# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended April 02, 2022**

**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**

DAVEY

# THE DAVEY TREE EXPERT COMPANY

(Exact name of registrant as specified in its charter)

| **Ohio** | **34-0176110** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

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

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

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| N/A | N/A | N/A |

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

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

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

| | | |
|---|---|---|
| Large Accelerated Filer ☐ | Accelerated Filer ☒ | Emerging Growth Company ☐ |
| Non-Accelerated Filer ☐ | Smaller Reporting Company ☐ | |

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

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

There were 44,183,177 Common Shares, $.50 par value, outstanding as of May 6, 2022.

# The Davey Tree Expert Company
# Quarterly Report on Form 10-Q
# April 2, 2022

## INDEX



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

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

| | April 2, 2022 | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 21,777 | $ 19,460 |
| Accounts receivable, net | 276,481 | 278,280 |
| Operating supplies | 15,617 | 12,662 |
| Other current assets | 31,674 | 37,853 |
| Total current assets | 345,549 | 348,255 |
| Property and equipment, net | 243,361 | 227,985 |
| Right-of-use assets - operating leases | 91,295 | 86,423 |
| Other assets | 50,585 | 42,665 |
| Intangible assets, net | 11,566 | 11,633 |
| Goodwill | 56,409 | 55,980 |
| Total assets | $ 798,765 | $ 772,941 |
| **Liabilities and shareholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 59,345 | $ 43,021 |
| Accrued expenses | 58,274 | 75,138 |
| Current portion of long-term debt and finance lease liabilities | 16,608 | 25,268 |
| Other current liabilities | 79,144 | 77,549 |
| Total current liabilities | 213,371 | 220,976 |
| Long-term debt | 146,769 | 123,531 |
| Lease liabilities - finance leases | 9,017 | 8,646 |
| Lease liabilities - operating leases | 59,902 | 57,335 |
| Self-insurance accruals | 83,304 | 77,099 |
| Other noncurrent liabilities | 12,183 | 11,583 |
| Total liabilities | 524,546 | 499,170 |
| Commitments and contingencies (Note O) | | |
| Redeemable common shares related to 401KSOP and Employee Stock Ownership Plan (ESOP) 9,619 and 9,392 shares at redemption value as of April 2, 2022 and December 31, 2021 | 174,095 | 169,931 |
| Common shareholders' equity: | | |
| Common shares, $.50 par value, per share; 96,000 shares authorized; 76,209 and 76,436 shares issued and outstanding before deducting treasury shares and which excludes 9,619 and 9,392 shares subject to redemption as of April 2, 2022 and December 31, 2021 | 38,068 | 38,379 |
| Additional paid-in capital | 135,315 | 135,897 |
| Retained earnings | 240,929 | 239,979 |
| Accumulated other comprehensive loss | (3,669) | (4,173) |
| | 410,643 | 410,082 |
| Less: Cost of common shares held in treasury; 41,301 shares at April 2, 2022 and 41,325 shares at December 31, 2021 | 310,519 | 306,242 |
| Total common shareholders' equity | 100,124 | 103,840 |
| Total liabilities and shareholders' equity | $ 798,765 | $ 772,941 |

*See notes to condensed consolidated financial statements (unaudited).*

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

| | Three Months Ended | |
|---|---|---|
| | April 2, 2022 | April 3, 2021 |
| **Revenues** | $ 342,644 | $ 298,821 |
| Costs and expenses: | | |
| Operating | 234,207 | 199,035 |
| Selling | 60,796 | 52,687 |
| General and administrative | 28,995 | 25,351 |
| Depreciation and amortization | 13,787 | 13,458 |
| Gain on sale of assets, net | (898) | (684) |
| Total costs and expenses | 336,887 | 289,847 |
| **Income from operations** | 5,757 | 8,974 |
| Other income (expense): | | |
| Interest expense | (1,445) | (1,274) |
| Interest income | 27 | 69 |
| Other, net | (2,337) | (2,050) |
| **Income before income taxes** | 2,002 | 5,719 |
| Income taxes | 220 | 1,292 |
| **Net income** | $ 1,782 | $ 4,427 |
| **Net income per share:*** | | |
| Basic | $ .04 | $ .10 |
| Diluted | $ .04 | $ .09 |
| **Weighted-average shares outstanding:*** | | |
| Basic | 44,618 | 45,682 |
| Diluted | 46,838 | 47,916 |

* Prior period has been adjusted for the two-for-one stock split effected in October 2021.

*See notes to condensed consolidated financial statements (unaudited).*

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

| | Three Months Ended | |
|---|---|---|
| | April 2, 2022 | April 3, 2021 |
| **Net income** | $ 1,782 | $ 4,427 |
| Components of other comprehensive income, net of tax: | | |
| Foreign currency translation adjustments | 480 | 450 |
| Amortization of defined benefit pension items: | | |
| Net actuarial loss | 19 | 25 |
| Prior service cost | 5 | 12 |
| Defined benefit pension plan adjustments | 24 | 37 |
| **Other comprehensive income, net of tax** | 504 | 487 |
| **Comprehensive income** | $ 2,286 | $ 4,914 |

*See notes to condensed consolidated financial statements (unaudited).*

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

| | Common Shares | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss), Net of Tax | Common Shares Held in Treasury | Total Common Shareholders' Equity |
|---|---|---|---|---|---|---|
| **Balances at January 1, 2022** | $ 38,379 | $ 135,897 | $ 239,979 | $ (4,173) | $ (306,242) | $ 103,840 |
| Net income | — | — | 1,782 | — | — | 1,782 |
| Change in 401KSOP and ESOP related shares | (311) | (3,805) | (50) | — | — | (4,166) |
| Shares sold to employees | — | 2,869 | — | — | 2,194 | 5,063 |
| Options exercised | — | (685) | — | — | 533 | (152) |
| Stock-based compensation | — | 1,039 | — | — | — | 1,039 |
| Dividends, $.018 per share | — | — | (782) | — | — | (782) |
| Currency translation adjustments | — | — | — | 480 | — | 480 |
| Defined benefit pension plans | — | — | — | 24 | — | 24 |
| Shares purchased | — | — | — | — | (7,004) | (7,004) |
| **Balances at April 2, 2022** | $ 38,068 | $ 135,315 | $ 240,929 | $ (3,669) | $ (310,519) | $ 100,124 |

| | Common Shares | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss), Net of Tax | Common Shares Held in Treasury | Total Common Shareholders' Equity |
|---|---|---|---|---|---|---|
| **Balances at January 1, 2021** | $ 37,801 | $ 110,069 | $ 206,711 | $ (4,547) | $ (270,360) | $ 79,674 |
| Net income | — | — | 4,427 | — | — | 4,427 |
| Change in 401KSOP and ESOP related shares | (64) | (1,855) | — | — | — | (1,919) |
| Shares sold to employees | — | 1,339 | — | — | 1,121 | 2,460 |
| Options exercised | — | (363) | — | — | 646 | 283 |
| Stock-based compensation | — | 584 | — | — | — | 584 |
| Dividends, $.013 per share * | — | — | (571) | — | — | (571) |
| Currency translation adjustments | — | — | — | 450 | — | 450 |
| Defined benefit pension plans | — | — | — | 37 | — | 37 |
| Shares purchased | — | — | — | — | (3,744) | (3,744) |
| **Balances at April 3, 2021** | $ 37,737 | $ 109,774 | $ 210,567 | $ (4,060) | $ (272,337) | $ 81,681 |

*Per share amount adjusted for the two-for-one stock split effected in October 2021.

*See notes to condensed consolidated financial statements (unaudited).*

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

| | Three Months Ended | |
|---|---|---|
| | April 2, 2022 | April 3, 2021 |
| **Operating activities** | | |
| Net income | $ 1,782 | $ 4,427 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 13,787 | 13,458 |
| Other | 659 | 483 |
| Changes in operating assets and liabilities, net of assets acquired: | | |
| Accounts receivable | 2,015 | 32,023 |
| Accounts payable and accrued expenses | (2,041) | (29,732) |
| Self-insurance accruals | 5,076 | 4,641 |
| Prepaid expenses | 5,660 | 5,020 |
| Other, net | 1,347 | (7,925) |
| | 26,503 | 17,968 |
| **Net cash provided by operating activities** | 28,285 | 22,395 |
| **Investing activities** | | |
| Capital expenditures: | | |
| Equipment | (21,411) | (16,972) |
| Land and buildings | (5,093) | (1,707) |
| Purchases of businesses, net of cash acquired and debt incurred | (1,098) | (8,207) |
| Proceeds from sales of property and equipment | 1,180 | 820 |
| Purchases of marketable securities | (11,500) | — |
| Proceeds from sale of marketable securities | 803 | — |
| **Net cash used in investing activities** | (37,119) | (26,066) |
| **Financing activities** | | |
| Revolving credit facility borrowings | 181,168 | 48,000 |
| Revolving credit facility payments | (157,219) | (23,000) |
| Purchase of common shares for treasury | (7,004) | (3,744) |
| Sale of common shares from treasury | 4,910 | 2,743 |
| Dividends paid | (782) | (571) |
| Proceeds from notes payable | 7,129 | 49,439 |
| Payments of notes payable | (16,319) | (55,411) |
| Payments of finance leases | (767) | (1,261) |
| **Net cash provided by financing activities** | 11,116 | 16,195 |
| **Effect of exchange rate changes on cash** | 35 | 36 |
| **Increase in cash** | 2,317 | 12,560 |
| Cash, beginning of period | 19,460 | 16,201 |
| **Cash, end of period** | $ 21,777 | $ 28,761 |
| Supplemental cash flow information follows: | | |
| Interest paid | $ 2,160 | $ 1,967 |
| Income taxes paid | 1,071 | 10,111 |

*See notes to condensed consolidated financial statements (unaudited).*

# The Davey Tree Expert Company
# Notes to Condensed Consolidated Financial Statements (Unaudited)
# April 2, 2022
# (Amounts in thousands, except share data)

## A. Basis of Financial Statement Preparation

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

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

Certain information and disclosures required by U.S. GAAP for complete financial statements have been omitted in accordance with the rules and regulations of the SEC. We suggest that these condensed consolidated financial statements be read in conjunction with the financial statements included in our annual report on Form 10-K for the year ended December 31, 2021 (the “2021 Annual Report”).

***Per Common Share Information--***Prior year common share and per share data have been retroactively adjusted to recognize a two-for-one stock split of our common shares effective October 1, 2021.

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

While the coronavirus ("COVID-19") pandemic did not have a material adverse effect on our reported results for the first three months of our 2022 fiscal year, the overall extent and duration of the impact of COVID-19 on businesses and economic activity generally remains unclear. The extent to which our operations may be impacted by COVID-19 will depend largely on future developments, which are highly uncertain due to its continual evolution, such as resurgences in cases and the emergence of new strains of COVID-19, and cannot be accurately predicted, including new information which may emerge concerning the severity of the outbreak and actions by government authorities to contain the pandemic or treat its impact, including reimposing previously-lifted measures and the possibility additional measures will be put in place, among other things.

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

# The Davey Tree Expert Company
# Notes to Condensed Consolidated Financial Statements (Unaudited)
# April 2, 2022
# (Amounts in thousands, except share data)

The Company’s fiscal quarters each contain thirteen operating weeks, with the exception of the fourth quarter of a 53-week fiscal year, which contains fourteen operating weeks. The Company’s fiscal quarter that ended April 2, 2022 is referred to as the first quarter of 2022, and the fiscal quarter ended April 3, 2021 is referred to as the first quarter of 2021.

**Recent Accounting Guidance**

**Accounting Standard Not Yet Adopted**

***Accounting Standards Update 2020-04, Reference Rate Reform (Topic 848)***--In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848)—Facilitation of the Effects of Reference Rate Reform on Financial Reporting". The guidance of this ASU is designed to provide relief from the accounting analysis and impacts that may otherwise be required for modifications to agreements (e.g., loans, debt securities, derivatives, borrowings) necessitated by reference rate reform. It also provides optional expedients to enable companies to continue to apply hedge accounting to certain hedging relationships impacted by reference rate reform. Application of the guidance is optional, is only available in certain situations, and is only available for companies to apply until December 31, 2022. The Company is currently reviewing its agreements impacted by the reference rate reform and does not expect this ASU to have a material impact to the Company’s financial statements.

## B. Seasonality of Business

Due to the seasonality of our business, our operating results for the three months ended April 2, 2022 are not indicative of results that may be expected for any other interim period or for the year ending December 31, 2022. Our business seasonality traditionally results in higher revenues during the second and third quarters as compared with the first and fourth quarters of the year, while the methods of accounting for fixed costs, such as depreciation expense, amortization, rent and interest expense, are not significantly impacted by business seasonality.

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

Accounts receivable, net, consisted of the following:

| **Accounts receivable, net** | **April 2, 2022** | **December 31, 2021** |
|---|---|---|
| Accounts receivable | $ 199,440 | $ 215,336 |
| Unbilled receivables[(1)] | 79,914 | 65,957 |
| | 279,354 | 281,293 |
| Less allowances for credit losses | 2,873 | 3,013 |
| Accounts receivable, net | $ 276,481 | $ 278,280 |

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

# The Davey Tree Expert Company
## Notes to Condensed Consolidated Financial Statements (Unaudited)
## April 2, 2022
## (Amounts in thousands, except share data)

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

| Other current assets | April 2, 2022 | December 31, 2021 |
|---|---|---|
| Refundable income taxes | $ 2,158 | $ 1,346 |
| Prepaid expenses | 25,278 | 30,911 |
| Assets invested for self-insurance | 3,750 | 4,250 |
| Other | 488 | 1,346 |
| Total | $ 31,674 | $ 37,853 |

| Property and equipment, net | April 2, 2022 | December 31, 2021 |
|---|---|---|
| Land and land improvements | $ 24,318 | $ 22,129 |
| Buildings and leasehold improvements | 66,962 | 63,933 |
| Equipment | 661,017 | 646,552 |
| | 752,297 | 732,614 |
| Less accumulated depreciation | 508,936 | 504,629 |
| Total | $ 243,361 | $ 227,985 |

| Other assets, noncurrent | April 2, 2022 | December 31, 2021 |
|---|---|---|
| Assets invested for self-insurance | $ 34,957 | $ 25,401 |
| Investment--cost-method affiliate | 1,258 | 1,258 |
| Deferred income taxes | 5,086 | 4,937 |
| Cloud computing arrangements | 4,768 | 6,530 |
| Other | 4,516 | 4,539 |
| Total | $ 50,585 | $ 42,665 |

| Accrued expenses | April 2, 2022 | December 31, 2021 |
|---|---|---|
| Employee compensation | $ 17,354 | $ 37,828 |
| Accrued compensated absences | 11,577 | 11,007 |
| Self-insured medical claims | 3,715 | 2,891 |
| Income tax payable | — | 145 |
| Customer advances, deposits | 3,082 | 4,009 |
| Taxes, other than income | 17,853 | 13,789 |
| Other | 4,693 | 5,469 |
| Total | $ 58,274 | $ 75,138 |

# The Davey Tree Expert Company
## Notes to Condensed Consolidated Financial Statements (Unaudited)
## April 2, 2022
## (Amounts in thousands, except share data)

| Other current liabilities | April 2, 2022 | December 31, 2021 |
|---|---|---|
| Notes payable | $ 533 | $ — |
| Current portion of: | | |
| Lease liability-operating leases | 30,870 | 28,682 |
| Self-insurance accruals | 47,741 | 48,867 |
| Total | $ 79,144 | $ 77,549 |

| Other noncurrent liabilities | April 2, 2022 | December 31, 2021 |
|---|---|---|
| Non-qualified retirement plans | $ 9,151 | $ 8,713 |
| Other | 3,032 | 2,870 |
| Total | $ 12,183 | $ 11,583 |

## D. Business Combinations

Our cash investments in businesses during the first three months of 2022 were $998 and we issued debt, in the form of notes payable to the sellers, of $126 and have been included in our Residential and Commercial and Utility segments. In the first three months of 2022, we also made a payment of $100 for a contingent liability incurred in an acquisition made during the fourth quarter of 2021. Measurement-period adjustments are not complete. The measurement period for purchase price allocations ends as soon as information of the facts and circumstances becomes available, but does not exceed one year from the acquisition date. During the year ended December 31, 2021, our cash investments in businesses was $11,725 and debt issued, in the form of notes payable to the sellers, was $2,961.

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

| | Three Months Ended April 2, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| **Detail of acquisitions:** | | |
| Assets acquired: | | |
| Cash | $ — | $ 292 |
| Receivables | — | 509 |
| Operating supplies | 10 | 1,044 |
| Prepaid expense | — | 203 |
| Equipment | 695 | 4,049 |
| Deposits and other | 395 | 1,574 |
| Intangible assets | 714 | 3,005 |
| Goodwill | 397 | 7,723 |
| Deferred credit - gain on bargain purchase | (663) | — |
| Liabilities assumed | (424) | (3,713) |
| Debt issued for purchases of businesses | (126) | (2,961) |
| Cash paid | $ 998 | $ 11,725 |

# The Davey Tree Expert Company
# Notes to Condensed Consolidated Financial Statements (Unaudited)
# April 2, 2022
# (Amounts in thousands, except share data)

The results of operations of acquired businesses have been included in the condensed consolidated statements of operations beginning as of the effective dates of acquisition. The effect of these acquisitions on our consolidated revenues and results of operations for the period ended April 2, 2022 was not significant. Pro forma net sales and results of operations for the acquisitions, had they occurred at the beginning of the three months ended April 2, 2022, are not material and, accordingly, are not provided.

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

## E. Identified Intangible Assets and Goodwill, Net

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

| | April 2, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Carrying Amount | Accumulated Amortization | Carrying Amount | Accumulated Amortization |
| Amortized intangible assets: | | | | |
| Customer lists/relationships | $ 32,886 | $ 24,629 | $ 32,294 | $ 24,090 |
| Employment-related | 10,027 | 8,443 | 9,946 | 8,301 |
| Tradenames | 8,475 | 6,750 | 8,426 | 6,642 |
| Amortized intangible assets | 51,388 | $ 39,822 | 50,666 | $ 39,033 |
| Less accumulated amortization | 39,822 | | 39,033 | |
| Identified intangible assets, net | $ 11,566 | | $ 11,633 | |
| | | | | |
| Goodwill | $ 56,409 | | $ 55,980 | |

The changes in the carrying amounts of goodwill, by segment, for the three months ended April 2, 2022 and the year ended December 31, 2021 were as follows:

| | Balance at January 1, 2022 | Acquisitions | Translation and Other Adjustments | Balance at April 2, 2022 |
|---|---|---|---|---|
| Utility | $ 4,911 | $ — | $ — | $ 4,911 |
| Residential and Commercial | 51,069 | 397 | 32 | 51,498 |
| Total | $ 55,980 | $ 397 | $ 32 | $ 56,409 |

| | Balance at January 1, 2021 | Acquisitions | Translation and Other Adjustments | Balance at December 31, 2021 |
|---|---|---|---|---|
| Utility | $ 4,911 | $ — | $ — | $ 4,911 |
| Residential and Commercial | 43,345 | 7,723 | 1 | 51,069 |
| Total | $ 48,256 | $ 7,723 | $ 1 | $ 55,980 |

(Amounts in thousands, except share data)

***Estimated future aggregate amortization expense of intangible assets--***The estimated future aggregate amortization expense of intangible assets, as of April 2, 2022, was as follows:

| | Estimated Future Amortization Expense |
|---|---|
| Remaining nine months of 2022 | $ 2,332 |
| 2023 | 2,968 |
| 2024 | 2,646 |
| 2025 | 1,862 |
| 2026 | 1,023 |
| 2027 | 573 |
| Thereafter | 162 |
| | $ 11,566 |

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

We have short-term lines of credit with several banks totaling $11,199. At April 2, 2022, we had $8,535 available under the lines of credit and $2,133 committed through issued letters of credit, Borrowings outstanding generally bear interest at the banks' prime rate or LIBOR plus a margin adjustment of .75% to 1.50%.

Our long-term debt consisted of the following:

| | April 2, 2022 | December 31, 2021 |
|---|---|---|
| Revolving credit facility: | | |
| Swing-line borrowings | $ 5,781 | $ 16,832 |
| LIBOR borrowings | 65,000 | 30,000 |
| | 70,781 | 46,832 |
| Senior unsecured notes: | | |
| 3.99% Senior unsecured notes | 50,000 | 50,000 |
| 4.00% Senior unsecured notes | 25,000 | 25,000 |
| | 75,000 | 75,000 |
| Term loans | 15,592 | 25,182 |
| | 161,373 | 147,014 |
| Less debt issuance costs | 635 | 674 |
| Less current portion | 13,969 | 22,809 |
| | $ 146,769 | $ 123,531 |

***Revolving Credit Facility***--In August 2021, the Company amended and restated its revolving credit facility with its existing bank group. The amended and restated credit agreement, which expires in August 2026, permits borrowings, as defined, of up to $325,000, including a letter of credit sublimit of $150,000 and a swing-line commitment of $30,000. Under certain circumstances, the amount available under the revolving credit facility may be increased to $425,000. The revolving credit facility contains certain affirmative and negative covenants customary for this type of facility and includes financial covenant ratios with respect to a maximum leverage ratio (not to exceed 3.00 to 1.00 with exceptions in case of material acquisitions) and a minimum interest coverage ratio (not less than 3.00 to 1.00), in each case subject to certain further restrictions as described in the credit agreement. As of April 2, 2022, we had unused commitments under the facility approximating $251,342, with $73,658 committed, consisting of borrowings of $70,781 and issued letters of credit of $2,877.

Borrowings outstanding bear interest, at Davey Tree's option, of either (a) the base rate or (b) LIBOR plus a margin adjustment ranging from .875% to 1.50%--with the margin adjustments 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 1.50%, or (iii) the federal funds rate plus .50%. A commitment fee ranging from .10% to .225% is also required based on the average daily unborrowed commitment.

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

The 3.99% Senior Notes were issued pursuant to a Note Purchase and Private Shelf Agreement (the "Note Purchase and Shelf Agreement") between the Company, PGIM, Inc. and the purchasers of the 3.99% Senior Notes, which was amended in September 2021. Among other things, the amendment increased the total facility limit to $150,000 and extended the issuance period for subsequent series of promissory notes to be issued and sold pursuant to the Note Purchase and Shelf Agreement to September 2024. The amendment also amended certain provisions and covenants to generally conform them to the corresponding provisions and covenants in the amended and restated revolving credit agreement. In addition, the amendment and restatement of the revolving credit agreement in August 2021 provided that the Company is permitted to incur indebtedness arising under the Note Purchase and Shelf Agreement in an aggregate principal amount not to exceed $150,000. As the Company has previously issued notes in an aggregate amount of $75,000 under the Note Purchase and Shelf Agreement, it now has capacity to issue subsequent series of promissory notes pursuant to the Note Purchase and Shelf Agreement (the "Shelf Notes") in an aggregate amount of up to $75,000.

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

***4.00% Senior Unsecured Notes***--On February 5, 2019, we issued 4.00% Senior Notes, Series B (the "4.00% Senior Notes") pursuant to the Note Purchase and Shelf Agreement in the aggregate principal amount of $25,000. The 4.00% Senior Notes are due September 21, 2028. The 4.00% Senior Notes are equal in right of payment with our revolving credit facility and all other senior unsecured obligations of the Company. Interest is payable semiannually and five equal, annual principal payments commence on September 21, 2024.

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

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

***Aggregate Maturities of Long-Term Debt***--Aggregate maturities of long-term debt based on the principal amounts outstanding at April 2, 2022 were as follows: 2022--$13,080; 2023--$1,530; 2024--$15,940; 2025--$15,042; 2026--$85,781; 2027--$0; and thereafter $30,000.

***Accounts Receivable Securitization Facility***--In May 2021, the Company amended its Accounts Receivable Securitization Facility (the "AR Securitization program") to extend the scheduled termination date for an additional one year period, to June 30, 2022. In addition to extending the termination date, the amendment included a change to the letter of credit ("LC") issuance fee payable under the terms of the agreement, as described below.

The AR Securitization program has a limit of $100,000, of which $83,355 was issued for LCs as of both April 2, 2022 and December 31, 2021.

Under the AR Securitization program, Davey Tree transfers by selling or contributing current and future trade receivables to a wholly-owned, bankruptcy-remote financing subsidiary which pledges a perfected first priority security interest in the trade receivables--equal to the issued LCs as of April 2, 2022--to the bank in exchange for the bank issuing LCs.

Fees payable to the bank include: (a) an LC issuance fee, payable on each settlement date, in the amount of .90% per annum (1.00% prior to the May 2021 amendment) on the aggregate amount of all LCs outstanding plus outstanding reimbursement obligations (e.g., arising from drawn LCs), if any, and (b) an unused LC fee, payable monthly, equal to (i) .35% per annum for each day on which the sum of the total LCs outstanding plus any outstanding reimbursement obligations is greater than or equal to 50% of the facility limit and (ii) .45% per annum for each day on which the sum of the total LCs outstanding plus any outstanding reimbursement obligations is less than 50% of the facility limit. If an LC is drawn and the bank is not immediately reimbursed in full for the drawn amount, any outstanding reimbursement obligation will accrue interest at a per annum rate equal to a reserve-adjusted LIBOR or, in certain circumstances, a base rate equal to the higher of (i) the bank's prime rate and (ii) the federal funds rate plus .50% and, following any default, 2.00% plus the greater of (a) adjusted LIBOR and (b) a base rate equal to the higher of (i) the bank's prime rate and (ii) the federal funds rate plus .50%.

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

***Total Commitments Related to Issued Letters of Credit***--As of April 2, 2022, total commitments related to issued LCs were $88,365, of which $2,877 were issued under the revolving credit facility, $83,355 were issued under the AR Securitization program, and $2,133 were issued under short-term lines of credit. As of December 31, 2021, total commitments related to issued LCs were $88,362, of which $2,877 were issued under the revolving credit facility, $83,355 were issued under the AR Securitization program, and $2,130 were issued under short-term lines of credit.

As of April 2, 2022, we were in compliance with all debt covenants.

(Amounts in thousands, except share data)

## G. Leases

We lease certain office and parking facilities, warehouse space, equipment, vehicles and information technology equipment under operating and finance leases. Lease expense for these leases is recognized within the Condensed Consolidated Statements of Operations on a straight-line basis over the lease term, with variable lease payments recognized in the period those payments are incurred. The following table summarizes the amounts recognized in our Condensed Consolidated Balance Sheet related to leases:

| | Condensed Consolidated Balance Sheet Classification | April 2, 2022 | December 31, 2021 |
|---|---|---|---|
| **Assets** | | | |
| Operating lease assets | Right-of-use assets - operating leases | $ 91,295 | $ 86,423 |
| Finance lease assets | Property and equipment, net | 12,029 | 11,592 |
| Total lease assets | | $ 103,324 | $ 98,015 |
| **Liabilities** | | | |
| Current operating lease liabilities | Other current liabilities | $ 30,870 | $ 28,682 |
| Non-current operating lease liabilities | Lease liabilities - operating leases | 59,902 | 57,335 |
| Total operating lease liabilities | | 90,772 | 86,017 |
| Current portion of finance lease liabilities | Current portion of long-term debt and finance lease liabilities | 2,639 | 2,459 |
| Non-current finance lease liabilities | Lease liabilities - finance leases | 9,017 | 8,646 |
| Total finance lease liabilities | | 11,656 | 11,105 |
| Total lease liabilities | | $ 102,428 | $ 97,122 |

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

| | | Three Months Ended | |
|---|---|---|---|
| | Condensed Consolidated Statements of Operations Classification | April 2, 2022 | April 3, 2021 |
| Operating lease cost | Operating expense | $ 6,019 | $ 3,700 |
| Operating lease cost | Selling expense | 2,745 | 2,521 |
| Operating lease cost | General and administrative expense | 289 | 284 |
| Finance lease cost: | | | |
| Amortization of right-of-use assets | Depreciation and amortization | 730 | 588 |
| Interest expense on lease liabilities | Interest expense | 60 | 38 |
| Other lease cost (1) | Operating expense | 1,189 | 875 |
| Other lease cost (1) | Selling expense | 417 | 316 |
| Other lease cost (1) | General and administrative expense | 9 | 13 |
| Total lease cost | | $ 11,458 | $ 8,335 |

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

We often have options to renew lease terms for buildings and other assets. The exercise of lease renewal options is generally at our sole discretion. In addition, certain lease agreements may be terminated prior to their original expiration date at our discretion. We evaluate each renewal and termination option at the lease commencement date to determine if we are reasonably certain to exercise the option on the basis of economic factors. The weighted average remaining lease terms as of April 2, 2022 was 3.8 years for operating leases and 4.8 years for finance leases.

(Amounts in thousands, except share data)

The discount rate implicit within our leases is generally not determinable and therefore the Company determines the discount rate based on its incremental borrowing rate. The incremental borrowing rate for each lease is determined based on its term and the currency in which lease payments are made, adjusted for the impacts of collateral. The weighted average discount rates used to measure our lease liabilities as of April 2, 2022 was 2.42% for operating leases and 2.14% for finance leases.

| **Supplemental Cash Flow Information Related to Leases** | **Three Months Ended** | |
|---|---|---|
| | **April 2, 2022** | **April 3, 2021** |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | $ (9,194) | $ (6,521) |
| Operating cash flows from finance leases | (60) | (38) |
| Financing cash flows from finance leases | (767) | (1,261) |
| Right-of-use assets obtained in exchange for lease obligations: | | |
| Operating leases | 13,610 | 21,572 |
| Finance leases | 1,167 | 151 |

| **Maturity Analysis of Lease Liabilities** | **As of April 2, 2022** | |
|---|---|---|
| | **Operating Leases** | **Finance Leases** |
| Remaining nine months of 2022 | $ 25,209 | $ 2,273 |
| 2023 | 26,297 | 2,717 |
| 2024 | 19,044 | 2,595 |
| 2025 | 12,892 | 1,990 |
| 2026 | 6,190 | 1,694 |
| Thereafter | 5,385 | 969 |
| Total lease payments | 95,017 | 12,238 |
| Less interest | 4,245 | 582 |
| Total | $ 90,772 | $ 11,656 |

## H. Stock-Based Compensation

Our shareholders approved the 2014 Omnibus Stock Plan (the “2014 Stock Plan”) at our annual meeting of shareholders on May 20, 2014. The 2014 Stock Plan replaced the expired 2004 Omnibus Stock Plan (the “2004 plan”) previously approved by the shareholders in 2004. The 2014 Stock Plan is administered by the Compensation Committee of the Board of Directors and has a term of ten years. All directors of the Company and employees of the Company and its subsidiaries are eligible to participate in the 2014 Stock Plan. The 2014 Stock Plan (similar to the 2004 plan) continues the maintenance of the Employee Stock Purchase Plan, as well as provisions for the grant of stock options and other stock-based incentives. The 2014 Stock Plan provides for the grant of five percent of the number of the Company’s common shares outstanding as of the first day of each fiscal year plus the number of common shares that were available for grant of awards, but not granted, in prior years. In no event, however, may the number of common shares available for the grant of awards in any fiscal year exceed ten percent of the common shares outstanding as of the first day of that fiscal year. Common shares subject to an award 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.

(Amounts in thousands, except share data)

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

| | Three Months Ended | |
|---|---|---|
| | April 2, 2022 | April 3, 2021 |
| Compensation expense, all share-based payment plans | $ 1,270 | $ 891 |

Stock-based compensation consisted of the following:

***Employee Stock Purchase Plan***--Under the Employee Stock Purchase Plan, all full-time employees with one year of service are eligible to purchase, through payroll deduction, common shares. Employee purchases under the Employee Stock Purchase Plan are at 85% of the fair market value of the common shares--a 15% discount. We recognize compensation costs as payroll deductions are made. The 15% discount of total shares purchased under the plan resulted in compensation cost of $452 being recognized for the three months ended April 2, 2022 and $357 for the three months ended April 3, 2021.

***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 $99 for the three months ended April 2, 2022 and $125 for the three months ended April 3, 2021. Beginning in 2021, management and the Compensation Committee replaced the issuance of stock options with performance-based restricted stock units ("PRSUs") for certain employees.

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

The following table summarizes our SSARs as of April 2, 2022.

| 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, 2022 | 87,534 | $ 1.92 | | | |
| Granted | — | — | | | |
| Forfeited | — | — | | | |
| Vested | (43,752) | 1.92 | | | |
| Unvested, April 2, 2022 | 43,782 | $ 1.92 | 0.7 years | $ 63 | $ 792 |

Compensation costs for SSARs are determined using a fair-value method and amortized over the requisite service period. “Intrinsic value” is defined as the amount by which the fair market value of a common share exceeds the grant date price of a SSAR. Compensation expense for SSARs was $21 for the three months ended April 2, 2022 and $41 for the three months ended April 3, 2021.

# The Davey Tree Expert Company
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## (Amounts in thousands, except share data)

***Restricted Stock Units***--During the three months ended April 2, 2022, the Compensation Committee awarded 123,869 PRSUs to certain management employees. The Compensation Committee made similar awards in prior periods. The awards vest over specified periods. The following table summarizes PRSUs and RSUs as of April 2, 2022.

| 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, 2022 | 740,160 | $ 12.49 | | | |
| Granted | 123,869 | 17.89 | | | |
| Forfeited | — | — | | | |
| Vested | (91,508) | 8.50 | | | |
| Unvested, April 2, 2022 | 772,521 | $ 13.83 | 2.2 years | $ 7,075 | $ 13,983 |
| Employee PRSUs | 705,629 | $ 13.99 | 2.3 years | $ 6,745 | $ 12,772 |
| Nonemployee Director RSUs | 66,892 | $ 12.20 | 0.9 years | $ 330 | $ 1,211 |

Compensation cost for PRSUs and RSUs is determined using a fair-value method and amortized on the straight-line recognition method over the requisite service period. “Intrinsic value” is defined as the amount by which the fair market value of a common share exceeds the grant date price of a PRSU or an RSU. Compensation expense on PRSUs and RSUs totaled $698 for the three months ended April 2, 2022 and $368 for the three months ended April 3, 2021.

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

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

| | Three Months Ended | |
|---|---|---|
| | April 2, 2022 | April 3, 2021 |
| Volatility rate | 9.7 % | 9.9 % |
| Risk-free interest rate | 1.6 % | .3 % |
| Expected dividend yield | .4 % | .4 % |
| Expected life of awards (years) | 3.0 | 3.0 |

**(Amounts in thousands, except share data)**

***General Stock Option Information***--The following table summarizes activity under the stock option plans for the three months ended April 2, 2022.

| Stock Options | Number of Options Outstanding | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding, January 1, 2022 | 2,350,934 | $ 8.56 | | |
| Granted | — | — | | |
| Exercised | (42,407) | 8.16 | | |
| Forfeited | — | — | | |
| Outstanding, April 2, 2022 | 2,308,527 | $ 8.56 | 4.6 years | $ 22,023 |
| | | | | |
| Exercisable, April 2, 2022 | 1,718,797 | $ 7.74 | 3.7 years | $ 17,801 |

As of April 2, 2022, there was approximately $705 of unrecognized compensation cost related to stock options outstanding. The cost is expected to be recognized over a weighted-average period of 1.8 years. “Intrinsic value” is defined as the amount by which the market price of a common share exceeds the exercise price of an option.

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

## I. Income Taxes

Our income tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate and, if our estimated annual tax rate changes, we make a cumulative adjustment. The estimated annual effective tax rate for the three months ended April 2, 2022 was 27.7%. Our actual effective tax rate was 11.0% and 22.6% for the three months ended April 2, 2022 and April 3, 2021, respectively. The change in the effective tax rate from statutory tax rates was primarily due to the impact of favorable discrete items which are a set amount and therefore have a larger impact on the rate based on our net income before tax in the first quarter compared to the impact it will have on the rate for the full year.

As of April 2, 2022, we had unrecognized tax benefits of $719, of which $346 would affect our effective rate if recognized, and accrued interest expense related to unrecognized benefits of $59. At December 31, 2021, we had unrecognized tax benefits of $700, of which $327 would affect our effective rate if recognized, and accrued interest expense related to unrecognized benefits of $56. Unrecognized tax benefits are the differences between a tax position taken, or expected to be taken, in a tax return, and the benefit recognized for financial reporting purposes.

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

**(Amounts in thousands, except share data)**

The Company is routinely under audit by U.S. federal, state, local and Canadian authorities in the area of income tax. These audits include questioning the timing and the amount of income and deductions and the allocation of income and deductions among various tax jurisdictions. With the exception of U.S. state jurisdictions and Canada, the Company is no longer subject to examination by tax authorities for the years through 2017. As of April 2, 2022, we believe it is reasonably possible that the total amount of unrecognized tax benefits will not significantly increase or decrease.

## J. Accumulated Other Comprehensive Income (Loss)

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

The following summarizes the components of other comprehensive income (loss) accumulated in shareholders' equity for the three months ended April 2, 2022 and April 3, 2021:

| Three Months Ended April 2, 2022 | Foreign Currency Translation Adjustments | Defined Benefit Pension Plans | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|
| **Balance at January 1, 2022** | $ (3,654) | $ (519) | $ (4,173) |
| Other comprehensive income (loss) before reclassifications | | | |
| Unrealized gains (losses) | $ 480 | $ — | $ 480 |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | 31 | 31 |
| Tax effect | — | (7) | (7) |
| Net of tax amount | 480 | 24 | 504 |
| **Balance at April 2, 2022** | $ (3,174) | $ (495) | $ (3,669) |

| Three Months Ended April 3, 2021 | Foreign Currency Translation Adjustments | Defined Benefit Pension Plans | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|
| **Balance at January 1, 2021** | $ (3,738) | $ (809) | $ (4,547) |
| Other comprehensive income (loss) before reclassifications | | | |
| Unrealized gains (losses) | $ 450 | $ — | $ 450 |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | 50 | 50 |
| Tax effect | — | (13) | (13) |
| Net of tax amount | 450 | 37 | 487 |
| **Balance at April 3, 2021** | $ (3,288) | $ (772) | $ (4,060) |

The change in defined benefit pension plans of $31 for the three months ended April 2, 2022, and $50 for the three months ended April 3, 2021, was included in net periodic pension expense classified in the condensed consolidated statement of operations as general and administrative expense or other income (expense).

# The Davey Tree Expert Company
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## K. Per Share Amounts and Common and Redeemable Shares Outstanding

We calculate our basic earnings per share by dividing net income or net loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated in a similar manner, but include the effect of dilutive securities. To the extent these securities are antidilutive, they are excluded from the calculation of earnings per share. The per share amounts were computed as follows (Adjusted for the two-for-one stock split of our common shares effective October 1, 2021):

| | Three Months Ended | |
|---|---|---|
| | April 2, 2022 | April 3, 2021 |
| Income available to common shareholders: | | |
| Net income | $ 1,782 | $ 4,427 |
| Weighted-average shares (in thousands): | | |
| Basic: | | |
| Basic weighted-average shares | 44,618 | 45,682 |
| Diluted: | | |
| Basic from above | 44,618 | 45,682 |
| Incremental shares from assumed: | | |
| Exercise of stock options and awards | 2,220 | 2,234 |
| Diluted weighted-average shares | 46,838 | 47,916 |
| Net income per share: | | |
| Basic | $ .04 | $ .10 |
| Diluted | $ .04 | $ .09 |

***Common and Redeemable Shares Outstanding***--A summary of the activity of the common and redeemable shares outstanding for the three months ended April 2, 2022 was as follows:

| | Common Shares Net of Treasury Shares | Redeemable Shares | Total |
|---|---|---|---|
| Shares outstanding at January 1, 2022 | 35,110,432 | 9,391,790 | 44,502,222 |
| Shares purchased | (320,255) | (69,260) | (389,515) |
| Shares sold | 210 | 295,977 | 296,187 |
| Options and awards exercised | 117,718 | — | 117,718 |
| Shares outstanding at April 2, 2022 | 34,908,105 | 9,618,507 | 44,526,612 |

On April 2, 2022, we had 44,526,612 common and redeemable shares outstanding and employee options exercisable to purchase 1,718,797 common shares.

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***Common Stock Split--***On September 17, 2021, our board of directors approved and declared a two-for-one stock split in the form of a stock dividend, pursuant to which each of our shareholders of record at the close of business on October 1, 2021 received one additional common share for each then-held common share, which was paid on October 15, 2021. On September 20, 2021, in connection with the stock split, the Company filed a Certificate of Amendment to its 2017 Amended Articles of Incorporation with the Secretary of State of the State of Ohio, which became effective upon filing and (1) proportionately increased the authorized number of common shares from 48,000,000 to 96,000,000 and (2) proportionately decreased the par value of our common shares from $1.00 per share to $.50 per share.

***2022 Subscription Offering***

Beginning April 2022, the Company is offering to eligible employees and nonemployee directors the right to subscribe to a maximum of 2,666,667 common shares of the Company at $18.10 per share in accordance with the provisions of The Davey Tree Expert Company 2014 Omnibus Stock Plan and the rules of the Compensation Committee of the Company's Board of Directors. The offering period will end on August 1, 2022.

## L. Operations by Business Segment

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

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

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

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

***Measurement of Segment Profit and Loss and Segment Assets***--We evaluate performance and allocate resources based primarily on operating income and also actively manage business unit operating assets. Segment information, including reconciling adjustments, is presented consistent with the basis described in our 2021 Annual Report.

# The Davey Tree Expert Company
# Notes to Condensed Consolidated Financial Statements (Unaudited)
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Segment information reconciled to the condensed consolidated financial statements was as follows:

| | Utility | Residential and Commercial | All Other | Reconciling Adjustments | | Consolidated |
|---|---|---|---|---|---|---|
| **Three Months Ended April 2, 2022** | | | | | | |
| Revenues | $ 205,167 | $ 136,931 | $ 546 | $ — | | $ 342,644 |
| Income (loss) from operations | 12,723 | 1,088 | (5,710) | (2,344) | (a) | 5,757 |
| Interest expense | | | | (1,445) | | (1,445) |
| Interest income | | | | 27 | | 27 |
| Other income (expense), net | | | | (2,337) | | (2,337) |
| Income before income taxes | | | | | | $ 2,002 |
| Segment assets, total | $ 301,489 | $ 269,971 | $ — | $ 227,305 | (b) | $ 798,765 |
| **Three Months Ended April 3, 2021** | | | | | | |
| Revenues | $ 173,853 | $ 124,507 | $ 461 | $ — | | $ 298,821 |
| Income (loss) from operations | 12,458 | 3,682 | (6,102) | (1,064) | (a) | 8,974 |
| Interest expense | | | | (1,274) | | (1,274) |
| Interest income | | | | 69 | | 69 |
| Other income (expense), net | | | | (2,050) | | (2,050) |
| Income before income taxes | | | | | | $ 5,719 |
| Segment assets, total | $ 247,562 | $ 244,692 | $ — | $ 182,119 | (b) | $ 674,373 |

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

(a) Reclassification of depreciation expense and allocation of corporate expenses.

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

## M. Revenue Recognition

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

**Nature of Performance Obligations and Significant Judgments**

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

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

**(Amounts in thousands, except share data)**

**Disaggregation of Revenue**

The following tables disaggregate our revenue for the three months ended April 2, 2022 and April 3, 2021 by major sources:

| Three Months Ended April 2, 2022 | Utility | Residential and Commercial | All Other | Consolidated |
|---|---|---|---|---|
| Type of service: | | | | |
| Tree and plant care | $ 136,959 | $ 81,634 | $ (42) | $ 218,551 |
| Grounds maintenance | — | 31,596 | — | 31,596 |
| Storm damage services | 1,634 | 1,550 | — | 3,184 |
| Consulting and other | 66,574 | 22,151 | 588 | 89,313 |
| Total revenues | $ 205,167 | $ 136,931 | $ 546 | $ 342,644 |
| | | | | |
| Geography: | | | | |
| United States | $ 196,443 | $ 128,239 | $ 546 | $ 325,228 |
| Canada | 8,724 | 8,692 | — | 17,416 |
| Total revenues | $ 205,167 | $ 136,931 | $ 546 | $ 342,644 |

| Three Months Ended April 3, 2021 | Utility | Residential and Commercial | All Other | Consolidated |
|---|---|---|---|---|
| Type of service: | | | | |
| Tree and plant care | $ 123,967 | $ 71,965 | $ (163) | $ 195,769 |
| Grounds maintenance | — | 29,799 | — | 29,799 |
| Storm damage services | 4,113 | 1,183 | — | 5,296 |
| Consulting and other | 45,773 | 21,560 | 624 | 67,957 |
| Total revenues | $ 173,853 | $ 124,507 | $ 461 | $ 298,821 |
| | | | | |
| Geography: | | | | |
| United States | $ 163,684 | $ 115,882 | $ 461 | $ 280,027 |
| Canada | 10,169 | 8,625 | — | 18,794 |
| Total revenues | $ 173,853 | $ 124,507 | $ 461 | $ 298,821 |

# The Davey Tree Expert Company
# Notes to Condensed Consolidated Financial Statements (Unaudited)
# April 2, 2022
# (Amounts in thousands, except share data)

**Contract Balances**

Our contract liabilities consist of advance payments and billings in excess of costs incurred and deferred revenue. The Company recognized $749 of revenue for the three months ended April 2, 2022, that was included in the contract liability balance at December 31, 2021 and $704 of revenue for the three months ended April 3, 2021, that was included in the contract liability balance at December 31, 2020. Net contract liabilities consisted of the following:

| | April 2, 2022 | December 31, 2021 |
|---|---|---|
| Contract liabilities - current | $ 6,666 | $ 3,888 |
| Contract liabilities - noncurrent | 1,913 | 1,845 |
| Net contract liabilities | $ 8,579 | $ 5,733 |

## N. Fair Value Measurements and Financial Instruments

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

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

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

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

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

# The Davey Tree Expert Company
## Notes to Condensed Consolidated Financial Statements (Unaudited)
## April 2, 2022
## (Amounts in thousands, except share data)

Our assets and liabilities measured at fair value on a recurring basis at April 2, 2022 were as follows:

| Assets and Liabilities Recorded at Fair Value on a Recurring Basis | Total Carrying Value at April 2, 2022 | Fair Value Measurements at April 2, 2022 Using: Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **Assets:** | | | | |
| **Assets invested for self-insurance** | | | | |
| Certificates of deposits, current | $ 3,750 | $ 3,750 | $ — | $ — |
| Certificates of deposits, noncurrent | 10,109 | 10,109 | — | — |
| | | | | |
| Available-for-sale debt securities: | | | | |
| United States Government and agency securities | 5,068 | 5,068 | — | — |
| Corporate notes and bonds | 294 | 294 | — | — |
| Total available-for-sale debt securities | 5,362 | 5,362 | — | — |
| | | | | |
| Marketable equity securities: | | | | |
| Mutual funds - domestic | 10,961 | 10,961 | — | — |
| Corporate stocks - domestic | 2,579 | 2,579 | — | — |
| Corporate stocks - foreign | 73 | 73 | — | — |
| Exchange traded funds - domestic | 5,410 | 5,410 | — | — |
| Exchange traded funds - foreign | 463 | 463 | — | — |
| Total marketable equity securities | 19,486 | 19,486 | — | — |
| | | | | |
| **Liabilities:** | | | | |
| Deferred compensation | $ 4,726 | $ — | $ 4,726 | $ — |

# The Davey Tree Expert Company
## Notes to Condensed Consolidated Financial Statements (Unaudited)
## April 2, 2022
## (Amounts in thousands, except share data)

Our assets and liabilities measured at fair value on a recurring basis at December 31, 2021 were as follows:

| | | Fair Value Measurements at December 31, 2021 Using: | | |
|---|---|---|---|---|
| **Assets and Liabilities Recorded at Fair Value on a Recurring Basis** | **Total Carrying Value at December 31, 2021** | **Quoted Prices in Active Markets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Assets:** | | | | |
| **Assets invested for self-insurance** | | | | |
| Certificates of deposits, current | $ 4,250 | $ 4,250 | $ — | $ — |
| Certificates of deposits, noncurrent | 10,609 | 10,609 | — | — |
| | | | | |
| Available-for-sale debt securities: | | | | |
| United States Government and agency securities | 3,230 | 3,230 | — | — |
| Corporate notes and bonds | 176 | 176 | — | — |
| Total available-for-sale debt securities | 3,406 | 3,406 | — | — |
| | | | | |
| Marketable equity securities: | | | | |
| Mutual funds - domestic | 7,476 | 7,476 | — | — |
| Corporate stocks - domestic | 1,877 | 1,877 | — | — |
| Corporate stocks - foreign | 57 | 57 | — | — |
| Exchange traded funds - domestic | 1,491 | 1,491 | — | — |
| Exchange traded funds - foreign | 485 | 485 | — | — |
| Total marketable equity securities | 11,386 | 11,386 | — | — |
| | | | | |
| **Liabilities:** | | | | |
| Deferred compensation | $ 4,333 | $ — | $ 4,333 | $ — |

The assets invested for self-insurance are certificates of deposit, stocks, bonds, mutual funds and exchange traded funds--classified as Level 1--based on quoted market prices of the identical underlying securities in active markets. The estimated fair value of the deferred compensation--classified as Level 2--is based on the value of the Company's common shares, determined by independent valuation.

# The Davey Tree Expert Company
## Notes to Condensed Consolidated Financial Statements (Unaudited)
## April 2, 2022
## (Amounts in thousands, except share data)

***Fair Value of Financial Instruments***--The fair values of our current financial assets and current liabilities, including cash, accounts receivable, accounts payable, and accrued expenses, among others, approximate their reported carrying values because of their short-term nature. Financial instruments classified as noncurrent assets and liabilities and their carrying values and fair values were as follows:

| | April 2, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| **Assets:** | | | | |
| Available-for-sale debt securities | $ 5,362 | $ 5,362 | $ 3,406 | $ 3,406 |
| Marketable equity securities | 19,486 | 19,486 | 11,386 | 11,386 |
| | | | | |
| **Liabilities:** | | | | |
| Revolving credit facility, noncurrent | $ 70,781 | $ 70,781 | $ 46,832 | $ 46,832 |
| Senior unsecured notes, noncurrent | 75,000 | 82,293 | 75,000 | 78,432 |
| Term loans, noncurrent | 1,623 | 1,620 | 2,373 | 2,431 |
| Total | $ 147,404 | $ 154,694 | $ 124,205 | $ 127,695 |

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.

Changes in the fair values of available-for-sale debt securities that are determined to be holding gains or losses are recorded through accumulated other comprehensive income (loss) net of applicable taxes, within shareholders' equity. In assessing whether a credit loss exists, we evaluate our ability to hold the investment, the strength of the underlying collateral and the extent to which the investment's amortized cost or cost, as appropriate, exceeds its related fair value.

We held approximately 19,486 and 11,386 in marketable equity securities as of April 2, 2022 and December 31, 2021, respectively. Realized and unrealized gains and losses on marketable equity securities are included in other income (expense) in the Consolidated Statements of Operations.

## O. Commitments and Contingencies

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

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

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

The cases were mediated unsuccessfully in December 2018 and the State Court case was originally set for trial on January 22, 2019. However, as discussed below, all of the civil cases were later stayed on December 28, 2018 and currently remain stayed.

On December 6, 2018, a former Wolf Tree employee pled guilty to conspiracy to conceal, harbor, and shield illegal aliens. On December 21, 2018, the United States federal prosecutors filed a motion to stay both actions on the grounds that on December 13, 2018, an indictment was issued charging two former Wolf Tree employees and another individual with various crimes, including conspiracy to murder the deceased. Two of the three individually charged defendants have pled guilty to charges on March 28, 2022 and April 11, 2022 but have not yet been sentenced. A third individual criminally charged defendant is scheduled to go to trial in August 2022.

Previously, on December 17, 2018, the United States Attorney's Office for the Southern District of Georgia informed the Company and Wolf Tree that they are also under investigation for potential violations of immigration and other laws relating to the subject matter of the ongoing criminal investigation referenced above. The Company and Wolf Tree are cooperating with the investigation and have met with both the civil and criminal divisions of the Department of Justice ("DOJ") to resolve the matter. Due to pandemic-related issues and delays on the side of the DOJ, the matter currently remains unresolved.

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

State Court heard oral argument on Defendants' motions for summary judgment, and the motions remain pending during the stay of the cases.

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

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

***Northern California Wildfires***

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

Three additional actions were brought on January 28, 2021 in San Francisco County Superior Court, by fire victims represented by a trust, which was assigned contractual rights in the PG&E bankruptcy proceedings. These cases are entitled *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al*., Case No. CGC-21-589438; *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al*., Case No. CGC-21-589439; and *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. ACRT Pacific, LLC, et al*., Case No. CGC-21-589441. On September 22, 2021, the court granted Davey Tree's petition to coordinate all cases, including *Walker,* as a California Judicial Council Coordination Proceeding, *In Re North Bay Fire Cases,* JCCP No. 4955. As a result of the coordination order, all five of the individual actions are stayed in their home jurisdictions. The next case management conference in JCCP No. 4955 was held on February 24, 2022. At that case management conference, the Court ordered a mediation between the Plaintiffs and Davey Tree related to Davey Tree's contracts with PG&E. This mediation shall be scheduled by May 27, 2022, with the mediation to occur thereafter. This mediation would include Davey Tree, the Fire Victim Trust, and all other plaintiff groups. Separately, the court ordered that all parties shall participate in a global mediation, including selecting a mediator, shall begin the process of securing a mediation date by May 27, 2022, and shall complete a first session of a mediation by October 28, 2022.

The Defendants have also received evidence from the Plaintiff's Trust and PG&E collected by those parties during the PG&E bankruptcy proceedings and Davey Tree's experts have begun their initial inspection of the evidence. Davey Tree has responded to all claims asserted by the Plaintiffs in these actions, denying all liability in these cases and is vigorously defending against Plaintiffs' alleged claims.

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

## P. The Davey 401KSOP and Employee Stock Ownership Plan

On March 15, 1979, the Company consummated a plan, which transferred control of the Company to its employees. As a part of this plan, the Company initially sold 120,000 common shares (presently, 46,080,000 common shares adjusted for stock splits) to its Employee Stock Ownership Trust ("ESOT") for $2,700. The Employee Stock Ownership Plan ("ESOP"), in conjunction with the related ESOT, provided for the grant to certain employees of certain ownership rights in, but not possession of, the common shares held by the trustee of the ESOT. Annual allocations of shares have been made to individual accounts established for the benefit of the participants.

**Defined Contribution and Savings Plans--**Most employees are eligible to participate in The Davey 401KSOP and ESOP Plan. Effective January 1, 1997, the plan commenced operations and retained the existing ESOP participant accounts and incorporated a deferred savings plan (a "401(k) plan") feature. Participants in the 401(k) plan are allowed to make before-tax contributions, within Internal Revenue Service established limits, through payroll deductions. Effective January 1, 2020, we match, in either cash or our common shares, 100% of the first three percent and 50% of the next two percent of each participant's before-tax contribution, limited to the first five percent of the 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.

Our common shares are not listed or traded on an established public trading market, and market prices are, therefore, not available. Semiannually, an independent stock valuation firm assists with the appraisal of the fair market value of our common shares based upon our performance and financial condition. The Davey 401KSOP and ESOP Plan includes a put option for shares of the Company's common stock distributed from the plan. Shares are distributed from the Davey 401KSOP and ESOP Plan to former participants of the plan, their beneficiaries, donees or heirs (each, a "participant"). Since our common stock is not currently traded on an established securities market, if the owners of distributed shares desire to sell their shares, the Company is required to purchase the shares at fair value for two 60-day periods after distribution of the shares from the Davey 401KSOP and ESOP. The fair value of distributed shares subject to the put option totaled $570 and $1,279 as of April 2, 2022 and December 31, 2021, respectively. The fair value of the shares held in the Davey 401KSOP and ESOP totaled $173,525 and $168,652 as of April 2, 2022 and December 31, 2021, respectively. Due to the Company's obligation under the put option, the distributed shares subject to the put option and the shares held in the Davey 401KSOP and ESOP (collectively referred to as 401KSOP and ESOP related shares) are recorded at fair value, classified as temporary equity in the mezzanine section of the consolidated balance sheets and totaled $174,095 and $169,931 as of April 2, 2022 and December 31, 2021, respectively. Changes in the fair value of the 401KSOP and ESOP Plan related shares are reflected in retained earnings while net share activity associated with 401KSOP and ESOP Plan related shares are first reflected in additional paid-in capital and then retained earnings if additional paid-in capital is insufficient.

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

***(Amounts in thousands, except share data)***

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

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

***Our Business***--Our operating results are reported in two segments organized by type or class of customer: Residential and Commercial, and Utility. Residential and Commercial provides services to our residential and commercial customers including: the treatment, preservation, maintenance, removal and planting of trees, shrubs and other plant life; the practice of landscaping, grounds maintenance, tree surgery, tree feeding and tree spraying; the application of fertilizer, herbicides and insecticides; and natural resource management and consulting, forestry research and development, and environmental planning. Utility is principally engaged in providing services to our utility customers--investor-owned, municipal utilities, and rural electric cooperatives--including: the practice of line-clearing and vegetation management around power lines and rights-of-way and chemical brush control, natural resource management and consulting, forestry research and development, and environmental planning. All other operating activities, including research, technical support and laboratory diagnostic facilities, are included in "All Other."

***Impact of COVID-19 and Recent Trends***

While the coronavirus ("COVID-19") pandemic did not have a material adverse effect on our reported results for the first three months of 2022, the overall extent and duration of the impact of COVID-19 on businesses and economic activity generally remains unclear due to the inherent uncertainty surrounding COVID-19, given its continual evolution.

We have taken steps to support our employees and protect their health and safety, while also ensuring that our business can continue to operate and provide services to our customers. We continue to provide additional administrative leave for employees affected by COVID-19 directly or indirectly. During the second and third quarters of 2021, we began to bring employees back to our corporate headquarters on a limited basis with increased safety protocols and in compliance with public health and government guidance and also began to lift travel restrictions in situations where necessary. In the first three months of 2022, we incurred expenses of $856 as a result of the COVID-19 pandemic mainly for administrative leave and personal protective equipment.

The extent to which our operations may be impacted by COVID-19 will depend largely on future developments, which are highly uncertain and cannot be accurately predicted, including new information which may emerge concerning the severity of the outbreak, any additional resurgences of cases in the United States and breakthrough infections among the fully vaccinated population, the emergence of new COVID-19 variants, the timing, acceptance, availability and effectiveness of COVID-19 vaccines (including booster vaccines), testing, and other treatments and actions by government authorities to contain the pandemic or treat its impact, including reimposing previously-lifted measures and the possibility additional restrictions will be put in place, including any applicable vaccine mandates, among other things. The situation surrounding COVID-19 remains fluid, and the potential for a material impact on our business increases the longer the COVID-19 pandemic impacts the level of economic activity in the U.S. and globally. Even after the COVID-19 pandemic has subsided, we may experience an impact to our business as a result of any economic downturn or recession that has occurred or may occur in the future.

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

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

***2022 Subscription Offering***

Beginning April 2022, the Company is offering to eligible employees and nonemployee directors the right to subscribe to a maximum of 2,666,667 common shares of the Company at $18.10 per share in accordance with the provisions of The Davey Tree Expert Company 2014 Omnibus Stock Plan and the rules of the Compensation Committee of the Company's Board of Directors. The offering period will end on August 1, 2022.

## RESULTS OF OPERATIONS

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

| | Three Months Ended | | |
|---|---|---|---|
| | April 2, 2022 | April 3, 2021 | Change |
| **Revenues** | 100.0 % | 100.0 % | — % |
| Costs and expenses: | | | |
| Operating | 68.4 | 66.6 | 1.8 |
| Selling | 17.7 | 17.6 | .1 |
| General and administrative | 8.5 | 8.5 | — |
| Depreciation and amortization | 4.0 | 4.5 | (.5) |
| Gain on sale of assets, net | (.3) | (.2) | (.1) |
| **Income from operations** | 1.7 | 3.0 | (1.3) |
| Other income (expense): | | | |
| Interest expense | (.4) | (.4) | — |
| Interest income | — | — | — |
| Other, net | (.7) | (.7) | — |
| **Income before income taxes** | .6 | 1.9 | (1.3) |
| Income taxes | .1 | .4 | (.3) |
| **Net income** | .5 % | 1.5 % | (1.0)% |

**First Three Months—Three Months Ended April 2, 2022 Compared to Three Months Ended April 3, 2021**

Our results of operations for the three months ended April 2, 2022 compared to the three months ended April 3, 2021 were as follows:

| | Three Months Ended | | | |
|---|---|---|---|---|
| | April 2, 2022 | April 3, 2021 | Change | Percentage Change |
| **Revenues** | $ 342,644 | $ 298,821 | $ 43,823 | 14.7 % |
| Costs and expenses: | | | | |
| Operating | 234,207 | 199,035 | 35,172 | 17.7 |
| Selling | 60,796 | 52,687 | 8,109 | 15.4 |
| General and administrative | 28,995 | 25,351 | 3,644 | 14.4 |
| Depreciation and amortization | 13,787 | 13,458 | 329 | 2.4 |
| Gain on sale of assets, net | (898) | (684) | (214) | 31.3 |
| | 336,887 | 289,847 | 47,040 | 16.2 |
| **Income from operations** | 5,757 | 8,974 | (3,217) | (35.8) |
| Other income (expense): | | | | |
| Interest expense | (1,445) | (1,274) | (171) | 13.4 |
| Interest income | 27 | 69 | (42) | (60.9) |
| Other, net | (2,337) | (2,050) | (287) | 14.0 |
| **Income before income taxes** | 2,002 | 5,719 | (3,717) | (65.0) |
| Income taxes | 220 | 1,292 | (1,072) | (83.0) |
| **Net income** | $ 1,782 | $ 4,427 | $ (2,645) | (59.7)% |

***Revenues***--Revenues of $342,644 increased $43,823 compared with $298,821 in the first three months of 2021. Utility Services increased $31,314 or 18.0% compared with the first three months of 2021. The increase was primarily attributable to new accounts, as well as increased work year-over-year on other accounts and price increases on existing accounts within both our U.S. and Canadian operations. Residential and Commercial Services increased $12,424 or 10.0% compared with the first three months of 2021. Increases were primarily in tree and plant care revenue, consulting and other revenue and grounds maintenance.

***Operating Expenses***--Operating expenses of $234,207 increased $35,172 compared with the first three months of 2021 and, as a percentage of revenues, increased to 68.4% from 66.6%. Utility Services increased $25,959 or 20.3% compared with the first three months of 2021 and, as a percentage of revenue, increased to 74.9% from 73.5%. The increase was attributable to increases in labor and benefits expense, fuel expense, materials expense, crew meals and lodging expenses, tools and parts expense and subcontractor expense. Residential and Commercial Services increased $8,922 or 12.6% compared with the first three months of 2021 and, as a percentage of revenue, increased to 58.1% from 56.8%. The increase was primarily attributable to increases in labor and benefits expense, fuel expense, equipment expense, tool expense and materials expense and was partially offset by a decrease in subcontractor expense.

Operating expenses for the first three months of 2022 also included $856 of expenses related directly to COVID-19, including $663 for additional administrative leave offered to employees who were unable to work due to COVID-19-related restrictions. For the first three months of 2021, the Company had $460 of expenses directly related to COVID-19.

Fuel costs of $12,194 increased $3,956, or 48.0%, from the $8,238 incurred in the first three months of 2021 and impacted operating expenses within all segments. The $3,956 increase included usage increases approximating $515 and price increases approximating $3,441.

***Selling Expenses***--Selling expenses of $60,796 increased $8,109 compared with the first three months of 2021 and, as a percentage of revenue, increased to 17.7% from 17.6%. Utility Services increased $4,040 or 20.0% compared to the first three months of 2021 and, as a percentage of revenue, increased to 11.8% from 11.6%. The increase was primarily attributable to increases in field management wages and field management travel expense. Residential and Commercial Services experienced an increase of $3,846 or 11.5% compared to the first three months of 2021 and, as a percentage of revenue, increased to 27.2% from 26.8%. The increase was primarily attributable to increases in field management wages and incentive expense and rent expense.

***General and Administrative Expenses***--General and administrative expenses of $28,995 increased $3,644 from $25,351 in the first three months of 2021. The increase was primarily attributable to increases in salary and incentive expense and travel expense which was partially offset by a decrease in computer expenses.

***Depreciation and Amortization Expense***--Depreciation and amortization expense of $13,787 increased $329 from $13,458 incurred in the first three months of 2021.

***Gain on the Sale of Assets, Net***--Gain on the sale of assets of $898 for the first three months of 2022 increased $214 from the $684 gain in the first three months of 2021. We sold more units of equipment, but at a lower average gain per unit during the first three months of 2022 as compared with the first three months of 2021.

***Interest Expense***--Interest expense of $1,445 increased $171 from the $1,274 incurred in the first three months of 2021. The increase was attributable to increased interest rates during the first three months of 2022, as compared with the first three months of 2021.

***Other, Net***--Other expense, net, of $2,337 increased $287 from the $2,050 expense incurred in the first three months of 2021 and consisted of nonoperating income and expense, including pension expense and foreign currency gains/losses on the intercompany account balances of our Canadian operations.

***Income Taxes***--Income taxes for the first three months of 2022 were $220, as compared to $1,292 for the first three months of 2021. Our tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. The effective tax rate for the first three months of 2022 was 11.0%. Our effective tax rate for the first three months of 2021 was 22.6%. The change in the effective tax rate from statutory tax rates was primarily due to the impact of state and local taxes, which was partially offset by favorable discrete items.

***Net Income***--Net income of $1,782 for the first three months of 2022 was $2,645 less than the net income of $4,427 for the first three months of 2021.

## LIQUIDITY AND CAPITAL RESOURCES

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

***Cash Flow Summary***

Our cash flows from operating, investing and financing activities for the three months ended April 2, 2022 and April 3, 2021 were as follows:

| | Three Months Ended | |
|---|---|---|
| | April 2, 2022 | April 3, 2021 |
| **Cash provided by (used in):** | | |
| Operating activities | $ 28,285 | $ 22,395 |
| Investing activities | (37,119) | (26,066) |
| Financing activities | 11,116 | 16,195 |
| Effect of exchange rate changes on cash | 35 | 36 |
| Increase in cash | $ 2,317 | $ 12,560 |

***Cash Provided By Operating Activities***--Cash provided by operating activities was $28,285 for the first three months of 2022, a $5,890 increase when compared to the first three months of 2021. The $5,890 increase in operating cash flow was primarily attributable to the change of $27,691 related to accounts payable and accrued expenses, and the change of $9,272 related to other operating assets and liabilities, partially offset by a change of $30,008 related to accounts receivable.

Overall, accounts receivable decreased $2,015 during the first three months of 2022, as compared to a decrease of $32,023 during the first three months of 2021. With respect to the change in accounts receivable arising from business levels, the “days-sales-outstanding” in accounts receivable (sometimes referred to as “DSO”) at the end of the first three months of 2022 increased by five days to 73 days, compared to 68 days at the end of the first three months of 2021.

Accounts payable and accrued expenses decreased $2,041 in the first three months of 2022, a change of $27,691 compared to the $29,732 decrease in the first three months of 2021. The change was primarily related to the timing of estimated income tax payments and employer payroll taxes payable deferred in 2020 as a result of the Coronavirus Aid, Relief, and Economic Security Act. Self-insurance accruals increased $5,076 in the first three months of 2022, which was $435 more than the increase of $4,641 experienced in the first three months of 2021. The increase was attributable to increased exposures within our workers compensation, general liability and vehicle liability lines of coverage.

Other operating assets and liabilities decreased $1,347 in the first three months of 2022, a change of $9,272 compared to the $7,925 increase in the first three months of 2021. The change was primarily attributable to cloud computing arrangements.

***Cash Used In Investing Activities***--Cash used in investing activities for the first three months of 2022 was $37,119, a $11,053 increase when compared to the first three months of 2021. The increase was primarily the result of increases in purchases of equipment and land and buildings and self-insurance investments, partially offset by a decrease in purchases of businesses.

***Cash Provided By Financing Activities***--Cash provided by financing activities was $11,116 during the first three months of 2022, a change of $5,079 as compared with the $16,195 provided during the first three months of 2021. During the first three months of 2022, our revolving credit facility, net provided $23,949 in cash as compared with $25,000 provided during the first three months of 2021. We use the credit facility primarily for capital expenditures, redemptions of shares and payments of notes payable related to acquisitions. Notes payable decreased $9,190 during the first three months of 2022, an increase of $3,218 when compared to the $5,972 decrease in the first three months of 2021. Treasury share transactions (purchases and sales) used $2,094 for the first three months of 2022, $1,093 more than the $1,001 used in the first three months of 2021. Dividends paid of $782 during the first three months of 2022 increased $211 as compared with $571 paid in the first three months of 2021, in part due to the increase in dividend paid per share implemented during the second and fourth quarters of 2021.

The Company currently repurchases common shares at shareholders' requests in accordance with the terms of the Davey 401KSOP and ESOP Plan and also repurchases common shares from time to time at the Company's discretion. The amount of common shares offered to the Company for repurchase by the holders of shares distributed from the Davey 401KSOP and ESOP Plan is not within the control of the Company, but is at the discretion of the shareholders. The Company expects to continue to repurchase its common shares, as offered by its shareholders from time to time, at their then current fair value. However, other than for repurchases pursuant to the put option under the Davey 401KSOP and ESOP Plan, as described in Note P, such purchases are not required, and the Company retains the right to discontinue them at any time. Repurchases of redeemable common shares at shareholders' request approximated $467 and $195 during the three months ended April 2, 2022 and April 3, 2021, respectively. Share repurchases, other than redeemable common shares, approximated $6,537 and $3,549 during the three months ended April 2, 2022 and April 3, 2021, respectively.

### *Contractual Obligations Summary and Commercial Commitments*

As of April 2, 2022, total commitments related to issued letters of credit were $88,365, of which $2,877 were issued under the revolving credit facility, $83,355 were issued under the AR Securitization program, and $2,133 were issued under short-term lines of credit. As of December 31, 2021, total commitments related to issued letters of credit were $88,362, of which $2,877 were issued under the revolving credit facility, $83,355 were issued under the AR Securitization program, and $2,130 were issued under short-term lines of credit.

Also, as is common in our industry, we have performance obligations that are supported by surety bonds, which expire during 2022 through 2026. We intend to renew the surety bonds where appropriate and as necessary.

### *Capital Resources*

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

Business seasonality traditionally results in higher revenues during the second and third quarters as compared with the first and fourth quarters of the year, while our methods of accounting for fixed costs, such as depreciation and amortization expense, rent and interest expense, are not significantly impacted by business seasonality. Capital resources during these periods are equally affected. We satisfy seasonal working capital needs and other financing requirements with the revolving credit facility and other short-term lines of credit. We continually review our existing sources of financing and evaluate alternatives. At April 2, 2022, we had working capital of $132,178, short-term lines of credit approximating $8,535 and $251,342 available under our revolving credit facility.

For more information regarding our outstanding debt, see Note F, Long-Term Debt and Commitments Related to Letters of Credit.

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

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

As discussed in our annual report on Form 10-K for the year ended December 31, 2021, we believe that our policies related to revenue recognition, the allowance for credit losses, stock valuation and self-insurance accruals are our “critical accounting policies and estimates”--those most important to the financial presentations and those that require the most difficult, subjective or complex judgments.

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

## NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. These statements relate to future events or our future financial performance. In some cases, forward-looking statements may be identified by terminology such as "may," "will," "should," "could," "might," "expects," "plans," "anticipates," "believes," "estimates," "seeks," "predicts," "potential," "would," "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors 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 of which have been, and may further be, exacerbated by the COVID-19 pandemic. Some important factors that could cause actual results to differ materially from those in the forward-looking statements or materially adversely affect our business, results of operations or financial condition include: the continued impact of the COVID-19 pandemic and the responses thereto, including any mandatory vaccination requirements that may be applicable; our inability to attract and retain a sufficient number of qualified employees for our field operations or qualified management personnel and increased wage rates that may result from our need to attract and retain employees; increases in the cost of obtaining adequate insurance, or the inadequacy of our self-insurance accruals or insurance coverages; inability to obtain, or cancellation of, third-party insurance coverage; the impact of wildfires in California and other areas, as well as other severe weather events and natural disasters, which events may worsen or increase due to the effects of climate change; payment delays or delinquencies resulting from financial difficulties of our significant customers, particularly utilities; the outcome of litigation and third-party and governmental regulatory claims against us; an increase in our operating expenses due to significant increases in fuel prices for extended periods of time, such as the current increases arising from the effects of the Russia-Ukraine conflict; disruptions, delays or price increases within our supply chain; our ability to withstand intense competition; the effect of various economic factors that may adversely impact our customers’ spending and pricing for our services, including the impact of inflationary pressures, and impede our collection of accounts receivable; the impact of global climate change and related regulations; fluctuations in our quarterly results due to the seasonal nature of our business or changes in general and local economic conditions, among other factors; being contractually bound to an unprofitable contract; a disruption in our information technology systems, including a disruption related to cybersecurity, or the impact of costs incurred to comply with cybersecurity or data privacy regulations; damage to our reputation of quality, integrity and performance; limitations on our shareholders’ ability to sell their common shares due to the lack of public market for such shares; our ability to continue to declare cash dividends; our failure to comply with environmental laws resulting in significant liabilities, fines and/or penalties; difficulties obtaining surety bonds or letters of credit necessary to support our operations; uncertainties in the credit and financial markets, including the negative impacts of COVID-19 and the Russia-Ukraine conflict limiting our access to capital; fluctuations in foreign currency exchange rates; significant increases in health care costs; the impact of corporate citizenship and environmental, social and governance matters and/or our reporting of such matters; our ability to successfully implement our new enterprise resource planning system in a cost-effective and timely manner; the impact of events such as natural disasters, public health epidemics or pandemics, such as COVID-19, terrorist attacks or other external events; and our inability to properly verify the employment eligibility of our employees.

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

The factors described above, as well as other factors that may adversely impact our actual results, are discussed in "Part I - Item 1A. Risk Factors." of our annual report on Form 10-K for the year ended December 31, 2021.

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

There have been no material changes in our reported market risks or risk management policies since the filing of our 2021 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 11, 2022.

## Item 4. *Controls and Procedures.*

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

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

### (b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended April 2, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II. Other Information

Items 3, 4 and 5 are not applicable.

**Item 1. *Legal Proceedings.***

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

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

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

The cases were mediated unsuccessfully in December 2018 and the State Court case was originally set for trial on January 22, 2019. However, as discussed below, all of the civil cases were later stayed on December 28, 2018 and currently remain stayed.

On December 6, 2018, a former Wolf Tree employee pled guilty to conspiracy to conceal, harbor, and shield illegal aliens. On December 21, 2018, the United States federal prosecutors filed a motion to stay both actions on the grounds that on December 13, 2018, an indictment was issued charging two former Wolf Tree employees and another individual with various crimes, including conspiracy to murder the deceased. Two of the three individually charged defendants have pled guilty to charges on March 28, 2022 and April 11, 2022 but have not yet been sentenced. A third individual criminally charged defendant is scheduled to go to trial in August 2022.

Previously, on December 17, 2018, the United States Attorney's Office for the Southern District of Georgia informed the Company and Wolf Tree that they are also under investigation for potential violations of immigration and other laws relating to the subject matter of the ongoing criminal investigation referenced above. The Company and Wolf Tree are cooperating with the investigation and have met with both the civil and criminal divisions of the Department of Justice ("DOJ") to resolve the matter. Due to pandemic-related issues and delays on the side of the DOJ, the matter currently remains unresolved.

On December 28, 2018, the State Court granted the United States' motion to stay but indicated that it would nonetheless consider certain pending matters, including: (1) Plaintiff and a co-defendant's motions that Davey Tree be forced to produce privileged documents and testimony, which had been submitted to a Special Master for recommendation; and (2) the Defendants' motions for summary judgment.

On January 11, 2019, the Special Master issued his recommendation that both Plaintiff and the co-defendant's motions to force Davey to disclose privileged information be denied. The State Court judge has not yet moved on the recommendation. On January 29, 2019, the State Court heard oral argument on Defendants' motions for summary judgment, and the motions remain pending during the stay of the cases.

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

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

***Northern California Wildfires***

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

Three additional actions were brought on January 28, 2021 in San Francisco County Superior Court, by fire victims represented by a trust, which was assigned contractual rights in the PG&E bankruptcy proceedings. These cases are entitled *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al*., Case No. CGC-21-589438; *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al*., Case No. CGC-21-589439; and *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. ACRT Pacific, LLC, et al*., Case No. CGC-21-589441. On September 22, 2021, the court granted Davey Tree's petition to coordinate all cases, including *Walker,* as a California Judicial Council Coordination Proceeding, *In Re North Bay Fire Cases,* JCCP No. 4955. As a result of the coordination order, all five of the individual actions are stayed in their home jurisdictions. The next case management conference in JCCP No. 4955 was held on February 24, 2022. At that case management conference, the Court ordered a mediation between the Plaintiffs and Davey Tree related to Davey Tree's contracts with PG&E. This mediation shall be scheduled by May 27, 2022, with the mediation to occur thereafter. This mediation would include Davey Tree, the Fire Victim Trust, and all other plaintiff groups. Separately, the court ordered that all parties shall participate in a global mediation, including selecting a mediator, shall begin the process of securing a mediation date by May 27, 2022, and shall complete a first session of a mediation by October 28, 2022.

The Defendants have also received evidence from the Plaintiff's Trust and PG&E collected by those parties during the PG&E bankruptcy proceedings and Davey Tree's experts have begun their initial inspection of the evidence. Davey Tree has responded to all claims asserted by the Plaintiffs in these actions, denying all liability in these cases and is vigorously defending against Plaintiffs' alleged claims.

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

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

Our Annual Report on Form 10-K for the year ended December 31, 2021, includes a detailed discussion of our risk factors. Disclosure of risks should not be interpreted to imply that the risks have not already materialized. There have been no material changes to the risk factors described in the 2021 Form 10-K during the three months ended April 2, 2022.

**Item 2.** ***Unregistered Sales of Equity Securities and Use of Proceeds.***

The following table provides information on purchases of our common shares outstanding made by us during the first three months of 2022.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| Fiscal 2022 | | | | |
| January 1 to January 29 | 1,285 | $ 18.10 | — | 3,845,851 |
| January 30 to February 26 | 5,620 | 18.10 | — | 3,845,851 |
| February 27 to April 2 | 382,610 | 18.10 | — | 3,845,851 |
| Total First Quarter | 389,515 | 18.10 | — | |
| | | | | |
| **Total Year-to-Date** | 389,515 | $ 18.10 | — | |

(1) During the three months ended April 2, 2022, the Company purchased 389,515 shares from shareholders excluding those purchased through publicly announced plans. The Company provides a ready market for all shareholders through our direct purchase of their common shares although we are under no obligation to do so (other than for repurchases pursuant to the put option under The Davey 401KSOP and ESOP Plan).

Our common shares are not listed or traded on an established public trading market and market prices are, therefore, not available. Semiannually, for purposes of the Davey 401KSOP and ESOP, an independent stock valuation firm assists with the appraisal of the fair market value of the common shares, based upon our performance and financial condition, using a peer group of comparable companies selected by that firm. The peer group currently consists of: ABM Industries Incorporated; Comfort Systems USA, Inc.; Dycom Industries, Inc.; FirstService Corporation; MYR Group, Inc.; Quanta Services, Inc.; Rollins, Inc.; and Scotts Miracle-Gro Company. The semiannual valuations are effective for a period of six months and the per-share price established by those valuations is the price at which our Board of Directors has determined our common shares will be bought and sold during that six-month period in transactions involving Davey Tree or one of its employee benefit or stock purchase plans. Since 1979, we have provided a ready market for all shareholders through our direct purchase of their common shares, although we are under no obligation to do so (other than for repurchases pursuant to the put option under The Davey 401KSOP and ESOP Plan, as described in Note P, The Davey 401KSOP and Employee Stock Ownership Plan). The purchases described above were added to our treasury stock.

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

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

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

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

In accordance with the amendments to the Articles approved by the Company's shareholders at the 2017 Annual Meeting, on May 17, 2017, the Company's Board of Directors authorized the Company to repurchase up to 400,000 common shares, which authorization was increased by an additional 2,000,000 common shares in May 2018 and increased further by an additional 3,000,000 common shares in September 2021. Of the 5,400,000 total shares authorized, 3,845,851 remained available under the program, as of April 2, 2022. Share repurchases may be made from time to time and the timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors. The Company is not obligated to purchase any shares, and repurchases may be commenced, suspended or discontinued from time to time without prior notice. The repurchase program does not have an expiration date.

**Item 6.** ***Exhibits.***

See the Exhibit Index below.

## Exhibit Index

| Exhibit No. | Description | |
|---|---|---|
| 10.1* | Amendment to The Davey Management Incentive Compensation 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 March 9, 2022). | |
| 10.2* | Employment agreement by and among The Davey Tree Expert Company and Erika J. Schoenberger dated July 24, 2018. | Filed Herewith |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed Herewith |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed Herewith |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. | Furnished Herewith |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. | Furnished Herewith |
| 101 | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2022, formatted in iXBRL (inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets (unaudited), (ii) the Condensed Consolidated Statements of Operations (unaudited), (iii) the Condensed Consolidated Statements of Comprehensive Income (unaudited), (iv) the Condensed Consolidated Statements of Shareholders' Equity (unaudited), (v) the Condensed Consolidated Statements of Cash Flows (unaudited), and (vi) Notes to Condensed Consolidated Financial Statements (unaudited). The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document. | Filed Herewith |
| 104 | Cover Page Interactive Data File (embedded within the inline XBRL document) | Filed Herewith |

* Management contracts or compensatory plans or arrangements.

## Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE DAVEY TREE EXPERT COMPANY

| | | |
|---|---|---|
| Date: May 11, 2022 | By: | /s/ Joseph R. Paul |
| | | Joseph R. Paul<br>Executive Vice President, Chief Financial Officer and Assistant Secretary<br>(Principal Financial Officer) |
| Date: May 11, 2022 | By: | /s/ Thea R. Sears |
| | | Thea R. Sears<br>Vice President and Controller<br>(Principal Accounting Officer) |

**Exhibit 10.2**

Mrs. Erika Schoenberger
250 West Riverglen Drive
Worthington, OH 43085

Dear Erika:

Thank you for interviewing for the position of General Counsel and Secretary of The Davey Tree Expert Company. As a result of the very positive feedback we received from all the individuals who spoke with you, we would like to offer you the opportunity to become a member of our Executive Management Team. Details of your offer are as follows:

**Position:** Vice President, General Counsel and Secretary

**Base Compensation:** Your base compensation will be $300,000 per year. Your first scheduled review date will be April 2019 after which your salary will be reviewed annually.

**Bonus:** As a participant in the Management Incentive Compensation Plan, your target bonus percentage is 75%. Based upon the performance of the Company, your bonus may range from 0% to 150% of the target bonus. Historically, bonuses have ranged from 80% to 150%. You will be eligible to receive a pro rata bonus equal to ½ the year when they are next paid in March 2019.

**Severance Pay:** If there is an involuntary termination of Executives employment the Company shall pay the Executive and amount equal to 1.0 times Executives then Base Salary. Such severance payments shall be made in accordance with the Company's standard payroll procedures.

**Relocation Allowance:** You will be receiving a separate Relocation Agreement generated out of the NuCompass Mobility program that will provide the details of the relocation package. The details will be commensurate with our discussions around payment for closing costs on the sale and purchase of your homes, direct payment of packing and household moving expenses and reimbursement for temporary housing while house-hunting for up to 6 months.

**Vehicle Reimbursement:** You will receive a vehicle reimbursement according to the company's F-Car program *(Plan Summary provided)*

- Group Health Insurance administered by Anthem Blue Cross/Blue Shield
- Basic Life, Accidental & Dismemberment Insurance administered by Guardian Life Insurance Company
- Supplemental Life Insurance and Dependent Life Insurance also administered by Guardian Life Insurance Company
- Dental Insurance administered by Guardian Life Insurance Company
- Vision Insurance administered by EyeMed
- The Davey Tree Expert Company 401KSOP and ESOP o Eligible to participate after one year of service
    - Company match: 100% of first 1%; 50% of next 2% through 4%
- Davey Employee Stock Purchase Plan (ESPP) *(Plan Summary provided)*
    - Eligible to participate after one-year of continuous full-time service
    - Provides the opportunity to purchase up to $10,400 a year in Company stock at 85% of the current fair market value through payroll deduction

- Paid Time Off Policies
    - Vacation: twenty days
    - Sick: Five days
    - Holidays: Six days (New Year's, Memorial Day, Fourth of July, Labor Day, Thanksgiving and Christmas)

We sincerely hope you will accept our offer. We believe we are prepared to provide you with a great opportunity and look forward to working with you. If you have any questions, please do not hesitate to contact me.

If you accept our offer as outlined above, please sign and return one copy of this letter to me. We can determine a start date that is expedited, but that meets your commitments at your current employer.

Sincerely,

/s/Patrick M. Covey

Patrick M. Covey
President and CEO

**ACCEPTED:** /s/Erika J. Schoenberger

Erika J. Schoenberger

**DATE:** July 27, 2018

**Exhibit 31.1**

## Certification

***Certification of Chief Executive Officer***

I, Patrick M. Covey, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 11, 2022 /s/ Patrick M. Covey

Patrick M. Covey
Chairman, President and Chief Executive Officer

**Exhibit 31.2**

**Certification**

***Certification of Chief Financial Officer***

I, Joseph R. Paul, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 11, 2022 /s/ Joseph R. Paul

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

**Exhibit 32.1**

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

***Certification of Chief Executive Officer***

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

1. The Quarterly Report on Form 10-Q of the Company for the period ended April 2, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), as applicable; and

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

Date: May 11, 2022

/s/ Patrick M. Covey

Patrick M. Covey
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, Executive Vice President, Chief Financial Officer and Assistant Secretary of The Davey Tree Expert Company (the "Company"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the period ended April 2, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), as applicable; and

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

Date: May 11, 2022

/s/ Joseph R. Paul

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