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

FORM 10-K

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

For the fiscal year ended December 31, 2015

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, Ohio 44240
(Address of principal executive offices) (Zip code)

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
(Check one): Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐ Smaller Reporting Company ☐

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

There were 12,749,721 Common Shares outstanding as of February 26, 2016. The aggregate market value of the Common Shares held by nonaffiliates of the registrant as of July 4, 2015 was $364,713,168. For purposes of this calculation, it is assumed that the registrant's affiliates include the registrant's Board of Directors and its executive officers.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2016 Annual Meeting of Shareholders, to be held on May 18, 2016, are incorporated by reference into Part III (to be filed within 120 calendar days of the registrant’s fiscal year end).

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- Our business, other than tree services to utility customers, is highly seasonal and weather dependent.
- The effects of the uneven economic recovery and the continuing financial and credit uncertainties may adversely impact our customers’ spending and pricing for our services, and impede our collection of accounts receivable.
- Significant customers, particularly utilities, may experience financial difficulties, resulting in payment delays or delinquencies.
- The seasonal nature of our business and changes in general and local economic conditions, among other factors, may cause our quarterly results to fluctuate, and our prior performance is not necessarily indicative of future results.
- The uncertainties in the credit and financial markets may limit our access to capital.
- Significant increases in fuel prices for extended periods of time will increase our operating expenses.
- Fluctuations in foreign currency exchange rates may have a material adverse impact on our operating results.
- We have significant contracts with our utility, commercial and government customers that include liability risk exposure as part of those contracts. Consequently, we have substantial excess-umbrella liability insurance, and increases in the cost of obtaining adequate insurance, or the inadequacy of our self-insurance accruals or insurance coverages, could negatively impact our liquidity and financial condition.
- Because no public market exists for our common shares, the ability of shareholders to sell their common shares is limited.
- Significant increases in health care costs could negatively impact our results of operations or financial position.
- We are subject to intense competition.
- Our failure to comply with environmental laws could result in significant liabilities, fines and/or penalties.
- The impact of regulations initiated as a response to possible changing climate conditions could have a negative effect on our results of operations or our financial condition.
- We may encounter difficulties obtaining surety bonds or letters of credit necessary to support our operations.
- We are dependent, in part, on our reputation of quality, integrity and performance. If our reputation is damaged, we may be adversely affected.
- We may be unable to attract and retain a sufficient number of qualified employees for our field operations, and we may be unable to attract and retain qualified management personnel.
- Our facilities could be damaged or our operations could be disrupted, or our customers or vendors may be adversely affected, by events such as natural disasters, pandemics, terrorist attacks or other external events.
- A disruption in our information technology systems, including a disruption related to cybersecurity, could adversely affect our financial performance.
- We are subject to third-party and governmental regulatory claims and litigation that may have an adverse effect on us.
- We may misjudge a competitive bid and be contractually bound to an unprofitable contract.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this annual report on Form 10-K to conform these statements to actual future results.

THE DAVEY TREE EXPERT COMPANY
FORM 10-K
For the Year Ended December 31, 2015

TABLE OF CONTENTS

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

PART I

Item 1. *Business.*

General

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

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

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

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

Competition and Customers

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

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

We provide a wide range of horticultural services to private companies, public utilities, local, state and federal agencies, and a variety of industrial, commercial and residential customers. During 2015, we had revenues of approximately $90 million, or approximately 11% of total revenues, from Pacific Gas & Electric Company ("PG&E"), one of our largest customers.

Regulation and Environment

Our facilities and operations, in common with those of the industry generally, are subject to governmental regulations designed to protect the environment. This is particularly important with respect to our services regarding insect and disease control, because these services involve to a considerable degree the blending and application of spray materials, which require formal licensing in most areas. Constant changes in environmental conditions, environmental awareness, technology and social attitudes make it necessary for us to maintain a high degree of awareness of the impact such changes have on the market for our services. We believe that we comply in all material respects with existing federal, state and local laws regulating the use of materials in our spraying operations as well as the other aspects of our business that are subject to any such regulation.

Marketing

We solicit business from residential customers principally through referrals, direct mail programs and to a lesser extent through the placement of advertisements in national magazines and trade journals, local newspapers and "yellow pages" telephone directories. We also employ online marketing and lead generation strategies including email marketing campaigns, search engine optimization, search engine marketing, and social media communication. Business from utility and commercial customers is obtained principally through negotiated contracts and competitive bidding. We carry out all of our sales and services through our employees. We generally do not use agents, and do not franchise our name or business.

Seasonality

Our business is seasonal, primarily due to fluctuations in horticultural services provided to Residential and Commercial customers and to a lesser extent by budget constraints imposed on our Utility customers. Because of this seasonality, we have historically incurred losses in the first quarter, while sales and earnings are generally highest in the second and third quarters of the calendar year. Consequently, this has created heavy demands for additional working capital at various times throughout the year. We borrow primarily against bank commitments in the form of a revolving credit facility to provide the necessary funds for our operations. You can find more information about our bank commitments in “Liquidity and Capital Resources” under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on pages 25-26 of this report.

Other Factors

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

We own several trademarks including "Davey," "Davey and Design," "Arbor Green Pro," "Arbor Green," and "Davey Resource Group." Through substantial advertising and use, we believe that these trademarks have become of value in the identification and acceptance of our products and services.

Employees

We employed approximately 7,600 employees at December 31, 2015. However, employment levels fluctuate due to seasonal factors affecting our business. We consider our employee relations to be good.

Domestic and Foreign Operations

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

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

Financial Information About Segments and Geographic Areas

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

Access to Company Information

Davey Tree’s internet address is http://www.davey.com. Through our internet website, by hyperlink to the Securities and Exchange Commission (“SEC”) website (http://www.sec.gov), we make available, free of charge, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports. Availability of the reports occurs contemporaneously with the electronic posting to the SEC’s website as the reports are electronically filed with or furnished to the SEC. The information on our website is not a part of this Annual Report on Form 10-K.

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

- Code of Ethics
- Code of Ethics for Financial Matters

Item 1A. ***Risk Factors.***

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

Our business is highly seasonal and weather dependent.

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

The effects of the uneven economic recovery and the continuing financial and credit uncertainties may adversely impact our customers' future spending as well as pricing and payment for our services, thus negatively impacting our operations and growth.

While the economy has shown signs of improvement, sustainability of economic recovery remains uncertain. A slowing or stoppage in economic recovery may adversely impact the demand for our services and potentially result in depressed prices for our services and the delay or cancellation of projects. This makes it difficult to estimate our customers' requirements for our services and, therefore, adds uncertainty to customer demand. Increased uncertainty about the economy may cause a reduction in our customers' spending for our services and may also impact the ability of our customers to pay amounts owed, which could reduce our cash flow and adversely impact our debt or equity financing. These events could have a material adverse effect on our operations and our ability to grow at historical levels.

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

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

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

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

Our quarterly results may fluctuate.

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

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

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

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

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

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

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

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

We are exposed to foreign currency exchange rate risk resulting from our operations in Canada, where we provide a comprehensive range of horticultural services. Fluctuations in foreign currency exchange rates may make our services more expensive for others to purchase or increase our operating costs, affecting our competitiveness and our profitability. Our financial results could be affected by factors such as changes in the foreign currency exchange rate or differing economic conditions in the Canadian markets as compared with the markets for our services in the United States. Our earnings are affected by translation exposures from currency fluctuations in the value of the U.S. dollar as compared to the Canadian dollar.

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

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

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

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

Increases in our health insurance costs could adversely affect our results of operations and cash flows.

The costs of employee health care insurance have been increasing in recent years due to rising health care costs, legislative changes, and general economic conditions. Additionally, we may incur additional costs because of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Health Care Reform Laws"). Provisions of these laws have become and will become effective at various dates over the next several years. Because of the breadth and complexity of these laws, the lack of regulations and guidance on implementation, and the phased-in nature of the new regulations, as well as other health care reform legislation considered by Congress and state legislatures, we cannot predict with certainty the future effect of these laws on us. A continued increase in health care costs or additional costs incurred as a result of the Health Care Reform Laws or other future health care reform laws imposed by Congress or state legislatures could have a negative impact on our financial position and results of operations.

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

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

Because no public market exists for our common shares, your ability to sell your common shares may be limited.

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

We are subject to intense competition.

We believe that each aspect of our business is highly competitive. Principal methods of competition in our operating segments are customer service, marketing, image, performance and reputation. Pricing is not always a critical factor in a customer's decision with respect to Residential and Commercial; however, pricing is generally the principal method of competition for Utility, although in most instances consideration is given to reputation and past production performance. On a national level, our competition is primarily landscape construction and maintenance companies as well as residential and commercial lawn care companies. At a local and regional level, our competition comes mainly from small, local companies which are engaged primarily in tree care and lawn services. Our Utility segment competes principally with one major national competitor, as well as several smaller regional firms. Furthermore, competitors may have lower costs because privately-owned companies operating in a limited geographic area may have significantly lower labor and overhead costs. Our competitors may develop the expertise, experience and resources to provide services that are superior in both price and quality to our services. These strong competitive pressures could inhibit our success in bidding for profitable business and may have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

Surety market conditions are currently difficult as a result of significant losses incurred by many sureties in recent years, both in the construction industry as well as in certain larger corporate bankruptcies. As a result, less bonding capacity is available in the market and terms have become more expensive and restrictive. Further, under standard terms in the surety market, sureties issue or continue bonds on a project-by-project basis and can decline to issue bonds at any time or require the posting of collateral as a condition to issuing or renewing any bonds. If surety providers were to limit or eliminate our access to bonding, we would need to post other forms of collateral for project performance, such as letters of credit or cash. We may be unable to secure sufficient letters of credit on acceptable terms, or at all. Accordingly, if we were to experience an interruption or reduction in the availability of bonding capacity, our liquidity may be adversely affected.

We may be adversely affected if our reputation is damaged.

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

We may be unable to employ a sufficient workforce for our field operations.
Our industry operates in an environment that requires heavy manual labor. We may experience slower growth in the labor force for this type of work than in the past. As a result, we may experience labor shortages or the need to pay more to attract and retain qualified employees.

We may be unable to attract and retain skilled management.

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

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

Natural disasters, pandemics, terrorist attacks and other adverse external events could materially damage our facilities or disrupt our operations, or damage the facilities or disrupt the operations of our customers or vendors. The occurrence of any such event could adversely affect our business, financial condition and results of operations.

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

We rely on the accuracy, capacity and security of our information technology systems. Despite the security measures that we have implemented, including those measures related to cybersecurity, our systems could be breached or damaged by computer viruses, natural or man-made incidents or disasters or unauthorized physical or electronic access. A breach could result in business disruption, theft of our intellectual property, trade secrets or customer information and unauthorized access to personnel information. To the extent that our business is interrupted or data is lost, destroyed or inappropriately used or disclosed, such disruptions could adversely affect our competitive position, reputation, relationships with our customers, financial condition, operating results and cash flows. In addition, we may be required to incur significant costs to protect against the damage caused by these disruptions or security breaches in the future.

We are subject to third-party and governmental regulatory claims and litigation.

From time-to-time, customers, vendors, employees, governmental regulatory authorities and others may make claims and take legal action against us. Whether these claims and legal actions are founded or unfounded, if such claims and legal actions are not resolved in our favor, they may result in significant financial liability. Any such financial liability could have a material adverse effect on our financial condition and results of operations. Any such claims and legal actions may also require significant management attention and may detract from management's focus on our operations.

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

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

Item 1B. *Unresolved SEC Staff Comments.*

There are no unresolved comments from the Staff of the Securities and Exchange Commission.

Item 2. *Properties.*

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

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

Segment	Number of Properties	How Held	Square Footage	Number of States or Provinces
Residential and Commercial	29	Owned	263,231	14
Utility	3	Owned	36,037	3
Residential and Commercial, and Utility	3	Owned	30,080	3

We also rent approximately 149 properties in 31 states and three provinces.

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

Item 3. *Legal Proceedings.*

Not applicable.

Item 4. *Mine Safety Disclosures.*

Not applicable.

Executive Officers of the Company.

Our executive officers and their present positions and ages as of March 1, 2016 follow:

Name	Position	Age
Karl J. Warnke	Chairman, President and Chief Executive Officer	64
Patrick M. Covey	President and Chief Operating Officer, U.S. Operations	52
Joseph R. Paul, CPA	Chief Financial Officer and Secretary	54
Lawrence S. Abernathy	Vice President and General Manager, Davey Tree Surgery Company	65
Christopher J. Bast, CPA, CTP	Treasurer	48
Marjorie L. Conner, Esquire	Assistant Secretary and Counsel	58
James E. Doyle	Executive Vice President and General Manager, Davey Tree Expert Co. of Canada, Limited	47
Dan A. Joy	Executive Vice President and General Manager, Commercial Landscape Services and Operations Support Services	58
Steven A. Marshall	Executive Vice President, U.S. Utility Operations	64
Brent R. Repenning	Vice President and General Manager, Davey Resource Group	44
Thea R. Sears, CPA	Assistant Controller	47
James F. Stief	Executive Vice President, U.S. Residential Operations	61
Nicholas R. Sucic, CPA	Vice President and Controller	69
Mark J. Vaughn	Vice President and General Manager, Eastern Utility Services	61

Mr. Warnke was elected Chairman of the Board, effective May 20, 2009, and continues to serve as President and Chief Executive Officer, having been appointed in January 2007. He was President and Chief Operating Officer from 1999 through December 31, 2006. Prior to that time, he served as Executive Vice President and General Manager - Utility Services, having been appointed in January 1993. Previously, having joined Davey Tree in 1980, Mr. Warnke performed all aspects of tree services and also held various managerial positions, including Operations Manager, Operations Support Services, Equipment and Safety functions and Operations Vice President.

Mr. Covey was elected a Director, effective May 20, 2014, and continues to serve as President and Chief Operating Officer, U.S. Operations, having been appointed in April 2014. He serves as Chief Operating Officer, U.S. Operations having been appointed in February 2012 and prior to that time, Mr. Covey served as Executive Vice President, having been appointed in January 2007, Vice President and General Manager of the Davey Resource Group, having been appointed in March 2005 and was Vice President, Southern Operations, Utility Services, having been appointed in January 2003. Previously, having joined Davey Tree in August 1991, Mr. Covey held various managerial positions, including Manager of Systems and Process Management and Administrative Manager, Utility Services.

Mr. Paul was elected Chief Financial Officer and Secretary, effective March 23, 2013, and served as Vice President and Treasurer, having been appointed in May 2011. Mr. Paul joined Davey Tree as Treasurer in December 2005. He is a certified public accountant. Prior to joining us, Mr. Paul served as corporate controller for AccessPoint Openings, LLC, a holding company of distribution and manufacturing companies in the building products industry, having been associated with that firm since 1998. Mr. Paul served in various capacities including director of business expansion and integration at Applied Industrial Technologies, an industrial distributor, from 1993 to 1998. Prior to joining Applied Industrial Technologies, Mr. Paul was an audit manager with Deloitte LLP, having been associated with that firm since 1986.

Mr. Abernathy was elected Vice President and General Manager, Davey Tree Surgery Company, effective April 2, 2012, and served as Senior Vice President, Davey Tree Surgery Company, having been appointed in July 2010. Prior to that time, he served as Vice President, Utility Operations, having been appointed in April 1995. Previously, having joined Davey Tree in 1969, Mr. Abernathy held various managerial positions, including Operations Manager, Area Manager and Account Manager.

Mr. Bast was elected Treasurer in April 2013, having joined Davey Tree in March 2013. He is a certified public accountant and a certified treasury professional. Prior to joining us, Mr. Bast served in various management positions from 1994 to 2013 at Diebold, Incorporated, a provider of self-service delivery and security systems, including senior director of North America Finance, a director of investor relations and director of treasury. Prior to joining Diebold, Mr. Bast was an auditor with Deloitte LLP, having been associated with that firm since 1991.

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

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

Mr. Joy was elected Executive Vice President and General Manager, Commercial Landscape Services and Operations Support Services, effective August 15, 2014 and served as Executive Vice President and General Manager, Commercial Landscape Services, having been appointed May 21, 2014. Prior to that time, he served as Vice President and General Manager, Commercial Landscape Services, having been appointed in May 2013 and Vice President, Commercial Landscape Services, having been appointed in December 2004. Previously, having joined Davey Tree in 1976, Mr. Joy held various managerial positions, including Operations Manager, District Manager and Assistant District Manager.

Mr. Marshall was elected Executive Vice President, U.S. Utility Operations, effective January 1, 2007, and served as Vice President and General Manager of Eastern Utility Services, having been appointed in January 2003. Prior to that time, he served as Vice President, Southern Operations, Utility Services, having been appointed in January 1997. Previously, having joined Davey Tree in 1977, Mr. Marshall held various managerial positions, including Operations Manager, Regional Manager and District Manager.

Mr. Repenning was elected Vice President and General Manager, Davey Resource Group, effective June 6, 2010 and served as Vice President, Davey Resource Group, having been appointed in October 2009. Prior to that time, he served as Regional Manager, Davey Resource Group, having been appointed in February 2007. Previously, having joined Davey Tree in 1994, Mr. Repenning held various managerial and operational positions, including Production Manager and Supervisor.

Ms. Sears was elected Assistant Controller in May 2010, and previously served as Manager of Financial Accounting, having been appointed in April 1998. Prior to that time she served as Supervisor of Financial Accounting, having been appointed in September 1995. During her tenure with Davey Tree, Ms. Sears’ responsibilities have included a variety of roles in financial reporting, managerial reporting and operations accounting. She is a certified public accountant.

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

Mr. Sucic was elected Vice President and Controller, effective January 1, 2007, and served as Corporate Controller and Chief Accounting Officer since having joined Davey Tree in November 2001. He is a certified public accountant. Prior to joining us, Mr. Sucic served as chief financial officer of Vesper Corporation, a manufacturer of products for industry, from 2000 to 2001; of Advanced Lighting Technologies, Inc., a designer, manufacturer and marketer of metal halide lighting products, from 1996 to 2000; and of various asset management units at The Prudential Investment Corporation, from 1989 to 1996. Prior to joining Prudential, Mr. Sucic was a partner with Ernst & Young LLP, having been associated with that firm since 1970.

Mr. Vaughn was elected Vice President and General Manager, Eastern Utility Services, effective June 6, 2010, and served as Vice President, Eastern Utility Services, having been appointed in December 2007. Prior to that time, he served as Vice President, Northern Operating Group, Utility Services, having been appointed in July 2002. Previously, having joined Davey Tree in 1972, Mr. Vaughn held various managerial positions, including Operations Manager and Regional Manager.

Our officers serve from the date of their election to the next organizational meeting of the Board of Directors and until their respective successors are elected.

PART II

Item 5. *Market for Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

Our common shares are not listed or traded on an established public trading market and market prices are, therefore, not available. Semiannually, for purposes of the Davey 401KSOP and ESOP, the fair market value of our common shares is determined by an independent stock valuation firm, based upon our performance and financial condition, using a peer group of comparable companies selected by that firm. The peer group currently consists of: ABM Industries Incorporated; Comfort Systems USA, Inc.; Dycom Industries, Inc.; 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. These purchases are added to our treasury stock.

Record Holders and Common Shares

On February 26, 2016 we had 3,493 record holders of our common shares.

On February 26, 2016 we had 12,749,721 common shares outstanding and options exercisable to purchase 416,844 common shares, partially-paid subscriptions for 436,081 common shares and purchase rights outstanding for 178,085 common shares.

Dividends

The following table sets forth, for the periods indicated, the dividends declared per common share (in cents):

	Year Ended December 31,	
Quarter	**2015**	**2014**
1	5.00	4.50
2	5.00	4.50
3	5.00	4.50
4	5.00	5.00
Total	20.00	18.50

We presently expect to pay comparable cash dividends in 2016.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities

The following table provides information on purchases made by the Company of our common shares during the fiscal year ended December 31, 2015:

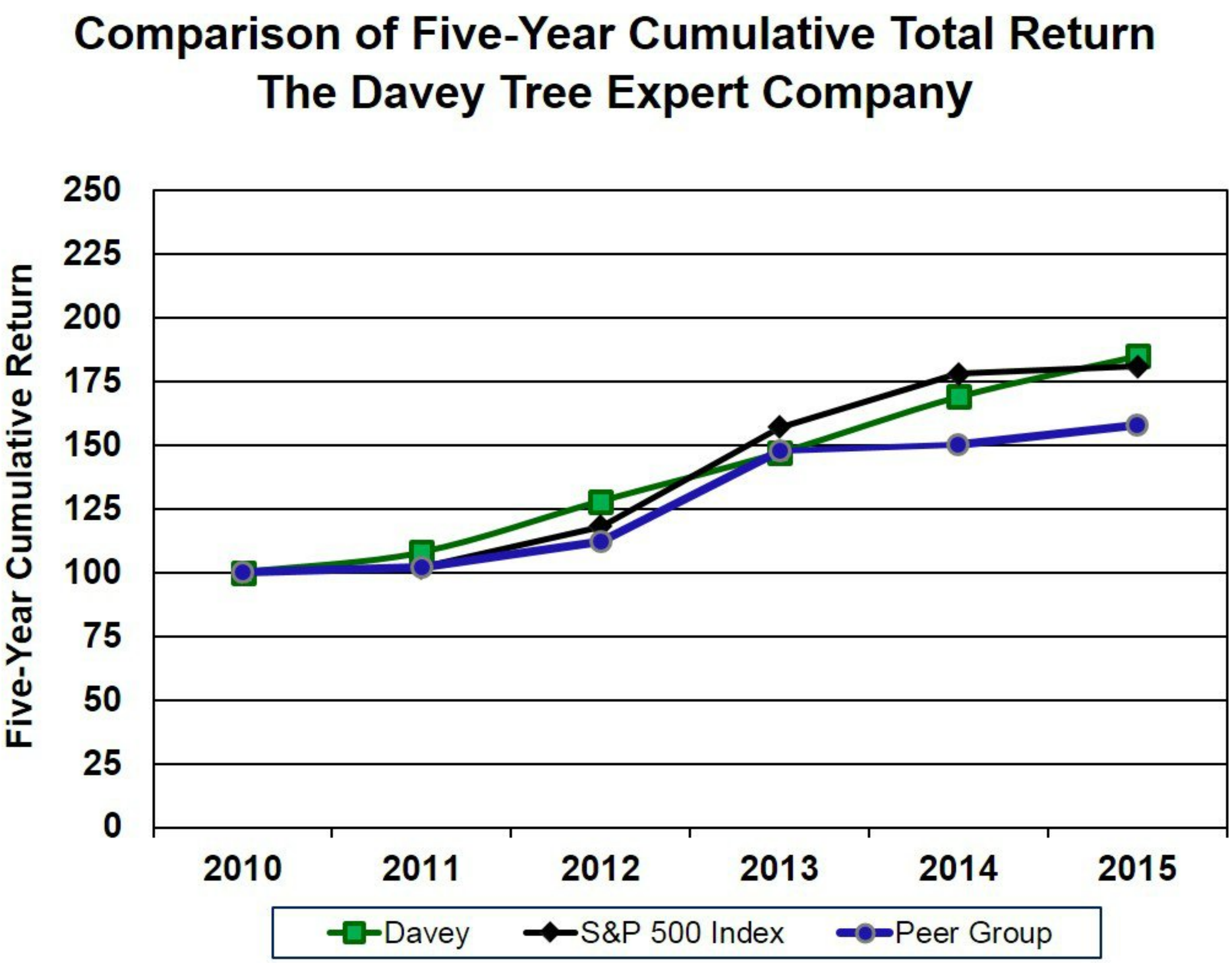
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
Fiscal 2015				
January 1 to January 31	378	$ 27.80	n/a	n/a
February 1 to February 28	4,174	27.80	n/a	n/a
March 1 to April 4	97,505	30.10	n/a	n/a
Total First Quarter	102,057	30.00		
April 5 to May 2	147,566	30.10	n/a	n/a
May 3 to May 30	114,890	30.10	n/a	n/a
May 31 to July 4	21,625	30.10	n/a	n/a
Total Second Quarter	284,081	30.10		
July 5 to August 1	2,592	30.10	n/a	n/a
August 2 to August 29	25,588	31.50	n/a	n/a
August 30 to October 3	112,677	31.50	n/a	n/a
Total Third Quarter	140,857	31.47		
October 4 to October 31	99,623	31.50	n/a	n/a
November 1 to December 5	159,852	31.50	n/a	n/a
December 6 to December 31	37,353	31.50	n/a	n/a
Total Fourth Quarter	296,828	31.50		
Total Year to Date	823,823	$ 30.83		

n/a--Not applicable. There are no publicly announced plans or programs to purchase common shares.

Stock Performance Graph

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

The following Performance Graph compares cumulative total shareholder returns for The Davey Tree Expert Company common shares during the last five years to the Standard & Poor's 500 Stock Index and to an index of selected peer group companies. The peer group, which is the same group used by Davey's independent stock valuation firm, consists of: ABM Industries Incorporated; Comfort Systems USA, Inc.; Dycom Industries, Inc.; MYR Group, Inc.; Quanta Services, Inc.; Rollins, Inc.; and Scotts Miracle-Gro Company. Each of the three measures of cumulative total return assumes reinvestment of dividends.



	2010	2011	2012	2013	2014	2015
Davey Tree	100	108	128	147	169	185
S&P 500 Index	100	102	118	157	178	181
Peer Group	100	102	112	148	150	158

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

Item 6. ***Selected Financial Data.***

	Fiscal Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except ratio and per share data)				
Operating Statement Data:					
Revenues	$ 821,904	$ 789,911	$ 713,848	$ 680,153	$ 646,034
Costs and expenses:					
Operating	528,899	508,677	462,646	437,332	426,626
Selling	144,234	140,027	120,842	111,578	104,871
General and administrative	59,798	54,970	50,654	48,171	42,793
Depreciation	44,677	40,970	38,231	37,365	37,818
Amortization of intangible assets	2,214	2,070	1,980	1,742	1,908
Gain on sale of assets, net	(2,026)	(806)	(1,294)	(1,802)	(783)
Income from operations	44,108	44,003	40,789	45,767	32,801
Interest expense	(3,355)	(2,948)	(2,708)	(2,698)	(3,794)
Interest income	249	295	311	200	43
Litigation settlement	—	—	—	—	(2,900)
Other expense	(5,744)	(3,050)	(2,827)	(2,611)	(2,850)
Income before income taxes	35,258	38,300	35,565	40,658	23,300
Income taxes	13,460	15,131	12,712	16,063	9,235
Net income	$ 21,798	$ 23,169	$ 22,853	$ 24,595	$ 14,065
Earnings per share--diluted	$ 1.56	$ 1.63	$ 1.57	$ 1.68	$ .97
Shares used for computing per share amounts--diluted	13,977	14,238	14,602	14,609	14,537
Other Financial Data:					
Depreciation and amortization	$ 46,891	$ 43,040	$ 40,211	$ 39,107	$ 39,726
Capital expenditures	56,047	55,731	45,205	29,734	34,701
Cash flow provided by (used in):					
Operating activities	62,689	49,279	56,310	43,936	54,422
Investing activities	(56,046)	(64,060)	(43,205)	(31,179)	(34,128)
Financing activities	(7,140)	17,335	(16,891)	(3.377)	(22,044)
Cash dividends declared per share	$ .2000	$ .1850	$ .1800	$ .1775	$ .1700

	As of December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except ratio and per share data)				
Balance Sheet Data:					
Working capital	$ 48,984	$ 49,916	$ 39,030	$ 54,393	$ 16,430
Current ratio	1.44	1.46	1.37	1.55	1.16
Property and equipment, net	166,422	160,883	136,884	125,716	130,148
Total assets	394,057	381,004	330,814	330,932	298,101
Long-term debt	85,104	81,306	50,034	54,787	51,136
Other long-term liabilities	55,464	54,854	44,371	59,498	44,204
Shareholders' equity	141,539	136,491	131,138	118,106	100,726
Common shares:					
Issued	21,457	21,457	21,457	21,457	21,457
In treasury	8,714	8,292	8,018	7,731	7,611
Net outstanding	12,743	13,165	13,439	13,726	13,846
Stock options:					
Outstanding	817	770	662	761	1,111
Exercisable	417	389	342	640	942
ESOT valuation per share	$ 32.70	$ 30.10	$ 26.40	$ 23.20	$ 19.70

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

(Amounts in thousands, except share data)

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

- Overview of 2015 Results;
- Results of Operations, including fiscal 2015 compared to fiscal 2014, fiscal 2014 compared to fiscal 2013, and liabilities for uncertain income tax positions, and other matters;
- Liquidity and Capital Resources, including cash flow summary, off-balance sheet arrangements, and capital resources;
- Recent Accounting Guidance;
- Critical Accounting Policies and Estimates; and
- Market Risk Information, including interest rate risk and foreign currency exchange rate risk.

OVERVIEW OF 2015 RESULTS

General

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

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

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

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

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

During the fourth quarter 2013, the Company realigned its reporting to more closely reflect the manner in which performance is assessed and decisions are made in allocating resources to the segments. Our two reportable operating segments are organized by type or class of customer: Residential and Commercial and Utility.

Results of Operations

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

	Year Ended December 31,			Percentage Change	
	2015	2014	2013	2015/2014	2014/2013
Revenues	100.0%	100.0%	100.0%	4.1%	10.7%
Costs and expenses:					
Operating	64.3	64.3	64.8	4.0	9.9
Selling	17.5	17.7	16.9	3.0	15.9
General and administrative	7.3	7.0	7.1	8.8	8.5
Depreciation	5.4	5.2	5.4	9.0	7.2
Amortization of intangible assets	.3	.3	.3	7.0	4.5
Gain on sale of assets, net	(.2)	(.1)	(.2)	151.4	(37.7)
	94.6	94.4	94.3	4.3	10.8
Income from operations	5.4	5.6	5.7	.2	7.9%
Other income (expense):					
Interest expense	(.4)	(.4)	(.3)	13.8	8.9
Interest income	—	—	—	nm	nm
Other	(.7)	(.4)	(.4)	nm	nm
Income before income taxes	4.3	4.8	5.0	(7.9)	7.7
Income taxes	1.6	1.9	1.8	(11.0)	19.0
Net income	2.7%	2.9%	3.2%	(5.9)%	1.4%

nm--not meaningful

Revenues of $821,904 were 4.1% higher than last year’s revenues of $789,911. Utility revenues increased 7.1%, while Residential and Commercial revenues remained in line with the prior year.

Overall, income from operations of $44,108 increased .2% from the $44,003 experienced in the prior year. Income from operations was $24,273 in Utility (a 13.5% increase as compared with 2014) and $35,271 for Residential and Commercial (a 5.3% decrease as compared with 2014).

Net income of $21,798 was $1,371 less than the $23,169 earned in 2014. The increases in interest expense of $407 and other nonoperating expenses of $2,694, offset by the decrease in income taxes of $1,671, contributed to the decrease in net income.

Operating activities in 2015 provided cash of $62,689 as compared to $49,279 provided in 2014. The $13,410 net increase was primarily attributable to (i) an increase of $3,851 in depreciation and amortization expense, and (ii) $4,409 less cash used from changes in operating assets and liabilities.

Investing activities used $56,046 in cash, or $8,014 less than that used in 2014. The decrease was primarily due to fewer expenditures for land and buildings and purchases of businesses which were partially offset by an increase in equipment necessary to support the business growth.

Financing activities used $7,140 in cash in 2015, $24,475 more than the $17,335 of cash provided in 2014. Our revolving credit facility provided $10,000 in cash in 2015 as compared with the $24,500 provided during 2014. Purchases of common shares for treasury of $25,395 were partially offset by net cash received of $10,822 from the sale of common shares and cash received on our common share subscriptions. Dividends paid during 2015 totaled $2,663.

Fiscal 2015 Compared to Fiscal 2014

A comparison of our fiscal year 2015 results to 2014 follows:

	Year Ended December 31,			
	2015	**2014**	**Change**	**% Change**
Revenues	$ 821,904	$ 789,911	$ 31,993	4.1 %
Costs and expenses:				
Operating	528,899	508,677	20,222	4.0
Selling	144,234	140,027	4,207	3.0
General and administrative	59,798	54,970	4,828	8.8
Depreciation	44,677	40,970	3,707	9.0
Amortization of intangible assets	2,214	2,070	144	7.0
Gain on sale of assets, net	(2,026)	(806)	(1,220)	151.4
	777,796	745,908	31,888	4.3
Income from operations	44,108	44,003	105	.2
Other income (expense):				
Interest expense	(3,355)	(2,948)	(407)	13.8
Interest income	249	295	(46)	(15.6)
Other	(5,744)	(3,050)	(2,694)	88.3
Income before income taxes	35,258	38,300	(3,042)	(7.9)
Income taxes	13,460	15,131	(1,671)	(11.0)
Net income	$ 21,798	$ 23,169	$ (1,371)	(5.9)%

nm--not meaningful

Revenues--Revenues of $821,904 increased $31,993 compared with the $789,911 reported in 2014. Utility increased $28,598, or 7.1%, from the prior year. Contract rate increases with one of our largest utility customers, new contracts and increased productivity within our U.S. and Canadian operations account for the increase. Residential and Commercial increased $53 from 2014. Increases in tree pruning and tree removal revenues, landscape revenue and additional revenue from the purchase of businesses were partially offset by a reduction in revenues related to the special contract work with a large customer related to tree damage purportedly caused by one of its products. Total consolidated revenue of $821,904 includes production incentive revenue, recognized under the completed-performance method, of $4,686 during 2015 as compared with $5,142 during 2014.

Operating Expenses--Operating expenses of $528,899 increased $20,222 from the prior year, and as a percentage of revenues remained at 64.3%. Utility experienced an increase of $18,857, or 6.3%, from 2014, and as a percentage of revenues decreased .6% to 73.9%. Increases in employee labor and benefits expense, equipment repair and maintenance expense, crew expense, material expense, subcontractor expense and tool and saw expense were partially offset by decreases in fuel expense and disposal expense. Residential and Commercial decreased $2,026, or 1.0%, compared with 2014 and as a percentage of revenue decreased .5% to 52.7%. Decreases in fuel expense, subcontractor expense, crew expense, disposal expense and tool and saw expense were partially offset by increases in employee labor and benefits expense and material expense.

Fuel costs decreased in 2015 as compared with fuel costs for 2014 and impacted operating expenses within all segments. During 2015, fuel expense of $25,881 decreased $9,248, or 26.3%, from the $35,129 incurred in 2014. Substantially all of the $9,248 decrease relates to a decrease in price of fuel.

Selling Expenses--Selling expenses of $144,234 increased $4,207 from 2014 and as a percentage of revenues decreased .2% to 17.5%. Utility increased $3,360, or 8.2%, from 2014. Increases in field management wages and incentive expense, field management travel expense, rent expense, office expense, and employee development expense were partially offset by reductions in field management auto expense, communication expense, computer expense and professional services expense. Residential and Commercial increased $1,186, or 1.2%, from 2014 and as a percentage of revenue increased to .3%. Increases in field management wages and incentive expense, rent expense and sales and marketing expense were partially offset by reductions in field management auto expense, communication expense, computer expense and professional services expense.

General and Administrative Expenses--General and administrative expenses increased $4,828 to $59,798, an increase of 8.8% from the $54,970 experienced in 2014 and as a percentage of revenues increased .3% to 7.3%. Increases in salary and incentive expense, management travel expense, office rent expense, employee development expense, stock compensation expense and pension settlement costs incurred as a result of purchasing annuities related to our defined benefit pension plans, were partially offset by decreases in management auto expense, communication expense and computer expense.

Depreciation and Amortization Expense--Depreciation and amortization expense of $46,891 increased $3,851 from the prior year and as a percentage of revenues increased .2% to 5.7%. The increase is attributable to higher capital expenditures for equipment and an increase in amortization expense related to our purchases of businesses.

Gain on Sale of Assets--Gain on the sale of assets of $2,026 increased $1,220 from the $806 experienced in 2014. The increase is the result of the sale of aerial chassis in 2015 as compared with 2014.

Interest Expens**e**--Interest expense of $3,355 increased $407 from the $2,948 incurred in 2014. The increase is attributable to higher-average debt levels necessary to fund operations and capital expenditures.

Other, Net--Other, net of $5,744 increased $2,694 from the $3,050 experienced in 2014. Other, net, consisted of nonoperating income and expense, including foreign currency losses on the intercompany account balances of our Canadian operations.

Income Taxes--Income taxes for 2015 were $13,460, an effective tax rate of 38.2%, compared with income taxes for 2014 of $15,131, or an effective tax rate of 39.5%. The decrease of 1.3% in the effective tax rate of 38.2% for 2015, as compared to 39.5% for 2014, relates primarily to changes in foreign tax credits.

Net Income--Net income of $21,798 was $1,371 lower than the $23,169 earned in 2014. The increases in interest expense of $407 and other nonoperating expenses of $2,694, offset by the decrease in income taxes of $1,671, contributed to the decrease in net income.

Fiscal 2014 Compared to Fiscal 2013

A comparison of our fiscal year 2014 results to 2013 follows:

	Year Ended December 31,			
	2014	2013	Change	% Change
Revenues	$ 789,911	$ 713,848	$ 76,063	10.7%
Costs and expenses:				
Operating	508,677	462,646	46,031	9.9
Selling	140,027	120,842	19,185	15.9
General and administrative	54,970	50,654	4,316	8.5
Depreciation	40,970	38,231	2,739	7.2
Amortization of intangible assets	2,070	1,980	90	4.5
Gain on sale of assets, net	(806)	(1,294)	488	(37.7)
	745,908	673,059	72,849	10.8
Income from operations	44,003	40,789	3,214	7.9
Other income (expense):				
Interest expense	(2,948)	(2,708)	(240)	8.9
Interest income	295	311	(16)	(5.1)
Other	(3,050)	(2,827)	(223)	7.9
Income before income taxes	38,300	35,565	2,735	7.7
Income taxes	15,131	12,712	2,419	19.0
Net income	$ 23,169	$ 22,853	$ 316	1.4%

nm--not meaningful

Revenues--Revenues of $789,911 increased $76,063 compared with the $713,848 reported in 2013. Utility increased $27,999, or 7.4%, from the prior year. Contract rate increases with one of our largest utility customers, new contracts and increased productivity within our U.S. and Canadian operations account for the increase. Residential and Commercial increased $51,396, or 15.3%, from 2013. Increased snow plowing revenue, added revenues from business acquisitions, additional tree pruning and tree removal revenues and increased production on our liquid service applications account for the increase. Total consolidated revenue of $789,911 includes production incentive revenue, recognized under the completed-performance method, of $4,725 during 2014 as compared with $8,120 during 2013.

Operating Expenses--Operating expenses of $508,677 increased $46,031 from the prior year, and as a percentage of revenues decreased .5% to 64.3%. Utility experienced an increase of $15,596, or 5.5%, from 2013, and as a percentage of revenues decreased 1.3% to 74.5%. Increases in employee labor and benefits expense, equipment repair and maintenance expense, travel expense, fuel expense, subcontractor expense and tool and saw expense were partially offset by decreases in material expense, damage expense and equipment transfer expense. Residential and Commercial increased $30,601, or 17.5%, compared with 2013 and as a percentage of revenue increased .9% to 53.2%. Increased employee labor and benefit expense, repair and maintenance expense, fuel expense, material expense, tool and saw expense, subcontractor expense and disposal expense, were partially offset by a reduction in equipment transfer expense and damage expense.

Fuel costs increased in 2014 as compared with fuel costs for 2013 and impacted operating expenses within all segments. During 2014, fuel expense of $35,129 increased $2,201, or 6.7%, from the $32,928 incurred in 2013. Substantially all of the $2,201 increase relates to an increase in volume of fuel.

Selling Expenses--Selling expenses of $140,027 increased $19,185 from 2013 and as a percentage of revenues increased .8% to 17.7%. Utility increased $5,648, or 15.9%, from 2013. Increases in field management wages and incentive expense, field management travel expense, office expense, computer expense, communication expense and employee development expense were partially offset by a reduction in field management auto expense, office rent expense and utilities expense. Residential and Commercial increased $13,415, or 15.2%, from 2013 but as a percentage of revenue remained at 26.3%. Increases in field management wages and incentive expense, field management auto expense, rent expense, computer expense, communication expense, employee development expense, professional services expense and sales and marketing expense were partially offset by a reduction in field management travel expense.

General and Administrative Expenses--General and administrative expenses increased $4,316 to $54,970, a 8.5% increase, from the $50,654 experienced in 2013 and as a percentage of revenues decreased .1% to 7.0%. Pension settlement costs incurred, the result of purchasing annuities related to our defined benefit pension plans, along with increases in salary and incentive expense, office rent and utilities expense, computer expense, office expense and stock compensation expense were partially offset by decreases in management travel expense, communication expense and employee development expense.

Depreciation and Amortization Expense--Depreciation and amortization expense of $43,040 increased $2,829 from the prior year but as a percentage of revenues decreased .2% to 5.5%. The increase is attributable to higher capital expenditures for equipment and an increase in amortization expense related to our purchases of businesses.

Gain on Sale of Assets--Gain on the sale of assets of $806 decreased $488 from the $1,294 experienced in 2013. The decrease is the result of a reduction in the number of equipment units sold in 2014 as compared with 2013.

Interest Expense--Interest expense of $2,948 increased $240 from the $2,708 incurred in 2013. The increase is attributable to higher-average debt levels necessary to fund operations and capital expenditures, partially offset by lower-average interest rates, during the 2014 as compared with 2013.

Other, Net--Other, net of $3,050 increased $223 from the $2,827 experienced in 2013. Other, net, consisted of nonoperating income and expense, including foreign currency losses on the intercompany account balances of our Canadian operations.

Income Taxes--Income taxes for 2014 were $15,131, an effective tax rate of 39.5%, compared with income taxes for 2013 of $12,712, or an effective tax rate of 35.7%. The increase of 3.8% in the effective tax rate of 39.5% for 2014, as compared to 35.7% for 2013, relates primarily to changes in audit settlements and uncertain tax position adjustments.

Net Income--Net income of $23,169 was $316 higher than the $22,853 earned in 2013, the result of higher income from operations.

Income Tax—Liabilities for Uncertain Tax Positions

The amount of income taxes we pay is subject to audit by U.S. federal, state and Canadian tax authorities, which may result in proposed assessments. Our estimate for the potential outcome for any uncertain tax issue is highly judgmental. Uncertain tax positions are recognized only if they are more-likely-than-not to be upheld during examination based on their technical merits. The measurement of the uncertain tax position is based on the largest benefit amount that is more-likely-than-not (determined on a cumulative probability basis) to be realized upon settlement of the matter. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If the estimate of tax liabilities proves to be less than the ultimate settlement, a further charge to expense may result.

The Company is routinely under audit by U.S. federal, state, local and Canadian authorities in the area of income tax. These audits include questioning the timing and the amount of income and deductions and the allocation of income and deductions among various tax jurisdictions. During the fourth quarter 2013, the U.S. Internal Revenue Service completed its audit of the Company's U.S. income tax returns for 2010 and 2011 and, during 2010, Canada Revenue Agency completed its audit of the Company's Canadian operations for 2006, 2007 and 2008. With the exception of U.S. state jurisdictions, the Company is no longer subject to examination by tax authorities for the years through 2011. As of December 31, 2015, we believe it is reasonably possible that the total amount of unrecognized tax benefits will not significantly increase or decrease.

Goodwill—Impairment Tests

Annually, we perform the impairment tests for goodwill during the fourth quarter. Impairment of goodwill is tested at the reporting-unit level, which for us are also our business segments. Impairment of goodwill is tested by comparing the reporting unit's carrying value, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using discounted projected cash flows. If the carrying value of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any. We conducted our annual impairment tests and determined that no impairment loss was required to be recognized in 2015 or for any prior periods. There were no events or circumstances from the date of our assessment through December 31, 2015 that would impact this conclusion.

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

If the fair values of the reporting units were less than the carrying values of the reporting units (including recorded goodwill), determined through the discounted projected cash flow methodology, goodwill impairment may be present. In such an instance, we would measure the goodwill impairment loss, if any, based upon the fair value of the underlying assets and liabilities of the impacted reporting unit, including any unrecognized intangible assets, and estimate the implied fair value of goodwill. An impairment loss would be recognized to the extent that a reporting unit's recorded goodwill exceeded the implied fair value of goodwill.

The carrying value of the recorded goodwill for all reporting units totaled $29,474 at December 31, 2015. Based upon the goodwill impairment analysis conducted in the fourth quarter 2015, a hypothetical reduction in the fair value of the individual reporting units of approximately 59% to 60%, would not have resulted in the carrying value of the individual reporting units exceeding the reduced fair value.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flow Summary

Our cash flows from operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flow for the years ended December 31, 2015 and December 31, 2014, are summarized as follows:

	2015	2014
Cash provided by (used in):		
Operating activities	$ 62,689	$ 49,279
Investing activities	(56,046)	(64,060)
Financing activities	(7,140)	17,335
Effect of exchange rate changes on cash	(1,888)	—
Increase (Decrease) in cash	$ (2,385)	$ 2,554

Net Cash Provided by Operating Activities--Operating activities in 2015 provided cash of $62,689 as compared to $49,279 provided in 2014. The $13,410 net increase was primarily attributable to (i) an increase of $3,851 in depreciation and amortization expense, and (ii) $4,409 less cash used from changes in operating assets and liabilities.

Overall, accounts receivable dollars increased $8,403 in 2015 as compared to the increase of $4,489 experienced in 2014. With respect to the change in accounts receivable arising from business levels, the "days-sales-outstanding" in accounts receivable ("DSO") at the end of 2015 increased 5 days to 55 days, as compared to 2014. The DSO at December 31, 2014 was 50 days.

Accounts payable and accrued expenses increased $1,722 in 2015, $516 more than the increase of $1,206 experienced in 2014. Increases in advance payments from customers, 401KSOP liabilities, employee savings withholdings, professional service accruals and compensated absence accruals were partially offset by decreases in employee compensation accruals and health insurance accruals.

Self-insurance accruals increased $1,446 in 2015, a change of $670 compared to the increase of $2,116 experienced in 2014. The increase occurred within our workers compensation and vehicle liability classifications and resulted primarily from an overall increase in deductible amounts under commercial insurance or the self-insured risk retention.

Other assets, net, decreased $1,837 in 2015, as compared to the $6,640 increase in 2014. Decreases in prepaid expenses and other deposits were partially offset by increases in tax deposits and operating supplies.

Net Cash Used in Investing Activities--Investing activities used $56,046 in cash, $8,014 less than the $64,060 used in 2014. The decrease was primarily due to fewer expenditures for land and buildings and purchases of businesses which were partially offset by an increase in equipment necessary to support the business growth.

Net Cash Used in Financing Activities--Financing activities used $7,140 in cash in 2015, $24,475 more than the $17,335 of cash provided in 2014. Our revolving credit facility provided $10,000 as compared with the $24,500 provided during 2014. We use the revolving credit facility primarily for capital expenditures and payments of notes payable, primarily related to acquisitions. Borrowings of notes payable totaled $6,720 and payments of long-term debt and capital leases totaled $6,624. Purchases of common shares for treasury of $25,395 were partially offset by net cash received of $10,822 from the sale of common shares and cash received on our common share subscriptions. Dividends paid during 2015 totaled $2,663.

Revolving Credit Facility and 5.09% Senior Unsecured Notes--In November 2013, the Company amended its revolving credit facility. The Amended and Restated Credit Agreement provides for a revolving credit facility with a group of banks under which up to an aggregate of $175,000 is available, with a letter of credit sublimit of $100,000 and a swing line commitment of $15,000 (the previous agreement permitted borrowings up to $140,000 with a letter of credit sublimit of $100,000). Under certain circumstances, the amount available under the revolving credit facility may be increased to $210,000.

The Amended and Restated Credit Agreement extended the term of the revolving credit facility to November 7, 2018 from December 19, 2014. 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 and a maximum balance sheet leverage ratio. As of December 31, 2015, we were in compliance with all financial covenants contained in our revolving credit facility.

As of December 31, 2015, we had unused commitments under the facility approximating $63,153, and $111,847 committed, which consisted of borrowings of $54,500 and issued letters of credit of $57,347. Borrowings outstanding bear interest, at Davey Tree's option, of either (a) the base rate or (b) LIBOR plus a margin adjustment ranging from .75% to 1.50%--with the margin adjustments in both instances based on the Company's leverage ratio at the time of borrowing. The base rate is the greater of (i) the agent bank's prime rate, (ii) LIBOR plus 1.5%, or (iii) the federal funds rate plus .5%. A commitment fee ranging from .10% to .25% is also required based on the average daily unborrowed commitment.

On July 22, 2010, we issued $30,000 of 5.09% Senior Unsecured Notes, Series A, due July 22, 2020 (the "5.09% Senior Notes"). The 5.09% Senior Notes were issued pursuant to a Master Note Purchase Agreement (the "Purchase Agreement"), between Davey Tree and the purchasers of the 5.09% Senior Notes. The net proceeds of the 5.09% Senior Notes were used in 2010 to pay down borrowings under our revolving credit facility.

The 5.09% Senior Notes are equal in right of payment with our revolving credit facility and all other senior unsecured obligations of the Company. Interest is payable semiannually and five equal, annual principal payments commence on July 22, 2016 (the sixth anniversary of issuance). The Purchase Agreement contains customary events of default and covenants related to limitations on indebtedness and transactions with affiliates and the maintenance of certain financial ratios. As of December 31, 2015, we were in compliance with all financial covenants contained in our revolving credit facility.

Contractual Obligations Summary

The following is a summary of our long-term contractual obligations, as at December 31, 2015, to make future payments for the periods indicated:

		Contractual Obligations Due -- Year Ending December 31,					
Description	**Total**	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**
Revolving credit facility	$ 54,500	$ —	$ —	$ 54,500	$ —	$ —	$ —
Senior unsecured notes	30,000	6,000	6,000	6,000	6,000	6,000	—
Term loans	16,105	9,501	1,434	550	159	169	4,292
Operating lease obligations	25,907	6,266	4,302	3,348	2,463	1,980	7,548
Self-insurance accruals	59,808	23,042	14,240	9,191	4,991	2,561	5,783
Purchase obligations	7,720	7,720	—	—	—	—	—
Other liabilities	17,678	4,045	1,154	1,479	1,018	694	9,288
	$ 211,718	$ 56,574	$ 27,130	$ 75,068	$ 14,631	$ 11,404	$ 26,911

The self-insurance accruals in the summary above reflect the total of the undiscounted amount accrued, for which amounts estimated to be due each year may differ from actual payments required to fund claims. Purchase obligations in the summary above represent open purchase-order amounts we anticipate will become payable within the next year for goods and services we have negotiated for delivery as of December 31, 2015. Other liabilities include estimates of future expected funding requirements related to retirement plans and other sundry items. Because their future cash outflows are uncertain, accrued income tax liabilities for uncertain tax positions, as of December 31, 2015, have not been included in the summary above. Noncurrent deferred taxes and payments related to defined benefit pension plans are also not included in the summary.

As at December 31, 2015, we were contingently liable to our principal banks for letters of credit in the amount of $59,350 of which $57,347 is committed under the revolving credit facility. Substantially all of these letters of credit, which expire within a year, are planned for renewal as appropriate.

Also, as is common with our industry, we have performance obligations that are supported by surety bonds, which expire during 2016 through 2020. We intend to renew the performance bonds where appropriate and as necessary.

Off-Balance Sheet Arrangements

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

Capital Resources

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

Cash of $16,030 as of December 31, 2015 included $11,074 in the U.S. and $4,956 in Canada, all of which is subject to U.S. federal income taxes and Canadian taxes if repatriated to the U.S. Currently, we do not expect to repatriate a portion of our 2015 Canadian earnings to satisfy our 2015 U.S. based cash flow needs.

Business seasonality results in higher revenues during the second and third quarters as compared with the first and fourth quarters of the year, while our methods of accounting for fixed costs, such as depreciation and interest expense, are not significantly impacted by business seasonality. Capital resources during these periods are equally affected. We satisfy seasonal working capital needs and other financing requirements with the revolving credit facility and several other short-term lines of credit. We are continually reviewing our existing sources of financing and evaluating alternatives. At December 31, 2015, we had working capital of $48,984, unused short-term lines of credit approximating $7,081, and $63,153 available under our revolving credit facility.

Our sources of capital presently allow us the financial flexibility to meet our capital spending plan and to complete business acquisitions for at least the next twelve months and for the foreseeable future.

RECENT ACCOUNTING GUIDANCE

Accounting Standard Adopted in 2015

Accounting Standards Update 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes--In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes," authoritative guidance for the purpose of simplifying the presentation of deferred income taxes. Under ASU 2015-17, deferred income tax assets and liabilities are required to be presented as noncurrent in the balance sheet. The current requirement that deferred income tax assets and liabilities be offset and presented as a single amount is not affected by this guidance. We elected to early adopt this guidance during the fourth quarter of 2015 and have applied a full retrospective approach to all periods presented. Current deferred income tax assets of $8,927 as of December 31, 2014 have been reclassified and presented as an increase to net deferred tax assets, noncurrent, in the consolidated balance sheet.

Accounting Standards Not Yet Adopted

Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606)--In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which will replace all current U.S. GAAP guidance on revenue recognition and eliminate all industry-specific guidance.

The new revenue recognition guidance provides a unified model to determine when and how revenue is recognized. The underlying principle is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration for which the entity expects in exchange for those goods and services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced information to be presented in the financial statements regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

On July 9, 2015, the FASB approved a one-year deferral of the effective date of ASU 2014-09, which now becomes effective for Davey Tree beginning with the first quarter 2018 and can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. The FASB also affirmed its proposal to permit all entities to apply the new revenue standard early, but not before the original effective date, which for Davey Tree would be first quarter 2017. The new revenue guidance will supersede existing revenue guidance affecting our Company, and may also affect our business processes and our information technology systems. As a result, our evaluation of the effect of the new revenue guidance will extend over future periods.

Accounting Standards Update 2015-03, Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs--In April 2015, the FASB issued ASU 2015-03, "Imputation of Interest (Sub-Topic 835.30): Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU 2015-15 clarifying the application of this guidance to line-of-credit arrangements. The amendments in the ASUs are effective retrospectively for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, which for Davey Tree would be January 1, 2016. Early adoption is permitted for financial statements not previously issued. We do not expect the adoption of this guidance to have a significant impact on our consolidated financial statements.

Accounting Standards Update 2015-16, Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments--In September 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments." ASU 2015-16 simplifies the reporting of adjustments to the provisional amounts recorded for a business combination during the measurement period by eliminating the requirement to retrospectively account for those adjustments. Companies are required to present separately, on the face of the income statement, or disclose in the notes to the financial statements, the impact on current period earnings by line item that would have been recorded in previous periods if the adjustment to the provisional amounts were recognized as of the acquisition date. The amendments in the ASU are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. We do not expect the adoption of this guidance to have a significant impact on our consolidated financial statements.

Accounting Standards Update 2016-2, Leases (Topic 842)--In February 2016, the FASB issued ASU 2016-02 “Leases (Topic 842).” ASU 2016-02 establishes a comprehensive new lease accounting model. The new standard: (a) clarifies the definition of a lease; (b) requires a dual approach to lease classification similar to current lease classifications; and, (c) causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease-term of more than twelve months. The new standard is effective for interim and annual periods beginning after December 15, 2018, which for Davey Tree would be January 1, 2019. Early adoption is permitted. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. We are evaluating the impact of the new standard on our consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

Utility Customers--We generate a significant portion of revenues and corresponding accounts receivable from our Utility customers in the utility industry. One Utility customer, PG&E, approximated 11% of revenues during 2015, 8% during 2014 and 9% during 2013. Adverse conditions in the utility industry or individual utility customer operations may affect the collectibility of our receivables or our ability to generate ongoing revenues.

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

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

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

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

Our self-insurance accruals are based on estimates and, while we believe that the amounts accrued are adequate and not excessive, the ultimate claims may be in excess of or less than the amounts provided.

MARKET RISK INFORMATION

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

Interest Rate Risk

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

The following table provides information, as of December 31, 2015, about our debt obligations, including principal cash flows, weighted-average interest rates by expected maturity dates and fair values. Weighted-average interest rates used for variable-rate obligations are based on rates as derived from published spot rates, in effect as of December 31, 2015.

	Expected Maturity Date							Fair Value
	2016	2017	2018	2019	2020	Thereafter	Total	December 31, 2015
Liabilities								
Long-term debt:								
Fixed rate	$ 14,166	$ 6,141	$ 6,150	$ 6,159	$ 6,169	$ 4,292	$ 43,076	$ 30,151
Average interest rate	4.6%	5.1%	5.1%	5.1%	5.1%	5.1%		
Variable rate	$ 55,836	$ 1,293	$ 400	$ —	$ —	$ —	$ 57,529	$ 56,193
Average interest rate	1.4%	2.0%	2.8%	—	—	—		

Interest rates on the variable-rate debt, as of December 31, 2015, ranged from .9% to 3.3%.

Foreign Currency Exchange Rate Risk

We are exposed to market risk related to foreign currency exchange rate risk resulting from our operations in Canada, where we provide a comprehensive range of horticultural services. Our financial results could be affected by factors such as changes in the foreign currency exchange rate or differing economic conditions in the Canadian markets as compared with the markets for our services in the United States. Our earnings are affected by translation exposures from currency fluctuations in the value of the U.S. dollar as compared to the Canadian dollar. Similarly, the Canadian dollar-denominated assets and liabilities may result in financial exposure as to the timing of transactions and the net asset / liability position of our Canadian operations. Presently, we do not engage in hedging activities related to our foreign currency exchange rate risk. In preparing our sensitivity analysis of the effect of changes in foreign currency exchange rates, we have not factored in a potential sales levels or local currency prices.

Revenues and expenses denominated in Canadian dollars are translated into U.S. dollars at the average exchange rate each month of the year. Consequently, as the U.S. dollar changes relative to the Canadian dollar, our reported results vary.

Fluctuations in currency exchange rates also impact the U.S. dollar amount of our shareholders’ equity. The assets and liabilities of our Canadian operations are translated into U.S. dollars at the exchange rate in effect at year end. The resulting translation adjustments are recorded in shareholders' equity as a component of accumulated other comprehensive income / (loss). The U.S. dollar strengthened relative to the Canadian dollar as of December 31, 2015. Consequently, shareholders' equity decreased by $5,093. If the U.S. dollar had strengthened an additional 10% as of December 31, 2015, resulting translation adjustments recorded in shareholders' equity would have further decreased an approximate $2,852 from the amount reported to $7,945.

The sensitivity analysis is of limited predictive value. As a result, revenues and expenses as well as our ultimate realized gains and losses with respect to our foreign currency rate changes will depend on exposures that arise during a future period and the prevailing foreign currency exchange rates.

Commodity Price Risk

We are subject to market risk from fluctuating prices of fuel--both diesel and gasoline. Beginning in the second quarter 2011, we entered into fuel derivatives as "economic hedges" related to fuel consumed by Davey Tree service vehicles. The objectives of the economic hedges are to fix the price of a portion of our fuel needs and mitigate the earnings and cash flow volatility attributable to the risk of changing prices. As of December 31, 2013, all fuel derivatives previously entered into expired.

Impact of Inflation

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

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

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

Item 8. *Financial Statements and Supplementary Data.*

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

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

None.

Item 9A. *Controls and Procedures.*

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

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

(b) Management's Discussion of Internal Controls over Financial Reporting

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

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

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

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

(c) Management's Annual Report on Internal Control over Financial Reporting

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation as of December 31, 2015, as to the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2015.

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

/s/ Karl J. Warnke	/s/ Joseph R. Paul	/s/ Nicholas R. Sucic
Chairman, President and Chief Executive Officer	*Chief Financial Officer and Secretary*	*Vice President and Controller*

Kent, Ohio
March 9, 2016

(d) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(e) Report of Independent Registered Public Accounting Firm

Report of Ernst & Young, LLP
Independent Registered Public Accounting Firm
Regarding Internal Control over Financial Reporting

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

We have audited The Davey Tree Expert Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). The Davey Tree Expert Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, The Davey Tree Expert Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Davey Tree Expert Company as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015 of The Davey Tree Expert Company and our report dated March 9, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Akron, Ohio
March 9, 2016

Item 9B. ***Other Information.***

None.

PART III

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

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

Information about our directors is in the section "Election of Directors" of our 2016 Proxy Statement, which is incorporated into this report by reference.

Information about our audit committee and our audit committee financial experts is in the section “Committees of the Board of Directors; Attendance” of our 2016 Proxy Statement, which is incorporated into this report by reference.

Information required by Item 405 of Regulation S-K is in the section “Section 16(a) Beneficial Ownership Reporting Compliance” of our 2016 Proxy Statement, which is incorporated into this report by reference. See also the section titled "Shareholders Nominations for Director," which is incorporated into this report by reference.

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

Item 11. ***Executive Compensation.***

Information about executive and director compensation is in the sections “Compensation Discussion and Analysis,” "Report of the Compensation Committee," "Compensation Risk Analysis," "Compensation of Executive Officers" and "Compensation of Directors" of our 2016 Proxy Statement, which are incorporated into this report by reference.

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

Information about ownership of our common shares by certain persons is in the section "Ownership of Common Shares" of our 2016 Proxy Statement, which is incorporated into this report by reference. Information about our securities authorized for issuance under equity compensation plans is in the section “Equity Compensation Plan Information” of our 2016 Proxy Statement, which is incorporated into this report by reference.

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

Information about certain transactions between us and our affiliates and certain other persons and the independence of directors is in the section “Corporate Governance-Independence” and "Transactions with Related-Persons, Promoters and Certain Control Persons" of our 2016 Proxy Statement, which is incorporated into this report by reference.

Item 14. ***Principal Accountant Fees and Services.***

Information about our principal accountant’s fees and services is in the section “Independent Auditors” of our 2016 Proxy Statement, which is incorporated into this report by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules.***

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

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

(b) Exhibits.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 9, 2016.

THE DAVEY TREE EXPERT COMPANY

By: /s/ Karl J. Warnke
Karl J. Warnke, Chairman, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 9, 2016.

/s/ Patrick M. Covey
Patrick M. Covey, Director
President and Chief Operating Officer, U.S. Operations

/s/ John E. Warfel
John E. Warfel, Director

/s/ J. Dawson Cunningham
J. Dawson Cunningham, Director

/s/ Karl J. Warnke
Karl J. Warnke, Director,
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ William J. Ginn
William J. Ginn, Director

/s/ Joseph R. Paul
Joseph R. Paul, Chief Financial Officer and Secretary
(Principal Financial Officer)

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

/s/ Nicholas R. Sucic
Nicholas R. Sucic, Vice President and Controller
(Principal Accounting Officer)

/s/ Sandra W. Harbrecht
Sandra W. Harbrecht, Director

EXHIBIT INDEX

Exhibit No.	Description	
3.1.1	2003 Amended Articles of Incorporation (Incorporated by reference to Exhibit 3.3 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 27, 2003).	
3.1.2	Certificate of Amendment to the 2003 Amended Articles of Incorporation.	Filed Herewith
3.2	1987 Amended and Restated Regulations of The Davey Tree Expert Company (Incorporated by reference to Exhibit 3.2 to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2006).	
10.1	Second Amended and Restated Credit Agreement among The Davey Tree Expert Company, as borrower, various lending institutions party thereto, as banks, KeyBank National Association, as lead arranger, syndication agent and administrative agent, and PNC Bank, National Association and Wells Fargo Bank, N.A., as co-documentation agents, dated as of November 7, 2013 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 12, 2013).	
10.2	2004 Omnibus Stock Plan (Incorporated by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended July 3, 2004).	
10.3	2004 401KSOP Match Restoration Plan (Incorporated by reference to Exhibit 10.2 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended July 3, 2004).	
10.4	Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit 10.3 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended July 3, 2004).	
10.5	Retirement Benefit Restoration Plan (Incorporated by reference to Exhibit 10.4 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended July 3, 2004).	
10.6	The Davey Tree Expert Company Board of Directors Revised Deferred Compensation Plan (Incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013).	
10.7	2014 Omnibus Stock Plan (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 21, 2014).	
10.8	Stock Subscription Agreement (Incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014).	
21	Subsidiaries of the Registrant.	Filed Herewith
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.	Filed Herewith
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed Herewith
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed Herewith
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished Herewith

Exhibit No.	Description	
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 Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Statements of Consolidated Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.	Filed Herewith

The documents listed as Exhibits 10.2 through 10.8 constitute management contracts or compensatory plans or arrangements.

The Registrant is a party to certain instruments, copies of which will be furnished to the Securities and Exchange Commission upon request, defining the rights of holders of long-term debt.

ANNUAL REPORT ON FORM 10-K

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

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CERTAIN EXHIBITS

FINANCIAL STATEMENTS SCHEDULES

YEAR ENDED DECEMBER 31, 2015

THE DAVEY TREE EXPERT COMPANY

KENT, OHIO

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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

THE DAVEY TREE EXPERT COMPANY

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

Financial Statement Schedules:

None.

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

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of The Davey Tree Expert Company as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Davey Tree Expert Company at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Davey Tree Expert Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated March 9, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Akron, Ohio
March 9, 2016

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

	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash	**$ 16,030**	$ 18,415
Accounts receivable, net	**120,001**	111,598
Operating supplies	**7,171**	6,968
Prepaid expenses	**13,862**	14,088
Other current assets	**3,870**	7,200
Total current assets	**160,934**	158,269
Property and equipment:		
Land and land improvements	**16,135**	16,553
Buildings and leasehold improvements	**36,532**	33,644
Equipment	**504,527**	482,752
	557,194	532,949
Less accumulated depreciation	**390,772**	372,066
	166,422	160,883
Other assets	**32,420**	27,789
Identified intangible assets and goodwill, net	**34,281**	34,063
	$ 394,057	$ 381,004
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	**$ 15,501**	$ 8,281
Accounts payable	**37,750**	42,140
Accrued expenses	**36,146**	34,925
Self-insurance accruals	**22,553**	23,007
Total current liabilities	**111,950**	108,353
Long-term debt	**61,104**	51,306
Senior unsecured notes	**24,000**	30,000
Self-insurance accruals	**37,786**	35,886
Other liabilities	**17,678**	18,968
	252,518	244,513
Common shareholders' equity:		
Common shares, $1.00 par value, per share; 48,000 shares authorized; 21,457 shares issued and outstanding before treasury shares as of December 31, 2015 and 2014	**21,457**	21,457
Additional paid-in capital	**17,815**	9,461
Common shares subscribed	**8,591**	9,381
Retained earnings	**270,605**	251,470
Accumulated other comprehensive loss	**(13,394)**	(11,523)
	305,074	280,246
Less: Cost of Common shares held in treasury; 8,714 shares in 2015 and 8,292 in 2014	**159,429**	138,155
Common shares subscription receivable	**4,106**	5,600
	141,539	136,491
	$ 394,057	$ 381,004

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2015	**2014**	**2013**
Revenues	**$ 821,904**	$ 789,911	$ 713,848
Costs and expenses:			
Operating	**528,899**	508,677	462,646
Selling	**144,234**	140,027	120,842
General and administrative	**59,798**	54,970	50,654
Depreciation	**44,677**	40,970	38,231
Amortization of intangible assets	**2,214**	2,070	1,980
Gain on sale of assets, net	**(2,026)**	(806)	(1,294)
	777,796	745,908	673,059
Income from operations	**44,108**	44,003	40,789
Other income (expense):			
Interest expense	**(3,355)**	(2,948)	(2,708)
Interest income	**249**	295	311
Other	**(5,744)**	(3,050)	(2,827)
Income before income taxes	**35,258**	38,300	35,565
Income taxes	**13,460**	15,131	12,712
Net income	**$ 21,798**	$ 23,169	$ 22,853
Share data:			
Earnings per share--basic	**$ 1.62**	$ 1.68	$ 1.61
Earnings per share--diluted	**$ 1.56**	$ 1.63	$ 1.57
Weighted-average shares outstanding:			
Basic	**13,465**	13,821	14,171
Diluted	**13,977**	14,238	14,602
Dividends declared per share	**$ .2000**	$ .1850	$ .1800

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2015	**2014**	**2013**
Net income	**$ 21,798**	$ 23,169	$ 22,853
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments (losses)/gains	**(5,093)**	(2,798)	(1,864)
Defined benefit pension plans:			
Net gain/(loss) arising during the year	**326**	(6,023)	3,717
Reclassification to results of operations:			
Amortization of defined benefit pension items:			
Net actuarial loss	**2,863**	1,682	861
Prior service cost	**33**	9	8
	2,896	1,691	869
Defined benefit pension plan adjustments	**3,222**	(4,332)	4,586
Total other comprehensive (loss) income, net of tax	**(1,871)**	(7,130)	2,722
Comprehensive income	**$ 19,927**	$ 16,039	$ 25,575

See notes to consolidated financial statements.

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

	2015		2014		2013	
	Shares	Amount	Shares	Amount	Shares	Amount
Common shares						
At beginning and end of year	**21,457**	**$ 21,457**	21,457	$ 21,457	21,457	$ 21,457
Additional paid-in capital						
At beginning of year		**9,461**		5,008		3,431
Shares sold to employees		**6,066**		3,417		2,745
Options exercised		**(152)**		(273)		(2,273)
Subscription shares, issued		**83**		184		98
Stock-based compensation		**2,357**		1,125		1,007
At end of year		**17,815**		9,461		5,008
Common shares subscribed, unissued						
At beginning of year	**476**	**9,381**	531	10,467	561	11,055
Common shares, subscribed	**—**	**—**	—	—	—	—
Common shares, issued	**(34)**	**(676)**	(39)	(758)	(21)	(409)
Cancellations	**(6)**	**(114)**	(16)	(328)	(9)	(179)
At end of year	**436**	**8,591**	476	9,381	531	10,467
Retained earnings						
At beginning of year		**251,470**		230,975		210,652
Net income		**21,798**		23,169		22,853
Dividends, $ .2000 per share		**(2,663)**		—		—
Dividends, $ .1850 per share		**—**		(2,674)		—
Dividends, $ .1800 per share		—		—		(2,530)
At end of year		**270,605**		251,470		230,975
Accumulated other comprehensive income (loss), net of tax						
At beginning of year		**(11,523)**		(4,393)		(7,115)
Currency translation adjustments		**(5,093)**		(2,798)		(1,864)
Defined benefit pension plans		**3,222**		(4,332)		4,586
At end of year		**(13,394)**		(11,523)		(4,393)
Common shares held in treasury						
At beginning of year	**8,292**	**(138,155)**	8,018	(125,034)	7,731	(112,159)
Shares purchased	**824**	**(25,395)**	727	(19,598)	931	(21,887)
Shares sold to employees	**(288)**	**2,198**	(287)	3,822	(299)	3,853
Options exercised	**(71)**	**1,225**	(116)	1,861	(319)	4,776
Subscription shares, issued	**(43)**	**698**	(50)	794	(26)	383
At end of year	**8,714**	**(159,429)**	8,292	(138,155)	8,018	(125,034)
Common shares subscription receivable						
At beginning of year	**(476)**	**(5,600)**	(531)	(7,342)	(561)	(9,215)
Shares subscribed	**—**	**—**	—	—	—	—
Payments	**34**	**1,434**	39	1,543	21	1,728
Cancellations	**6**	**60**	16	199	9	145
At end of year	**(436)**	**(4,106)**	(476)	(5,600)	(531)	(7,342)
Common Shareholders' Equity at December 31	**12,743**	**$141,539**	13,165	$136,491	13,439	$131,138

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2015	**2014**	**2013**
Operating activities			
Net income	**$ 21,798**	$ 23,169	$ 22,853
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**44,677**	40,970	38,231
Amortization	**2,214**	2,070	1,980
Gain on sale of assets	**(2,026)**	(806)	(1,294)
Deferred income taxes	**(2,975)**	(2,679)	1,716
Other	**2,399**	(5,638)	(3,228)
Changes in operating assets and liabilities:			
Accounts receivable	**(8,403)**	(4,489)	10,307
Accounts payable and accrued expenses	**1,722**	1,206	(2,308)
Self-insurance accruals	**1,446**	2,116	(5,021)
Other assets, net	**1,837**	(6,640)	(6,926)
	40,891	26,110	33,457
Net cash provided by operating activities	**62,689**	49,279	56,310
Investing activities			
Capital expenditures:			
Equipment	**(52,466)**	(46,228)	(42,462)
Land and buildings	**(3,581)**	(9,503)	(2,743)
Proceeds from sales of property and equipment	**2,650**	1,366	2,080
Purchases of businesses	**(2,649)**	(9,695)	(80)
Net cash used in investing activities	**(56,046)**	(64,060)	(43,205)
Financing activities			
Revolving credit facility borrowings/(payments), net	**10,000**	24,500	(4,200)
Borrowings/(payments) of notes payable	**6,720**	(1,091)	1,442
Borrowings/(payments) of long-term debt and capital leases	**(6,624)**	5,695	(583)
Purchase of common shares for treasury	**(25,395)**	(19,598)	(21,887)
Sale of common shares from treasury	**9,328**	8,762	9,582
Cash received on common-share subscriptions	**1,494**	1,741	1,285
Dividends	**(2,663)**	(2,674)	(2,530)
Net cash (used in) provided by financing activities	**(7,140)**	17,335	(16,891)
Effect of exchange rate changes on cash	**(1,888)**	—	—
(Decrease) Increase in cash	**(2,385)**	2,554	(3,786)
Cash, beginning of year	**18,415**	15,861	19,647
Cash, end of year	**$ 16,030**	$ 18,415	$ 15,861

See notes to consolidated financial statements.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements
December 31, 2015
(In thousands, except share data)

A. Our Business

We provide a wide range of arboriculture, horticulture, 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, planting of trees, shrubs and other plant life; the practice of landscaping, grounds maintenance, tree surgery, tree feeding and tree spraying; the application of fertilizer, herbicides and insecticides; and, natural resource management and consulting, forestry research and development, and environmental planning.

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

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

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

B. Summary of Significant Accounting Policies

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

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

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

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

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

Long-Lived Assets--We assess potential impairment to our long-lived assets, other than goodwill, when there is evidence that events or changes in circumstances have made recovery of the asset’s carrying value unlikely and the carrying amount of the asset exceeds the estimated future undiscounted cash flow. In the event the assessment indicates that the carrying amounts

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

B. Summary of Significant Accounting Policies (continued)

may not be recoverable, an impairment loss would be recognized to reduce the asset's carrying amount to its estimated fair value based on the present value of the estimated future cash flows.

Goodwill--Goodwill is recorded when the cost of acquired businesses exceeds the fair value of the identified net assets acquired. Goodwill is not amortized, but tested for impairment annually or when events or circumstances indicate that impairment may have occurred. Annually, we perform the impairment tests for goodwill during the fourth quarter. Impairment of goodwill is tested at the reporting-unit level, which for us are also our business segments. Impairment of goodwill is tested by comparing the reporting unit's carrying value, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using discounted projected cash flows. If the carrying value of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any. We conducted our annual impairment tests and determined that no impairment loss was required to be recognized in 2015 or for any prior periods. There were no events or circumstances from the date of our assessment through December 31, 2015 that would impact this conclusion.

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

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

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

Our self-insurance accruals are based on estimates and, while we believe that the amounts accrued are adequate and not excessive, the ultimate claims may be in excess of or less than the amounts provided.

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

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

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

B. Summary of Significant Accounting Policies (continued)

using a December 31 measurement date. Changes in the funded status of the plans are recognized in the year in which the changes occur and reported in comprehensive income (loss).

Income Taxes--We compute taxes on income in accordance with the tax rules and regulations where the income is earned. The income tax rates imposed by these taxing authorities vary. Taxable income may differ from pretax income for financial reporting purposes. We compute and recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of our assets and liabilities. Changes in tax rates and laws are reflected in income in the period when such changes are enacted. We account for uncertain tax positions by recognizing the financial statement effects of a tax position only when, based upon the technical merits, it is more-likely-than-not that the position will be sustained upon examination.

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

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

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

> **Cash**--To limit our exposure, we transact our business and maintain banking relationships with high credit-quality financial institutions.
>
> **Accounts Receivable**--Our residential and commercial customers are located geographically throughout the United States and Canada and, as to commercial customers, within differing industries; thus, minimizing credit risk. The credit exposure of utility services customers is directly affected by conditions within the utility industries as well as the financial condition of individual customers. One utility customer approximated 11% of revenues during 2015, 8% in 2014 and 9% in 2013. To reduce credit risk, we evaluate the credit of customers, but generally do not require advance payments or collateral. Exposure to losses on receivables is principally dependent on each customer’s financial condition.

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

Interest Rate Risk Management--We have entered into interest rate contracts, from time-to-time, with the objective of altering interest rate exposures related to variable rate debt. In the interest rate contracts, we have agreed with a financial institution to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated on an agreed-upon notional principal amount.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

B. Summary of Significant Accounting Policies (continued)

Comprehensive Income (Loss)--Comprehensive income (loss) includes net income and other comprehensive income or loss. Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under U.S. GAAP are included in comprehensive income but are excluded from net income as these amounts are recorded directly as an adjustment to shareholders' equity, net of tax.

C. Recent Accounting Guidance

Accounting Standard Adopted in 2015

Accounting Standards Update 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes--In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes," authoritative guidance for the purpose of simplifying the presentation of deferred income taxes. Under ASU 2015-17, deferred income tax assets and liabilities are required to be presented as noncurrent in the balance sheet. The current requirement that deferred income tax assets and liabilities be offset and presented as a single amount is not affected by this guidance. We elected to early adopt this guidance during the fourth quarter of 2015 and have applied a full retrospective approach to all periods presented. Current deferred income tax assets of $8,927 as of December 31, 2014 have been reclassified and presented as an increase to net deferred tax assets, noncurrent, in the consolidated balance sheet.

Accounting Standards Not Yet Adopted

Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606)--In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which will replace all current U.S. GAAP guidance on revenue recognition and eliminate all industry-specific guidance.

The new revenue recognition guidance provides a unified model to determine when and how revenue is recognized. The underlying principle is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration for which the entity expects in exchange for those goods and services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced information to be presented in the financial statements regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

On July 9, 2015, the FASB approved a one-year deferral of the effective date of ASU 2014-09, which now becomes effective for Davey Tree beginning with the first quarter 2018 and can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. The FASB also affirmed its proposal to permit all entities to apply the new revenue standard early, but not before the original effective date, which for Davey Tree would be first quarter 2017. The new revenue guidance will supersede existing revenue guidance affecting our Company, and may also affect our business processes and our information technology systems. As a result, our evaluation of the effect of the new revenue guidance will extend over future periods.

Accounting Standards Update 2015-03, Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs--In April 2015, the FASB issued ASU 2015-03, "Imputation of Interest (Sub-Topic 835.30): Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU 2015-15 clarifying the application of this guidance to line-of-credit arrangements. The amendments in the ASUs are effective retrospectively for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, which for Davey Tree would be January 1, 2016. Early adoption is permitted for financial statements not previously issued. We do not expect the adoption of this guidance to have a significant impact on our consolidated financial statements.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

C. Recent Accounting Guidance (continued)

Accounting Standards Update 2015-16, Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments--In September 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments." ASU 2015-16 simplifies the reporting of adjustments to the provisional amounts recorded for a business combination during the measurement period by eliminating the requirement to retrospectively account for those adjustments. Companies are required to present separately, on the face of the income statement, or disclose in the notes to the financial statements, the impact on current period earnings by line item that would have been recorded in previous periods if the adjustment to the provisional amounts were recognized as of the acquisition date. The amendments in the ASU are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. We do not expect the adoption of this guidance to have a significant impact on our consolidated financial statements.

Accounting Standards Update 2016-2, Leases (Topic 842)--In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” ASU 2016-02 establishes a comprehensive new lease accounting model. The new standard: (a) clarifies the definition of a lease; (b) requires a dual approach to lease classification similar to current lease classifications; and, (c) causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease-term of more than twelve months. The new standard is effective for interim and annual periods beginning after December 15, 2018, which for Davey Tree would be January 1, 2019. Early adoption is permitted. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. We are evaluating the impact of the new standard on our consolidated financial statements.

D. Business Combinations

Our investments in businesses were: (a) $4,149 in 2015, including no liabilities assumed and debt issued of $1,500; (b) $12,853 in 2014, including $1,078 liabilities assumed and debt issued of $2,080; and (c) $110 in 2013, including no liabilities assumed and debt issued of $30.

The net assets of the businesses acquired are accounted for under the acquisition method and were recorded at their fair values at the dates of acquisition. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as an increase in goodwill of approximately $1,410 in 2015 (all of which is deductible for tax purposes), $4,624 in 2014 (all of which is deductible for tax purposes) and no goodwill in 2013.

The results of operations of acquired businesses have been included in the consolidated statements of operations beginning as of the effective dates of acquisition. The effect of these acquisitions on our consolidated revenues and results of operations, either individually or in the aggregate, for the years ended December 31, 2015, 2014 or 2013 was not significant.

E. Accounts Receivable, Net and Supplemental Balance Sheet Information

Accounts receivable, net, consisted of the following:

	December 31, 2015	December 31, 2014
Accounts receivable	$ 104,567	$ 98,657
Receivables under contractual arrangements	19,142	15,362
	123,709	114,019
Less allowances for doubtful accounts	3,708	2,421
	$ 120,001	$ 111,598

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

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

E. Accounts Receivable, Net and Supplemental Balance Sheet Information (continued)

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

	December 31,	
Other current assets	**2015**	**2014**
Refundable income taxes	$ 2,952	$ 2,122
Note receivable	—	4,319
Other	918	759
Total	$ 3,870	$ 7,200

	December 31,	
Other assets, noncurrent	**2015**	**2014**
Assets invested for self-insurance	$ 17,167	$ 13,684
Investment--cost-method affiliate	1,172	1,168
Deferred income taxes	11,521	10,632
Other	2,560	2,305
Total	$ 32,420	$ 27,789

	December 31,	
Accrued expenses	**2015**	**2014**
Employee compensation	$ 18,176	$ 19,195
Accrued compensated absences	8,607	8,034
Self-insured medical claims	2,347	2,722
Customer advances, deposits	2,564	2,030
Taxes, other than income	3,517	2,054
Other	935	890
Total	$ 36,146	$ 34,925

	December 31,	
Other liabilities, noncurrent	**2015**	**2014**
Pension and retirement plans	$ 14,296	$ 16,311
Other	3,382	2,657
Total	$ 17,678	$ 18,968

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

F. Supplemental Operating Information

Other Nonoperating (Expense) Income, Net

Other nonoperating (expense) income, net, included in the statements of operations follows:

	Year Ended December 31,		
	2015	2014	2013
Other nonoperating expense, net	$ (5,744)	$ (3,050)	$ (2,827)

Other nonoperating (expense) income, net, includes foreign currency losses of (i) $854 for 2015, (ii) $235 for 2014, and (iii) $146 for 2013 on the intercompany balances of our Canadian operations.

G. Supplemental Cash Flow Information

Supplemental cash flow information follows:

	Year Ended December 31,		
Supplemental cash flow information	2015	2014	2013
Interest paid	$ 3,386	$ 2,948	$ 2,732
Income taxes paid, net	16,679	13,577	20,133
Noncash transactions:			
Debt issued for purchases of businesses	$ 1,500	$ 2,080	$ 30
Detail of acquisitions:			
Assets acquired:			
Receivables	$ —	$ 1,852	$ —
Operating supplies	—	61	—
Prepaid expense	—	213	—
Equipment	1,264	1,726	—
Deposits and other	11	558	—
Intangibles	2,874	8,443	110
Liabilities assumed	—	(1,078)	—
Debt issued for purchases of businesses	(1,500)	(2,080)	(30)
Cash paid	$ 2,649	$ 9,695	$ 80

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

H. Identified Intangible Assets and Goodwill, Net

The carrying amount of the identified intangibles and goodwill acquired in connection with our investments in businesses were as follows:

	Weighted-Average Amortization Period (Years)	December 31, 2015 Carrying Amount	December 31, 2015 Accumulated Amortization	December 31, 2014 Carrying Amount	December 31, 2014 Accumulated Amortization
Amortized intangible assets:					
Customer lists/relationships	2.5 years	$ 16,805	$ 13,764	$ 16,076	$ 12,560
Employment-related	2.5 years	6,811	6,008	7,026	5,776
Tradenames	2.8 years	5,502	4,539	5,286	4,153
Total		29,118	$ 24,311	28,388	$ 22,489
Less accumulated amortization		24,311		22,489	
Identified intangibles, net		4,807		5,899	
Unamortized intangible assets:					
Goodwill	Not amortized	29,474		28,164	
		$ 34,281		$ 34,063	

The changes in the carrying amounts of goodwill, by segment, for the year ended December 31, 2015 follow:

	Balance at January 1, 2015	Acquisitions	Translation and Other Adjustments	Balance at December 31, 2015
Utility	$ 3,424	$ —	$ —	$ 3,424
Residential and Commercial	24,740	1,410	(100)	26,050
Total	$ 28,164	$ 1,410	$ (100)	$ 29,474

Estimated future aggregate amortization expense of intangible assets--The estimated aggregate amortization expense of intangible assets, as of December 31, 2015, in each of the next five years follows:

	Estimated Future Amortization Expense
Year ending December 31, 2016	$ 1,781
2017	1,322
2018	585
2019	466
2020	411

I. Short-Term and Long-Term Debt

Short-term debt consisted of the following:

	December 31, 2015	December 31, 2014
Current portion of long-term debt	$ 15,501	$ 8,281

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

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

At December 31, 2015, we also had unused short-term lines of credit with several banks totaling $7,081, generally at the banks' prime rate or LIBOR plus a margin adjustment of .75% to 1.50%. Long-term debt consisted of the following:

	December 31,	
	2015	**2014**
Revolving credit facility		
Swing-line borrowings	$ 2,500	$ 7,500
LIBOR borrowings	52,000	37,000
	54,500	44,500
Senior unsecured notes	30,000	30,000
Term loans	16,105	15,087
	100,605	89,587
Less current portion	15,501	8,281
	$ 85,104	$ 81,306

Revolving Credit Facility and 5.09% Senior Unsecured Notes--In November 2013, the Company amended its revolving credit facility. The amended and restated credit agreement, which expires in November 2018, permits borrowings as defined up to $175,000 including a letter of credit sublimit of $100,000 and a swing-line commitment of $15,000 (the previous agreement permitted borrowings up to $140,000 with a letter of credit sublimit of $100,000). Under certain circumstances, the amount available under the revolving credit facility may be increased to $210,000. 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 and a maximum balance sheet leverage ratio.

On July 22, 2010, we issued $30,000 of 5.09% Senior Unsecured Notes, Series A, due July 22, 2020 (the "5.09% Senior Notes"). The 5.09% Senior Notes were issued pursuant to a Master Note Purchase Agreement (the “Purchase Agreement”), between the Company and the purchasers of the 5.09% Senior Notes. The net proceeds of the 5.09% Senior Notes were used to pay down borrowings under our revolving credit facility.

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

As of December 31, 2015, we had unused commitments under the facility approximating $63,153, and $111,847 committed, which consisted of borrowings of $54,500 and issued letters of credit of $57,347. Borrowings outstanding bear interest, at Davey Tree’s option, of either (a) the base rate or (b) LIBOR plus a margin adjustment ranging from .75% to 1.50%--with the margin adjustments in both instances based on the Company's leverage ratio at the time of borrowing. The base rate is the greater of (i) the agent bank’s prime rate, (ii) LIBOR plus 1.5%, or (iii) the federal funds rate plus .5%. A commitment fee ranging from .10% to .25% is also required based on the average daily unborrowed commitment.

Term Loans, Weighted-Average Interest Rate--The weighted-average interest on the term loans approximated 3.55% at December 31, 2015 and 3.03% at December 31, 2014.

Aggregate Maturities of Long-Term Debt--Aggregate maturities of long-term debt for the five years subsequent to December 31, 2015 were as follows: 2016--$15,501; 2017--$7,434; 2018--$61,050; 2019--$6,159; and, 2020--$6,169.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

J. Self-Insurance Accruals

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

	December 31,	
	2015	2014
Workers' compensation	$ 35,304	$ 32,982
Present value discount	1,937	1,658
	33,367	31,324
Vehicle liability	5,880	4,940
General liability	21,092	22,629
Total	60,339	58,893
Less current portion	22,553	23,007
Noncurrent portion	$ 37,786	$ 35,886

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

	December 31,	
	2015	2014
Balance, beginning of year	$ 58,893	$ 56,712
Provision for claims	33,499	30,340
Payment of claims	32,053	28,159
Balance, end of year	$ 60,339	$ 58,893
Workers' compensation discount rate	2.20%	2.00%

K. Operating Lease Obligations

We lease facilities under noncancelable operating leases, which are used for district office and warehouse operations. These leases extend for varying periods of time up to five years and, in some cases, contain renewal options. Minimum rental commitments under noncancelable operating leases, as of December 31, 2015, were as follows:

Minimum lease obligations	Operating Lease Obligations
Year ending December 31, 2016	$ 6,266
2017	4,302
2018	3,348
2019	2,463
2020	1,980
2021 and after	7,548
Total minimum lease payments	$ 25,907

Total rent expense under all operating leases was $7,398 in 2015, $6,554 in 2014 and $6,167 in 2013.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

L. Common Shares and Preferred Shares

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

Common Shares--The number of common shares authorized is 48,000,000, par value $1.00. The number of common shares issued during each of the three years in the period ended December 31, 2015 was 21,456,880. The number of shares in the treasury for each of the three years in the period ended December 31, 2015 was as follows: 2015--8,713,566; 2014--8,291,947; and 2013--8,018,269.

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 determines the fair market value of our common shares based upon our performance and financial condition. Since 1979, we have provided a ready market for all shareholders through our direct purchase of their common shares, although we are under no obligation to do so. During 2015, purchases of common shares totaled 823,827 shares for $25,395 in cash; we also had direct sales to directors and employees of 14,492 shares for $438, excluding those shares issued through either the exercise of options or the Employee Stock Purchase Plan. We also sold 46,124 shares to our 401(k) plan for $1,406 and issued 101,480 shares to participant accounts to satisfy our liability for the 2014 employer match in the amount of $3,055. The liability accrued at December 31, 2015 for the 2015 employer match was $3,373. There were also 125,779 shares purchased during 2015 under the Employee Stock Purchase Plan.

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

	December 31,	
	2015	**2014**
Shares outstanding, beginning of year	13,164,933	13,438,611
Shares purchased	(823,827)	(727,436)
Shares sold	287,875	287,536
Stock subscription offering, employee cash purchases	43,071	49,940
Options exercised	71,262	116,282
	(421,619)	(273,678)
Shares outstanding, end of year	12,743,314	13,164,933

On December 31, 2015, we had 12,743,314 common shares outstanding, employee exercisable to purchase 416,844 common shares, partially-paid subscription for 436,081 common shares and purchase rights outstanding for 178,085 common shares.

Stock Subscription Offering--Beginning May 2012, the Company offered to eligible employees and nonemployee directors the right to subscribe to common shares of the Company at $19.70 per share in accordance with the provisions of The Davey Tree Expert Company 2004 Omnibus Stock Plan and the rules of the Compensation Committee of the Company's Board of Directors (collectively, the "plan"). The offering period ended on August 1, 2012 and resulted in the subscription of 637,714 common shares for $12,563 at $19.70 per share.

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

Common shares purchased under the plan have been 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.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

L. Common Shares and Preferred Shares (continued)

All participants in the offering purchasing in excess of $5 of common shares were granted a "right" to purchase one additional common share at a price of $19.70 per share for every three common shares purchased under the plan. As a result of the stock subscription, employees were granted rights to purchase 211,800 common shares. Each right may be exercised at the rate of one-seventh per year and will expire seven years after the date that the right was granted. Employees may not exercise a right should they cease to be employed by the Company.

M. Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income and other adjustments that relate to foreign currency translation adjustments, changes in the fair value of interest rate contracts qualifying as cash flow hedges, and defined benefit pension plan adjustments. We do not provide income taxes on currency translation adjustments, as the earnings of our Canadian operations are considered to be indefinitely reinvested.

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

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income/(Loss)
Balance at January 1, 2013	$ 3,511	$ (10,626)	$ (7,115)
Unrealized gains (losses)	(1,864)	—	(1,864)
Amounts reclassified from accumulated other comprehensive income (loss)	—	1,401	1,401
Tax effect	—	(532)	(532)
Unrecognized amounts from defined benefit pension plans	—	6,306	6,306
Tax effect	—	(2,589)	(2,589)
Net of tax amount	(1,864)	4,586	2,722
Balance at December 31, 2013	$ 1,647	$ (6,040)	$ (4,393)
Unrealized gains (losses)	(2,798)	—	(2,798)
Amounts reclassified from accumulated other comprehensive income (loss)	—	2,786	2,786
Tax effect	—	(1,095)	(1,095)
Unrecognized amounts from defined benefit pension plans	—	(9,923)	(9,923)
Tax effect	—	3,900	3,900
Net of tax amount	(2,798)	(4,332)	(7,130)
Balance at December 31, 2014	$ (1,151)	$ (10,372)	$ (11,523)
Unrealized gains (losses)	(5,093)	—	(5,093)
Amounts reclassified from accumulated other comprehensive income (loss)	—	4,774	4,774
Tax effect	—	(1,878)	(1,878)
Unrecognized amounts from defined benefit pension plans	—	538	538
Tax effect	—	(212)	(212)
Net of tax amount	(5,093)	3,222	(1,871)
Balance at December 31, 2015	$ (6,244)	$ (7,150)	$ (13,394)

The amounts reclassified from accumulated other comprehensive income (loss) related to defined benefit pension plans for 2015, 2014 and 2013 are included in net periodic pension expense and classified in the statement of operations as costs and expenses, general and administrative.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

N. The Davey 401KSOP and Employee Stock Ownership Plan

On March 15, 1979, we consummated a plan, which transferred control of the Company to our employees. As a part of this plan, we initially sold 120,000 common shares (presently, 11,520,000 common shares adjusted for stock splits) to our Employee Stock Ownership Trust (“ESOT”) for $2,700. The Employee Stock Ownership Plan (“ESOP”), in conjunction with the related ESOT, provided for the grant to certain employees of certain ownership rights in, but not possession of, the common shares held by the trustee of the ESOT. Annual allocations of shares have been made to individual accounts established for the benefit of the participants.

Defined Contribution and Savings Plans--Most employees are eligible to participate in The Davey 401KSOP and ESOP. Effective January 1, 1997, the plan commenced operations and retained the existing ESOP participant accounts and incorporated a deferred savings plan (a "401(k) plan") feature. Participants in the 401(k) plan are allowed to make before-tax contributions, within Internal Revenue Service established limits, through payroll deductions. Effective January 1, 2009 we match, in either cash or our common shares, 100% of the first one percent and 50% of the next three percent of each participant's before-tax contribution, limited to the first four percent of the employee's compensation deferred each year. All nonbargaining domestic employees who attained 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.

Total compensation for these plans, consisting primarily of the employer match, was $3,373 in 2015, $3,055 in 2014, and $2,788 in 2013.

O. Stock-Based Compensation

Our shareholders approved the 2014 Omnibus Stock Plan (the “2014 Stock Plan”) at our annual meeting of shareholders on May 20, 2014. The 2014 Stock Plan replaced the expired 2004 Omnibus Stock Plan (the “2004 plan”) previously approved by the shareholders in 2004. The 2014 Stock Plan is administered by the Compensation Committee of the Board of Directors and will remain in effect for ten years. All directors of the Company and employees of the Company and its subsidiaries are eligible to participate in the 2014 Stock Plan. The 2014 Stock Plan (similar to the 2004 plan) continues the maintenance of the Employee Stock Purchase Plan, as well as provisions for the grant of stock options and other stock-based incentives. The 2014 Stock Plan provides for the grant of five percent of the number of the Company’s common shares outstanding as of the first day of each fiscal year plus the number of common shares that were available for grant of awards, but not granted, in prior years. In no event, however, may the number of common shares available for the grant of awards in any fiscal year exceed ten percent of the common shares outstanding as of the first day of that fiscal year. Common shares subject to an award that is forfeited, terminated, or canceled without having been exercised are generally added back to the number of shares available for grant under the 2014 Stock Plan.

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

	Year Ended December 31,		
	2015	2014	2013
Compensation expense, all share-based payment plans	$ 2,327	$ 1,860	$ 1,411
Income tax benefit	694	549	348

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

O. Stock-Based Compensation (continued)

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

	Year Ended December 31,		
	2015	**2014**	**2013**
Number of employees participating	1,750	1,684	1,500
Shares purchased during the year	125,779	115,029	118,444
Weighted-average per share purchase price paid	$ 26.22	$ 23.07	$ 20.01
Cumulative shares purchased since 1982	8,877,034	8,751,255	8,636,226

Compensation costs are recognized as payroll deductions are made. The 15% discount of total shares purchased under the plan resulted in compensation cost recognized of $569 in 2015, $463 in 2014 and $417 in 2013.

Stock Option Plans--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 $494 in 2015, $398 in 2014 and $234 in 2013.

Stock-Settled Stock Appreciation Rights--During the year ended December 31, 2015, the Compensation Committee of the Board of Directors awarded 133,550 Stock-Settled Stock Appreciation Rights ("SSARs") to certain management employees and nonemployee directors, which vest ratably over five years. A stock-settled stock appreciation right is an award that allows the recipient to receive common stock equal to the appreciation in the fair market value of our common stock between the date the award was granted and the conversion date of the shares vested.

The following table summarizes the SSARs as of December 31, 2015:

Stock-Settled Stock Appreciation Rights	Number of Rights	Weighted-Average Award Date Value	Weighted-Average Remaining Contractual Life	Unrecognized Compensation Cost	Aggregate Intrinsic Value
Unvested, January 1, 2015	303,271	$ 3.84			
Granted	133,550	5.78			
Forfeited	—	—			
Vested	(106,114)	3.76			
Unvested, December 31, 2015	330,707	$ 4.65	2.9 years	$ 1,149	$ 10,417
Employee SSARs	321,708	$ 4.71	3.0 years	$ 1,137	$ 10,134
Nonemployee Director SSARs	8,999	$ 2.23	0.9 years	$ 12	$ 283

Compensation costs for stock appreciation rights are determined using a fair-value method and amortized over the requisite service period. Compensation expense for stock appreciation rights totaled $489 in 2015, $384 in 2014 and $315 in 2013.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

O. Stock-Based Compensation (continued)

Performance-Based Restricted Stock Units--During the year ended December 31, 2015, the Compensation Committee of the Board of Directors awarded 42,152 Performance-Based Restricted Stock Units ("PRSUs") to certain management employees.

Similar awards were made in prior periods. The awards vest over specified periods. The following table summarizes Performance-Based Restricted Stock Units as of December 31, 2015:

Performance-Based 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, 2015	117,709	$ 21.14			
Granted	42,152	29.14			
Forfeited	—	—			
Vested	(17,876)	17.44			
Unvested, December 31, 2015	141,985	$ 23.98	2.3 years	$ 1,909	$ 4,472
Employee PRSUs	121,435	$ 23.75	2.6 years	$ 1,662	$ 3,825
Nonemployee Director PRSUs	20,550	$ 25.32	1.3 years	$ 247	$ 647

Compensation cost for awards is determined using a fair-value method, amortized over the requisite service period. "Intrinsic value" is defined as the amount by which the fair market value of a common share of stock exceeds the exercise price of a performance-based restricted stock unit. Compensation expense on restricted stock awards totaled $775 in 2015, $615 in 2014 and $445 in 2013.

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

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

	Year Ended December 31,		
	2015	2014	2013
Volatility rate	10.9%	11.2%	11.3%
Risk-free interest rate	2.1%	2.6%	2.1%
Expected dividend yield	.7%	1.1%	1.5%
Expected life of awards (years)	9.3	9.4	9.4

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

O. Stock-Based Compensation (continued)

General Stock Option Information--The following table summarizes activity under the stock option plans for the year ended December 31, 2015:

Stock Options	Number of Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Unrecognized Compensation Cost	Aggregate Intrinsic Value
Outstanding, January 1, 2015	770,131	$ 19.33			
Granted	148,000	30.10			
Exercised	(66,687)	13.13			
Forfeited	(34,700)	24.27			
Outstanding, December 31, 2015	816,744	$ 21.58	6.2 years	$ 1,832	$ 8,102
Exercisable, December 31, 2015	416,844	$ 16.68	4.0 years		$ 6,178

"Intrinsic value" is defined as the amount by which the market price of a common share of stock exceeds the exercise price of an option. Information regarding the stock options outstanding at December 31, 2015 is summarized below:

Stock Options Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
Employee options:					
$ 11.25	121,938	0.4 years	$ 11.25	121,938	$ 11.25
16.00	100,761	3.8 years	16.00	100,761	16.00
16.60	96,095	4.8 years	16.60	96,095	16.60
23.20	186,550	7.5 years	23.20	67,450	23.20
26.40	177,400	8.5 years	26.40	30,600	26.40
30.10	134,000	9.5 years	30.10	—	30.10
	816,744	6.2 years	$ 21.58	416,844	$ 16.68

We issue common shares from treasury upon the exercise of stock options, stock-settled stock appreciation rights, performance-based restricted stock units or purchases under the Employee Stock Purchase Plan.

Tax Benefits of Stock-Based Compensation--Our total income tax benefit from share-based awards--as recognized in our consolidated statement of operations--for the last three years was: $694 in 2015, $549 in 2014, and $348 in 2013. Tax benefits for share-based awards are accrued as stock compensation expense and recognized in our consolidated statement of operations. Tax benefits on share-based awards are realized when: (a) stock-settled stock appreciation rights are exercised; (b) performance-based restricted stock units vest; and, (c) stock options are exercised.

When actual tax benefits realized exceed the tax benefits accrued for share-based awards, we realize an excess tax benefit. We had excess tax benefits of: $352 in 2015, $354 in 2014, and $242 in 2013.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

P. Defined Benefit Pension Plans

We have defined benefit pension plans covering certain current and retired U.S. employees. Plans include: (i) the Employee Retirement Plan ("ERP") for employees hired prior to January 1, 2009; (ii) a plan for bargaining employees not covered by union pension plans (the "SPP") for which future benefit accruals were frozen effective December 31, 2013; (iii) a Supplemental Executive Retirement Plan ("SERP") for which future benefit accruals were frozen effective at the end of the second quarter 2015; and, (iv) a Benefit Restoration Pension Plan ("Restoration Plan") for certain key employees hired prior to January 1, 2009.

Both the SERP and the Restoration Plan are defined benefit plans under which nonqualifed supplemental pension benefits will be paid in addition to amounts paid under our qualified retirement defined benefit pension plans, which are subject to Internal Revenue Service limitations on covered compensation.

Effective December 31, 2008, enhanced benefits were implemented to our defined contribution savings plan--The Davey 401KSOP and ESOP--at which time, the Board of Directors approved an amendment to freeze the ERP and the Restoration Plan. The ERP was closed to new participants after December 2008. In connection with the freeze of the ERP, the Restoration Plan and the SERP, (a) benefits currently being paid to retirees continue and (b) benefits accrued through December 31, 2008 for employees covered by the ERP were not affected. All ERP, Restoration Plan and SERP balances remain intact and participant account balances, as well as service credits for vesting and retirement eligibility, remain intact and continue in accordance with the terms of the plans. Only future accruals were eliminated with the: (i) 2008 freeze of the ERP and Restoration Plan; (ii) 2013 freeze of the SPP; and, (iii) 2015 freeze of the SERP.

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

	December 31,	
	2015	2014
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 35,876	$ 31,888
Service cost	35	51
Interest cost	1,486	1,618
Actuarial (gains)/losses	(2,445)	4,838
New longevity assumptions	(340)	3,229
Curtailments	(404)	—
Settlements	(6,186)	(4,319)
Benefits paid	(794)	(1,429)
Projected benefit obligation at end of year	$ 27,228	$ 35,876
Accumulated benefit obligation at end of year	$ 27,228	$ 35,475

	December 31,	
	2015	2014
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$ 21,567	$ 25,754
Actual return on plan assets	(135)	540
Plan expenses, including PBGC premiums	(536)	(404)
Employer contributions	1,300	1,425
Settlements	(6,186)	(4,319)
Benefits paid	(794)	(1,429)
Fair value of plan assets at end of year	$ 15,216	$ 21,567

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

P. Defined Benefit Pension Plans (continued)

The settlements in the change in benefit obligation and in the change in fair value of plan assets, arise from the purchase, during the fourth quarters ended December 31, 2015 and December 31, 2014, of a guaranteed group annuity contract from a third-party insurance company which unconditionally and irrevocably guarantees the full payment of all annuity payments to the participants that were receiving payments from the ERP plan, with the third-party insurance company having assumed all investment risk associated with funding participant payments. Also, payments made on behalf of certain SPP participants also contributed to the 2015 settlement charges.

	December 31,	
	2015	2014
Funded status of the plans		
Fair value of plan assets	$ 15,216	$ 21,567
Projected benefit obligation	27,228	35,876
Funded status of the plans	$ (12,012)	$ (14,309)

	December 31,	
	2015	2014
Amounts reported in the consolidated balance sheets		
Current liability	$ (499)	$ (38)
Noncurrent liability	(11,513)	(14,271)
Funded status of the plans	$ (12,012)	$ (14,309)

The change in funded status of the plans and accumulated other comprehensive income (loss) related to our defined benefit pension plans as at December 31, 2015, is primarily a result of higher discount rates and having updated the mortality improvement tables. In 2014, the Society of Actuaries ("SOA") issued new mortality and mortality improvement tables that reflect longer life expectancies and thereby indicate the amount of estimated aggregate benefit payments to plan participants is increasing. We incorporated the new SOA tables--new longevity assumptions--into our December 31, 2014 measurement of pension plans' benefit obligations. The SOA further updated the mortality improvement tables in 2015 and we have reflected this update into our December 31, 2015 measurement.

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

	At December 31, 2015		At December 31, 2014	
	Pretax	Net of Tax	Pretax	Net of Tax
Amounts reported in accumulated other comprehensive income				
Unrecognized net actuarial loss	$ 11,836	$ 7,150	$ 17,093	$ 10,339
Unrecognized prior service cost	—	—	55	33
	$ 11,836	$ 7,150	$ 17,148	$ 10,372

To the extent actuarial losses exceed the greater of 10% of the projected benefit obligation or market-related value of plan assets, the unrecognized actuarial losses will be amortized straight-line on a plan-by-plan basis, over the remaining expected future working lifetime of active participants, except for the SERP, which, after the plan freeze, is being amortized based on the remaining life expectancy of plan participants. The total amount of unrecognized prior service cost was amortized straight-line on a plan-by-plan basis. The total amortization associated with these amounts that is expected to be recognized in net periodic benefit expense for 2016 follows:

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

P. Defined Benefit Pension Plans (continued)

	Year ending December 31, 2016	
	Pretax	Net of Tax
Amortization of Costs Expected to be Recognized Next Year		
Unrecognized net actuarial loss	$ 973	$ 584
	$ 973	$ 584

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

	December 31,	
	2015	2014
For pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	$ 27,228	$ 35,876
Accumulated benefit obligation	27,228	35,475
Fair value of plan assets	15,216	21,567

The actuarial assumptions follow. The discount rates were used to measure the year-end benefit obligation and compute pension expense for the subsequent year.

	December 31,		
	2015	2014	2013
Actuarial assumptions			
Discount rate	4.70%	4.30%	5.20%
Expected long-term rate of return on plan assets	7.25	7.50	7.75

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

	Year Ended December 31,		
	2015	2014	2013
Components of pension expense (income)			
Service costs--increase in benefit obligation earned	$ 35	$ 51	$ 222
Interest cost on projected benefit obligation	1,486	1,618	1,515
Expected return on plan assets	(1,576)	(1,993)	(1,760)
Curtailment loss	49	—	—
Settlement loss	2,915	2,065	—
Amortization of net actuarial loss	1,400	708	1,388
Amortization of prior service cost	6	14	14
Net pension expense of defined benefit pension plans	$ 4,315	$ 2,463	$ 1,379

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

P. Defined Benefit Pension Plans (continued)

Investment Strategy and Risk Management for Plan Assets--Our investment strategy is to manage the plan assets in order to pay retirement benefits to plan participants while minimizing our cash contributions over the life of the plans. This is accomplished by preserving capital through diversification in high-quality investments through the use of investment managers and mutual funds. Performance of all investment managers and mutual funds is monitored quarterly and evaluated over rolling three-to-five year periods.

The plan assets are divided into asset classes that include equity, fixed income, and alternative investments and allocated among target allocations to include: (a) equities of a minimum 55% to a maximum of 65%; (b) fixed income and cash of a minimum 20% to a maximum of 30%; and, (c) alternative investments of a minimum of zero to a maximum of 15%. The purpose of the equity asset class is to provide a total return that simultaneously provides for growth in principal and current income while at the same time preserving the purchasing power of the plan assets, even though assets invested in equities have greater market volatility and risk. The purpose of the fixed income asset class is to provide a deflation hedge, to reduce the overall volatility of plan assets and to produce current income in support of the needs of the plan. The purpose of alternative investments is the diversification benefit of alternative strategies.

Equity assets are to be allocated within certain ranges among the asset categories of large cap growth and value; small/midcap growth and value; and international growth and value. Each of the equity asset categories are assigned to an appropriate asset manager or mutual fund. Fixed income assets are allocated within a certain range to mutual funds of fixed income securities. Alternative investment assets are allocated within a certain range to mutual funds and may include the use of leverage. Short-selling, securities lending, financial futures, margins, options, and derivatives are not used. Investments in nonmarketable securities, commodities, or direct ownership of real estate are prohibited.

Rate-of-return-on-assets assumptions are made by major category of plan assets according to historical analysis, tempered for an assessment of possible future influences that could cause the returns to exceed or trail long-term patterns. The overall expected long-term rate-of-return-on-plan assets net of investment manager fees as at December 31, 2015, was 7.25%.

Plan Assets--The fair values of our pension plan assets at December 31, 2015 by asset category, using the three-level hierarchy of fair value inputs, were as follows:

		Fair Value Measurements at December 31, 2015 Using:		
Description	**Total Carrying Value at December 31, 2015**	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Asset Category				
Money market funds	$ 2,794	$ —	$ 2,794	$ —
U.S. large-cap equities				
Growth	1,869	1,869	—	—
Value	1,492	1,492	—	—
U.S. small/mid-cap equities				
Growth	781	781	—	—
Value	1,003	1,003	—	—
International equities				
Growth	1,270	1,270	—	—
Value	1,183	1,183	—	—
Fixed income	3,035	3,035	—	—
Multiclass world-allocation mutual funds	1,789	1,789	—	—
	$ 15,216	$ 12,422	$ 2,794	$ —

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

P. Defined Benefit Pension Plans (continued)

The fair values of our pension plan assets at December 31, 2014 by asset category, using the three-level hierarchy of fair value inputs, were as follows:

		Fair Value Measurements at December 31, 2014 Using:		
Description	**Total Carrying Value at December 31, 2014**	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Asset Category				
Money market funds	$ 2,442	$ —	$ 2,442	$ —
U.S. large-cap equities				
Growth	2,625	2,625	—	—
Value	2,088	2,088	—	—
U.S. small/mid-cap equities				
Growth	1,623	1,623	—	—
Value	1,844	1,844	—	—
International equities				
Growth	2,128	2,128	—	—
Value	2,124	2,124	—	—
Fixed income	3,747	3,747	—	—
Multiclass world-allocation mutual funds	2,946	2,946	—	—
	$ 21,567	$ 19,125	$ 2,442	$ —

Within the pension plan asset categories, the Level 1 investments are publicly traded in active markets and are valued using the net asset value or closing price of the investment at the measurement date. Securities held by a money market fund are generally high quality and liquid; however, they are reflected as Level 2 because the inputs used to determine fair value are not quoted prices in an active market.

Expected Benefit Plan Contributions--It is our practice to make contributions to comply with the minimum funding requirements of ERISA. In accordance with such practice, no contributions are required for 2016; however, we may make discretionary contributions.

Expected Benefit Plan Payments--The benefits, as of December 31, 2015, expected to be paid to defined-benefit plan participants in each of the next five years, and in the aggregate for the five years thereafter, follow:

Estimated future payments	**Participants Benefits**
Year ending December 31, 2016	$ 650
2017	904
2018	1,022
2019	1,139
2020	1,260
Years 2021 to 2025	7,593

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

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

P. Defined Benefit Pension Plans (continued)

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

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

Our participation in the multiemployer defined benefit pension plans is summarized in the table below. The “EIN/Pension Plan Number” column provides the Employer Identification Number (“EIN”) and the three-digit plan number. The most recent Pension Protection Act of 2006 (the “PPA”) zone status is from the Form 5500, “Annual Return/Report of Employee Benefit Plan,” filed by the plan and certified by the plan's actuary. The PPA zone status describes plans that are underfunded. Among other factors, plans in the “critical” red zone are generally less than 65% funded; plans in the “endangered” yellow zone are less than 80% funded; and, plans in the “safe” green zone are at least 80% funded.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status 2015	Pension Protection Act Zone Status 2014	FIP/RP Status Pending Implemented	Davey Tree Contributions 2015	Davey Tree Contributions 2014	Davey Tree Contributions 2013	Surcharge Imposed	Expiration Dates of Bargaining Agreement
National Electric Benefit Fund	53-0181657/001	Green	Green	No	$ 774	$ 743	$ 755	No	Ranging from June 30, 2017 to December 31, 2018
Eighth District Electrical Pension Fund	84-6100393/001	Green	Green	No	119	105	100	No	December 31, 2017
					$ 893	$ 848	$ 855		

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

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

We are party to eight collective-bargaining agreements with the National Electric Benefit Fund, with expiration dates ranging from June 30, 2017 to December 31, 2018 and one collective-bargaining agreement with Eighth District Electrical Pension Fund with an expiration date of December 31, 2017.

Q. Income Taxes

Income before income taxes was attributable to the following sources:

	Year Ended December 31, 2015	2014	2013
United States	$ 32,807	$ 30,380	$ 29,203
Canada	2,451	7,920	6,362
Total	$ 35,258	$ 38,300	$ 35,565

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

Q. Income Taxes (continued)

The provision for income taxes follows:

	Year Ended December 31,		
	2015	2014	2013
Currently payable:			
Federal	$ 13,337	$ 13,159	$ 7,089
State	2,487	2,524	2,183
Canadian	611	2,127	1,724
Total current	16,435	17,810	10,996
Deferred taxes	(2,975)	(2,679)	1,716
Total taxes on income	$ 13,460	$ 15,131	$ 12,712

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

	Year Ended December 31,		
	2015	2014	2013
Statutory U.S. federal tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	3.7	3.9	3.6
Effect of Canadian income taxes	(.5)	(1.7)	(1.6)
Nondeductible expenses	2.3	1.9	1.9
ESOP dividend deduction	(.8)	(.7)	(.8)
Uncertain tax adjustments and audit settlement	1.5	1.6	(2.2)
Valuation allowance	(2.2)	—	—
All other, net	(.8)	(.5)	(.2)
Effective income tax rate	38.2%	39.5%	35.7%

Deferred income taxes reflect the tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is recorded when it is more-likely-than-not that an income tax benefit will not be realized.

In November 2015, as discussed in Note C, the FASB issued Accounting Standards Update 2015-17 that requires deferred tax assets and liabilities to be classified as noncurrent in the balance sheet. The guidance is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2016, with early adoption permitted. We elected to early adopt the guidance during the fourth quarter of 2015 and have applied a full retrospective approach to all periods presented. Current deferrred income tax assets of $8,927 as of December 31, 2014 have been reclassified and presented as an increase to net deferred tax assets, noncurrent, in the consolidated balance sheet. The impact of adopting the standard on the December 31, 2014 consolidated balance sheet follows.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

Q. Income Taxes (continued)

	Previously Reported	Reclassified	As Adopted
Consolidated Balance Sheet, as of December 31, 2014			
Deferred income tax assets--current	$ 12,087	$ (12,087)	$ —
Deferred income tax assets--noncurrent	22,399	12,087	34,486
Deferred income tax liability--current	3,160	(3,160)	—
Deferred income tax liabilities--noncurrent	20,694	3,160	23,854
			$ 10,632

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

	December 31, 2015	December 31, 2014
Deferred tax assets:		
Self-insurance accruals	$ 21,136	$ 20,661
Accrued compensated absences	3,189	3,090
Accrued expenses and other liabilities	1,255	1,388
Accrued stock compensation	2,144	1,642
Defined benefit pension plans	3,721	4,573
Foreign tax credit carryforward	680	768
Other future deductible amounts, net	4,354	3,132
	36,479	35,254
Less deferred tax asset valuation allowance	—	768
	36,479	34,486
Deferred tax liabilities:		
Intangibles	150	269
Prepaid expenses	3,138	3,160
Property and equipment	21,670	20,425
	24,958	23,854
Net deferred tax assets--noncurrent	$ 11,521	$ 10,632

We treat all of our Canadian subsidiary earnings through December 31, 2015 as permanently reinvested and have not provided any U.S. federal or state tax thereon. As of December 31, 2015, approximately $27,268 of undistributed earnings attributable to our Canadian operations was considered to be indefinitely invested. Presently, our intention is to reinvest the earnings permanently.

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

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

Q. Income Taxes (continued)

As at December 31, 2015, we released a valuation allowance that had been recorded in prior years related to the foreign tax credit carryforward that arose in 2010--wherein we repatriated earnings in 2010 of our Canadian operations due to capital in Canada in excess of current and future projected needs. Management presently believes that it is more-likely-than-not that the deferred tax asset, related to the foreign tax credit that expires in 2020, will be realized. The criteria considered in making the determination included the ability to utilize tax-planning strategies, historical and projected operating results, and the period of time over which the foreign tax credit can be utilized.

The amount of income taxes we pay is subject to audit by U.S. federal, state, local and Canadian tax authorities, which may result in proposed assessments. Our estimate for the potential outcome for any uncertain tax issue is highly judgmental. Uncertain tax positions are recognized only if they are more-likely-than-not to be upheld during examination based on their technical merits. The measurement of the uncertain tax position is based on the largest benefit amount that is more-likely-than-not (determined on a cumulative probability basis) to be realized upon settlement of the matter. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If the estimate of tax liabilities proves to be less than the ultimate settlement, a further charge to expense may result.

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

	December 31,	
	2015	2014
Unrecognized tax benefits	$ 2,557	$ 1,949
Portion, if recognized, would reduce tax expense and effective tax rate	1,981	1,512
Accrued interest on unrecognized tax benefits	115	77
Accrued penalties on unrecognized benefits	—	—

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

The Company is routinely under audit by U.S. federal, state, local and Canadian authorities in the area of income tax. These audits include questioning the timing and the amount of income and deductions and the allocation of income and deductions among various tax jurisdictions. During the fourth quarter 2013, the U.S. Internal Revenue Service completed its audit of the Company's U.S. income tax returns for 2010 and 2011 and, during 2010, Canada Revenue Agency completed its audit of the Company's Canadian operations for 2006, 2007 and 2008. With the exception of U.S. state jurisdictions, the Company is no longer subject to examination by tax authorities for the years through 2011. As of December 31, 2015, we believe it is reasonably possible that the total amount of unrecognized tax benefits will not significantly increase or decrease.

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

	Year Ended December 31,		
	2015	2014	2013
Balance, beginning of year	$ 1,949	$ 1,221	$ 2,638
Additions based on tax positions related to the current year	642	587	370
Additions for tax positions of prior years	52	234	133
Reductions for tax positions of prior years	(63)	(79)	(1,155)
Reductions related to settlements with taxing authorities	—	—	(460)
Lapses in statutes of limitations	(23)	(14)	(305)
Balance, end of year	$ 2,557	$ 1,949	$ 1,221

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

R. Earnings Per Share Information

Earnings per share is computed as follows:

	Year Ended December 31,		
	2015	**2014**	**2013**
Income available to common shareholders:			
Net income	$ 21,798	$ 23,169	$ 22,853
Weighted-average shares:			
Basic:			
Outstanding	13,029,368	13,337,198	13,639,356
Partially-paid share subscriptions	436,081	484,025	531,325
Basic weighted-average shares	13,465,449	13,821,223	14,170,681
Diluted:			
Basic from above	13,465,449	13,821,223	14,170,681
Incremental shares from assumed:			
Exercise of stock subscription purchase rights	67,714	54,824	34,273
Exercise of stock options and awards	444,127	362,229	397,478
Diluted weighted-average shares	13,977,290	14,238,276	14,602,432
Share data:			
Earnings per share--basic	$ 1.62	$ 1.68	$ 1.61
Earnings per share--diluted	$ 1.56	$ 1.63	$ 1.57

S. Operations by Business Segment and Geographic Information

We provide a wide range of arboriculture, horticulture, 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, planting of trees, shrubs and other plant life; the practice of landscaping, grounds maintenance, tree surgery, tree feeding and tree spraying; the application of fertilizer, herbicides and insecticides; and, natural resource management and consulting, forestry research and development, and environmental planning.

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

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

Measurement of Segment Profit and Loss and Segment Assets--We evaluate performance and allocate resources based primarily on operating income and also actively manage business unit operating assets. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies except that (a) we compute and recognize depreciation expense for our segments only by the straight-line method and (b) state income taxes are allocated to the segments. Corporate expenses are substantially allocated among the operating segments, but the nature of expenses allocated may differ from year-to-year. There are no intersegment revenues.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

S. Operations by Business Segment and Geographic Information (continued)

Segment assets are those generated or directly used by each segment, and include accounts receivable, operating supplies, and property and equipment.

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

	Utility Services	Residential Commercial Services	All Other	Reconciling Adjustments		Consolidated
Fiscal Year 2015						
Revenues	$ 433,117	$ 386,327	$ 2,460	$ —		$ 821,904
Income (loss) from operations	24,273	35,271	(5,368)	(10,068)	(a)	44,108
Interest expense				(3,355)		(3,355)
Interest income				249		249
Other income (expense), net				(5,744)		(5,744)
Income before income taxes						$ 35,258
Depreciation	$ 25,466	$ 15,592	$ —	$ 3,619	(b)	$ 44,677
Amortization	144	2,062	—	8		2,214
Capital expenditures	26,853	22,853	—	6,341		56,047
Segment assets, total	145,306	162,679	—	86,072	(c)	394,057
Fiscal Year 2014						
Revenues	$ 404,519	$ 386,274	$ (882)	$ —		$ 789,911
Income (loss) from operations	21,382	37,232	(6,037)	(8,574)	(a)	44,003
Interest expense				(2,948)		(2,948)
Interest income				295		295
Other income (expense), net				(3,050)		(3,050)
Income before income taxes						$ 38,300
Depreciation	$ 23,225	$ 14,544	$ —	$ 3,201	(b)	$ 40,970
Amortization	174	1,896	—	—		2,070
Capital expenditures	25,994	17,490	—	12,247		55,731
Segment assets, total	150,002	144,413	—	86,589	(c)	381,004
Fiscal Year 2013						
Revenues	$ 376,520	$ 334,878	$ 2,450	$ —		$ 713,848
Income (loss) from operations	16,070	33,566	(2,869)	(5,978)	(a)	40,789
Interest expense				(2,708)		(2,708)
Interest income				311		311
Other income (expense), net				(2,827)		(2,827)
Income before income taxes						$ 35,565
Depreciation	$ 22,261	$ 13,286	$ —	$ 2,684	(b)	$ 38,231
Amortization	359	1,440	—	181		1,980
Capital expenditures	21,642	17,577	—	5,986		45,205
Segment assets, total	145,021	122,542	—	65,815	(c)	333,378

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

S. Operations by Business Segment and Geographic Information (continued)

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

(a) Reconciling adjustments from segment reporting to consolidated external financial reporting include reclassification of depreciation expense and allocation of corporate expenses.

(b) Adjustments to declining-balance method depreciation expense from straight-line method and depreciation and amortization of corporate assets.

(c) Corporate assets include cash, prepaid expenses, corporate facilities, enterprise-wide information systems and other nonoperating assets.

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

	Year Ended December 31,		
	2015	**2014**	**2013**
Revenues			
United States	$ 749,896	$ 706,145	$ 637,524
Canada	72,008	83,766	76,324
	$ 821,904	$ 789,911	$ 713,848

	December 31,		
	2015	**2014**	**2013**
Long-lived assets, net			
United States	$ 213,794	$ 196,116	$ 166,598
Canada	19,329	17,692	14,764
	$ 233,123	$ 213,808	$ 181,362

T. Fair Value Measurements and Financial Instruments

Financial Accounting Standards Board Accounting Standard Codification 820, “Fair Value of 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 Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

T. Fair Value Measurements and Financial Instruments (continued)

Our assets and liabilities measured at fair value on a recurring basis at December 31, 2015 and December 31, 2014, were as follows:

		Fair Value Measurements at December 31, 2015 Using:		
Description	**Total Carrying Value at December 31, 2015**	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets:				
Assets invested for self-insurance, classified as other assets, noncurrent	$ 17,167	$ 17,167	$ —	$ —
Defined benefit pension plan assets	15,216	12,422	2,794	—
Liabilities:				
Deferred compensation	$ 1,574	$ —	$ 1,574	$ —

		Fair Value Measurements at December 31, 2014 Using:		
Description	**Total Carrying Value at December 31, 2014**	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets:				
Assets invested for self-insurance, classified as other assets, noncurrent	$ 13,684	$ 13,684	$ —	$ —
Defined benefit pension plan assets	21,567	19,125	2,442	—
Liabilities:				
Deferred compensation	$ 1,423	$ —	$ 1,423	$ —

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

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

T. Fair Value Measurements and Financial Instruments (continued)

Fair Value of Financial Instruments--The fair values of our current financial assets and current liabilities, including cash, accounts receivable, accounts payable, and accrued expenses among others, approximate their reported carrying values because of their short-term nature. The assets invested for self-insurance are money market funds--classified as Level 1--based on quoted market prices of the identical underlying securities in active markets. The estimated fair value of our derivative instruments are calculated based on market rates to settle the instruments, as discussed below, representing the amount we would receive upon sale or pay upon transfer. Financial instruments classified as noncurrent liabilities and their carrying values and fair values were as follows:

	December 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Revolving credit facility, noncurrent	$ 54,500	$ 54,500	44,500	44,500
Senior unsecured notes	24,000	24,837	30,000	30,688
Term loans, noncurrent	6,604	7,008	6,806	7,195
Total	$ 85,104	$ 86,345	$ 81,306	$ 82,383

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

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

U. Commitments and Contingencies

Letters of Credit

At December 31, 2015, we were contingently liable to our principal banks in the amount of $59,350 for letters of credit outstanding primarily related to insurance coverage.

Surety Bonds

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

Litigation

We are party to a number of lawsuits, threatened lawsuits and other claims arising out of the normal course of business. Management is of the opinion that liabilities which may result are adequately covered by insurance, or reflected in the self-insurance accruals, and would not be material in relation to the financial position or results of operations.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements--(Continued)
December 31, 2015
(In thousands, except share data)

V. Quarterly Results of Operations (Unaudited)

The following is a summary of the results of operations for each quarter of 2015 and 2014.

	Fiscal 2015, Three Months Ended			
	Apr 4	July 4	Oct 3	Dec 31
Revenues	$ 174,292	$ 224,773	$ 224,981	$ 197,858
Gross profit (revenues less costs and expenses, operating)	54,434	87,432	81,808	69,331
Income (loss) from operations	(3,985)	27,796	16,177	4,120
Net income (loss)	(3,528)	15,932	8,174	1,220
Net income (loss) per share -- Basic	$ (.27)	$ 1.21	$ .58	$ .10
Net income (loss) per share -- Diluted	$ (.27)	$ 1.17	$ .55	$ .11
ESOT Valuation per share	$ 30.10	$ 30.10	$ 31.50	$ 32.70

	Fiscal 2014, Three Months Ended			
	Mar 29	Jun 29	Sept 27	Dec 31
Revenues	$ 157,387	$ 213,183	$ 216,604	$ 202,737
Gross profit (revenues less costs and expenses, operating)	48,156	82,900	77,613	72,565
Income (loss) from operations	(4,725)	23,815	17,144	7,769
Net income (loss)	(6,180)	14,046	9,657	5,646
Net income (loss) per share -- Basic	$ (.29)	$ 1.04	$ .72	$ .21
Net income (loss) per share -- Diluted	$ (.29)	$ 1.01	$ .69	$ .22
ESOT Valuation per share	$ 26.40	$ 26.40	$ 27.80	$ 30.10

Fourth quarters 2015 and 2014 include a decrease in casualty insurance expense that had the effect of increasing the fourth quarter gross profit for 2015 and 2014 by approximately $2,589 and $3,875, respectively.

Exhibit 3.1.2

CERTIFICATE OF AMENDMENT
OF
THE DAVEY TREE EXPERT COMPANY

The following resolution with respect to the amendment of the Articles of Incorporation of The Davey Tree Expert Company, an Ohio corporation (the "Corporation"), was approved and adopted by the shareholders of the Corporation at a meeting duly convened and held on May 19, 2015, at which a quorum was present and acting throughout:

> RESOLVED, that The Davey Tree Expert Company hereby adopts the following amendment to its Amended Articles of Incorporation and that any officer of The Davey Tree Expert Company is hereby authorized and directed to sign and file in the office of the Secretary of State of the State of Ohio a certificate containing a copy of the resolution adopting the amendment and a statement of the manner of its adoption:
>
> The Amended Articles of Incorporation are hereby amended by striking out in its entirety the first paragraph of Article FOURTH and substituting in lieu thereof the following:
>
>> FOURTH. The authorized number of shares of the Company is 52,000,000, consisting of 4,000,000 Preferred Shares, without par value (the "Preferred Shares"), and 48,000,000 Common Shares with par value of $1 each (the "Common Shares").

Exhibit 21

Subsidiaries of the Registrant

Name	Jurisdiction of Organization
Davey Tree Surgery Company	Ohio
Davey Tree Expert Co. of Canada, Limited	Canada
The Care of Trees, Inc	Illinois

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

Exhibit 23

Consent of Independent Registered Public Accounting Firm

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

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

of our reports dated March 9, 2016, with respect to the consolidated financial statements of The Davey Tree Expert Company and the effectiveness of internal control over financial reporting of The Davey Tree Expert Company, included in this Annual Report (Form 10-K) of The Davey Tree Expert Company for the year ended December 31, 2015.

/s/ Ernst & Young LLP

Akron, Ohio
March 9, 2016

Exhibit 31.1

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

Certification of Chief Executive Officer

I, Karl J. Warnke, certify that:

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

Date: March 9, 2016

/s/ Karl J. Warnke

Karl J. Warnke
Chairman, President and Chief Executive Officer

Exhibit 31.2

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

Certification of Chief Financial Officer

I, Joseph R. Paul, certify that:

1. I have reviewed this annual report on Form 10-K of The Davey Tree Expert Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2016

/s/ Joseph R. Paul

Joseph R. Paul
Chief Financial Officer and Secretary

Exhibit 32.1

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

Certification of Chief Executive Officer

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

(1.) The Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2015 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and,

(2.) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 9, 2016

/s/ Karl J. Warnke

Karl J. Warnke

Chairman, President and Chief Executive Officer

Exhibit 32.2

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

Certification of Chief Financial Officer

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

(1.) The Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2015 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and,

(2.) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 9, 2016

/s/ Joseph R. Paul
Joseph R. Paul
Chief Financial Officer & Secretary