loans, noncurrent	6,774	7,124	6,662	6,868
Total	\$ 143,774	\$ 148,682	\$ 156,162	\$ 156,370

The carrying value of our revolving credit facility approximates fair value--classified as Level 2--as the interest rates on the amounts outstanding are variable. The fair value of our senior unsecured notes and term loans--classified as Level 2--is determined based on expected future weighted-average interest rates with the same remaining maturities.

Market Risk--In the normal course of business, we are exposed to market risk related to changes in foreign currency exchange rates, changes in interest rates and changes in fuel prices. We do not hold or issue derivative financial instruments for trading or speculative purposes. In prior years, we have used derivative financial instruments to manage risk, in part, associated with changes in interest rates and changes in fuel prices. Presently, we are not engaged in any hedging or derivative activities.

U. Commitments and Contingencies

Letters of Credit

At December 31, 2019, we were contingently liable to our principal banks in the amount of \$81,619 for letters of credit outstanding primarily related to insurance coverage.

Surety Bonds

In certain circumstances, we have performance obligations that are supported by surety bonds in connection with our contractual commitments.

Litigation

We are party to a number of lawsuits, threatened lawsuits and other claims arising out of the normal course of business. On a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. These legal accruals may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, we do not record an accrual, consistent with applicable accounting guidance. Based on information currently available to us, advice of counsel, and available insurance coverage, we believe that our established accruals are adequate and the liabilities arising from the legal proceedings will not have a material adverse effect on our consolidated financial condition. We note, however, that in light of the inherent uncertainty in legal proceedings there can be no assurance that the ultimate resolution of a matter will not exceed established accruals. As a result, the outcome of a particular matter or a combination of matters may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

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In November 2017, a suit was filed in Savannah, Georgia state court ("State Court") against Davey Tree, its subsidiary, Wolf Tree, Inc. ("Wolf Tree"), a former Davey employee, two Wolf Tree employees, and a former Wolf Tree employee alleging various acts of negligence and seeking compensatory and punitive damages for wrongful death and assault and battery of the plaintiff's husband, a Wolf Tree employee, who was shot and killed in August 2017. The case was mediated unsuccessfully in December 2018 and was set for trial on January 22, 2019. As discussed below, the case was stayed on December 28, 2018.

In July 2018, a related survival action was filed by the deceased's estate against Davey Tree, its subsidiary, Wolf Tree, and four current and former employees in Savannah, Georgia, which arises out of the same allegations, seeks compensatory and punitive damages and also includes three RICO claims under Georgia law seeking compensatory damages, treble damages, and punitive damages. The 2018 case was removed to Federal Court on August 2, 2018. The Company filed a motion to dismiss the RICO claims. Plaintiffs filed a motion to remand the case to state court, which the Company has opposed. The motions are pending.

On December 6, 2018, a former Wolf Tree employee pled guilty to conspiracy to conceal, harbor, and shield illegal aliens. On December 21, 2018, the United States federal prosecutors filed a motion to stay both actions on the grounds that on December 13, 2018, an indictment was issued charging two former Wolf Tree employees and one other individual with various crimes, including conspiracy to murder the deceased. On December 17, 2018, the United States Attorney's Office for the Southern District of Georgia informed the Company and Wolf Tree that they are also under investigation for potential violations of immigration and other laws relating to the subject matter of the ongoing criminal investigation referenced above. The Company and Wolf Tree are cooperating with the investigation.

On December 28, 2018, the State Court granted the United States' motion to stay but indicated that it would nonetheless consider certain pending matters, including: (1) Plaintiff and a co-defendant's motions that Davey Tree be forced to produce privileged documents and testimony, which had been submitted to a Special Master for recommendation; and (2) the Defendants' motions for summary judgment. On January 11, 2019, the Special Master issued his recommendation that both Plaintiff and the co-defendant's motions to force Davey to disclose privileged information be denied. The State Court judge has not yet moved on the recommendation. On January 29, 2019, the State Court heard oral argument on Defendants' motions for summary judgment, and the motions remain pending.

On January 28, 2019, the Federal Court also granted the United States' motion to stay. On January 29, 2019, the State Court ordered the parties to return to mediation, which occurred on April 17, 2019 but was unsuccessful in resolving the matters.

In both cases, the Company has denied all liability and is vigorously defending the action. It also has retained separate counsel for some of the individual defendants, each of whom has denied all liability and also is vigorously defending the action.

PG&E Bankruptcy Filing

On January 29, 2019, Pacific Gas & Electric Company, and its parent company PG&E Corporation, our largest utility customer, filed voluntary bankruptcy petitions under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Northern District of California. PG&E accounted for approximately 12% of revenues during 2019, and 12% in 2018. As a utility company, PG&E serves residential and industrial customers in California and has an ongoing obligation to continue to serve its customers, and we continue to perform under our contracts with PG&E post-petition. As of the date of the bankruptcy filing, we had pre-petition accounts receivable of approximately \$15,000.

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On January 31, 2020, PG&E filed a proposed reorganization agreement as part of its Chapter 11 bankruptcy proceeding. In the proposed plan, unsecured creditors, like Davey Tree, are proposed to be paid in full with interest accruing on the past amounts due at the federal judgment rate. The proposed reorganization agreement was approved to proceed by the bankruptcy court, but is still subject to the objection and confirmation process. PG&E has stated that it expects to complete the reorganization process by June 2020. While uncertainty exists as to the outcome of the bankruptcy proceedings, we do not anticipate PG&E's bankruptcy to have a material impact on our future cash flows and results of operations.

Northern California Wildfires

On October 7, 2019 and October 8, 2019, four lawsuits were filed against multiple vegetation management contractors to PG&E, including Davey Tree, for damages resulting from the Northern California wildfires. The filing dates - exactly two years after the start of the fires - suggest that these lawsuits are intended to preserve any claims that might otherwise have become barred by the applicable statute of limitations. Davey Tree has not been served with these complaints at this time. Further, it is unclear at this time whether plaintiffs intend to prosecute these claims separately from the PG&E bankruptcy or not.

In addition, an action was brought against Davey Tree in Napa County Superior Court, entitled *Donna Walker, et al. v. Davey Tree Surgery Company* on August 8, 2019. On October 8, 2019, the court issued an order staying that action. The court deferred ruling on Davey's demurrer and motion to dismiss the complaint based on the absence of PG&E as an indispensable party. The court instead stayed any activity in the case pending a status conference to be held on July 14, 2020, which is after the June 30, 2020 statutory deadline set for PG&E's bankruptcy case to be resolved in order for PG&E to be eligible to participate in the Wildfire Fund established under Assembly Bill 1054.

In all cases, the Company has denied all liability and will vigorously defend the actions.

V. Quarterly Results of Operations (Unaudited)

The following is a summary of the results of operations for each quarter of 2019 and 2018.

	Fiscal 2019, Three Months Ended			
	Mar 30	Jun 29	Sep 28	Dec 31
Revenues	\$ 247,889	\$ 301,434	\$ 307,473	\$ 286,924
Gross profit (revenues less costs and expenses, operating)	81,873	113,656	114,336	103,348
Income (loss) from operations	2,966	30,282	22,783	13,514
Net income (loss)	(493)	19,747	13,434	8,109
Net income (loss) per share -- Basic	\$ (.02)	\$.86	\$.59	\$.35
Net income (loss) per share -- Diluted	\$ (.02)	\$.82	\$.56	\$.34
ESOT valuation per share	\$ 21.10	\$ 22.60	\$ 22.60	\$ 24.20

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	Fiscal 2018, Three Months Ended			
	Mar 31	June 30	Sept 29	Dec 31
Revenues	\$ 208,651	\$ 270,649	\$ 265,318	\$ 280,173
Gross profit (revenues less costs and expenses, operating)	64,028	102,967	94,193	98,215
Income (loss) from operations	(5,666)	29,800	14,585	16,971
Net income (loss)	<u>(6,627)</u>	<u>21,714</u>	<u>8,384</u>	<u>4,506</u>
Net income (loss) per share -- Basic	<u>\$ (.26)</u>	<u>\$.94</u>	<u>\$.35</u>	<u>\$.12</u>
Net income (loss) per share -- Diluted	<u>\$ (.26)</u>	<u>\$.89</u>	<u>\$.34</u>	<u>\$.13</u>
ESOT valuation per share	\$ 19.10	\$ 19.70	\$ 19.70	\$ 21.10

Fourth quarters of 2019 and 2018 include adjustments to casualty insurance expense that had the effect of decreasing gross profit in 2019 and 2018 by \$2,077 and \$7,324, respectively.

DESCRIPTION OF THE DAVEY TREE EXPERT COMPANY COMMON STOCK

The following summarizes the terms and provisions of the common stock of The Davey Tree Expert Company, an Ohio corporation (the “Company”), which common stock is registered under Section 12(g) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The following summary does not purport to be complete and is qualified in its entirety by reference to the Company’s Articles of Incorporation and Code of Regulations, each as amended, which the Company has previously filed with the Securities and Exchange Commission, and applicable Ohio law.

Authorized Capital

The Company’s authorized capital consists of 48,000,000 shares of common stock, \$1.00 par value per share (the “Common Stock”), and 4,000,000 shares of preferred stock, without par value (the “Preferred Stock”).

Under Ohio law, shareholders generally are not personally liable for a corporation’s acts or debts.

No Public Market for Common Stock

The Company has been largely employee-owned since 1979. The Common Stock is not listed or traded on an established public trading market. Instead, the Company’s employees have the ability to purchase shares of Common Stock through a variety of means, including through the Davey 401KSOP and ESOP Plan (the “401KSOP and ESOP Plan”), through the Company’s Employee Stock Purchase Plan, which gives employees the ability to purchase shares through payroll deductions, and through stock subscription offerings the Company may conduct from time to time. The Company’s employees and non-employee directors may also receive shares of Common Stock upon the exercise of stock options or other equity awards granted under the Company’s 2014 Omnibus Plan.

Semiannually, for purposes of the 401KSOP and ESOP Plan, the fair market value of the shares of Common Stock is determined by an independent stock valuation firm, based upon the Company’s performance and financial condition, using a peer group of comparable companies selected by that firm. The semiannual valuations are effective for a period of six months.

Rights and Preferences

All outstanding shares of Common Stock are duly authorized, fully paid and nonassessable. Holders of shares of Common Stock have no conversion, preemptive or subscription rights, and there are no redemption or sinking fund provisions applicable to the Common Stock. Shares of Common Stock are subject to rights of first refusal and repurchase rights held by the Company and the Employee Stock Ownership Trust (“ESOT”), which is the trust for the Company’s Employee Stock Ownership Plan. These rights are discussed below under “*Transfer Restrictions.*”

The rights, preferences and privileges of the holders of Common Stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of Preferred Stock that the Company may designate and issue in the future.

In the event of the Company's liquidation, dissolution or winding up, the holders of Common Stock are entitled to share ratably in the assets legally available for distribution to shareholders after the payment of all of the Company's known debts and liabilities and after adequate provision has been made for each class of stock having preference over the Common Stock, if any.

Voting Rights

Holders of Common Stock are entitled to one vote for each share held by them upon all matters presented to the shareholders.

Each shareholder has the right to vote cumulatively in the election of the Company's directors if any shareholder gives notice in writing to the Company's President, any Vice President of the Company or the Secretary of the Company at least 48 hours before the time set for the meeting at which directors will be elected and an announcement of the notice is made at the beginning of the meeting by the Chairman or the Secretary of the Company, or by or on behalf of the shareholder giving notice. If cumulative voting is in effect, shareholders will be entitled to cast a number of votes equal to the number of shares voting multiplied by the number of directors to be elected. A shareholder may cast all of these votes for one nominee or distribute them among several nominees, as that shareholder sees fit.

Directors are elected by a plurality of the votes cast by the holders of Common Stock. Except as otherwise provided by the Company's Articles of Incorporation or by law, all other matters brought to a vote of the holders of Common Stock are determined by the holders of record of shares entitled to exercise a majority of the voting power of the Company, and, except as may be provided with respect to any other outstanding class or series of the Company's stock, the holders of shares of Common Stock possess the exclusive voting power.

Dividends

Subject to preferences that may be applicable to any then outstanding shares of Preferred Stock, the holders of Common Stock are entitled to receive dividends, if any, as may be declared from time to time by the Company's Board of Directors out of legally available funds.

Transfer Restrictions

To protect its level of employee ownership, the Company has long imposed transfer restrictions on shares of Common Stock. These restrictions are set forth in the Company's Articles of Incorporation and in other plans and agreements pursuant to which the Company's employees and non-employee directors have received shares, including the 2014 Omnibus Plan. By virtue of these restrictions, shares of Common Stock are predominantly held by the Company's former and current employees through the 401KSOP and ESOP Plan, and by certain transferees or beneficiaries of the Company's former and current shareholders.

Right of First Refusal

Article SIXTH of the Company's Articles of Incorporation generally provides that when a shareholder, or following the death of a shareholder, the shareholder's estate or personal representative, proposes to sell, assign, transfer, pledge, hypothecate or otherwise dispose of, by operation of law or otherwise (each, a "transfer"), shares of Common Stock, other than transfers to an employee of the Company or any subsidiary of the Company, then the Company and the ESOT have the right, at their option, to

purchase all (but not less than all) of the shares of Common Stock proposed to be transferred on the terms and conditions set forth in Article SIXTH. The right of first refusal is intended to encompass all proposed transfers of shares of Common Stock to third parties, except for transfers to current employees of the Company, in order to fully support the Company's policy of favoring employee ownership.

Repurchase Right

Article SIXTH of the Company's Articles also grants the Company and the ESOT the right, at their option, to purchase any or all shares of Common Stock held by any shareholder, other than (i) the ESOT, (ii) a former employee who has retired or (iii) a current employee or director of the Company or any subsidiary of the Company. The shares may be repurchased without any proposed transfer of such shares by the shareholder, and may also be purchased in the event of the death of the shareholder.

The Company's Board of Directors has adopted a policy regarding the Company's exercise of the repurchase right set forth in Article SIXTH. Under the policy, the Company will not exercise its repurchase rights with respect to shares of Common Stock held by current and retired employees and current and former directors of the Company or any of its subsidiaries (subject to exceptions set forth in the policy) (collectively, "Active Shareholders"), their spouses, their first-generation descendants and trusts established exclusively for their benefit.

It is also the policy of the Company not to exercise its rights to repurchase shares of Common Stock proposed to be transferred by an Active Shareholder to his or her spouse, a first-generation descendant or a trust established exclusively for the benefit of one or more of an Active Shareholder, his or her spouse and first-generation descendants of an Active Shareholder, or upon the death of an Active Shareholder, such transfers from the estate or personal representative of a deceased Active Shareholder.

The Board of Directors may amend its policy regarding the exercise of the Company's repurchase right in Article SIXTH at any time.

2014 Omnibus Plan

Under the Company's 2014 Omnibus Plan, in the event of a plan participant's termination of employment with the Company or any of its subsidiaries or termination of service as a director of the Company or any of its subsidiaries, the Company has the right and option to purchase from the participant the shares of Common Stock acquired by the participant pursuant to the grant of an award under the plan. The Company may allow the trustees of the 401SOP and ESOP to exercise its purchase right. In addition, in the event a participant proposes to transfer any shares of Common Stock acquired pursuant to the grant of an award under the 2014 Omnibus Plan, the Company may exercise a right of first refusal to purchase from the participant the shares subject to the proposed transfer, pursuant to rules established by the Compensation Committee.

Preferred Stock

Shares of Preferred Stock are issuable only to holders of Common Stock as a class, unless the holders of Common Stock as a class waive such right of issuance. The Board, without any further action by the holders of Common Stock, may, at any time and from time to time, adopt an amendment or amendments to the Articles of Incorporation in respect of any shares of Preferred Stock which constitute unissued or treasury shares at the time of such adoption, for the purpose of dividing any or all of such

shares of Preferred Stock into such series as the Board shall determine. The Board may, within the limitations prescribed by Ohio law, fix the express terms of any series of Preferred Stock, including dividend rights, liquidation rights, redemption rights, sinking fund requirements, if any, conversion rights and restrictions on the issuance of shares of any class or series of the Company.

The rights of the holders of Common Stock will generally be subject to the prior rights of the holders of any outstanding shares of Preferred Stock with respect to dividends, liquidation preferences and other matters.

The Company has no outstanding shares of Preferred Stock.

Anti-Takeover Effects of Provisions of Ohio Law and the Company's Articles of Incorporation and Code of Regulations

Ohio Anti-Takeover Law

Ohio law contains provisions that would make a change in control of the Company more difficult or discourage a tender offer or other plans to restructure the Company. The following discussion of these provisions is qualified in its entirety by reference to those particular statutory provisions.

Ohio Control Share Acquisition Act

The Company is subject to the Ohio Control Share Acquisition Act set forth in Section 1701.831 of the Ohio Revised Code (the "ORC"), which provides that any "control share acquisition" of an Ohio issuing public corporation shall be made only with the prior authorization of the shareholders of the Ohio issuing public corporation in accordance with the provisions of the Ohio Control Share Acquisition Act. A "control share acquisition" is defined under Section 1701.01(Z)(1) of the ORC to mean the acquisition, directly or indirectly, by any person of shares of an Ohio issuing public corporation in respect of which the person may exercise or direct the exercise of voting power as provided in the ORC, would entitle the person, immediately after the acquisition, directly or indirectly, alone or with others, to exercise or direct the exercise of the voting power in the election of directors within any of the following ranges of such voting power: more than 20% but less than 33%; more than 33% but less than a majority; and more than a majority.

The Ohio Control Share Acquisition Act requires that the acquiring person must deliver an acquiring person statement to the Ohio issuing public corporation, which statement must comply with Section 1701.831(B) of the ORC. The Ohio issuing public corporation must then hold a special meeting of its shareholders to vote upon the proposed acquisition within 50 days after receipt of such acquiring person statement unless the acquiring person agrees to a later date.

The Ohio Control Share Acquisition Act further specifies that the shareholders of the Ohio issuing public corporation must approve the proposed control share acquisition by certain percentages at a special meeting of shareholders at which a quorum is present. In order to comply with the Ohio Control Share Acquisition Act, the acquiring person may only acquire the shares of the Ohio issuing public corporation upon the affirmative vote of (1) a majority of the voting power of the Ohio issuing public corporation in the election of directors (the "voting power") represented in person or by proxy at the special meeting and (2) a majority of the voting power excluding those shares deemed to be "interested shares" for purposes of the Ohio Control Share Acquisition Act.

Section 1701.831 does not apply to a corporation if its articles of incorporation or code of regulations state that the statute does not apply to a corporation. Our Amended Articles of Incorporation and Amended and Restated Regulations do not contain a provision opting out of this statute.

Ohio Merger Moratorium Statute

Under the Ohio merger moratorium law, a person or group that acquires 10% or more of the outstanding voting stock of an Ohio issuing public corporation would have to wait for three years before completing certain transactions (“business combinations”) with the Ohio issuing public corporation. This prohibition does not apply if (i) before the person or group acquires its 10% interest, the Ohio issuing public corporation’s board of directors approves, for the purpose of the merger moratorium law, either the acquisition of the 10% interest or the business combination or (ii) the articles of incorporation expressly provide that the corporation is not subject to the statute (the Company has not made this election). “Business combinations” include a variety of transactions such as mergers, consolidations, combinations or majority share acquisitions between an Ohio issuing public corporation and an interested shareholder or an affiliate of an interested shareholder.

Even after three years, the bidder could not proceed with a business combination without (i) prior board approval of the acquisition of its 10% interest, (ii) subsequent approval by the holders of 66⅔% of all outstanding voting shares and by the holders of a majority of the outstanding shares after excluding shares held by the bidder, or (iii) paying consideration in an amount and form meeting the standards set forth in the law (fair price provisions). (Section 1704.03 of the Ohio Revised Code.)

Articles of Incorporation and Code of Regulations

The Company’s Articles of Incorporation and Code of Regulations (the “Regulations”) include anti-takeover provisions that:

- authorize the Board of Directors, subject to a right of first refusal by the holders of Common Stock, to issue shares of Preferred Stock in one or more series, and with respect to each series, to fix the number of shares constituting that series, and establish the rights and terms of that series with limitations prescribed by the provisions of the Ohio General Corporation Law;
- divide the Board of Directors into three classes consisting of not less than three directors (including vacancies), each of whose terms in office expire in consecutive years;
- establish advance notice procedures for shareholders to submit nominations of candidates for election to the Board of Directors;
- require holders of at least 25% of the shares of Common Stock to call a special meeting of shareholders;
- allow the Company’s Board of Directors to fill vacancies on the Board by the vote of a majority, however caused (subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances); and
- grant the Company and the ESOT rights of first refusal and repurchase rights upon certain proposed transfers of shares of Common Stock.

Provisions of the Company’s Articles of Incorporation and Regulations may delay or discourage transactions involving an actual or potential change in the Company’s control or change in the Company’s Board of Directors or management, including

transactions in which shareholders might otherwise receive a premium for their shares or transactions that the Company's shareholders might otherwise deem to be in their best interests.

Authorized and Unissued Shares

The Company's authorized and unissued shares of Common Stock are available for future issuance at the discretion of the Board without shareholder approval except as may otherwise be required by Ohio law. The future issuance of additional authorized shares of Common Stock may, among other things, dilute the earnings per share of the common shares and the equity and voting rights of those holding common shares at the time the additional shares are issued.

The issuance of shares of Preferred Stock by the Company could have certain anti-takeover effects under certain circumstances, and could enable the Board of Directors to render more difficult or discourage an attempt to obtain control of the Company by means of a merger, tender offer, or other business combination transaction directed at the Company by, among other things, placing shares of Preferred Stock with investors who might align themselves with the Board of Directors.

Subsidiaries of the Registrant

<u>Name</u>	<u>Jurisdiction of Organization</u>
Davey Tree Surgery Company	Delaware
Davey Tree Expert Co. of Canada, Limited	Canada
Standing Rock Insurance Company	Vermont
Davey Resource Group, Inc	Delaware
Wolf Tree, Inc.	Tennessee
The Care of Trees, Inc.	Illinois

The Registrant has other subsidiaries that are not in the aggregate “significant subsidiaries” as defined in Rule 1-02(w) of Regulation S-X.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in:

1. Registration Statement (Form S-8 No. 333-123767) pertaining to The Davey Tree Expert Company 2004 Omnibus Stock Plan;
2. Registration Statements (Form S-8 No. 333-172738, Form S-8 No. 333-187205, Form S-8 No. 333-203865 and Form S-8 No. 333-211465) pertaining to The Davey 401KSOP and ESOP; and
3. Registration Statement (Form S-8 No. 333-196224) pertaining to The Davey Tree Expert Company 2014 Omnibus Stock Plan.

of our reports dated March 9, 2020, relating to (1) the consolidated financial statements of The Davey Tree Expert Company, (the “Company”), and (2) the effectiveness of The Davey Tree Expert Company’s internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2019.

/s/ Deloitte & Touche LLP

Cleveland, Ohio
March 9, 2020

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-123767) pertaining to The Davey Tree Expert Company 2004 Omnibus Stock Plan,
2. Registration Statements (Form S-8 No. 333-172738, Form S-8 No. 333-187205, Form S-8 No. 333-203865 and Form S-8 No. 333-211465) pertaining to The Davey 401KSOP and ESOP,
3. Registration Statement (Form S-8 No. 333-196224) pertaining to The Davey Tree Expert Company 2014 Omnibus Stock Plan;

of our report dated March 16, 2018, except for paragraph 1 of Note C, as to which the date is March 11, 2019, with respect to the consolidated financial statements of The Davey Tree Expert Company included in this Annual Report (Form 10-K) of The Davey Tree Expert Company for the year ended December 31, 2019.

/s/ Ernst & Young LLP

Akron, Ohio
March 9, 2020

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Certification of Chief Executive Officer

I, Patrick M. Covey, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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 the 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 control over financial reporting.

Date: March 9, 2020

/s/ Patrick M. Covey

Patrick M. Covey

Chairman, President and Chief Executive Officer

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Certification of Chief Financial Officer

I, Joseph R. Paul, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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 the 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 control over financial reporting.

Date: March 9, 2020

/s/ Joseph R. Paul

Joseph R. Paul

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, Patrick M. Covey, Chairman, President 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, 2019 (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 9, 2020

/s/ Patrick M. Covey

Patrick M. Covey

Chairman, President and Chief Executive Officer

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

Certification of Chief Financial Officer

I, Joseph R. Paul, Executive Vice President, Chief Financial Officer 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, 2019 (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 9, 2020

/s/ Joseph R. Paul

Joseph R. Paul

Executive Vice President, Chief Financial Officer and
Secretary