
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2023

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

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 Exchange Act). Yes No

There were 41,178,710 Common Shares, \$.50 par value, outstanding as of November 10, 2023. The registrant's Common Shares are not traded on a public market.

The Davey Tree Expert Company
Quarterly Report on Form 10-Q
September 30, 2023

INDEX

	<u>Page</u>
Part I. Financial Information	
Item 1. Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Operations	3
Condensed Consolidated Statements of Comprehensive Income	4
Condensed Consolidated Statements of Shareholders' Equity	5
Condensed Consolidated Statements of Cash Flows	7
Notes to Condensed Consolidated Financial Statements	
A — Basis of Financial Statement Preparation	8
B — Seasonality of Business	9
C — Accounts Receivable, Net and Supplemental Balance-Sheet Information	9
D — Business Combinations	11
E — Marketable Securities	12
F — Identified Intangible Assets and Goodwill, Net	13
G — Short and Long-Term Debt and Commitments Related to Letters of Credit	14
H — Leases	17
I — Stock-Based Compensation	18
J — Income Taxes	21
K — Accumulated Other Comprehensive Income (Loss)	22
L — Per Share Amounts and Common and Redeemable Shares Outstanding	24
M — Operations by Business Segment	25
N — Revenue Recognition	27
O — Fair Value Measurements and Financial Instruments	29
P — Commitments and Contingencies	32
Q — The Davey 401KSOP and Employee Stock Ownership Plan	35
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	37
Results of Operations	38
Liquidity and Capital Resources	42
Cash Flow Summary	43
Contractual Obligations Summary and Commercial Commitments	44
Capital Resources	44
Critical Accounting Policies and Estimates	45
Note Regarding Forward-Looking Statements	45
Item 3. Quantitative and Qualitative Disclosures about Market Risk	46
Item 4. Controls and Procedures	46
Part II. Other Information	47
Item 1. Legal Proceedings	47
Item 1A. Risk Factors	50
Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities	50
Item 5. Other Information	51
Item 6. Exhibits	52
Exhibit Index	52
Signatures	53

“We,” “us,” “our,” the “Company,” “The Registrant,” “Davey” and “Davey Tree,” unless the context otherwise requires, means The Davey Tree Expert Company and its subsidiaries.

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

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash	\$ 13,791	\$ 18,526
Accounts receivable, net	366,989	321,810
Operating supplies	17,779	17,976
Other current assets	114,692	83,952
Total current assets	513,251	442,264
Property and equipment, net	295,543	268,539
Right-of-use assets - operating leases	108,149	104,612
Marketable securities and other investments	37,337	28,909
Other assets	210,909	22,841
Intangible assets, net	20,440	18,949
Goodwill	80,924	70,107
Total assets	<u>\$ 1,266,553</u>	<u>\$ 956,221</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 50,226	\$ 50,171
Accrued expenses	71,775	77,454
Current portion of long-term debt and finance lease liabilities	52,971	26,872
Other current liabilities	98,564	90,873
Total current liabilities	273,536	245,370
Long-term debt	274,267	230,768
Lease liabilities - finance leases	10,538	9,481
Lease liabilities - operating leases	69,748	68,878
Self-insurance accruals	85,421	77,926
Other noncurrent liabilities	213,018	24,020
Total liabilities	926,528	656,443
Commitments and contingencies (Note P)		
Redeemable common shares related to 401KSOP and Employee Stock Ownership Plan (ESOP) 8,728 and 9,188 shares at redemption value as of September 30, 2023 and December 31, 2022	181,543	169,978
Common shareholders' equity:		
Common shares, \$.50 par value, per share; 96,000 shares authorized; 77,100 and 76,640 shares issued and outstanding before deducting treasury shares and which excludes 8,728 and 9,188 shares subject to redemption as of September 30, 2023 and December 31, 2022	38,993	38,550
Additional paid-in capital	184,813	162,828
Common shares subscribed, unissued	22,742	23,864
Retained earnings	329,971	293,993
Accumulated other comprehensive loss	(5,646)	(5,588)
	570,873	513,647
Less: Cost of common shares held in treasury; 43,896 shares at September 30, 2023 and 43,110 shares at December 31, 2022	395,497	363,502
Common shares subscription receivable	16,894	20,345
Total common shareholders' equity	<u>158,482</u>	<u>129,800</u>
Total liabilities and shareholders' equity	<u>\$ 1,266,553</u>	<u>\$ 956,221</u>

See notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Revenues	\$ 450,634	\$ 398,945	\$ 1,267,174	\$ 1,143,548
Costs and expenses:				
Operating	285,019	254,661	808,509	740,422
Selling	84,982	72,364	229,480	201,315
General and administrative	31,155	27,964	95,041	87,014
Depreciation and amortization	14,935	13,780	43,479	41,082
Gain on sale of assets, net	(1,694)	(2,837)	(6,530)	(5,787)
Total costs and expenses	<u>414,397</u>	<u>365,932</u>	<u>1,169,979</u>	<u>1,064,046</u>
Income from operations	36,237	33,013	97,195	79,502
Other income (expense):				
Interest expense	(4,751)	(2,164)	(13,588)	(5,312)
Interest income	502	303	1,329	489
Other, net	(2,890)	(3,371)	(4,365)	(8,241)
Income before income taxes	29,098	27,781	80,571	66,438
Income taxes	8,401	7,317	21,835	17,407
Net income	<u>\$ 20,697</u>	<u>\$ 20,464</u>	<u>\$ 58,736</u>	<u>\$ 49,031</u>
Net income per share:				
Basic	<u>\$.48</u>	<u>\$.46</u>	<u>\$ 1.35</u>	<u>\$ 1.10</u>
Diluted	<u>\$.46</u>	<u>\$.44</u>	<u>\$ 1.29</u>	<u>\$ 1.05</u>
Weighted-average shares outstanding:				
Basic	<u>43,123</u>	<u>44,148</u>	<u>43,394</u>	<u>44,422</u>
Diluted	<u>45,186</u>	<u>46,405</u>	<u>45,501</u>	<u>46,719</u>

See notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net income	\$ 20,697	\$ 20,464	\$ 58,736	\$ 49,031
Components of other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(515)	(1,934)	81	(2,455)
Unrealized gain (loss) on available-for-sale securities	2	(98)	(139)	(279)
Amortization of defined benefit pension items:				
Net actuarial loss	—	18	—	55
Prior service cost	—	4	—	13
Defined benefit pension plan adjustments	—	22	—	68
Other comprehensive loss, net of tax	<u>(513)</u>	<u>(2,010)</u>	<u>(58)</u>	<u>(2,666)</u>
Comprehensive income	<u>\$ 20,184</u>	<u>\$ 18,454</u>	<u>\$ 58,678</u>	<u>\$ 46,365</u>

See notes to condensed consolidated financial statements (unaudited).

THE DAVEY TREE EXPERT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)
(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 July 1, 2023	\$ 39,083	\$ 182,039	\$ 23,493	\$ 310,348	\$ (5,133)	\$ (385,081)	\$ (19,342)	\$ 145,407
Net income	—	—	—	20,697	—	—	—	20,697
Change in 401KSOP and ESOP related shares	(90)	(960)	—	1	—	—	—	(1,049)
Shares sold to employees	—	1,831	—	—	—	2,558	—	4,389
Options exercised	—	11	—	—	—	58	—	69
Subscription shares	—	198	(751)	—	—	176	2,448	2,071
Stock-based compensation	—	1,694	—	—	—	—	—	1,694
Dividends, \$.020 per share	—	—	—	(1,075)	—	—	—	(1,075)
Other comprehensive income	—	—	—	—	(513)	—	—	(513)
Shares purchased	—	—	—	—	—	(13,208)	—	(13,208)
Balances at September 30, 2023	<u>\$ 38,993</u>	<u>\$ 184,813</u>	<u>\$ 22,742</u>	<u>\$ 329,971</u>	<u>\$ (5,646)</u>	<u>\$ (395,497)</u>	<u>\$ (16,894)</u>	<u>\$ 158,482</u>
Balances at January 1, 2023	\$ 38,550	\$ 162,828	\$ 23,864	\$ 293,993	\$ (5,588)	\$ (363,502)	\$ (20,345)	\$ 129,800
Net income	—	—	—	58,736	—	—	—	58,736
Change in 401KSOP and ESOP related shares	443	7,951	—	(19,951)	—	—	—	(11,557)
Shares sold to employees	—	11,036	—	—	—	13,914	—	24,950
Options exercised	—	(1,639)	—	—	—	3,368	—	1,729
Subscription shares	—	640	(1,122)	—	—	559	3,451	3,528
Stock-based compensation	—	3,997	—	—	—	—	—	3,997
Dividends, \$.060 per share	—	—	—	(2,807)	—	—	—	(2,807)
Other comprehensive income	—	—	—	—	(58)	—	—	(58)
Shares purchased	—	—	—	—	—	(49,836)	—	(49,836)
Balances at September 30, 2023	<u>\$ 38,993</u>	<u>\$ 184,813</u>	<u>\$ 22,742</u>	<u>\$ 329,971</u>	<u>\$ (5,646)</u>	<u>\$ (395,497)</u>	<u>\$ (16,894)</u>	<u>\$ 158,482</u>

THE DAVEY TREE EXPERT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)
(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 July 2, 2022	\$ 38,645	\$ 151,752	\$ —	\$ 266,745	\$ (4,829)	\$ (333,611)	\$ 533	\$ 119,235
Net income	—	—	—	20,464	—	—	—	20,464
Change in 401KSOP and ESOP related shares	(247)	(4,215)	—	1	—	—	—	(4,461)
Shares sold to employees	—	3,354	—	—	—	2,623	—	5,977
Options exercised	—	35	—	—	—	137	—	172
Subscription shares	—	1,554	23,954	—	—	1,212	(21,167)	5,553
Stock-based compensation	—	1,631	—	—	—	—	—	1,631
Dividends, \$.020 per share	—	—	—	(931)	—	—	—	(931)
Other comprehensive loss	—	—	—	—	(2,010)	—	—	(2,010)
Shares purchased	—	—	—	—	—	(8,893)	—	(8,893)
Balances at October 1, 2022	<u>\$ 38,398</u>	<u>\$ 154,111</u>	<u>\$ 23,954</u>	<u>\$ 286,279</u>	<u>\$ (6,839)</u>	<u>\$ (338,532)</u>	<u>\$ (20,634)</u>	<u>\$ 136,737</u>
Balances at January 1, 2022	\$ 38,379	\$ 135,897	\$ —	\$ 239,979	\$ (4,173)	\$ (306,242)	\$ —	\$ 103,840
Net income	—	—	—	49,031	—	—	—	49,031
Change in 401KSOP and ESOP related shares	19	1,840	—	(49)	—	—	—	1,810
Shares sold to employees	—	11,714	—	—	—	9,623	—	21,337
Options exercised	—	(1,122)	—	—	—	2,742	—	1,620
Subscription shares	—	1,554	23,954	—	—	1,212	(20,634)	6,086
Stock-based compensation	—	4,228	—	—	—	—	—	4,228
Dividends, \$.058 per share	—	—	—	(2,682)	—	—	—	(2,682)
Other comprehensive income	—	—	—	—	(2,666)	—	—	(2,666)
Shares purchased	—	—	—	—	—	(45,867)	—	(45,867)
Balances at October 1, 2022	<u>\$ 38,398</u>	<u>\$ 154,111</u>	<u>\$ 23,954</u>	<u>\$ 286,279</u>	<u>\$ (6,839)</u>	<u>\$ (338,532)</u>	<u>\$ (20,634)</u>	<u>\$ 136,737</u>

See notes to condensed consolidated financial statements (unaudited).

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

	Nine Months Ended	
	September 30, 2023	October 1, 2022
Operating activities		
Net income	\$ 58,736	\$ 49,031
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	43,479	41,082
Other	(1,331)	(683)
Changes in operating assets and liabilities, net of assets acquired:		
Accounts receivable	(44,944)	(49,451)
Accounts payable and accrued expenses	(10,213)	12,709
Self-insurance accruals	5,760	13,306
Prepaid expenses	(14,069)	(10,724)
Mitigation bank credit inventory	(14,520)	—
Other, net	13,440	7,710
	<u>(22,398)</u>	<u>13,949</u>
Net cash provided by operating activities	36,338	62,980
Investing activities		
Capital expenditures:		
Equipment	(48,872)	(54,829)
Land and buildings	(15,408)	(15,916)
Purchases of businesses, net of cash acquired and debt incurred	(18,002)	(4,453)
Proceeds from sales of property and equipment	10,116	6,781
Purchases of marketable securities	(36,331)	(41,305)
Proceeds from sale of marketable securities	30,086	14,114
	<u>(78,411)</u>	<u>(95,608)</u>
Net cash used in investing activities	(78,411)	(95,608)
Financing activities		
Revolving credit facility borrowings	549,226	453,885
Revolving credit facility payments	(493,398)	(402,618)
Purchase of common shares for treasury	(49,836)	(45,867)
Sale of common shares from treasury	30,212	29,043
Dividends paid	(2,807)	(2,682)
Proceeds from notes payable	58,317	69,337
Payments of notes payable	(51,444)	(62,602)
Payments of finance leases	(2,943)	(2,313)
	<u>37,327</u>	<u>36,183</u>
Net cash provided by financing activities	37,327	36,183
Effect of exchange rate changes on cash	11	(171)
(Decrease) increase in cash	(4,735)	3,384
Cash, beginning of period	18,526	19,460
	<u>18,526</u>	<u>19,460</u>
Cash, end of period	\$ 13,791	\$ 22,844
Supplemental cash flow information follows:		
Interest paid	\$ 13,914	\$ 3,764
Income taxes paid	20,633	9,869

See notes to condensed consolidated financial statements (unaudited).

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

A. Basis of Financial Statement Preparation

The consolidated financial statements present the financial position, results of operations and cash flows of The Davey Tree Expert Company and its subsidiaries. When we refer to “we,” “us,” “our,” the “Company,” “Davey,” or “Davey Tree”, we mean The Davey Tree Expert Company and its subsidiaries, unless otherwise expressly stated or the context indicates otherwise.

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”), as codified in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”), and with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. The condensed consolidated financial statements include all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal, recurring nature. All intercompany accounts and transactions have been eliminated in consolidation.

Certain information and disclosures required by U.S. GAAP for complete financial statements have been omitted in accordance with the rules and regulations of the SEC. We suggest that these condensed consolidated financial statements be read in conjunction with the financial statements included in our annual report on Form 10-K for the year ended December 31, 2022 (the “2022 Annual Report”).

Use of Estimates in Financial Statement Preparation--The preparation of financial statements in accordance with U.S. GAAP requires the use of estimates and assumptions that affect reported amounts. Our condensed consolidated financial statements include amounts that are based on management’s best estimates and judgments. Estimates are used for, but not limited to, accounts receivable valuation, depreciable lives of fixed assets, long-lived asset and goodwill valuation, self-insurance accruals, income taxes, stock valuation and revenue recognition.

Our mitigation banking business creates and sells wetland, stream and other environmental credits and provides services to those engaged in permittee-responsible mitigation and environmental restoration. We record mitigation bank credit inventory at the lower of cost or net realizable value. Inventory costs are based on estimated total costs for each mitigation bank, which could change as we perform mitigation banking activities.

Our business continues to be impacted by a number of macro-economic factors, including higher fuel costs, rising interest rates and a highly competitive labor market, which have created an inflationary environment and cost pressures.

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 Company’s fiscal quarter that ended September 30, 2023 is referred to as the third quarter of 2023, and the fiscal quarter ended October 1, 2022 is referred to as the third quarter of 2022.

Recent Accounting Guidance

Accounting Standards Adopted in 2023

Accounting Standards Update 2020-04, Reference Rate Reform (Topic 848)--In March 2020, the FASB issued Accounting Standards Update (“ASU”) 2020-04, “Reference Rate Reform (Topic 848)—Facilitation of the Effects of Reference Rate Reform on Financial

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

Reporting". The guidance of this ASU is designed to provide relief from the accounting analysis and impacts that may otherwise be required for modifications to agreements (e.g., loans, debt securities, derivatives, borrowings) necessitated by reference rate reform. It also provides optional expedients to enable companies to continue to apply hedge accounting to certain hedging relationships impacted by reference rate reform. Application of the guidance is optional, is only available in certain situations, and is only available for companies to apply until December 31, 2022. In January 2021, the FASB amended ASU 2020-04 by issuing Accounting Standards Update No. 2021-01, Reference Rate Reform Scope ("ASU 2021-01"). ASU 2021-01 clarifies the scope of optional expedients and exceptions to derivatives that are affected by the discounting transition. In December 2022, the FASB issued ASU 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848. ASU 2022-06 defers the sunset date included within Topic 848 from December 31, 2022, to December 31, 2024. In January 2023, we adopted ASU 2020-04 and amended our amended and restated credit agreement to replace the reference rate from LIBOR to the Secured Overnight Financing Rate ("SOFR"). The amendment did not have a material impact to the Company's financial statements.

Accounting Standards Update 2022-04, Liabilities - Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations--In September 2022, the FASB issued ASU No. 2022-04, Liabilities - Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations. This guidance requires annual and interim disclosure of the key terms of outstanding supplier finance programs and a roll-forward of the related obligations. The new standard does not affect the recognition, measurement or financial statement presentation of the supplier finance program obligations. These amendments are effective for fiscal years beginning after December 15, 2022, except for the amendment on roll-forward information, which is effective for fiscal years beginning after December 15, 2023. We adopted this standard and have no material supplier finance program obligations.

B. Seasonality of Business

Due to the seasonality of our business, our operating results for the three and nine months ended September 30, 2023 are not indicative of results that may be expected for any other interim period or for the year ending December 31, 2023. Our business seasonality traditionally results in higher revenues during the second and third quarters as compared with the first and fourth quarters of the year, while the methods of accounting for fixed costs, such as depreciation expense, amortization, rent and interest expense, are not significantly impacted by business seasonality.

C. Accounts Receivable, Net and Supplemental Balance-Sheet Information

Accounts receivable, net, consisted of the following:

Accounts receivable, net	September 30, 2023	December 31, 2022
Accounts receivable	\$ 258,569	\$ 242,427
Unbilled receivables ⁽¹⁾	110,576	82,605
	<u>369,145</u>	<u>325,032</u>
Less allowances for credit losses	2,156	3,222
Accounts receivable, net	<u>\$ 366,989</u>	<u>\$ 321,810</u>

⁽¹⁾ 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 Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

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

	September 30, 2023	December 31, 2022
Other current assets		
Refundable income taxes	\$ 381	\$ 14
Prepaid expenses	46,298	32,080
Mitigation bank credit inventory	27,573	6,351
Assets invested for self-insurance	20,658	24,828
Payroll taxes refundable	14,264	18,283
Other	5,518	2,396
Total	\$ 114,692	\$ 83,952
Property and equipment, net		
Land and land improvements	\$ 25,798	\$ 26,023
Buildings and leasehold improvements	92,861	80,768
Equipment	674,020	663,207
	792,679	769,998
Less accumulated depreciation	497,136	501,459
Total	\$ 295,543	\$ 268,539
Other assets, noncurrent		
Investment--cost-method affiliate	\$ 933	\$ 1,258
Deferred income taxes	4,602	6,828
Cloud computing arrangements	474	2,652
Insurance receivable	200,000	7,500
Other	4,900	4,603
Total	\$ 210,909	\$ 22,841
Accrued expenses		
Employee compensation	\$ 36,118	\$ 35,536
Accrued compensated absences	14,827	13,034
Self-insured medical claims	2,573	2,806
Income tax payable	8,174	6,573
Customer advances, deposits	2,148	7,736
Taxes, other than income	2,386	5,764
Other	5,549	6,005
Total	\$ 71,775	\$ 77,454
Other current liabilities		
Mitigation bank liabilities	\$ 6,106	\$ —
Current portion of:		
Lease liability-operating leases	37,972	34,652
Self-insurance accruals	54,486	56,221
Total	\$ 98,564	\$ 90,873

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

Other noncurrent liabilities	September 30, 2023	December 31, 2022
Non-qualified retirement plans	\$ 5,465	\$ 8,336
Litigation accrual	200,000	7,500
Other	7,553	8,184
Total	<u>\$ 213,018</u>	<u>\$ 24,020</u>

D. Business Combinations

Our cash investments in businesses during the first nine months of 2023 were \$18,250 and we issued debt, in the form of notes payable to the sellers, of \$5,572 which have been included in our Residential and Commercial segment. Measurement-period adjustments are not complete. 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. During the year ended December 31, 2022, our cash investments in businesses was \$23,192 and debt issued, in the form of notes payable to the sellers, was \$7,445.

The following table summarizes the preliminary purchase price allocation of the estimated fair values of the assets acquired and liabilities assumed:

Detail of acquisitions:	Nine Months Ended September 30, 2023	Year Ended December 31, 2022
Assets acquired:		
Cash	\$ 249	\$ 1,365
Receivables	211	10,794
Mitigation bank credit inventory	—	6,351
Operating supplies	1,538	48
Prepaid expense	149	126
Equipment	5,208	2,309
Deposits and other	2,649	412
Intangible assets	6,233	10,569
Goodwill	13,441	14,255
Liabilities assumed	(5,856)	(15,592)
Debt issued for purchases of businesses	<u>(5,572)</u>	<u>(7,445)</u>
Cash paid	<u>\$ 18,250</u>	<u>\$ 23,192</u>

The results of operations of acquired businesses have been included in the condensed 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 for the three and nine months ended September 30, 2023 was not significant. Pro forma net sales and results of operations for the acquisitions, had they occurred at the beginning of the nine months ended September 30, 2023, are not material and, accordingly, are not provided.

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

E. Marketable Securities

The following table summarizes available-for-sale debt securities held at September 30, 2023 and December 31, 2022 by asset type:

	Available-For-Sale Debt Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Net Carrying Amount)
September 30, 2023				
Fixed maturity:				
United States Government and agency securities	\$ 40,123	\$ 262	\$ (295)	\$ 40,090
Corporate notes and bonds	577	—	(57)	520
Total available-for-sale debt securities	\$ 40,700	\$ 262	\$ (352)	\$ 40,610
December 31, 2022				
Fixed maturity:				
United States Government and agency securities	\$ 25,485	\$ 84	\$ (315)	\$ 25,254
Corporate notes and bonds	315	—	(51)	264
Total available-for-sale debt securities	\$ 25,800	\$ 84	\$ (366)	\$ 25,518

Marketable securities are composed of available-for-sale debt securities and marketable equity securities and all marketable securities are held at fair value. We carry a portion of our marketable securities portfolio in long-term assets since they are generally held for the settlement of our insurance claims processed through our wholly owned captive insurance subsidiary.

Available-for-sale debt securities are included in other current assets and marketable securities and other investments totaling \$40,610 and \$25,518 at September 30, 2023 and December 31, 2022, respectively. Realized gains and losses on sales of available-for-sale debt securities are recognized in net income on the specific identification basis. Changes in the fair values of available-for-sale debt securities that are determined to be holding gains or losses are recorded through accumulated other comprehensive income (loss) net of applicable taxes, within shareholders' equity. In assessing whether a credit loss exists, we evaluate our ability to hold the investment, the strength of the underlying collateral and the extent to which the investment's amortized cost or cost, as appropriate, exceeds its related fair value.

We held approximately \$10,276 and \$18,110 in marketable equity securities as of September 30, 2023 and December 31, 2022, respectively. Realized and unrealized gains and losses on marketable equity securities are included in other income (expense) in the Consolidated Statements of Operations.

The net carrying values of available-for-sale debt securities at September 30, 2023 by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Amortized Cost	Fair Value
Due:		
Less than one year	\$ 21,037	\$ 21,267
One year through five years	17,335	17,210
Six years through ten years	534	492
After ten years	1,794	1,641
Total	\$ 40,700	\$ 40,610

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

F. Identified Intangible Assets and Goodwill, Net

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

	<u>September 30, 2023</u>		<u>December 31, 2022</u>	
	<u>Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Carrying Amount</u>	<u>Accumulated Amortization</u>
Amortized intangible assets:				
Customer lists/relationships	\$ 40,927	\$ 28,437	\$ 36,745	\$ 26,243
Employment-related	12,850	9,714	12,242	8,931
Tradenames	12,684	7,870	12,219	7,083
Amortized intangible assets	66,461	<u>\$ 46,021</u>	61,206	<u>\$ 42,257</u>
Less accumulated amortization	46,021		42,257	
Identified intangible assets, net	<u>\$ 20,440</u>		<u>\$ 18,949</u>	
Goodwill	<u>\$ 80,924</u>		<u>\$ 70,107</u>	

Adjustments related to the carrying values are related to measurement period adjustments for acquisitions made in 2022 for which purchase accounting is not finalized.

The changes in the carrying amounts of goodwill, by segment, for the nine months ended September 30, 2023 and the year ended December 31, 2022 were as follows:

	<u>Balance at January 1, 2023</u>	<u>Acquisitions</u>	<u>Translation and Other Adjustments</u>	<u>Balance at September 30, 2023</u>
Utility	\$ 4,941	\$ —	\$ —	\$ 4,941
Residential and Commercial	65,166	13,441	(2,624)	75,983
Total	<u>\$ 70,107</u>	<u>\$ 13,441</u>	<u>\$ (2,624)</u>	<u>\$ 80,924</u>

	<u>Balance at January 1, 2022</u>	<u>Acquisitions</u>	<u>Translation and Other Adjustments</u>	<u>Balance at December 31, 2022</u>
Utility	\$ 4,911	\$ 30	\$ —	\$ 4,941
Residential and Commercial	51,069	14,225	(128)	65,166
Total	<u>\$ 55,980</u>	<u>\$ 14,255</u>	<u>\$ (128)</u>	<u>\$ 70,107</u>

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

Estimated future aggregate amortization expense of intangible assets--The estimated future aggregate amortization expense of intangible assets, as of September 30, 2023, was as follows:

	Estimated Future Amortization Expense
Remaining three months of 2023	\$ 1,231
2024	4,960
2025	4,174
2026	3,335
2027	2,809
2028	1,965
Thereafter	1,966
	\$ 20,440

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

We have short-term lines of credit with several banks totaling \$11,111. At September 30, 2023, we had \$8,729 available under the lines of credit with no borrowings outstanding and \$2,382 committed through issued letters of credit. Borrowings outstanding generally bear interest at the banks' prime rate or SOFR plus a margin adjustment of 1.86%.

Our long-term debt consisted of the following:

	September 30, 2023	December 31, 2022
Revolving credit facility:		
Swing-line borrowings	\$ 26,262	\$ 25,433
SOFR borrowings	180,000	125,000
	206,262	150,433
Senior unsecured notes:		
3.99% Senior unsecured notes	50,000	50,000
4.00% Senior unsecured notes	25,000	25,000
	75,000	75,000
Term loans	42,284	29,680
	323,546	255,113
Less debt issuance costs	404	519
Less current portion	48,875	23,826
	\$ 274,267	\$ 230,768

Revolving Credit Facility--In August 2021, the Company amended and restated its revolving credit facility with its existing bank group. The amended and restated credit agreement, which expires in August 2026, permits borrowings, as defined, of up to \$325,000, including a letter of credit sublimit of \$150,000 and a swing-line commitment of \$30,000. Under certain circumstances, the amount available under the revolving credit facility may be increased to \$425,000. 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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

subject to certain further restrictions as described in the credit agreement. As of September 30, 2023, we had unused commitments under the facility approximating \$116,114, with \$208,886 committed, consisting of borrowings of \$206,262 and issued letters of credit of \$2,624.

In January 2023, we amended the amended and restated credit agreement to update the benchmark interest rate provisions to replace LIBOR with the Secured Overnight Financing Rate (“SOFR”). Following the amendment, borrowings outstanding bear interest, at Davey Tree’s option, of either (a) the base rate or (b) SOFR plus a margin adjustment ranging from .875% to 1.50%--with the margin adjustments 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) Adjusted Term SOFR plus 1.50%, or (iii) the federal funds rate plus .50%. A commitment fee ranging from .10% to .225% is also required based on the average daily unborrowed commitment.

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, which was amended in September 2021. Among other things, the amendment increased the total facility limit to \$150,000 and extended the issuance period for subsequent series of promissory notes to be issued and sold pursuant to the Note Purchase and Shelf Agreement to September 2024. The amendment also amended certain provisions and covenants to generally conform them to the corresponding provisions and covenants in the amended and restated revolving credit agreement. In addition, the amendment and restatement of the revolving credit agreement in August 2021 provided that the Company is permitted to incur indebtedness arising under the Note Purchase and Shelf Agreement in an aggregate principal amount not to exceed \$150,000. As the Company has previously issued notes in an aggregate amount of \$75,000 under the Note Purchase and Shelf Agreement, it now has capacity to issue subsequent series of promissory notes pursuant to the Note Purchase and Shelf Agreement (the “Shelf Notes”) in an aggregate amount of up to \$75,000.

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 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.

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 4.00% Senior Notes are due September 21, 2028. 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.

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

Aggregate Maturities of Long-Term Debt--Aggregate maturities of long-term debt based on the principal amounts outstanding at September 30, 2023 were as follows: 2023--\$11,244; 2024--\$39,921; 2025--\$19,404; 2026--\$222,977; 2027--\$15,000; and 2028--\$15,000.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

Accounts Receivable Securitization Facility--In June 2023, 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 July 21, 2024. In addition to extending the termination date for another year, the amendment allows the borrower, a wholly-owned subsidiary of the Company, under certain circumstances, to increase the limit of its AR Securitization facility to \$150,000.

The AR Securitization program has a limit of \$100,000, of which \$89,689 was issued for LCs as of September 30, 2023 and December 31, 2022.

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 September 30, 2023--to the bank in exchange for the bank issuing LCs.

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 the term SOFR, plus .10% or, in certain circumstances, a base rate equal to the greatest of (i) the bank's prime rate, (ii) the federal funds rate plus .50% and (iii) 1.00% above the Daily one month SOFR plus .10% and, following any default, 2.00% plus the greater of (a) the term SOFR plus .10% and (b) a base rate equal to the greatest of (i), (ii) and (iii) above.

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 September 30, 2023, total commitments related to issued LCs were \$94,695, of which \$2,624 were issued under the revolving credit facility, \$89,689 were issued under the AR Securitization program, and \$2,382 were issued under short-term lines of credit. As of December 31, 2022, total commitments related to issued LCs were \$94,435, of which \$2,624 were issued under the revolving credit facility, \$89,689 were issued under the AR Securitization program, and \$2,122 were issued under short-term lines of credit.

As of September 30, 2023, we were in compliance with all debt covenants.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

H. Leases

We lease certain office and parking facilities, warehouse space, equipment, vehicles and information technology equipment under operating and finance leases. Lease expense for these leases is recognized within the Condensed 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. The following table summarizes the amounts recognized in our Condensed Consolidated Balance Sheet related to leases:

	Condensed Consolidated Balance Sheet Classification	September 30, 2023	December 31, 2022
Assets			
Operating lease assets	Right-of-use assets - operating leases	\$ 108,149	\$ 104,612
Finance lease assets	Property and equipment, net	15,102	12,948
Total lease assets		\$ 123,251	\$ 117,560
Liabilities			
Current operating lease liabilities	Other current liabilities	\$ 37,972	\$ 34,652
Non-current operating lease liabilities	Lease liabilities - operating leases	69,748	68,878
Total operating lease liabilities		107,720	103,530
Current portion of finance lease liabilities	Current portion of long-term debt and finance lease liabilities	4,096	3,046
Non-current finance lease liabilities	Lease liabilities - finance leases	10,538	9,481
Total finance lease liabilities		14,634	12,527
Total lease liabilities		\$ 122,354	\$ 116,057

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

	Condensed Consolidated Statements of Operations Classification	Three Months Ended		Nine Months Ended	
		September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Operating lease cost	Operating expense	\$ 8,028	\$ 6,649	\$ 23,642	\$ 19,095
Operating lease cost	Selling expense	3,258	2,926	9,665	8,492
Operating lease cost	General and administrative expense	260	304	925	883
Finance lease cost:					
Amortization of right-of-use assets	Depreciation and amortization	1,123	889	2,965	2,334
Interest expense on lease liabilities	Interest expense	123	74	324	196
Other lease cost ⁽¹⁾	Operating expense	2,619	1,271	5,443	3,613
Other lease cost ⁽¹⁾	Selling expense	485	235	1,467	1,059
Other lease cost ⁽¹⁾	General and administrative expense	4	27	78	59
Total lease cost		\$ 15,900	\$ 12,375	\$ 44,509	\$ 35,731

⁽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 Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

the basis of economic factors. The weighted average remaining lease terms as of September 30, 2023 was 3.4 years for operating leases and 4.2 years for finance leases.

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 weighted average discount rates used to measure our lease liabilities as of September 30, 2023 were 4.10% for operating leases and 3.72% for finance leases.

Supplemental Cash Flow Information Related to Leases

	Nine Months Ended	
	September 30, 2023	October 1, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ (33,546)	\$ (29,194)
Operating cash flows from finance leases	(325)	(196)
Financing cash flows from finance leases	(2,943)	(2,313)
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	35,666	38,403
Finance leases	5,231	3,910

Maturity Analysis of Lease Liabilities

	As of September 30, 2023	
	Operating Leases	Finance Leases
Remaining three months of 2023	\$ 11,126	\$ 1,043
2024	39,410	4,516
2025	30,295	3,879
2026	18,295	3,034
2027	10,633	1,765
2028	3,599	608
Thereafter	2,552	1,074
Total lease payments	115,910	15,919
Less interest	8,190	1,285
Total	<u>\$ 107,720</u>	<u>\$ 14,634</u>

I. 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 has a term of 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 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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

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 (“SSARs”) and restricted stock units (“RSUs”) -- was included in the results of operations as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Compensation expense, all share-based payment plans	\$ 1,700	\$ 1,658	\$ 5,105	\$ 5,244

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. We recognize compensation costs as payroll deductions are made. The 15% discount of total shares purchased under the plan resulted in compensation cost of \$1,338 being recognized for the nine months ended September 30, 2023 and \$1,380 for the nine months ended October 1, 2022.

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 \$173 for the nine months ended September 30, 2023 and \$289 for the nine months ended October 1, 2022. Beginning in 2021, management and the Compensation Committee replaced the issuance of stock options with performance-based restricted stock units (“PRSUs”) for certain employees.

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 market 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 with PRSUs for certain management employees.

Compensation costs for SSARs are determined using a fair-value method and 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 grant date price of a SSAR. During 2022, all remaining SSARs awards vested. There was no compensation expense for SSARs for the nine months ended September 30, 2023 and \$65 for the nine months ended October 1, 2022.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

Restricted Stock Units--During the nine months ended September 30, 2023, the Compensation Committee awarded 224,540 PRSUs to certain management employees and 14,378 RSUs to nonemployee directors. The Compensation Committee made similar awards in prior periods. The awards vest over specified periods. The following table summarizes PRSUs and RSUs as of September 30, 2023.

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, 2023	766,267	\$ 14.95			
Granted	238,918	18.29			
Forfeited	—	—			
Vested	(71,342)	12.18			
Unvested, September 30, 2023	<u>933,843</u>	<u>\$ 16.02</u>	<u>1.5 years</u>	<u>\$ 6,963</u>	<u>\$ 19,424</u>
Employee PRSUs	<u>885,572</u>	<u>\$ 15.97</u>	<u>1.5 years</u>	<u>\$ 6,523</u>	<u>\$ 18,420</u>
Nonemployee Director RSUs	<u>48,271</u>	<u>\$ 16.79</u>	<u>1.6 years</u>	<u>\$ 440</u>	<u>\$ 1,004</u>

Compensation cost for PRSUs and RSUs is determined using a fair-value method and amortized on the straight-line recognition method over the requisite service period. “Intrinsic value” is defined as the amount by which the fair market value of a common share exceeds the grant date price of a PRSU or an RSU. Compensation expense on PRSUs and RSUs totaled \$3,594 for the nine months ended September 30, 2023 and \$3,510 for the nine months ended October 1, 2022.

We estimated the fair value of each stock-based award 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 stock 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.

	Nine Months Ended	
	September 30, 2023	October 1, 2022
Volatility rate	9.6 %	9.7 %
Risk-free interest rate	4.1 %	1.7 %
Expected dividend yield	.4 %	.4 %
Expected life of awards (years)	3.0	3.0

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

General Stock Option Information--The following table summarizes activity under the stock option plans for the nine months ended September 30, 2023.

Stock Options	Number of Options Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, January 1, 2023	2,072,949	\$ 8.59		
Granted	—	—		
Exercised	(206,253)	6.72		
Forfeited	(120,800)	5.80		
Outstanding, September 30, 2023	<u>1,745,896</u>	<u>\$ 9.01</u>	<u>3.6 years</u>	<u>\$ 20,584</u>
Exercisable, September 30, 2023	<u>1,545,520</u>	<u>\$ 8.67</u>	<u>3.3 years</u>	<u>\$ 18,747</u>

As of September 30, 2023, there was approximately \$198 of unrecognized compensation cost related to stock options outstanding. The cost is expected to be recognized over a weighted-average period of 1.1 years. "Intrinsic value" is defined as the amount by which the market price of a common share exceeds the exercise price of an option.

Common shares are issued from treasury upon the exercise of stock options and SSARs, the vesting of RSUs and PRSUs or purchases under the Employee Stock Purchase Plan.

J. Income Taxes

Our income tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate and, if our estimated annual tax rate changes, we make a cumulative adjustment. The estimated annual effective tax rate for the nine months ended September 30, 2023 was 27.4%. Our actual effective tax rate was 28.9% and 26.3% for the three months ended September 30, 2023 and October 1, 2022, respectively. Our actual effective tax rate was 27.1% and 26.2% for the nine months ended September 30, 2023 and October 1, 2022, respectively. The change in the effective tax rate from statutory tax rates was primarily due to the impact of favorable discrete items which are a set amount and therefore have a larger impact on the rate based on our net income before tax in the first nine months compared to the impact they will have on the rate for the full year.

As of September 30, 2023, we had unrecognized tax benefits of \$699, of which \$371 would affect our effective rate if recognized, and accrued interest expense related to unrecognized benefits of \$56. At December 31, 2022, we had unrecognized tax benefits of \$638, of which \$311 would affect our effective rate if recognized, and accrued interest expense related to unrecognized benefits of \$53. Unrecognized tax benefits are the differences between a tax position taken, or expected to be taken, in a tax return, and the benefit recognized for financial reporting purposes.

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 Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

The Company is routinely under audit by U.S. federal, state and local authorities 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 2018. As of September 30, 2023, we believe it is reasonably possible that the total amount of unrecognized tax benefits will not significantly increase or decrease.

K. Accumulated Other Comprehensive Income (Loss)

Comprehensive income (or loss) is comprised of net income (or net loss) and other components, including foreign currency translation adjustments and defined benefit pension plan adjustments.

The following summarizes the components of other comprehensive income (loss) accumulated in shareholders' equity for the three and nine months ended September 30, 2023 and October 1, 2022:

Three Months Ended September 30, 2023	Foreign Currency	Available for Sale Securities	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at July 1, 2023	\$ (4,915)	\$ (340)	\$ 122	\$ (5,133)
Other comprehensive income (loss) before reclassifications				
Translation adjustment	\$ (515)	\$ —	\$ —	\$ (515)
Unrealized gains	—	3	—	3
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—	—
Tax effect	—	(1)	—	(1)
Net of tax amount	(515)	2	—	(513)
Balance at September 30, 2023	\$ (5,430)	\$ (338)	\$ 122	\$ (5,646)

Three Months Ended October 1, 2022	Foreign Currency	Available-for- Sale Securities	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at July 2, 2022	\$ (4,175)	\$ (181)	\$ (473)	\$ (4,829)
Other comprehensive income (loss) before reclassifications				
Translation adjustment	\$ (1,934)	\$ —	\$ —	\$ (1,934)
Unrealized losses	—	(113)	—	(113)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(11)	30	19
Tax effect	—	26	(8)	18
Net of tax amount	(1,934)	(98)	22	(2,010)
Balance at October 1, 2022	\$ (6,109)	\$ (279)	\$ (451)	\$ (6,839)

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

Nine Months Ended September 30, 2023	Foreign Currency	Available-for- Sale Securities	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2023	\$ (5,511)	\$ (199)	\$ 122	\$ (5,588)
Other comprehensive income (loss) before reclassifications				
Translation adjustment	\$ 81	\$ —	\$ —	\$ 81
Unrealized losses	—	(156)	—	(156)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(19)	—	(19)
Tax effect	—	36	—	36
Net of tax amount	81	(139)	—	(58)
Balance at September 30, 2023	\$ (5,430)	\$ (338)	\$ 122	\$ (5,646)

Nine Months Ended October 1, 2022	Foreign Currency	Available-for- Sale Securities	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2022	\$ (3,654)	\$ —	\$ (519)	\$ (4,173)
Other comprehensive income (loss) before reclassifications				
Translation adjustment	\$ (2,455)	\$ —	\$ —	\$ (2,455)
Unrealized losses	—	(350)	—	(350)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(3)	92	89
Tax effect	—	74	(24)	50
Net of tax amount	(2,455)	(279)	68	(2,666)
Balance at October 1, 2022	\$ (6,109)	\$ (279)	\$ (451)	\$ (6,839)

There was no change in defined benefit pension plans for the three and nine months ended September 30, 2023 and \$30 and \$92 for the three and nine months ended October 1, 2022, which was included in net periodic pension expense classified in the condensed consolidated statement of operations as general and administrative expense or other income (expense).

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

L. Per Share Amounts and Common and Redeemable Shares Outstanding

We calculate our basic earnings per share by dividing net income or net loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated in a similar manner, but include the effect of dilutive securities. To the extent these securities are antidilutive, they are excluded from the calculation of earnings per share. The per share amounts were computed as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Income available to common shareholders:				
Net income	\$ 20,697	\$ 20,464	\$ 58,736	\$ 49,031
Weighted-average shares (in thousands):				
Basic:				
Outstanding	42,809	43,920	42,452	44,194
Partially-paid share subscriptions	314	228	942	228
Basic weighted-average shares	<u>43,123</u>	<u>44,148</u>	<u>43,394</u>	<u>44,422</u>
Diluted:				
Basic from above	43,123	44,148	43,394	44,422
Incremental shares from assumed:				
Exercise of stock subscription purchase rights	38	—	38	—
Exercise of stock options and awards	2,025	2,257	2,068	2,297
Diluted weighted-average shares	<u>45,186</u>	<u>46,405</u>	<u>45,501</u>	<u>46,719</u>
Net income per share:				
Basic	\$.48	\$.46	\$ 1.35	\$ 1.10
Diluted	<u>\$.46</u>	<u>\$.44</u>	<u>\$ 1.29</u>	<u>\$ 1.05</u>

Common and Redeemable Shares Outstanding--A summary of the activity of the common and redeemable shares outstanding for the nine months ended September 30, 2023 was as follows:

	Common Shares Net of Treasury Shares	Redeemable Shares	Total
Shares outstanding at January 1, 2023	33,529,474	9,188,010	42,717,484
Shares purchased	(1,641,224)	(974,395)	(2,615,619)
Shares sold	789,553	514,397	1,303,950
Stock subscription offering -- cash purchases	12,336	—	12,336
Options and awards exercised	513,305	—	513,305
Shares outstanding at September 30, 2023	<u>33,203,444</u>	<u>8,728,012</u>	<u>41,931,456</u>

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

On September 30, 2023, we had 41,931,456 common and redeemable shares outstanding, employee options exercisable to purchase 1,545,520 common shares, partially-paid subscriptions for 1,256,250 common shares and purchase rights outstanding for 462,473 common shares.

2022 Subscription Offering

Beginning April 2022, the Company offered to eligible employees and nonemployee directors the right to subscribe to a maximum of 2,666,667 common shares of the Company (including shares that may be issued upon the exercise of stock rights) at \$18.10 per share in accordance with the provisions of The Davey Tree Expert Company 2014 Omnibus Stock Plan and the rules of the Compensation Committee of the Company's Board of Directors. The offering period ended on August 1, 2022 and resulted in the subscription of 1,476,250 common shares for \$26,720 at \$18.10 per share.

Participants in the subscription offering who purchased common shares for an aggregate purchase price of less than \$5 were required to pay with cash. All participants (excluding Company directors and officers) purchasing common shares for an aggregate purchase price of \$5 or more 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 the greater of 2.00% or the applicable federal rate in effect as of August 1, 2022, which was 3.15%. Payments on the promissory note can be made either by payroll deductions or annual lump-sum payments of both principal and interest. Common shares purchased in the offering were pledged as security for the payment of the promissory note, and the common shares will not be issued until the promissory note is paid-in-full. Dividends will be paid on all subscribed shares, subject to forfeiture to the extent that payment is not ultimately made for the shares.

All participants in the offering who purchased in excess of \$5 of common shares were granted a "right" to purchase one additional common share at a price of \$18.10 per share for every three common shares purchased in the offering. As a result of the stock subscription, rights to purchase 489,169 common shares were granted. Each right may be exercised at the rate of one-seventh per year and will expire seven years after the date that the right was granted. A purchaser may not exercise a right once he or she ceases to be the Company's employee or non-employee director, as applicable.

M. Operations by Business Segment

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 and rights-of-way and chemical brush control, natural resource management and consulting, forestry research and development, and environmental planning.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

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. Segment information, including reconciling adjustments, is presented consistent with the basis described in our 2022 Annual Report.

Segment information reconciled to the condensed consolidated financial statements was as follows:

	<u>Utility</u>	<u>Residential and Commercial</u>	<u>All Other</u>	<u>Reconciling Adjustments</u>	<u>Consolidated</u>
Three Months Ended September 30, 2023					
Revenues	\$ 247,478	\$ 201,753	\$ 1,403	\$ —	\$ 450,634
Income (loss) from operations	<u>17,656</u>	<u>24,398</u>	<u>(4,188)</u>	(1,629) (a)	36,237
Interest expense				(4,751)	(4,751)
Interest income				502	502
Other income (expense), net				<u>(2,890)</u>	<u>(2,890)</u>
Income before income taxes					\$ 29,098
Segment assets, total	<u>\$ 372,114</u>	<u>\$ 368,062</u>	<u>\$ —</u>	<u>\$ 526,377</u> (b)	<u>\$ 1,266,553</u>

Three Months Ended October 1, 2022

Revenues	\$ 217,305	\$ 180,706	\$ 934	\$ —	\$ 398,945
Income (loss) from operations	<u>16,790</u>	<u>21,204</u>	<u>(4,033)</u>	(948) (a)	33,013
Interest expense				(2,164)	(2,164)
Interest income				303	303
Other income (expense), net				<u>(3,371)</u>	<u>(3,371)</u>
Income before income taxes					\$ 27,781
Segment assets, total	<u>\$ 331,393</u>	<u>\$ 305,216</u>	<u>\$ —</u>	<u>\$ 263,362</u> (b)	<u>\$ 899,971</u>

Nine Months Ended September 30, 2023

Revenues	\$ 700,378	\$ 563,942	\$ 2,854	\$ —	\$ 1,267,174
Income (loss) from operations	<u>51,197</u>	<u>61,312</u>	<u>(11,439)</u>	(3,875) (a)	97,195
Interest expense				(13,588)	(13,588)
Interest income				1,329	1,329
Other income (expense), net				<u>(4,365)</u>	<u>(4,365)</u>
Income before income taxes					\$ 80,571
Segment assets, total	<u>\$ 372,114</u>	<u>\$ 368,062</u>	<u>\$ —</u>	<u>\$ 526,377</u> (b)	<u>\$ 1,266,553</u>

Nine Months Ended October 1, 2022

Revenues	\$ 637,900	\$ 504,064	\$ 1,584	\$ —	\$ 1,143,548
Income (loss) from operations	<u>49,260</u>	<u>50,759</u>	<u>(14,852)</u>	(5,665) (a)	79,502
Interest expense				(5,312)	(5,312)
Interest income				489	489
Other income (expense), net				<u>(8,241)</u>	<u>(8,241)</u>
Income before income taxes					\$ 66,438
Segment assets, total	<u>\$ 331,393</u>	<u>\$ 305,216</u>	<u>\$ —</u>	<u>\$ 263,362</u> (b)	<u>\$ 899,971</u>

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

Reconciling adjustments from segment reporting to the condensed consolidated financial statements include unallocated corporate items:

- (a) Reclassification of depreciation expense and allocation of corporate expenses.
- (b) Corporate assets include cash, prepaid expenses, corporate facilities, enterprise-wide information systems and other nonoperating assets.

N. 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 each of the goods or services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices.

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.

Disaggregation of Revenue

The following tables disaggregate our revenue for the three and nine months ended September 30, 2023 and October 1, 2022 by major sources:

Three Months Ended September 30, 2023	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	\$ 147,125	\$ 110,487	\$ (202)	\$ 257,410
Grounds maintenance	—	50,603	—	50,603
Storm damage services	5,192	4,240	—	9,432
Consulting and other	95,161	36,423	1,605	133,189
Total revenues	<u>\$ 247,478</u>	<u>\$ 201,753</u>	<u>\$ 1,403</u>	<u>\$ 450,634</u>
Geography:				
United States	\$ 229,046	\$ 189,044	\$ 1,403	\$ 419,493
Canada	18,432	12,709	—	31,141
Total revenues	<u>\$ 247,478</u>	<u>\$ 201,753</u>	<u>\$ 1,403</u>	<u>\$ 450,634</u>

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

Three Months Ended October 1, 2022	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	\$ 138,112	\$ 105,108	\$ (28)	\$ 243,192
Grounds maintenance	—	46,056	—	46,056
Storm damage services	7,004	2,564	—	9,568
Consulting and other	72,189	26,978	962	100,129
Total revenues	<u>\$ 217,305</u>	<u>\$ 180,706</u>	<u>\$ 934</u>	<u>\$ 398,945</u>

Geography:

United States	\$ 207,004	\$ 168,405	\$ 934	\$ 376,343
Canada	10,301	12,301	—	22,602
Total revenues	<u>\$ 217,305</u>	<u>\$ 180,706</u>	<u>\$ 934</u>	<u>\$ 398,945</u>

Nine Months Ended September 30, 2023	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	\$ 425,701	\$ 309,558	\$ (344)	\$ 734,915
Grounds maintenance	—	138,451	—	138,451
Storm damage services	11,340	12,446	—	23,786
Consulting and other	263,337	103,487	3,198	370,022
Total revenues	<u>\$ 700,378</u>	<u>\$ 563,942</u>	<u>\$ 2,854</u>	<u>\$ 1,267,174</u>

Geography:

United States	\$ 658,021	\$ 529,540	\$ 2,854	\$ 1,190,415
Canada	42,357	34,402	—	76,759
Total revenues	<u>\$ 700,378</u>	<u>\$ 563,942</u>	<u>\$ 2,854</u>	<u>\$ 1,267,174</u>

Nine Months Ended October 1, 2022	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	\$ 420,791	\$ 294,206	\$ (155)	\$ 714,842
Grounds maintenance	—	128,114	—	128,114
Storm damage services	10,136	6,162	—	16,298
Consulting and other	206,973	75,582	1,739	284,294
Total revenues	<u>\$ 637,900</u>	<u>\$ 504,064</u>	<u>\$ 1,584</u>	<u>\$ 1,143,548</u>

Geography:

United States	\$ 608,411	\$ 469,042	\$ 1,584	\$ 1,079,037
Canada	29,489	35,022	—	64,511
Total revenues	<u>\$ 637,900</u>	<u>\$ 504,064</u>	<u>\$ 1,584</u>	<u>\$ 1,143,548</u>

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

Contract Balances

Our contract liabilities consist of advance payments and billings in excess of costs incurred and deferred revenue. The Company recognized \$351 and \$2,048 of revenue for the three and nine months ended September 30, 2023, that was included in the contract liability balance at December 31, 2022 and \$616 and \$1,676 of revenue for the three and nine months ended October 1, 2022, that was included in the contract liability balance at December 31, 2021. Net contract liabilities consisted of the following:

	September 30, 2023	December 31, 2022
Contract liabilities - current	\$ 2,584	\$ 3,723
Contract liabilities - noncurrent	3,044	4,145
Net contract liabilities	<u>\$ 5,628</u>	<u>\$ 7,868</u>

O. Fair Value Measurements and Financial Instruments

FASB ASC 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.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

Our assets and liabilities measured at fair value on a recurring basis at September 30, 2023 were as follows:

Assets and Liabilities Recorded at Fair Value on a Recurring Basis	Total Carrying Value at September 30, 2023	Fair Value Measurements at September 30, 2023 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				
Certificates of deposits, current	\$ 2,359	\$ 2,359	\$ —	\$ —
Certificates of deposits, noncurrent	4,750	4,750	—	—
Available-for-sale debt securities:				
United States Government and agency securities	40,090	40,090	—	—
Corporate notes and bonds	520	520	—	—
Total available-for-sale debt securities	40,610	40,610	—	—
Marketable equity securities:				
Mutual funds	5,558	5,558	—	—
Corporate stocks	3,385	3,385	—	—
Exchange traded funds	1,333	1,333	—	—
Total marketable equity securities	10,276	10,276	—	—
Liabilities:				
Deferred compensation	\$ 1,488	\$ —	\$ —	\$ 1,488

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

Our assets and liabilities measured at fair value on a recurring basis at December 31, 2022 were as follows:

Assets and Liabilities Recorded at Fair Value on a Recurring Basis	Total Carrying Value at December 31, 2022	Fair Value Measurements at December 31, 2022 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				
Certificates of deposits, current	\$ 3,750	\$ 3,750	\$ —	\$ —
Certificates of deposits, noncurrent	6,359	6,359	—	—
Available-for-sale debt securities:				
United States Government and agency securities	25,254	25,254	—	—
Corporate notes and bonds	264	264	—	—
Total available-for-sale debt securities	25,518	25,518	—	—
Marketable equity securities:				
Mutual funds	13,873	13,873	—	—
Corporate stocks	3,007	3,007	—	—
Exchange traded funds	1,230	1,230	—	—
Total marketable equity securities	18,110	18,110	—	—
Liabilities:				
Deferred compensation	\$ 4,597	\$ —	\$ 4,597	\$ —

The assets invested for self-insurance are certificates of deposit, stocks, bonds, mutual funds and exchange traded funds--classified as Level 1--based on quoted market prices of the identical underlying securities in active markets. The estimated fair value of the deferred compensation--classified as Level 3--is based on the value of the Company's common shares.

The Company's 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 the common shares is determined by an independent stock valuation firm. The semiannual valuations utilize two approaches in determining the fair value of the common shares, a market approach and an income approach. Each approach utilizes Company performance and financial condition, using a peer group of comparable companies selected by the firm as well as significant unobservable inputs such as projected earnings and cash flow, EBITDA and cost of capital. The results of each valuation approach are utilized in a weighted average calculation to arrive at the fair market value.

The peer group at September 30, 2023 consisted 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 the Board of Directors of the Company has determined that the common shares will be bought and sold during that six-month period in transactions involving the Company or one of its employee benefit or stock purchase plans. The Company provides a ready market for all shareholders

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

through its direct purchase of their common shares, although the Company is under no obligation to do so (other than for repurchases pursuant to the put option, as described in Note Q).

Management has evaluated the classification of the common shares and determined that due to significant unobservable inputs used in the independent stock valuation, the shares are more appropriately categorized as Level 3 investments.

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

	September 30, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Available-for-sale debt securities	\$ 40,610	\$ 40,610	\$ 25,518	\$ 25,518
Marketable equity securities	10,276	10,276	18,110	18,110
Liabilities:				
Revolving credit facility, noncurrent	\$ 206,262	\$ 206,262	\$ 150,433	\$ 150,433
Senior unsecured notes, noncurrent	60,000	57,335	75,000	74,968
Term loans, noncurrent	8,409	8,420	5,854	5,610
Total	\$ 274,671	\$ 272,017	\$ 231,287	\$ 231,011

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.

P. Commitments and Contingencies

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 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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

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.

Georgia wrongful death suit

In November 2017, a wrongful death lawsuit was filed in Savannah, Georgia in the State Court of Chatham County (“State Court”) against Davey Tree, its subsidiary, Wolf Tree, Inc. (“Wolf Tree”), a former Davey employee, a Wolf Tree employee, and two former Wolf Tree employees. That complaint, as subsequently amended, alleges various acts of negligence and seeks compensatory damages for the wrongful death of the plaintiff’s husband, a Wolf Tree employee, who was shot and killed in August 2017.

In July 2018, a related survival action was filed in Savannah, Georgia by the deceased’s estate against Davey Tree, its subsidiary, Wolf Tree, and four current and former employees, 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 treble 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 cases were mediated unsuccessfully in December 2018 and the State Court case was originally set for trial on January 22, 2019. However, as discussed below, the two civil cases were ultimately stayed for more than four years.

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 Department of Justice (“DOJ”) filed a motion to stay both actions on the grounds that on December 7, 2018, an indictment was issued charging two former Wolf Tree employees and another individual with various crimes, including conspiracy to murder the deceased. The State Court case was stayed on December 28, 2018 and the Federal Court case was stayed on January 8, 2019. 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.

By November 2022, all three of the individually charged defendants had either been convicted at trial or pled guilty to Federal criminal charges in the Federal Court related to their involvement with the murder and other illegal activities. All three criminal defendants have now been sentenced.

Since the individual defendants' criminal matters are now resolved, the State Court permitted limited additional discovery and amended motions for summary judgment. The Company filed a motion for summary judgment and plaintiffs have responded, and the motion remains pending before the State Court. The State Court has not yet set a trial date.

The stay in the Federal Court case was lifted on April 4, 2023. The case will now proceed to the early stages of litigation. The Company filed a request for a motion to dismiss the alleged civil RICO claims by plaintiffs and further filed a motion to stay the case until the motion to dismiss was decided. The Federal Court granted the Company’s motion to stay, with two limited exceptions for ongoing discovery. The Federal Court has not yet set a trial date.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

Previously, on December 17, 2018, the United States Attorney's Office for the Southern District of Georgia ("United States Attorney") informed the Company and Wolf Tree that they are also under investigation for potential civil or other violations of immigration and other laws relating to the subject matters of the criminal investigation referenced above. The Company and Wolf Tree fully cooperated with the investigation.

On July 12, 2023, the Company and Wolf Tree entered into a non-prosecution and settlement agreement (the "settlement agreement") with the United States Attorney's Office for the Southern District of Georgia and the United States Department of Homeland Security ("DHS"), resolving the investigation for potential violations of immigration and other laws by the Company and Wolf Tree.

The United States Attorney recognized that, since August 2017, both the Company and Wolf Tree have fully cooperated with the criminal and civil investigation and, in entering into the settlement agreement, the United States Attorney took into consideration the Company's and Wolf Tree's implementation of a significant compliance program.

The Company and Wolf Tree agreed to pay \$3,984 as part of the settlement agreement, including civil penalties, forfeiture and restitution, an amount the Company and Wolf Tree had previously reserved. The United States Attorney agreed that it will not bring any criminal charges against the Company or Wolf Tree concerning the subject matter of the investigation and released the Company and Wolf Tree from civil liability concerning certain immigration code provisions. The DHS also agreed to release the Company and Wolf Tree from administrative liability relating to the subject matter of the investigation, all of which are subject to standard reservations of rights and certain reserved claims. The settlement agreement closes the investigation by the United States Attorney and DHS. The settlement is not an admission of liability by the Company or Wolf Tree.

The civil cases in the State Court of Chatham County in Georgia and the United States District Court for the Southern District of Georgia, Savannah Division relating to the same subject matter, remain pending. In both civil cases, the Company and Wolf Tree have denied all liability and are vigorously defending against the actions. The Company also has retained separate counsel for some of the individual defendants, each of whom has denied all liability and also are vigorously defending the actions.

Northern California Wildfires

Five lawsuits were filed that name contractors for PG&E Corporation and its subsidiary, Pacific Gas and Electric Company (together, "PG&E"), including Davey Tree, with respect to claims arising from wildfires that occurred in Pacific Gas and Electric Company's service territory in northern California beginning on October 8, 2017. An action was brought on August 8, 2019 in Napa County Superior Court, entitled *Donna Walker, et al. v. Davey Tree Surgery Company, et al.*, Case No. 19CV001194. An action was brought on October 8, 2019 in San Francisco County Superior Court, entitled *Quinisha Kyree Abram, et al. v. ACRT, Inc., et al.*, Case No. CGC-19-579861. An action was brought on October 7, 2019 in San Francisco Superior Court, entitled *Adams, et al. v. Davey Resource Group, Inc., et al.*, Case No. CGC-19-579828. An action was brought on October 8, 2019 in Sacramento Superior Court, entitled *Antone, et al. v. ACRT, Inc. et al.*, Case No. 34-2019-00266662. An action was brought on October 7, 2019 in Sacramento Superior Court, entitled *Bennett, et al. v. ACRT, Inc. et al.*, Case No. 2019-00266501.

Three additional actions were brought on January 28, 2021 in San Francisco County Superior Court, by fire victims represented by a trust ("Plaintiffs' Trust"), which was assigned contractual rights in the PG&E bankruptcy proceedings. These cases are entitled *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al.*, Case No. CGC-21-589438; *John K. Trotter, Trustee of the*

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al., Case No. CGC-21-589439; and *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. ACRT Pacific, LLC, et al.*, Case No. CGC-21-589441. On September 22, 2021, the court granted Davey Tree's petition to coordinate all cases as a California Judicial Council Coordination Proceeding, *In Re North Bay Fire Cases*, JCCP No. 4955. As a result of the coordination order, all of the actions are stayed in their home jurisdictions. At a case management conference in JCCP No. 4955 on February 24, 2022, the Court ordered that Davey Tree and the plaintiffs participate in a mediation. An initial mediation took place on October 17, 2022. The matter did not resolve at this initial mediation and mediation efforts are ongoing.

In November 2022, Davey Tree filed a cross-complaint against the Plaintiffs' Trust and PG&E related to the contractual obligations of limitation of liability and hold harmless. Since that time, Davey Tree has dismissed the cross-complaint against PG&E without prejudice. The Plaintiffs' Trust filed a demurrer which challenged Davey Tree's claim that the hold harmless provisions in its contracts with PG&E are an obligation of the Plaintiffs' Trust. In response to the demurrer, Davey Tree filed an amended cross-complaint against the Plaintiffs' Trust on April 13, 2023. The Plaintiffs' Trust has since filed another demurrer seeking to dismiss the cross complaint by Davey Tree, and Davey Tree has filed a response. The Plaintiffs' Trust filed a motion for summary adjudication which challenged the limitation of liability as set forth in the assigned contracts. The Court denied the motion for summary adjudication in an order entered April 12, 2023. The court originally set a trial date for October 2, 2023 involving the claim of the Plaintiffs' Trust as to the Atlas burn location. On July 26, 2023, based on a joint request by the parties, the court vacated the October 2, 2023 Atlas trial date and reset the Atlas trial for February 26, 2024.

The parties have continued to mediate all of the claims alleged in the consolidated cases. The parties jointly requested that the Court suspend trial dates and other proceeding while the parties attempt to reach final terms on a global resolution. The court granted the parties request and stayed the trial scheduled dates for 60 days.

Davey Tree has responded to all claims asserted by the plaintiffs in these actions, denying all liability, and is vigorously defending against plaintiffs' alleged claims. However, we believe that a range of losses is probable and we have accrued our best estimate within this range which is also equal to our total coverage limits under our self-insurance and third party insurance providers for the 2017-2018 policy year of \$218,000. We believe that any losses would be recovered through our self-insurance and third party insurance providers and have accrued a corresponding insurance recoverable within our Condensed Consolidated Balance Sheet as of September 30, 2023.

Q. The Davey 401KSOP and Employee Stock Ownership Plan

On March 15, 1979, the Company consummated a plan, which transferred control of the Company to its employees. As a part of this plan, the Company initially sold 120,000 common shares (presently, 46,080,000 common shares adjusted for stock splits) to its 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 Plan. 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, 2020, we match, in either cash or our common shares, 100% of the first three percent and 50% of the next two percent of each participant's before-tax contribution, limited to the first five percent of the

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2023
(Amounts in thousands, except share data)

employee's compensation deferred each year. All non-bargaining domestic employees who attained age 21 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.

Our 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 assists with the appraisal of the fair market value of our common shares based upon our performance and financial condition. 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 \$1,342 and \$1,833 as of September 30, 2023 and December 31, 2022, respectively. The fair value of the shares held in the Davey 401KSOP and ESOP totaled \$180,201 and \$168,145 as of September 30, 2023 and December 31, 2022, 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 recorded at fair value, classified as temporary equity in the mezzanine section of the consolidated balance sheets and totaled \$181,543 and \$169,978 as of September 30, 2023 and December 31, 2022, respectively. Changes in the fair value of the 401KSOP and ESOP Plan related shares are reflected in retained earnings while net share activity associated with the 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(Amounts in thousands, except share data)

Management's Discussion and Analysis of Financial Condition and Results of Operations is provided as a supplement to the accompanying condensed consolidated financial statements and notes to help provide an understanding of our financial condition, cash flows and results of operations.

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.

Our Business--Our operating results are reported in two segments organized by type or class of customer: Residential and Commercial, and Utility. 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 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 and rights-of-way and chemical brush control, 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."

Recent Trends

Our business continues to be impacted by a number of macro-economic factors, in addition to the trailing impact of the COVID-19 pandemic. Global supply chains and product availability remain highly challenged and ongoing global events in Eastern Europe, as well as the Israel-Hamas war, have only exacerbated an already difficult operating environment. These factors, combined with higher fuel costs, increasing interest rates and a highly competitive labor market, have created an inflationary environment and cost pressures.

In regard to consumer demand, since the onset of the COVID-19 pandemic, our business has experienced an increase in demand and sales. It remains unclear, however, if these demand trends will remain intact or if they will revert to more historical levels over time, particularly as inflation begins to impact discretionary spending.

Inflation rates in the markets in which we operate have increased and may continue to rise. Inflation has led us to experience higher costs, including higher labor costs and costs for materials from suppliers and transportation costs, and, in the competitive markets in which we operate, we may not be able to increase our prices correspondingly to preserve our gross margins and profitability. If inflation rates continue to rise or remain elevated for a sustained period of time, they could have a material adverse effect on our business, financial condition, results of operations and liquidity. We have generally been able to offset increases in these costs through various productivity and cost reduction initiatives, as well as adjusting our prices to pass through some of these higher costs to our customers; however, our ability to raise our prices depends on market conditions and competitive dynamics. Given the timing of our actions compared to the timing of these inflationary pressures, there may be periods during which we are unable to fully recover the increases in our costs.

2022 Subscription Offering

The Company offered to eligible employees and nonemployee directors the right to subscribe to a maximum of 2,666,667 common shares of the Company at \$18.10 per share in accordance with the provisions of The Davey Tree Expert Company 2014 Omnibus Stock Plan and

the rules of the Compensation Committee of the Company's Board of Directors. The offering period ended on August 1, 2022 and resulted in the subscription of 1,476,250 common shares for \$26,720 at \$18.10 per share. For additional information regarding the offering, see "Part I - Item 1 Note L - Per Share Amounts and Common and Redeemable Shares Outstanding."

RESULTS OF OPERATIONS

The following table sets forth our consolidated results of operations as a percentage of revenues and the change in such percentages for the periods presented.

	Three Months Ended			Nine Months Ended		
	September 30, 2023	October 1, 2022	Change	September 30, 2023	October 1, 2022	Change
Revenues	100.0 %	100.0 %	— %	100.0 %	100.0 %	— %
Costs and expenses:						
Operating	63.2	63.8	(.6)	63.8	64.7	(.9)
Selling	18.9	18.1	.8	18.1	17.6	.5
General and administrative	6.9	7.0	(.1)	7.5	7.6	(.1)
Depreciation and amortization	3.2	3.5	(.3)	3.4	3.6	(.2)
Gain on sale of assets, net	(.3)	(.7)	.4	(.5)	(.5)	—
Income from operations	8.0	8.3	(.3)	7.7	7.0	.7
Other income (expense):						
Interest expense	(1.1)	(.5)	(.6)	(1.1)	(.5)	(.6)
Interest income	.1	.1	—	.1	—	.1
Other, net	(.5)	(.9)	.4	(.4)	(.7)	.3
Income before income taxes	6.5	7.0	(.5)	6.4	5.8	.6
Income taxes	1.9	1.9	—	1.7	1.5	.2
Net income	<u>4.6 %</u>	<u>5.1 %</u>	<u>(.5)%</u>	<u>4.6 %</u>	<u>4.3 %</u>	<u>.3 %</u>

Third Quarter—Three Months Ended September 30, 2023 Compared to Three Months Ended October 1, 2022

Our results of operations for the three months ended September 30, 2023 compared to the three months ended October 1, 2022 were as follows:

	Three Months Ended			
	September 30, 2023	October 1, 2022	Change	Percentage Change
Revenues	\$ 450,634	\$ 398,945	\$ 51,689	13.0 %
Costs and expenses:				
Operating	285,019	254,661	30,358	11.9
Selling	84,982	72,364	12,618	17.4
General and administrative	31,155	27,964	3,191	11.4
Depreciation and amortization	14,935	13,780	1,155	8.4
Gain on sale of assets, net	(1,694)	(2,837)	1,143	(40.3)
	<u>414,397</u>	<u>365,932</u>	<u>48,465</u>	<u>13.2</u>
Income from operations	36,237	33,013	3,224	9.8
Other income (expense):				
Interest expense	(4,751)	(2,164)	(2,587)	119.5
Interest income	502	303	199	65.7
Other, net	(2,890)	(3,371)	481	(14.3)
Income before income taxes	29,098	27,781	1,317	4.7
Income taxes	8,401	7,317	1,084	14.8
Net income	<u>\$ 20,697</u>	<u>\$ 20,464</u>	<u>\$ 233</u>	<u>1.1 %</u>

Revenues--Revenues of \$450,634 increased \$51,689 compared with \$398,945 in the third quarter of 2022. Utility Services increased \$30,173 or 13.9% compared with the third quarter of 2022. The increase was attributable to new accounts as well as increased work year-over-year and price increases on existing accounts. Residential and Commercial Services increased \$21,047 or 11.6% from the third quarter of 2022. Increases were primarily in tree and plant care revenues, grounds maintenance revenue and consulting and other revenue.

Operating Expenses--Operating expenses of \$285,019 increased \$30,358 compared with the third quarter of 2022. Utility Services increased \$23,306 or 14.6% compared with the third quarter of 2022 and, as a percentage of revenue, increased to 74.2% from 73.7%. The increase was attributable to additional expenses for labor and benefits expenses, materials expenses, crew meals and lodging expenses and subcontractor expense, which were partially offset by decreases in fuel expense and tools and parts expense. Residential and Commercial Services increased \$8,119 or 8.7% compared with the third quarter of 2022 but, as a percentage of revenue, decreased to 50.3% from 51.6%. The increase was attributable to increases in labor and benefits expenses, subcontractor expense and materials expense, which were partially offset by decreases in tools and parts expense and fuel expense.

Fuel costs of \$13,615 decreased \$2,628, or 16.2%, from the \$16,243 incurred in the third quarter of 2022 and impacted operating expenses within all segments. The \$2,628 decrease included usage increases approximating \$108 and price decreases approximating \$2,736.

Selling Expenses--Selling expenses of \$84,982 increased \$12,618 compared with the third quarter of 2022 and, as a percentage of revenue, increased to 18.9% from 18.1%. Utility Services increased \$4,734 or 18.2% compared to the third quarter of 2022 and, as a percentage of revenue, increased to 12.4% from 12.0%. The increase was primarily attributable to increases in field management wages and incentive expense and travel expenses. Residential and Commercial Services increased \$6,848 or 14.4% from the third quarter of 2022 and, as a percentage of revenue, increased to 27.0% from 26.4%. The increase was primarily attributable to increases in field management and sales wage expenses, personnel development and office expenses.

General and Administrative Expenses--General and administrative expenses of \$31,155 increased \$3,191 from \$27,964 in the third quarter of 2022. The increase was primarily attributable to an increase in salary and benefits expense and professional services expense.

Depreciation and Amortization Expense--Depreciation and amortization expense of \$14,935 increased \$1,155 from \$13,780 incurred in the third quarter of 2022.

Gain on the Sale of Assets, Net--Gain on the sale of assets of \$1,694 for the third quarter of 2023 decreased \$1,143 from the \$2,837 gain in the third quarter of 2022. We sold a greater number of units of equipment at a lower average gain per unit in the third quarter of 2023 as compared with the third quarter of 2022.

Interest Expense--Interest expense of \$4,751 increased \$2,587 from the \$2,164 incurred in the third quarter of 2022. The increase was attributable to higher average borrowing and higher interest rates during the third quarter of 2023, as compared with the third quarter of 2022.

Other, Net--Other expense, net, of \$2,890 decreased \$481 from the \$3,371 of other expense incurred in the third quarter of 2022 and consisted of nonoperating income and expense, including gains and losses on marketable securities, pension expense and foreign currency translation adjustments.

Income Taxes--Income taxes for the third quarter of 2023 were \$8,401, as compared to \$7,317 for the third quarter of 2022. Our tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. The effective tax rate for the third quarter of 2023 was 28.9% as compared with the third quarter of 2022 effective tax rate of 26.3%.

Net Income--Net income of \$20,697 for the third quarter of 2023 was \$233 more than the \$20,464 of net income for the third quarter of 2022.

Nine Months—Nine Months Ended September 30, 2023 Compared to Nine Months Ended October 1, 2022

Our results of operations for the nine months ended September 30, 2023 compared to the nine months ended October 1, 2022 were as follows:

	Nine Months Ended			
	September 30, 2023	October 1, 2022	Change	Percentage Change
Revenues	\$ 1,267,174	\$ 1,143,548	\$ 123,626	10.8 %
Costs and expenses:				
Operating	808,509	740,422	68,087	9.2
Selling	229,480	201,315	28,165	14.0
General and administrative	95,041	87,014	8,027	9.2
Depreciation and amortization	43,479	41,082	2,397	5.8
Gain on sale of assets, net	(6,530)	(5,787)	(743)	12.8
	<u>1,169,979</u>	<u>1,064,046</u>	<u>105,933</u>	<u>10.0</u>
Income from operations	97,195	79,502	17,693	22.3
Other income (expense):				
Interest expense	(13,588)	(5,312)	(8,276)	155.8
Interest income	1,329	489	840	171.8
Other, net	(4,365)	(8,241)	3,876	(47.0)
Income before income taxes	80,571	66,438	14,133	21.3
Income taxes				
Income taxes	21,835	17,407	4,428	25.4
Net income	<u>\$ 58,736</u>	<u>\$ 49,031</u>	<u>\$ 9,705</u>	<u>19.8 %</u>

Revenues--Revenues of \$1,267,174 increased \$123,626 compared with \$1,143,548 in the first nine months of 2022. Utility Services increased \$62,478 or 9.8% compared with the first nine months of 2022. The increase was primarily attributable to new accounts, as well as increased work year-over-year on accounts and price increases on existing accounts within both our U.S. and Canadian operations. Residential and Commercial Services increased \$59,878 or 11.9% compared with the first nine months of 2022. Increases were primarily in tree and plant care revenue, grounds maintenance, consulting and other revenue and storm damage revenue.

Operating Expenses--Operating expenses of \$808,509 increased \$68,087 compared with the first nine months of 2022 but, as a percentage of revenue, decreased to 63.8% from 64.7%. Utility Services increased \$46,648 or 9.9% compared with the first nine months of 2022 and, as a percentage of revenue, increased to 73.8% from 73.6%. The increase was attributable to increases in labor and benefits expense, subcontractor expense, materials expense, crew meals and lodging expenses which were partially offset by decreases in tools and parts expense and fuel expense. Residential and Commercial Services increased \$24,980 or 9.3% compared with the first nine months of 2022 but, as a percentage of revenue, decreased to 51.8% from 53.0%. The increase was primarily attributable to increases in labor and benefits expense, material expense, equipment expense and subcontractor expense, which were partially offset by decreases in fuel expense and tools and parts expense.

Fuel costs of \$39,594 decreased \$5,785, or 12.7%, from the \$45,379 incurred in the first nine months of 2022 and impacted operating expenses within all segments. The \$5,785 decrease included usage increases approximating \$1,375 and price decreases approximating \$7,160.

Selling Expenses--Selling expenses of \$229,480 increased \$28,165 compared with the first nine months of 2022 and, as a percentage of revenue, increased to 18.1% from 17.6%. Utility Services increased \$10,305 or 13.7% compared to the first nine months of 2022 and, as a percentage of revenue, increased to 12.2% from 11.8%. The increase was primarily attributable to increases in field management wages, office expenses and field management travel expense. Residential and Commercial Services experienced an increase of \$17,832 or 13.8% compared to the first nine months of 2022 and, as a percentage of revenue, increased to 26.1% from 25.7%. The increase was primarily attributable to increases in field management wages, office rent, employee development expense and field management travel expense.

General and Administrative Expenses--General and administrative expenses of \$95,041 increased \$8,027 from \$87,014 in the first nine months of 2022. The increase was primarily attributable to increases in salary and incentive expense, professional services expense, rent expense and travel expense.

Depreciation and Amortization Expense--Depreciation and amortization expense of \$43,479 increased \$2,397 from \$41,082 incurred in the first nine months of 2022.

Gain on the Sale of Assets, Net--Gain on the sale of assets of \$6,530 for the first nine months of 2023 increased \$743 from the \$5,787 gain in the first nine months of 2022. We sold more units of equipment but at a lower average gain per unit during the first nine months of 2023 as compared with the first nine months of 2022.

Interest Expense--Interest expense of \$13,588 increased \$8,276 from the \$5,312 incurred in the first nine months of 2022. The increase was attributable to higher average borrowing and increased interest rates during the first nine months of 2023, as compared with the first nine months of 2022.

Other, Net--Other expense, net, of \$4,365 decreased \$3,876 from the \$8,241 expense incurred in the first nine months of 2022 and consisted of nonoperating income and expense, including gains and losses on marketable securities, pension expense and foreign currency translation adjustments.

Income Taxes--Income taxes for the first nine months of 2023 were \$21,835, as compared to \$17,407 for the first nine months of 2022. Our tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. The effective tax rate for the first nine months of 2023 was 27.1%. Our effective tax rate for the first nine months of 2022 was 26.2%. The change in the effective tax rate from statutory tax rates was primarily due to the impact of discrete items and state and local taxes.

Net Income--Net income of \$58,736 for the first nine months of 2023 was \$9,705 more than the net income of \$49,031 for the first nine months of 2022.

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. During 2022, we also engaged in a subscription offering of our common shares to eligible employees and nonemployee directors, which closed in the third quarter of 2022 and resulted in the subscription of 1,476,250 common shares for \$26,720 at \$18.10 per share.

Cash Flow Summary

Our cash flows from operating, investing and financing activities for the nine months ended September 30, 2023 and October 1, 2022 were as follows:

	Nine Months Ended	
	September 30, 2023	October 1, 2022
Cash provided by (used in):		
Operating activities	\$ 36,338	\$ 62,980
Investing activities	(78,411)	(95,608)
Financing activities	37,327	36,183
Effect of exchange rate changes on cash	11	(171)
(Decrease) increase in cash	<u>\$ (4,735)</u>	<u>\$ 3,384</u>

Cash Provided By Operating Activities--Cash provided by operating activities was \$36,338 for the first nine months of 2023, a \$26,642 decrease when compared to the first nine months of 2022. The \$26,642 decrease in operating cash flow was primarily attributable to the change of \$22,922 related to accounts payable and accrued expenses and the change of \$14,520 attributable to mitigation bank credit inventory, which was partially offset by the change of \$5,730 related to other operating assets and liabilities and the change of \$4,507 related to accounts receivable.

Overall, accounts receivable increased \$44,944 during the first nine months of 2023, as compared to an increase of \$49,451 during the first nine months of 2022. With respect to the change in accounts receivable arising from business levels, the “days-sales-outstanding” in accounts receivable (sometimes referred to as “DSO”) at the end of the first nine months of 2023 was unchanged at 75 days, compared to the end of the first nine months of 2022. As we continue to grow and expand our service offerings, our DSO will be influenced by various factors such as individual contract terms, the nature of the work performed and special situations such as storm work.

Accounts payable and accrued expenses decreased \$10,213 in the first nine months of 2023, a change of \$22,922 compared to the \$12,709 increase in the first nine months of 2022. The change was primarily related to the timing of estimated income tax payments, employer payroll taxes payable and customer deposits. Self-insurance accruals increased \$5,760 in the first nine months of 2023, which was \$7,546 less than the increase of \$13,306 experienced in the first nine months of 2022. The increase in both the first nine months of 2023 and 2022 were attributable to increased exposures within our workers compensation, general liability and vehicle liability lines of coverage.

Mitigation bank credit inventory increased \$14,520 in the first nine months of 2023. Mitigation bank credit inventory grew as a result of the acquisition of Restoration Systems in December, 2022. This service involves the creation of mitigation credits that are available to sell to third parties through remediation of properties such as stream or wetland restoration.

Other operating assets and liabilities decreased \$13,440 in the first nine months of 2023, a change of \$5,730 compared to the \$7,710 decrease in the first nine months of 2022. The change was primarily attributable to decreases in operating supplies and other current assets and an increase in other liabilities.

Cash Used In Investing Activities--Cash used in investing activities for the first nine months of 2023 was \$78,411, a \$17,197 decrease when compared to the first nine months of 2022. The decrease was primarily the result of decreases in capital expenditures and purchases of marketable securities and increases in proceeds from the sale of marketable securities and property and equipment, which were partially offset by an increase in expenditures for the purchases of businesses.

Cash Provided By Financing Activities--Cash provided by financing activities was \$37,327 during the first nine months of 2023, an increase of \$1,144 as compared with the \$36,183 provided during the first nine months of 2022. During the first nine months of 2023, our revolving credit facility, net provided \$55,828 in cash as compared with \$51,267 provided during the first nine months of 2022. We use the credit facility primarily for capital expenditures, redemptions of shares and payments of notes payable related to acquisitions. Notes payable increased \$6,873 during the first nine months of 2023, an increase of \$138 when compared to the \$6,735 increase in the first nine months of 2022. Treasury share transactions (purchases and sales) used \$19,624 for the first nine months of 2023, \$2,800 more than the \$16,824 used in the first nine months of 2022. Dividends paid of \$2,807 during the first nine months of 2023 increased \$125 as compared with \$2,682 paid in the first nine months of 2022.

The Company currently repurchases common shares at shareholders' requests 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 for repurchases pursuant to the put option under the Davey 401KSOP and ESOP Plan, as described in Note Q, such purchases are not required, and the Company retains the right to discontinue them at any time. Repurchases of redeemable common shares at shareholders' request approximated \$14,922 and \$12,814 during the nine months ended September 30, 2023 and October 1, 2022, respectively. Share repurchases, other than redeemable common shares, approximated \$34,914 and \$33,053 during the nine months ended September 30, 2023 and October 1, 2022, respectively.

Contractual Obligations Summary and Commercial Commitments

As of September 30, 2023, total commitments related to issued letters of credit were \$94,695, of which \$2,624 were issued under the revolving credit facility, \$89,689 were issued under the AR Securitization program, and \$2,382 were issued under short-term lines of credit. As of December 31, 2022, total commitments related to issued letters of credit were \$94,435, of which \$2,624 were issued under the revolving credit facility, \$89,689 were issued under the AR Securitization program, and \$2,122 were issued under short-term lines of credit.

Also, as is common in our industry, we have performance obligations that are supported by surety bonds, which expire during 2023 through 2027. We intend to renew the surety bonds where appropriate and as necessary.

Capital Resources

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

Business seasonality traditionally 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 amortization expense, rent 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 other short-term lines of credit. We continually review our existing sources of financing and evaluate alternatives. At September 30, 2023, we had working capital of \$239,715, availability under short-term lines of credit approximating \$8,729 and \$116,114 available under our revolving credit facility.

For more information regarding our outstanding debt, see "Part I - Item 1 - Note G, Short and Long-Term Debt and Commitments Related to Letters of Credit."

We believe our sources of capital, at this time, provide us with the financial flexibility to meet our capital-spending plans and to continue to complete business acquisitions for at least the next twelve months and for the reasonably foreseeable future.

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.

As discussed in our 2022 Annual Report, we believe that our policies related to revenue recognition, the allowance for credit losses, stock valuation and self-insurance accruals 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.

On an ongoing basis, we evaluate our estimates and assumptions, including those related to accounts receivable, specifically those receivables under contractual arrangements primarily with Utility customers; allowance for credit losses; 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. Our critical accounting policies have not changed materially from those discussed in our 2022 Annual Report.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995). 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,” “could,” “might,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “seeks,” “predicts,” “potential,” “would,” “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, many of which are difficult to predict and are outside of our control, 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: an overall decline in the health of the economy or our industry, including as a result of rising inflation or interest rates, instability in the global banking system, geopolitical conditions, the possibility of an economic recession, or public health crises; our inability to attract and retain a sufficient number of qualified employees for our field operations or qualified management personnel and the possibility that increased wage rates may result from our need to attract and retain employees; 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, which events may worsen or increase due to the effects of climate change; 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, and volatility arising from the effects of the Russia-Ukraine conflict and the Israel-Hamas war; disruptions, delays or price increases within our supply chain; our ability to withstand intense competition; the potential impact of acquisitions or other strategic transactions; the effect of various economic factors, including inflationary pressures, that may adversely impact our customers' spending and pricing for our services, and impede our collection of accounts receivable; the impact of global climate change and related regulations; 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 a public market for such shares; our ability to continue to declare cash dividends; 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, including the Russia-Ukraine conflict and the Israel-Hamas war, supply chain shortages and disruptions, rising interest rates, labor shortages and inflationary cost pressures, among other factors, potentially limiting our access to capital; fluctuations in foreign currency exchange rates; significant increases in health care costs; the impact of corporate citizenship and environmental, social and governance matters and/or our reporting of such matters; our ability to successfully implement our new enterprise resource planning system in a cost-effective and timely manner; the impact of events such as natural disasters, public health epidemics or pandemics, such as COVID-19, terrorist attacks or other external events; the impact of tax increases and changes in tax rules; 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 quarterly report on Form 10-Q to conform these statements to actual future results, except as required by applicable securities laws.

The factors described above, as well as other factors that may adversely impact our actual results, are discussed in "Part I - Item 1A. Risk Factors." of our 2022 Annual Report.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk.*

While we have experienced inflation and higher interest rates during 2023, there have been no material changes in our reported market risks or risk management policies since the filing of our 2022 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 16, 2023.

Item 4. *Controls and Procedures.*

(a) Management's Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, 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 report 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 Securities and Exchange Commission'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.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(c) Inherent Limitation on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Part II. Other Information

Items 3 and 4 are not applicable.

Item 1. *Legal Proceedings.*

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 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.

Georgia wrongful death suit

In November 2017, a wrongful death lawsuit was filed in Savannah, Georgia in the State Court of Chatham County (“State Court”) against Davey Tree, its subsidiary, Wolf Tree, Inc. (“Wolf Tree”), a former Davey employee, a Wolf Tree employee, and two former Wolf Tree employees. That complaint, as subsequently amended, alleges various acts of negligence and seeks compensatory damages for the wrongful death of the plaintiff’s husband, a Wolf Tree employee, who was shot and killed in August 2017.

In July 2018, a related survival action was filed in Savannah, Georgia by the deceased’s estate against Davey Tree, its subsidiary, Wolf Tree, and four current and former employees, 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 treble 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 cases were mediated unsuccessfully in December 2018 and the State Court case was originally set for trial on January 22, 2019. However, as discussed below, the two civil cases were ultimately stayed for more than four years.

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 Department of Justice (“DOJ”) filed a motion to stay both actions on the grounds that on December 7, 2018, an indictment was issued charging two former Wolf Tree employees and another individual with various crimes, including conspiracy to murder the deceased. The State Court case was stayed on December 28, 2018 and the Federal Court case was stayed on January 8, 2019. 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.

By November 2022, all three of the individually charged defendants had either been convicted at trial or pled guilty to Federal criminal charges in the Federal Court related to their involvement with the murder and other illegal activities. All three criminal defendants have now been sentenced.

Since the individual defendants' criminal matters are now resolved, the State Court permitted limited additional discovery and amended motions for summary judgment. The Company filed a motion for summary judgment and plaintiffs have responded, and the motion remains pending before the State Court. The State Court has not yet set a trial date.

The stay in the Federal Court case was lifted on April 4, 2023. The case will now proceed to the early stages of litigation. The Company filed a request for a motion to dismiss the alleged civil RICO claims by plaintiffs and further filed a motion to stay the case until the motion to dismiss was decided. The Federal Court granted the Company’s motion to stay, with two limited exceptions for ongoing discovery. The Federal Court has not yet set a trial date.

Previously, on December 17, 2018, the United States Attorney's Office for the Southern District of Georgia (“United States Attorney”) informed the Company and Wolf Tree that they are also under investigation for potential civil or other violations of immigration and other laws relating to the subject matters of the criminal investigation referenced above. The Company and Wolf Tree fully cooperated with the investigation.

On July 12, 2023, the Company and Wolf Tree entered into a non-prosecution and settlement agreement (the “settlement agreement”) with the United States Attorney’s Office for the Southern District of Georgia and the United States Department of Homeland Security (“DHS”), resolving the investigation for potential violations of immigration and other laws by the Company and Wolf Tree.

The United States Attorney recognized that, since August 2017, both the Company and Wolf Tree have fully cooperated with the criminal and civil investigation and, in entering into the settlement agreement, the United States Attorney took into consideration the Company’s and Wolf Tree’s implementation of a significant compliance program.

The Company and Wolf Tree agreed to pay \$3,984,325 as part of the settlement agreement, including civil penalties, forfeiture and restitution, an amount the Company and Wolf Tree had previously reserved. The United States Attorney agreed that it will not bring any criminal charges against the Company or Wolf Tree concerning the subject matter of the investigation and released the Company and Wolf Tree from civil liability concerning certain immigration code provisions. The DHS also agreed to release the Company and Wolf Tree from administrative liability relating to the subject matter of the investigation, all of which are subject to standard reservations of rights and certain reserved claims. The settlement agreement closes the investigation by the United States Attorney and DHS. The settlement is not an admission of liability by the Company or Wolf Tree.

The civil cases in the State Court of Chatham County in Georgia and the United States District Court for the Southern District of Georgia, Savannah Division relating to the same subject matter, remain pending. In both civil cases, the Company and Wolf Tree have denied all liability and are vigorously defending against the actions. The Company also has retained separate counsel for some of the individual defendants, each of whom has denied all liability and also are vigorously defending the actions.

Northern California Wildfires

Five lawsuits were filed that name contractors for PG&E Corporation and its subsidiary, Pacific Gas and Electric Company (together, “PG&E”), including Davey Tree, with respect to claims arising from wildfires that occurred in Pacific Gas and Electric Company’s service territory in northern California beginning on October 8, 2017. An action was brought on August 8, 2019 in Napa County Superior Court, entitled *Donna Walker, et al. v. Davey Tree Surgery Company, et al.*, Case No. 19CV001194. An action was brought on October 8, 2019 in San Francisco County Superior Court, entitled *Quinisha Kyree Abram, et al. v. ACRT, Inc., et al.*, Case No. CGC-19-579861. An action was brought on October 7, 2019 in San Francisco Superior Court, entitled *Adams, et al. v. Davey Resource Group, Inc., et al.*, Case No. CGC-19-579828. An action was brought on October 8, 2019 in Sacramento Superior Court, entitled *Antone, et al. v. ACRT, Inc. et al.*, Case No. 34-2019-00266662. An action was brought on October 7, 2019 in Sacramento Superior Court, entitled *Bennett, et al. v. ACRT, Inc. et al.*, Case No. 2019-00266501.

Three additional actions were brought on January 28, 2021 in San Francisco County Superior Court, by fire victims represented by a trust (“Plaintiffs’ Trust”), which was assigned contractual rights in the PG&E bankruptcy proceedings. These cases are entitled *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al.*, Case No. CGC-21-589438; *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al.*, Case No. CGC-21-589439; and *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. ACRT Pacific, LLC, et al.*, Case No. CGC-21-589441. On September 22, 2021, the court granted Davey Tree's petition to coordinate all cases as a California Judicial Council Coordination Proceeding, *In Re North Bay Fire Cases*, JCCP No. 4955. As a result of the coordination order, all of the actions are stayed in their home jurisdictions. At a case management conference in JCCP No. 4955 on February 24, 2022, the Court ordered that Davey Tree and the plaintiffs participate in a mediation. An initial mediation took place on October 17, 2022. The matter did not resolve at this initial mediation and mediation efforts are ongoing.

In November 2022, Davey Tree filed a cross-complaint against the Plaintiffs’ Trust and PG&E related to the contractual obligations of limitation of liability and hold harmless. Since that time, Davey Tree has dismissed the cross-complaint against PG&E without prejudice. The Plaintiffs’ Trust filed a demurrer which challenged Davey Tree’s claim that the hold harmless provisions in its contracts with PG&E are an obligation of the Plaintiffs’ Trust. In response to the demurrer, Davey Tree filed an amended cross-complaint against the Plaintiffs’ Trust on April 13, 2023. The Plaintiffs’ Trust has since filed another demurrer seeking to dismiss the cross complaint by Davey Tree, and Davey Tree has filed a response. The Plaintiffs’ Trust filed a motion for summary adjudication which challenged the limitation of liability as set forth in the assigned contracts. The Court denied the motion for summary adjudication in an order entered April 12, 2023. The court originally set a trial date for October 2, 2023 involving the claim of the Plaintiffs’ Trust as to the Atlas burn location. On July 26, 2023, based on a joint request by the parties, the court vacated the October 2, 2023 Atlas trial date and reset the Atlas trial for February 26, 2024.

The parties have continued to mediate all of the claims alleged in the consolidated cases. The parties jointly requested that the Court suspend trial dates and other proceeding while the parties attempt to reach final terms on a global resolution. The court granted the parties request and stayed the trial scheduled dates for 60 days.

Davey Tree has responded to all claims asserted by the plaintiffs in these actions, denying all liability, and is vigorously defending against plaintiffs' alleged claims. However, we believe that a range of losses is probable and we have accrued our best estimate within this range

which is also equal to our total coverage limits under our self-insurance and third party insurance providers for the 2017-2018 policy year of \$218,000,000. We believe that any losses would be recovered through our self-insurance and third party insurance providers and have accrued a corresponding insurance recoverable within our Condensed Consolidated Balance Sheet as of September 30, 2023.

Item 1A. Risk Factors.

Our 2022 Annual Report includes a detailed discussion of our risk factors. Disclosure of risks should not be interpreted to imply that the risks have not already materialized. There have been no material changes to the risk factors described in the 2022 Annual Report during the nine months ended September 30, 2023.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

The following table provides information on purchases of our common shares outstanding made by us during the first nine months of 2023.

Period	Total Number of Shares Purchased ⁽¹⁾	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 2023				
January 1 to January 28	35	\$ 18.10	—	3,323,819
January 29 to February 25	10,122	18.10	—	3,323,819
February 26 to April 1	445,198	18.50	—	3,323,819
Total First Quarter	455,355	18.49	—	
April 2 to April 29	650,351	18.50	—	3,323,819
April 30 to May 27	638,773	18.50	—	3,323,819
May 28 to July 1	235,631	18.50	116,147	3,207,672
Total Second Quarter	1,524,755	18.50	116,147	
July 2 to July 29	4,314	18.50	—	3,207,672
July 30 to August 26	38,621	20.80	—	3,207,672
August 27 to September 30	592,574	20.80	—	3,207,672
Total Third Quarter	635,509	20.78	—	
Total Year-to-Date	2,615,619	\$ 19.05	116,147	

⁽¹⁾ During the nine months ended September 30, 2023, the Company purchased 2,499,472 shares from shareholders excluding those purchased through publicly announced plans. The Company provides 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).

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, an independent stock valuation firm assists with the appraisal of the fair market value of the common shares, 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 “Part I - Item 1 - Note Q, The Davey 401KSOP and Employee Stock Ownership Plan”). The purchases described above were added to our treasury stock.

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 400,000 common shares, which authorization was increased by an additional 2,000,000 common shares in May 2018 and increased further by an additional 3,000,000 common shares in September 2021. Of the 5,400,000 total shares authorized, 3,207,672 remained available under the program, as of September 30, 2023. 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.

Item 5. Other Information.

Rule 10b5-1 Trading Plans

The Company's securities are not traded on a public market. During the quarter ended September 30, 2023, none of the Company's directors or executive officers adopted, modified or terminated any contract, instruction or written plan for the purchase or sale of the Company's securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement” (as defined in Item 408(c) of Regulation S-K).

Item 6. Exhibits.

See the Exhibit Index below.

Exhibits

Exhibit No. Description

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
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in iXBRL (inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets (unaudited), (ii) the Condensed Consolidated Statements of Operations (unaudited), (iii) the Condensed Consolidated Statements of Comprehensive Income (unaudited), (iv) the Condensed Consolidated Statements of Shareholders' Equity (unaudited), (v) the Condensed Consolidated Statements of Cash Flows (unaudited), and (vi) Notes to Condensed Consolidated Financial Statements (unaudited). 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

* Certain of the schedules to this exhibit have been omitted in accordance with Regulation S-K Item 601(a)(5). The Company agrees to furnish a copy of all omitted exhibits and schedules to the Securities and Exchange Commission upon its request.

Signatures

Pursuant to the requirements 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.

THE DAVEY TREE EXPERT COMPANY

Date: November 14, 2023

By: /s/ Joseph R. Paul

Joseph R. Paul

Executive Vice President, Chief Financial Officer and Assistant Secretary
(Principal Financial Officer)

Date: November 14, 2023

By: /s/ Thea R. Sears

Thea R. Sears

Vice President and Controller
(Principal Accounting Officer)

Certification

Certification of Chief Executive Officer

I, Patrick M. Covey, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 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: November 14, 2023 /s/ Patrick M. Covey

Patrick M. Covey
Chairman, President and Chief Executive Officer

Certification

Certification of Chief Financial Officer

I, Joseph R. Paul, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 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: November 14, 2023 /s/ Joseph R. Paul

Joseph R. Paul

Executive Vice President, Chief Financial Officer and Assistant 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 Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2023 (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)), as applicable; 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: November 14, 2023

/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 Assistant 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 Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2023 (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)), as applicable; 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: November 14, 2023

/s/ Joseph R. Paul

Joseph R. Paul

Executive Vice President, Chief Financial Officer and Assistant Secretary