

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended **December 31, 2021**
OR

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

For the transition period from _____ to _____
Commission file number **000-11917**



THE DAVEY TREE EXPERT COMPANY

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

34-0176110

(I.R.S. Employer Identification Number)

1500 North Mantua Street
P.O. Box 5193
Kent, 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:

| <u>Title of Each Class</u> | <u>Trading Symbol(s)</u> | <u>Name of Each Exchange on which Registered</u> |
|----------------------------|--------------------------|--|
| N/A | N/A | N/A |

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

Common Shares, \$0.50 par value

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

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

Large Accelerated Filer ☐

Accelerated Filer ☒

Emerging Growth Company ☐

Non-Accelerated Filer ☐

Smaller Reporting Company ☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

There were 44,653,277 Common Shares outstanding as of March 4, 2022. The aggregate market value of the Common Shares held by nonaffiliates of the registrant as of July 2, 2021 was \$662,355,695. For purposes of this calculation, it is assumed that the registrant's affiliates include the registrant's Board of Directors and its executive officers.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2022 Annual Meeting of Shareholders, to be held on May 17, 2022, are incorporated by reference into Part III (to be filed within 120 calendar days of the registrant's fiscal year end).

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations," "Item 7A - Quantitative and Qualitative Disclosures About Market Risk," and elsewhere. These statements relate to future events or our future financial performance. In some cases, forward-looking statements may be identified by terminology such as "may," "will," "should," "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; 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, 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 impact of COVID-19 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. Our business, results of operations, financial position or cash flow could in the future be materially adversely impacted by the COVID-19 pandemic.

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

THE DAVEY TREE EXPERT COMPANY
FORM 10-K
For the Year Ended December 31, 2021

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"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.

PART I

Item 1. *Business.*

General

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

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

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

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

Competition and Customers

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

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

We provide a wide range of horticultural services to private companies, public utilities, local, state and federal agencies, and a variety of industrial, commercial and residential customers. During 2021, we had revenues of approximately \$176 million, or approximately 13% of total revenues, from Pacific Gas & Electric Company ("PG&E"), our largest customer.

Regulation and Environment

We are subject to various federal, state and local laws, rules and regulations relating to, among other things, labor, wages, health and safety matters, immigration, employee benefits and privacy and customer data security as well as requirements of federal and state transportation

agencies with respect to vehicles in our fleet. Noncompliance with these laws and regulations can subject us to fines or civil or criminal prosecution and could have a material adverse effect on our reputation, business, and results of operations.

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

Marketing

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

Seasonality

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

Other Factors

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

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

Human Capital

Our values — safety, integrity, expertise, leadership, stewardship and perseverance — are built on the foundation that our people are the key to our success and sustainability as a company. We aim to engage and inspire our employees every day, providing them with education and development opportunities to help them grow personally and professionally. As of December 31, 2021, we employed approximately 10,200 people, of which approximately 92% were in the United States and 8% were in our Canadian locations. Of our active employees,

99% are full time, 1% are part time and 14% are covered by a collective bargaining agreement. We consider our employee relations to be good.

We encourage you to visit our website, <http://www.davey.com>, for more detailed information regarding our Human Capital programs and initiatives. Nothing on our website shall be deemed incorporated by reference into this Annual Report on Form 10-K or any other report or document we file with the Securities and Exchange Commission (the "SEC"). Any reference to our website in this Form 10-K is intended to be an inactive textual reference only.

Oversight

Our board of directors provides oversight on certain human capital matters, including employee ownership programs and employee relations issues. The compensation committee of our board of directors oversees risks related to our employment policies and our compensation and benefit arrangements. Our Human Resource and Legal departments also have responsibility for advising, educating, and assisting the business on human resource matters and executing our overall human capital management strategies. In addition, the board of directors and the compensation committee receive regular updates from our Chief Executive Officer regarding human capital matters.

Employee Attraction and Retention

As a provider of arboricultural, horticultural, environmental and consulting services, attracting and retaining top talent is critical to our success. We actively recruit candidates who share our commitment to advance the green industry. While our industry faces challenges of seasonal employment and high average turnover, our structure as an employee-owned company enables our talented employees to invest in us as we invest in them. Our recruiting and employee development team cultivates employee strength by recruiting, training and retaining a diverse and talented workforce. The team supports the hiring and early employee experiences of our workforce by utilizing recruiting hubs, which allow for better support to our employees while addressing hiring needs across the U.S. and Canada. We also offer a referral bonus program which encourages current employees to recommend people to join our Company. Employees receive a cash bonus for referring an individual who becomes an employee and remains employed at least 90 days.

We recognize that everyone deserves respect and equal treatment, regardless of gender, race, ethnicity, age, disability, sexual orientation, gender identity, cultural background or religious belief. As of December 31, 2021, women represented 13% of our total employees, and minorities (defined as those who identify as Black/African American, Hispanic/Latino, American Indian/Alaskan Native, Asian, Hawaiian/Pacific Islander and/or two or more races) represented 29% of our U.S. employees.

Education and Development

To sustain our growth, it is imperative that we invest in our employees' personal and professional development. For nearly 140 years, employee education has been fundamental to our success, equipping each employee with the tools they need to deliver the best possible care to our clients. Through our Learning Management System ("LMS"), employees can access our extensive online education and development programs, consisting of over 650 courses covering a variety topics. In addition to online LMS training, we offer multiple in-person training opportunities at our Davey Institute and regional workshop sessions. The largest onsite training—the Davey Institute of Tree Sciences ("D.I.T.S.")—takes place each February in Kent, Ohio. A modern-day take on the original experiences taught by John Davey, D.I.T.S. is open to employees from all over the U.S. and Canada, and the program still uses a combination of lecture and outdoor experiential learning.

Additionally, ongoing partnerships with trade associations as well as an associate's degree program offered through Kent State University provide Davey employees with opportunities to continue their education and advance their careers at Davey.

Safe Business Practices

Safety lies at the heart of our company. Our safety program – The Road to Zero – encourages a culture of communication, collaboration and consistency. We view safety and skills training as a continuous development tool and we provide both in-person and distance learning activities to 100% of our field employees each year through our safety department. Davey operates in regions across the United States and Canada where fire seasons and changing climate increase the risk of fire on and around our job sites. In areas with increased fire risk, employees complete an annual fire prevention curriculum developed in collaboration with multiple fire safety and forestry agencies.

In 2017, we implemented our Close Call Communicator, an electronic company-wide platform for safety communication. The platform allows employees to report a close call incident and share those incidents across the Company to build tools and tactics for prevention. Employees are encouraged to watch out for potential situations that may put themselves or their co-workers at risk and to speak up if they see something. These efforts serve to improve the holistic management of safety across our operations.

Compensation, Benefits and Well-being

We offer fair, competitive compensation and benefits that support our employees' overall health and well-being but recognize that supporting our employees does not end there. We encourage employees to plan for their future, and after one year of service, our employees are eligible to invest in our 401(k) plan, where we will match up to 5% of employees' contributions, or by becoming a shareholder and enrolling in our stock purchase plan, where they can purchase shares of the company at a 15% discount. Both are great ways to save for retirement. We also offer a family scholarship program to assist employees with approved college education tuition and expenses for their children and legal wards.

We have a long-standing tradition of giving back to our communities across the U.S. and Canada, and we encourage our employees to get involved in the communities where they live and work to help grow a better future. In 2018, we launched the Green Leaders program, which recognizes employees' volunteer activities that are meaningful to them, as well as supporting initiatives that promote trees, sustainable landscapes and the environment. In 2021, employees invested over 6,800 hours to organizations that were meaningful to them. We also encourage employees to give back by offering a charitable matching gift program whereby we match employees' eligible contributions up to a preset limit.

In response to the COVID-19 pandemic, we continue to take 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 including continuing to provide additional administrative leave for employees affected by COVID-19 directly or indirectly. Beginning in the second quarter 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.

Core to our values is being there for our people when the unexpected happens. We have two employee assistance programs in place to support our employees. The first is our emergency employee assistance program, which provides grants to employees for food, shelter and other basic needs due to unexpected financial hardships. The second is our COVID-19 relief program through the Davey Company Foundation, which provides tax-free payments to employees for eligible expenses incurred as a result of the pandemic.

Domestic and Foreign Operations

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

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

Access to Company Information

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

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

- Code of Ethics
- Code of Ethics for Financial Matters

Item 1A. Risk Factors.

The factors described below represent the material risks we face. Disclosure of risks should not be interpreted to imply that the risks have not already materialized, and, except as otherwise indicated, these factors may or may not occur and we are not in a position to express a view on the likelihood of any such factor occurring. Other factors may exist that we do not consider to be material based on information that is currently available or that we are not currently able to anticipate.

Risks Related to the COVID-19 Pandemic

Our business, results of operations, financial position or cash flow could in the future be materially adversely impacted by the coronavirus pandemic (COVID-19).

The global spread of the coronavirus pandemic (COVID-19) has created significant volatility and uncertainty and economic disruption. The extent to which COVID-19 impacts our business, operations and financial results will depend on numerous evolving factors that we are unable to accurately predict including: the duration, severity and scope of the pandemic, including any additional resurgences in cases in the United States and Canada and any breakthrough infections among the fully vaccinated population, and potential challenges caused by an increase in indoor activities due to cold and/or inclement weather, as well as the emergence of new COVID-19 variants, some of which have been, and may be in the future, more transmissible or virulent than the initial strain, the timing, acceptance, availability and effectiveness of COVID-19 vaccines (including booster vaccines), testing, and other treatments; the impact of the pandemic on economic activity, including any recession in the United States that has occurred or may occur in the future and the possibility that any future recovery from the COVID-19 pandemic and related impact may also be slowed or reversed by a number of factors, including new waves of COVID-19 infections; government imposed restrictions in response to the pandemic and the possibility that previously-lifted restrictions will be reimposed, or additional restrictions put in place; ongoing supply chain disruptions and shortages of certain supplies and the resulting cost inflation, as well as labor shortages; the effect on our customers and their demand for our services; and the ability of our customers to pay for our services. Clients may slow down decision making, delay planned work or seek to terminate existing agreements. The degree of impact of COVID-19 on our customer sales demand will depend on the extent and duration of the economic impact and the impact on each of our customers, which may vary by industry.

We continue to take 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. Where possible, we have brought employees back to our corporate headquarters and other in-person locations on a limited basis with increased safety protocols, developed policies and procedures in compliance with public health and government guidance and continue to offer administrative leave for employees to obtain vaccinations. Our increased reliance on remote access to our information systems could also increase our exposure to potential data breaches. There is no certainty that such measures will be sufficient to mitigate the risks posed by COVID-19, in which case our employees may become sick, our ability to perform critical functions could be harmed, and our business and operations could be negatively impacted.

While COVID-19 did not have a material adverse effect on our reported results for the year ended December 31, 2021, due to the inherent uncertainty surrounding COVID-19 given its continual evolution, such as the continued resurgences in cases, including breakthrough infections, and the emergence of new strains of COVID-19, and government responses, we are unable to predict the ultimate impact that it may have on our business, including how it will impact our customers, employees, supply chain and liquidity. The situation surrounding COVID-19 remains fluid, and the potential for a material impact on our business increases the longer COVID-19 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.

Rules and requirements concerning mandatory COVID-19 vaccinations could have a material adverse impact on our business and results of operations.

On September 9, 2021, President Biden directed the U.S. Department of Labor's Occupational Safety and Health Administration ("OSHA") to develop a standard that requires all employers with at least 100 employees to address the spread of COVID-19. On November 4, 2021, OSHA issued an emergency regulation, which requires employers with 100 or more employees to ensure that all employees be fully vaccinated against COVID-19 or be required to wear face coverings and undergo weekly testing, subject to limited exceptions. Covered employers were required to comply with the vaccine mandate or face substantial penalties for non-compliance. Following litigation, the emergency temporary standard ("ETS") has been withdrawn as an enforceable ETS, but remains a proposed rule. Also, portions of our business may be impacted by President Biden's September 9, 2021 executive order, requiring certain COVID-19 precautions for government contractors and their subcontractors, including mandatory employee vaccination (subject to medical and religious exemptions). The executive order has been temporarily stayed and remains subject to ongoing litigation. There have also been a number of other COVID-19 related local laws, orders, and new regulations entered in locations, in which we work. At this time, it is not possible to predict with certainty the exact impact that any applicable vaccine mandates, including any customer-imposed mandates that have been or could be required, will have on us or on our workforce, but they could result in risks to the business, including increased costs, labor disruptions or employee attrition. If we lose employees, it may be difficult in the current competitive labor market to find replacement employees, and this could have an adverse effect on future revenues and costs, which could be material. Ongoing legal challenges to the government-imposed vaccine mandates, as well as other laws and regulations, have led to additional uncertainty. Accordingly, any vaccine mandate applicable to us could have a material adverse effect on our business and results of operations.

Risks Related to Our Industry in Which We Intend to Compete

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

Our industry operates in an environment that requires heavy manual labor. We may experience slower growth in the labor force for this type of work than in the past. We also may be constrained in hiring and retaining sufficient qualified employees to support our growth strategy due to general labor shortages in our industry, including potential employee attrition in connection with any applicable

government or customer COVID-19 vaccine or testing mandates. In addition, a lack of qualified labor or increased turnover rates within our employee base could lead to increased costs, such as increased overtime to meet demand and increased wage rates to attract and retain qualified employees. Additionally, changes to the laws and regulations that govern the classification or wages of workers may require us to make changes to our operations and may negatively impact our business, increase our costs and expose us to various liabilities.

We may be unable to attract and retain skilled management.

Our success depends, in part, on our ability to attract and retain key managers who share our values and are able to operate effectively consistent with our culture. Competition for the best people can be intense, particularly for employees who can work remotely, as the impact of the COVID-19 pandemic has increased remote opportunities, and depends on many factors, including the attractiveness of our compensation and benefit programs, and we may not be able to promote, hire or retain skilled managers. The loss of services of one or more of our key managers could have a material adverse impact on our business because of the loss of the manager's skills, knowledge of our industry and years of industry experience, and the difficulty of promptly finding qualified replacement personnel, and ineffective succession planning could result in unexpected costs, reduced productivity and/or difficulties with respect to internal processes and controls.

We are subject to intense competition.

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

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

Our financial condition, results of operations, liquidity and cash flows could be materially affected by potential losses resulting from the impact of wildfires and other major weather events and natural disasters, the nature, frequency and severity of which may be negatively impacted by climate change, in California and other areas, which have in the past and could in the future expose the Company to litigation and liabilities pursuant to the Company's indemnification obligations to its customers. Although preventative measures may help mitigate damage, such weather events and natural disasters could result in severe business disruptions, property damage, injuries or loss of life, and delays in recovery may be significant. Such events could result in significant decreases in revenues, cost increases, and other financial difficulties to the Company's customers and could cause them to file for bankruptcy protection, which occurred most recently with PG&E

in 2019, who emerged from bankruptcy in July 2020. Any such event could have a material adverse effect on our business, reputation, financial condition, results of operations, liquidity and cash flows. Further, these events could result in government enforcement actions or regulatory penalties, litigation and/or civil or governmental actions, including investigations, citations and fines, against our customers and against us if any related losses are found to be the result of their or our activities and services. Ongoing litigation relating to wildfires could take a number of years to resolve due to the complexity of the matters, including ongoing investigations into the cause of the fire and the number of claims or parties that may be involved.

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

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

We derive approximately 56% of our total revenues from our Utility segment. Significant adverse developments in the utility industry generally, or specifically for our major utility customers, could result in pressure to reduce costs by utility industry service providers (such as us), delays in payments of our accounts receivable, or increases in uncollectible accounts receivable, among other things. As a result, such developments could have an adverse effect on our results of operations.

Risks Related to Our Business and Financial Condition

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

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

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

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

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

be exposed to significant liabilities, which would have a material adverse effect on our financial condition and results of operations and potentially disrupt our California operations.

Our business is highly seasonal and weather dependent.

Our business, other than tree services to utility customers, is highly seasonal and weather dependent, primarily due to fluctuations in horticultural services provided to Residential and Commercial customers. Based on the geographic areas we service, revenue and operating income are generally highest in the second and third quarters of the calendar year. Inclement weather, such as uncharacteristically low or high (drought) temperatures or storms, floods, and other events, the frequency, pattern or intensity of which may be increased by climate change, in the second and third quarters could dampen the demand for our horticultural services, resulting in reduced revenues that would have an adverse effect on our results of operations.

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

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

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

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

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

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

Disruptions, delays or price increases within our supply chain could adversely affect our results of operations.

Our business is affected by the availability and price of materials and equipment (including trucks, chippers and service vehicles) that are used in providing service to our customers, which can be affected by numerous forces beyond our control including geopolitical instability, governmental regulations and trade restrictions, the ongoing impacts of the COVID-19 pandemic and inflationary pressures. A significant disruption in our ability to obtain these products, including any shortages in sources of supply, price increases, and production and other supply chain disruptions, could disrupt our ability to provide services and result in a loss of revenues, reduced margins and damage to our relationships with customers. In addition, while we seek to manage price and availability risks related to supplies, such as fuel, fertilizer, chemicals, and mulch, through procurement strategies, these efforts may not be successful, and we may experience adverse impacts due to rising prices of such products. Any such increases in prices could adversely affect our profits should we be unable to pass along such price increases to our customers.

Global climate change and related regulations could negatively affect our business.

Recently, there has been growing concern from advocacy groups, government agencies and the general public over the effects of climate change on the environment. Transition risks, such as government restrictions, standards or regulations intended to reduce greenhouse gas emissions and potential climate change impacts, are emerging and may increase in the future. For example, a number of legal and regulatory measures and social initiatives have been introduced in an effort to reduce greenhouse gas and other carbon emissions. Any such initiatives, restrictions and requirements could restrict our operating activities, require us to make changes in our operating activities that would increase our operating costs, reduce our efficiency or limit our output, require us to make capital improvements to our facilities, increase our energy, raw material and transportation costs or limit their availability, or otherwise adversely affect our results of operations, liquidity or capital resources, and these effects could be material to us. We believe we are in compliance in all material respects with existing climate-related government restrictions, standards and regulations applicable to our business, and such compliance has not had a material impact on our business. However, given the rapidly changing nature of environmental laws and matters that may arise that are not currently known, we cannot predict our future exposure concerning such matters, and our future costs to achieve compliance or remedy potential violations could be significant.

We cannot predict the impact, if any, that changing climate conditions will have on us or our customers, as the prospective impact of climate change on our operations and those of our customers remains uncertain. Our industry is subject to seasonal and weather factors, which can vary from period to period. Climate change may increase the frequency, patterns or intensity of extreme weather such as storms, floods, heat waves, droughts and other events, as well as result in changing sea levels and temperature levels, and these changes could be severe and could vary by geographic location. At the present time, we cannot predict the prospective impact of climate change on our results of operations, liquidity or capital resources, or whether any such effects could be material to us.

Our quarterly results may fluctuate.

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

- the seasonality of our business;
- the timing and volume of customers' projects;
- budgetary spending patterns of customers;

- the commencement or termination of service agreements;
- costs incurred to support growth internally or through acquisitions;
- changes in our mix of customers, contracts and business activities;
- fluctuations in insurance expense due to changes in claims experience and actuarial assumptions; and
- general and local economic conditions, including the impact of the COVID-19 pandemic and any recession that has occurred, or may occur in the United States or Canada.

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

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

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

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

We rely on the accuracy, capacity and security of our information technology systems. Despite the security measures that we have implemented, including those measures related to cybersecurity, our systems, or the systems of third parties upon whom we rely, could be breached or damaged by computer viruses, natural or man-made incidents or disasters, including third-party action, insider attacks, employee or service provider error or malfeasance, phishing or denial-of-service attacks, ransomware or other malware, or social engineering, other unauthorized physical or electronic access, or otherwise. A cyberattack or breach involving our information technology systems or those of our suppliers or other partners could result in business disruption, including disruptions in critical systems, corruption or loss of data, loss or theft of funds, theft of our intellectual property, trade secrets, customer information or other data and unauthorized access to, or release of, personnel information. In addition, we face increased information technology security and fraud risks due to our increased reliance on working remotely due to the COVID-19 pandemic, which may create additional information security vulnerabilities and/or magnify the impact of any disruption in information technology systems. To the extent that our business is interrupted or data is lost, destroyed or inappropriately used or disclosed, such disruptions could adversely affect our competitive position, reputation, relationships with our customers, financial condition, operating results and cash flows and could expose us to data loss, allow others to unfairly compete with us, and subject us to litigation, government enforcement actions, regulatory penalties and costly response measures. In addition, we may be required to incur significant costs to protect against the damage caused by these disruptions or security breaches in the future, and we may not have adequate insurance coverage to compensate us for any losses relating to such events.

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

face the risk that we may expose our customers or partners to cybersecurity attacks. Any of these factors could have a material adverse effect on us.

In addition, we may incur costs in order to comply with cybersecurity or data privacy regulations in the regions in which we operate, or with requirements imposed by customers. Such regulations and requirements continue to evolve and are increasingly demanding, which may increase our costs of compliance and increase our regulatory and litigation risk.

Our information technology systems may also be susceptible to damage, disruption or shutdowns due to failures during the process of upgrading or replacing software, databases, hardware or components. If these failures are severe, and our business continuity plan does not effectively resolve the issues in a timely manner, our financial condition, results of operations and reputation could be adversely affected.

We may be adversely affected if our reputation is damaged.

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

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

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

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

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

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

Various economic factors, such as the ongoing effects of the COVID-19 pandemic, may adversely impact the demand for our services and potentially result in depressed prices for our services and the delay or cancellation of projects. That may make it difficult to estimate our customers' requirements for our services and, therefore, add uncertainty to customer demand. Various economic factors, such as any recession that has occurred, or may occur in the future, inflation, and customers' confidence in future economic conditions may cause a reduction in our customers' spending for our services and impact the ability of our customers to pay amounts owed, which could reduce our cash flow and adversely impact our debt or equity financing. These events could have a material adverse effect on our operations and our ability to grow at historical levels.

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

We may need new or additional financing in the future to conduct our operations, expand our business or refinance existing indebtedness. Future changes in the general economic conditions and/or financial markets in the United States or globally could affect adversely our ability to raise capital on favorable terms or at all. From time-to-time we have relied, and may also rely in the future, on access to financial markets as a source of liquidity for working capital requirements, acquisitions and general corporate purposes. Our access to funds under our revolving credit facility is dependent on the ability of the financial institutions that are parties to the facility to meet their funding commitments. Those financial institutions may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time. Economic disruptions, such as the ongoing effects of the COVID-19 pandemic, and any resulting limitations on future funding, including any restrictions on access to funds under our revolving credit facility, could have a material adverse effect on us.

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

We are exposed to foreign currency exchange rate risk resulting from our operations in Canada, where we provide a comprehensive range of horticultural services. Our financial results could be affected by factors such as changes in the foreign currency exchange rate or differing economic conditions in the Canadian markets as compared with the markets for our services in the United States. Our earnings are affected by translation exposures from currency fluctuations in the value of the U.S. dollar as compared to the Canadian dollar.

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

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

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

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

We utilize the U.S. government's E-Verify program to assist in verifying the employment eligibility of potential new employees and require all new potential employees provide us with government-specified documentation evidencing their employment eligibility. However, the use of E-Verify does not guarantee that we will successfully identify all applicants who are ineligible for employment. While we believe we are in compliance with applicable laws and regulations of U.S. Immigration and Customs Enforcement, it is possible some of our employees may, without our knowledge, be unauthorized workers. The employment of unauthorized workers may subject the Company to fines, penalties and other costs related to compliance with laws and regulations as well as adverse publicity that negatively impacts our reputation and brand and may make it more difficult to hire and retain qualified employees. Our operations may also be impacted by additional costs to hire and train new employees. Furthermore, immigration laws have been an area of considerable political focus in recent years, and, from time-to-time, the U.S. government considers or implements changes to federal immigration laws,

regulations or enforcement programs. Changes in immigration or work authorization laws may increase our obligations for compliance and oversight, which could subject us to additional costs and potential liability and make our hiring process more cumbersome, or reduce the availability of potential employees.

Increased scrutiny of our environmental, social or governance responsibilities have and will likely continue to result in additional costs and risks and may adversely impact our reputation, employee retention and willingness of customers and suppliers to do business with us.

There is an increasing focus from certain customers, consumers, employees, and other stakeholders concerning environmental, social and governance ("ESG") matters, including corporate citizenship and sustainability. Additionally, public interest and legislative pressure related to public companies' ESG practices continue to grow. If our ESG practices fail to meet regulatory requirements or stakeholders' evolving expectations and standards for responsible corporate citizenship in areas including environmental stewardship, support for local communities, Board of Director and employee diversity, human capital management, employee health and safety practices, corporate governance and transparency and employing ESG strategies in our operations, our brand, reputation and employee retention may be negatively impacted, and customers and suppliers may be unwilling to do business with us.

In addition, as we work to align our ESG practices with industry standards, we have expanded and, in the future, will likely continue to expand our disclosures in these areas. From time-to-time, we communicate certain initiatives, including goals, regarding environmental matters, responsible sourcing and social investments, including our Corporate Responsibility Report. We also expect to incur additional costs and require additional resources to monitor, report and comply with our various ESG practices. The standards for tracking and reporting on ESG matters are relatively new, have not been harmonized and continue to evolve. The disclosure frameworks we choose to align with, if any, may change from time-to-time and may result in a lack of consistent or meaningful comparative data from period to period. Ensuring there are systems and processes in place to comply with various ESG tracking and reporting obligations will require management time and expense. In addition, our processes and controls may not always comply with evolving standards for identifying, measuring and reporting ESG metrics, our interpretation of reporting standards may differ from those of others and such standards may change over time, any of which could result in significant revisions to our goals or reported process in achieving such goals.

If we fail to adopt ESG standards or practices as quickly as stakeholders desire, fail, or be perceived to fail, in our achievement of such initiatives or goals, or fail in fully and accurately reporting our progress on such initiatives and goals, our reputation, business, financial performance and growth may be adversely impacted. In addition, we could be criticized for the scope of such initiatives or goals or perceived as not acting responsibly in connection with these matters. Our business could be negatively impacted by such matters. Any such matters, or related corporate citizenship and sustainability matters, could have a material adverse effect on our business.

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

Natural disasters, the nature, frequency and severity of which may be negatively impacted by climate change, public health epidemics or pandemics, such as the COVID-19 pandemic, terrorist attacks and other adverse external events could materially damage our facilities or disrupt our operations or damage the facilities or disrupt the operations of our customers or vendors, and may pose the risk that we or our employees, contractors, suppliers, customers and other business partners may be prevented from conducting business activities for an indefinite period of time. The occurrence of any such event could adversely affect our business, financial condition and results of operations.

We are implementing a new enterprise resource planning system. Our failure to implement it successfully, on time and on budget could have a material adverse effect on us.

We are in the process of implementing a new enterprise resource planning ("ERP") system and will be implementing the new system over the next 3 years, beginning in 2022. ERP implementations are complex, time-consuming, and involve substantial expenditures on system software and implementation activities. The ERP system will be critical to our ability to provide important information to our management, obtain and deliver products, provide services and customer support, send invoices and track payments, fulfill contractual obligations, accurately maintain books and records, provide accurate, timely and reliable reports on our financial and operating results, and otherwise operate our business.

ERP implementations also require transformation of business and financial processes in order to reap the benefits of the ERP system. Any such implementation involves risks inherent in the conversion to a new computer system, including loss of information and potential disruption to our normal operations. The implementation and maintenance of the new ERP system has required, and will continue to require, the investment of significant financial and human resources and the implementation may be subject to delays and cost overruns. In addition, we may not be able to successfully complete the implementation of the new ERP system without experiencing difficulties. Any disruptions, delays or deficiencies in the design and implementation or the ongoing maintenance of the new ERP system could adversely affect our ability to process orders, provide services and customer support, send invoices and track payments, fulfill contractual obligations, accurately maintain books and records, provide accurate, timely and reliable reports on our financial and operating results, including reports required by the SEC, and otherwise operate our business. New system implementations across the enterprise, such as the current implementation of our new ERP system, which includes a cloud-based solution, also pose risks of outages or disruptions, which could affect our suppliers, operations, and customers. Issues faced by us or our third-party "cloud" computing providers, including technological or business-related disruptions, as well as cybersecurity threats, could adversely impact our business, results of operations and financial condition for future periods.

Additionally, if we do not effectively implement the ERP system as planned or the system does not operate as intended, the effectiveness of our internal control over financial reporting could be adversely affected or our ability to assess it adequately could be delayed, which could cause us to incur significant additional expenses, damage our reputation, and have a material adverse effect on us.

Risks Related to Our Common Shares

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

Our common shares are not traded on any national exchange, market system or over-the-counter bulletin board. Because no public market exists for our common shares, the ability of shareholders to sell these shares is limited. While we have provided a ready market for shareholders through our direct purchase of common shares, we are generally under no obligation to do so and may discontinue such purchases at any time. In addition, pursuant to our Articles of Incorporation and other plans and agreements pursuant to which our employees and non-employee directors have received our common shares, our common shares are subject to transfer restrictions that may limit the ability of shareholders to transfer their shares to individuals or entities other than our employees or our subsidiaries, including rights of first refusal and repurchase rights held by us and the Employee Stock Ownership Trust, which is the trust for the Company's Employee Stock Ownership Plan.

There can be no assurance that we will continue to declare cash dividends.

Our Board of Directors has adopted a dividend policy pursuant to which we currently pay a cash dividend on our common stock on a quarterly basis. Our ability to pay cash dividends depends on, among other things, our cash flows from operations, our cash requirements, our financial condition, the degree to which we are/or become leveraged, contractual restrictions binding on us, provisions of applicable law and other factors that our Board of Directors may deem relevant. The declaration and payment of any dividend is subject to the approval of our Board of Directors and our dividend may be discontinued or reduced at any time. There can be no assurance that we will declare cash dividends in the future in any particular amounts, or at all.

Item 1B. *Unresolved Staff Comments.*

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

Item 2. *Properties.*

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

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

| Segment | Number of Properties | How Held | Square Footage | Number of States or Provinces |
|---|-----------------------------|-----------------|-----------------------|--------------------------------------|
| Residential and Commercial | 40 | Owned | 360,481 | 19 |
| Utility | 3 | Owned | 36,307 | 3 |
| Residential and Commercial, and Utility | 4 | Owned | 43,406 | 4 |

We also lease approximately 214 properties in 33 states and five provinces.

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

Item 3. *Legal Proceedings.*

We are party to a number of lawsuits, threatened lawsuits and other claims arising out of the normal course of business. 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. 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. On December 27, 2021, the DOJ advised that criminal cases (unrelated to the Company) for the individual criminal defendants were now scheduled, with the trial for Higinio Perez-Braco scheduled for April 12, 2022 and the trial of Pablo Rangel and Juan Rangel-Rubio scheduled for May 10, 2022. 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 by April 29, 2022, 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 Plaintiff's 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 4. *Mine Safety Disclosures.*

Not applicable.

Information about our Executive Officers.

Our executive officers and their present positions and ages as of March 1, 2022 follows:

| Name | Age | Position | Years with Company | Served as an Executive Officer Since |
|-------------------------------|------------|--|---------------------------|---|
| Patrick M. Covey | 58 | Chairman, President and Chief Executive Officer | 30 | 2007 |
| Joseph R. Paul, CPA | 60 | Executive Vice President, Chief Financial Officer and Assistant Secretary | 16 | 2005 |
| Christopher J. Bast, CPA, CTP | 54 | Vice President and Treasurer | 8 | 2013 |
| James E. Doyle | 53 | Executive Vice President and General Manager, Davey Tree Expert Co. of Canada, Limited | 32 | 2014 |
| Gregory M. Ina | 50 | Executive Vice President, The Davey Institute and Employee Development | 26 | 2016 |
| Dan A. Joy | 64 | Executive Vice President and Assistant to the President | 45 | 2013 |
| Brent R. Repenning | 50 | Executive Vice President, U.S. Utility and Davey Resource Group | 27 | 2014 |
| Erika J. Schoenberger | 42 | Vice President, General Counsel and Secretary | 4 | 2018 |
| Thea R. Sears, CPA | 53 | Vice President and Controller | 28 | 2010 |
| James F. Stief | 67 | Executive Vice President, U.S. Residential Operations | 43 | 2010 |

Mr. Covey was appointed Chairman effective March 6, 2020, Chief Executive Officer effective July 21, 2017 and served as President and Chief Operating Officer since March 4, 2016 and as a Director since May 20, 2014. He previously served as President and Chief Operating Officer, U.S. Operations, having been appointed in April 2014, and as Chief Operating Officer, U.S. Operations, having been appointed in February 2012. Prior to that time, Mr. Covey served as Executive Vice President, having been appointed in January 2007, Vice President and General Manager of the Davey Resource Group, having been appointed in March 2005, and Vice President, Southern Operations, Utility Services, having been appointed in January 2003. Previously, having joined Davey Tree in August 1991, Mr. Covey held various managerial positions, including Manager of Systems and Process Management and Administrative Manager, Utility Services.

Mr. Paul was elected Executive Vice President, Chief Financial Officer and Secretary effective March 4, 2016 and has served as Assistant Secretary since May 19, 2021. Mr. Paul previously served as Executive Vice President, Chief Financial Officer and Secretary effective March 4, 2016. Mr. Paul previously served as Chief Financial Officer and Secretary, having been appointed in March 2013. Prior to that time, he served as Vice President and Treasurer, having been appointed in May 2011. Mr. Paul joined Davey Tree as Treasurer in December 2005.

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

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

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

Mr. Joy was elected Executive Vice President and Assistant to the President effective May 3, 2021, having previously served as Executive Vice President and General Manager, Commercial Landscape Services and Operations Support Services, effective August 15, 2014. Mr. Joy previously served as Executive Vice President and General Manager, Commercial Landscape Services, having been appointed in May 2014. Prior to that time, he served as Vice President and General Manager, Commercial Landscape Services, having been appointed in May 2013, and Vice President, Commercial Landscape Services, having been appointed in December 2004. Previously, having joined Davey Tree in 1976, Mr. Joy held various managerial positions, including Operations Manager, District Manager and Assistant District Manager.

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

Ms. Schoenberger was elected Assistant Secretary in September 2018, having joined the Company in August 2018 as Vice President and General Counsel. Ms. Schoenberger has served as Secretary since May 19, 2021. Prior to joining Davey Tree, Ms. Schoenberger served as General Counsel, Corporate Secretary and Senior Vice President at the Oneida Group, Inc., a global marketer of tabletop and food preparation products from September 2013 until she joined the Company. Prior to that, she was a Partner at Frost Brown Todd, LLC, a national full service law firm.

Ms. Sears was elected Vice President effective September 18, 2017 having served as Controller since September 16, 2016 and prior to that, served as Assistant Controller, having been appointed in May 2010. Prior to that time, she served as Manager of Financial Accounting, having been appointed in April 1998, and as Supervisor of Financial Accounting, having been appointed in September 1995. Having joined Davey Tree in 1993, Ms. Sears has held a variety of roles in financial reporting, managerial reporting and operations accounting.

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

joined Davey Tree in 1978, Mr. Stief held various managerial positions, including Operations Manager and District Manager. As previously announced, Mr. Stief intends to retire on or about April 29, 2022. Mr. Joseph E. Day, currently Vice President and General Manager, Western Operations, U.S. Residential/Commercial Services, has been chosen to succeed Mr. Stief upon his scheduled retirement date.

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

PART II

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

Our common shares are not listed or traded on an established public trading market and market prices are, therefore, not available. Semiannually, for purposes of the Davey 401KSOP and ESOP, 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 N). These purchases are added to our treasury stock.

The following table sets forth, for the periods indicated, the high and low common share price (in dollars) and the cash dividends declared per common share (in cents). The numbers in the following table have been adjusted for a two-for-one stock split, effected in the form of a 100% stock dividend paid on October 15, 2021 to shareholders of record at the close of business on October 1, 2021.

| | Common Stock Price Range | | Cash Dividends Declared (in cents) |
|--|--------------------------|----------|------------------------------------|
| | High | Low | |
| Fiscal Year 2021 | | | |
| First quarter ended April 3, 2021 | \$ 15.00 | \$ 12.45 | 1.25 |
| Second quarter ended July 3, 2021 | 15.00 | 15.00 | 1.50 |
| Third quarter ended October 2, 2021 | 16.40 | 15.00 | 1.50 |
| Fourth quarter ended December 31, 2021 | 16.40 | 16.40 | 1.75 |
| Fiscal Year 2020 | | | |
| First quarter ended March 28, 2020 | 12.10 | 11.30 | 1.25 |
| Second quarter ended June 27, 2020 | 12.10 | 12.10 | 1.25 |
| Third quarter ended September 26, 2020 | 12.45 | 12.10 | 1.25 |
| Fourth quarter ended December 31, 2020 | 12.45 | 12.45 | 1.25 |

On December 4, 2020, our Board of Directors approved a change to our dividend policy. Under the revised dividend policy, on an annual basis, we will now target a dividend yield in the range of .4% to .5%. The Board will evaluate the dividend on a semiannual basis in

conjunction with our independent stock valuation and if the current annual dividend is less than .4% of our current stock price, the Board intends to increase the quarterly cash dividend.

The declaration of future cash dividends will be subject to the Board's final determination based on a number of factors, including our financial performance and available cash resources, the terms of our indebtedness, our cash requirements and alternative uses of cash that the Board may conclude would represent an opportunity to generate a greater return on investment for us. The dividend policy may be revised, suspended or cancelled at the discretion of the Board at any time.

Record Holders

On March 4, 2022, we had 4,480 record holders of our common shares.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities

The following table provides information on purchases made by the Company of our common shares during the fiscal year ended December 31, 2021. The numbers in the following table, as well as the number of shares authorized for repurchase, as described below, have been adjusted for a two-for-one stock split, effected in the form of a 100% stock dividend paid on October 15, 2021 to shareholders of record at the close of business on October 1, 2021.

| Period | Total Number of Shares Purchased ⁽¹⁾ | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------------------|---|------------------------------|--|--|
| Fiscal 2021 | | | | |
| January 1 to January 30 | 3,162 | \$ 12.45 | — | 1,381,920 |
| January 31 to February 27 | 340 | 12.45 | — | 1,381,920 |
| February 28 to April 3 | 246,842 | 15.00 | — | 1,381,920 |
| Total First Quarter | 250,344 | 14.96 | — | |
| April 4 to May 1 | 519,438 | 15.00 | — | 1,381,920 |
| May 2 to May 29 | 544,434 | 15.00 | — | 1,381,920 |
| May 30 to July 3 | 505,996 | 15.00 | 353,874 | 1,028,046 |
| Total Second Quarter | 1,569,868 | 15.00 | 353,874 | |
| July 4 to July 31 | — | 16.40 | — | 1,028,046 |
| August 1 to August 28 | 242,088 | 16.40 | — | 1,028,046 |
| August 29 to October 2 | 321,708 | 16.40 | 131,418 | 3,896,628 |
| Total Third Quarter | 563,796 | 16.40 | 131,418 | |
| October 3 to October 30 | 105,832 | 16.40 | — | 3,896,628 |
| October 31 to December 4 | 541,940 | 16.40 | — | 3,896,628 |
| December 5 to December 31 | 228,163 | 16.40 | 50,777 | 3,845,851 |
| Total Fourth Quarter | 875,935 | 16.40 | 50,777 | |
| Total | 3,259,943 | \$ 15.62 | 536,069 | |

⁽¹⁾ During the year ended December 31, 2021, the Company purchased 2,723,874 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).

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.

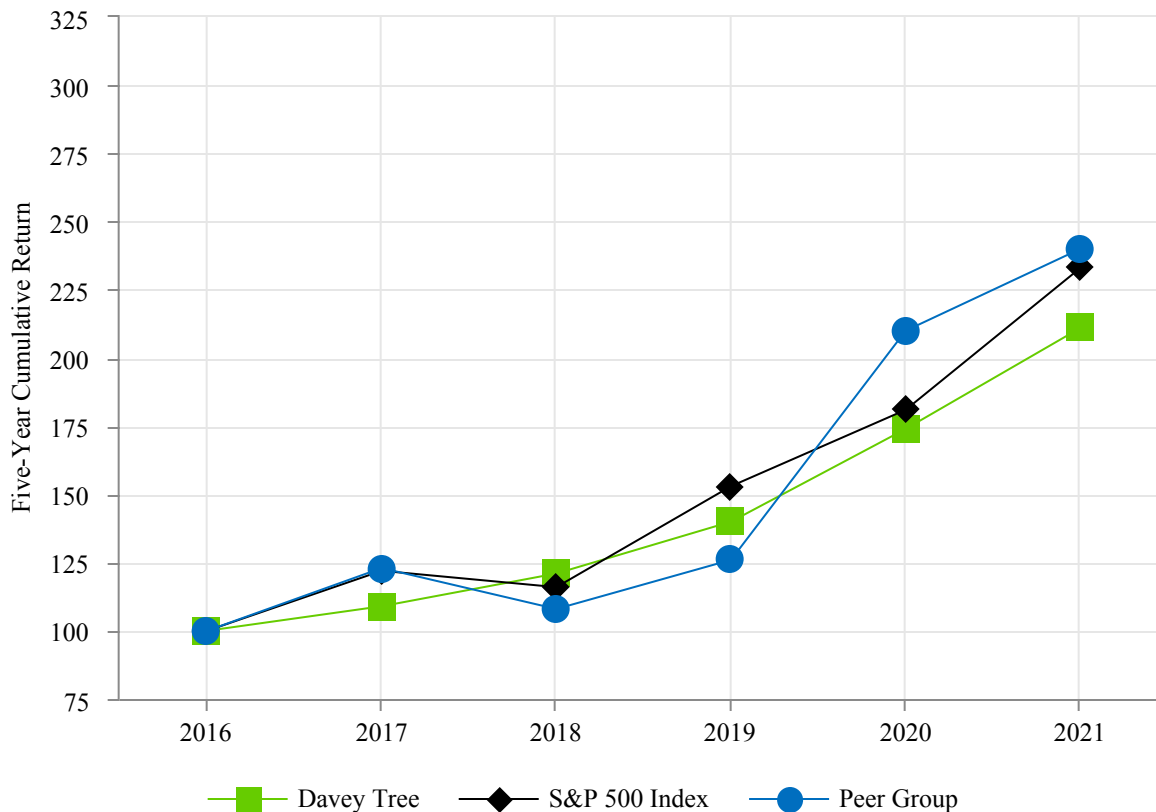
In accordance with the amendments to the Articles approved by the Company's shareholders at the 2017 Annual Meeting on May 17, 2017, the Company's Board of Directors authorized the Company to repurchase up to 400,000 common shares, which authorization was increased by an additional 2,000,000 common shares 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 December 31, 2021. Share repurchases may be made from time to time and the timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors. The Company is not obligated to purchase any shares, and repurchases may be commenced, suspended or discontinued from time to time without prior notice. The repurchase program does not have an expiration date.

Stock Performance Graph

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

The following Performance Graph compares cumulative total shareholder returns (assuming an initial investment of \$100 on December 31, 2016 and reinvestment of dividends) for The Davey Tree Expert Company common shares during the last five years to the Standard & Poor's 500 Stock Index (the "S&P 500 Index") and to an index of selected peer group companies. The peer group, which is the same group used by Davey's independent stock valuation firm, consists of: ABM Industries Incorporated; Comfort Systems USA, Inc.; Dycom Industries, Inc.; FirstService Corporation; MYR Group, Inc.; Quanta Services, Inc.; Rollins, Inc.; and Scotts Miracle-Gro Company. The peer group are all publicly held companies deemed to be engaged in similar lines of business.

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



| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------|------|------|------|------|------|------|
| Davey Tree | 100 | 109 | 121 | 140 | 174 | 211 |
| S&P 500 Index | 100 | 122 | 116 | 153 | 181 | 233 |
| Peer Group | 100 | 123 | 108 | 126 | 210 | 240 |

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

Item 6. *Reserved.*

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

(Amounts in thousands, except share data)

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

- Overview of 2021 Results;
- Results of Operations, including fiscal 2021 compared to fiscal 2020;
- Liquidity and Capital Resources, including cash flow summary, contractual obligations summary, off-balance sheet arrangements, and capital resources;
- Recent Accounting Guidance;
- Critical Accounting Policies and Estimates; and
- Market Risk Information, including interest rate risk and foreign currency exchange rate risk.

OVERVIEW OF 2021 RESULTS

General

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

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

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

Utility--Utility is principally engaged in providing services to our utility customers--investor-owned, municipal utilities, and rural electric cooperatives--including: the practice of line-clearing and vegetation management around power lines 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

While the coronavirus ("COVID-19") pandemic did not have a material adverse effect on our reported results for the year ended December 31, 2021, 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. Where possible, we have transitioned our employees to work from home. Beginning in the

second quarter 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. We have implemented measures to ensure social distancing when providing services to our customers, including providing personal protective equipment and limiting contact within vehicles. We have also provided additional administrative leave for employees affected by COVID-19 directly or indirectly and converted our 2021 Annual Meeting of Shareholders to a virtual-only format. During 2021, we incurred expenses of \$1,493 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.

RESULTS OF OPERATIONS

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

| | Year Ended December 31, | | | Percentage Change | |
|-----------------------------------|-------------------------|---------|---------|-------------------|-----------|
| | 2021 | 2020 | 2019 | 2021/2020 | 2020/2019 |
| Revenues | 100.0 % | 100.0 % | 100.0 % | 7.0% | 12.6 % |
| Costs and expenses: | | | | | |
| Operating | 64.3 | 63.8 | 63.8 | 7.4 | 12.8 |
| Selling | 17.6 | 17.7 | 18.3 | 6.6 | 8.7 |
| General and administrative | 7.2 | 7.0 | 6.7 | 11.5 | 16.7 |
| Depreciation | 3.8 | 4.2 | 5.0 | (1.8) | (5.9) |
| Amortization of intangible assets | .2 | .2 | .2 | 7.7 | 11.1 |
| Gain on sale of assets, net | (.4) | (.3) | (.2) | 57.9 | 74.3 |
| | 92.7 | 92.7 | 93.9 | 7.0 | 11.1 |
| Income from operations | 7.3 | 7.3 | 6.1 | 7.5 | 34.7 |
| Other income (expense): | | | | | |
| Interest expense | (.4) | (.5) | (.7) | (27.9) | (19.0) |
| Interest income | — | .2 | — | nm | nm |
| Other | (.5) | (.4) | (.7) | 26.4 | (31.5) |
| Income before income taxes | 6.5 | 6.5 | 4.7 | 6.6 | 56.3 |
| Income taxes | 1.7 | 1.8 | 1.1 | 3.5 | 81.7 |
| Net income | 4.8 % | 4.7 % | 3.6 % | 7.8 % | 48.4 % |

nm--not meaningful

Fiscal 2021 Compared to Fiscal 2020

A comparison of our fiscal year 2021 results to 2020 follows:

| | Year Ended December 31, | | | |
|-----------------------------------|-------------------------|------------------|-----------------|--------------|
| | 2021 | 2020 | Change | % Change |
| Revenues | \$ 1,378,053 | \$ 1,287,552 | \$ 90,501 | 7.0 % |
| Costs and expenses: | | | | |
| Operating | 884,232 | 823,297 | 60,935 | 7.4 |
| Selling | 242,453 | 227,392 | 15,061 | 6.6 |
| General and administrative | 99,784 | 89,528 | 10,256 | 11.5 |
| Depreciation | 52,927 | 53,888 | (961) | (1.8) |
| Amortization of intangible assets | 3,044 | 2,827 | 217 | 7.7 |
| Gain on sale of assets, net | (5,653) | (3,581) | (2,072) | 57.9 |
| | 1,276,787 | 1,193,351 | 83,436 | 7.0 |
| Income from operations | 101,266 | 94,201 | 7,065 | 7.5 |
| Other income (expense): | | | | |
| Interest expense | (4,973) | (6,899) | 1,926 | (27.9) |
| Interest income | 175 | 2,135 | (1,960) | nm |
| Other | (7,021) | (5,555) | (1,466) | 26.4 |
| Income before income taxes | 89,447 | 83,882 | 5,565 | 6.6 |
| Income taxes | 23,748 | 22,945 | 803 | 3.5 |
| Net income | <u>\$ 65,699</u> | <u>\$ 60,937</u> | <u>\$ 4,762</u> | <u>7.8 %</u> |

nm--not meaningful

Revenues--Revenues of \$1,378,053 increased \$90,501 compared with the \$1,287,552 reported in 2020. Utility increased \$25,954, or 3.5%, from the prior year. The increase was primarily attributable to additional revenues from increased work year-over-year on existing accounts, rate increases and new accounts. Residential and Commercial increased \$65,309, or 12.0%, from 2020. Increases, primarily in tree surgery, plant care, grounds maintenance and consulting services, were partially offset by decreases in storm damage services. In 2020, while our Residential and Commercial Services segment work was deemed essential services in most states, we experienced temporary shutdowns or work restrictions related to COVID-19 in a few states and certain Canadian provinces.

Operating Expenses--Operating expenses of \$884,232 increased \$60,935 from the prior year, and as a percentage of revenues increased to 64.3% from 63.8%. Utility experienced an increase of \$24,113, or 4.6%, from 2020, and as a percentage of revenues increased to 72.1% from 71.4%. Increases in fuel expense, chemical and material expense, tool and parts expense and crew expenses were partially offset by decreases in subcontractor expense, equipment expense and disposal expense. Residential and Commercial increased \$38,878, or 13.9%, compared with 2020 and as a percentage of revenue increased to 52.0% from 51.2%. Increases were primarily in labor and employee benefits expense, materials expense, subcontractor expense, fuel expense and equipment expense.

Operating expenses for 2021 also included \$1,493 of expenses related directly to COVID-19, including \$558 for additional administrative leave offered to employees who have been unable to work due to COVID-19 imposed restrictions whether from the virus itself or government imposed restrictions or closures. In 2020, the Company had \$4,627 of expenses directly related to COVID-19.

Fuel costs increased in 2021 as compared with fuel costs for 2020 and impacted operating expenses within both segments. During 2021, fuel expense of \$41,877 increased \$9,918, or 31.0%, from the \$31,959 incurred in 2020. The \$9,918 increase included price increases approximating \$9,913 and usage increases approximating \$5.

Selling Expenses--Selling expenses of \$242,453 increased \$15,061 from 2020 but as a percentage of revenues decreased to 17.6% from 17.7%. Utility increased \$2,113, or 2.6%, from 2020 but as a percentage of revenue decreased to 10.9% from 11.0%. Increases were primarily in wages and incentive expense, travel expense and professional services expense. Residential and Commercial increased \$14,436, or 9.7%, from 2020 but as a percentage of revenue decreased to 26.8% from 27.3%. Increases were primarily in field management wages and incentive expense, office rent, travel expense and marketing expenses.

General and Administrative Expenses--General and administrative expenses of \$99,784, increased \$10,256 from 2020 and as a percentage of revenues increased to 7.2% from 7.0%. Increases were primarily in salary and incentive expense, travel expense, computer expense and professional service expenses.

Depreciation and Amortization Expense--Depreciation and amortization expense of \$55,971 decreased \$744 from the prior year and as a percentage of revenues decreased to 4.1% from 4.4%. The decrease was attributable to lower capital expenditures in recent years and an increased use of operating leases for equipment.

Gain on Sale of Assets--Gain on the sale of assets of \$5,653 increased \$2,072 from the \$3,581 recognized in 2020. The increase is the result of the sale of vehicles and equipment at a higher average gain per unit in 2021 as compared with our average gain in 2020.

Interest Expense--Interest expense of \$4,973 decreased \$1,926 from the \$6,899 incurred in 2020. The decrease is attributable to lower average debt levels and borrowing rates necessary to fund operations and capital expenditures.

Interest Income--Interest income of \$175 decreased \$1,960 from the \$2,135 of interest income in 2020. The decrease is attributable to interest on PG&E pre-petition receivables which was approved by the United States Bankruptcy Court and received during the third and fourth quarter of 2020.

Other, Net--Other, net of \$7,021 increased \$1,466 from the \$5,555 experienced in 2020. Other, net, consisted of nonoperating income and expense, including pension expense and foreign currency gains/losses on the intercompany account balances of our Canadian operations.

Income Taxes--Income taxes for 2021 were \$23,748, an effective tax rate of 26.6%, compared with income taxes for 2020 of \$22,945, or an effective tax rate of 27.4%. The decrease of 0.8% in the effective tax rate as compared to 2020 relates primarily to the variance in the exercise of equity awards, which were significantly greater in 2021 as compared to 2020, resulting in a larger tax benefit in 2021 and favorable discrete items related to the release of reserves for uncertain tax positions.

Net Income--Net income of \$65,699 was \$4,762 more than the \$60,937 earned in 2020.

Fiscal 2020 Compared to Fiscal 2019

A detailed discussion of the prior year 2020 to 2019 year-over-year changes has been omitted from this Form 10-K and can be found in Part II, Item 7. Management's Discussion and Analysis, in the [2020 Annual Report on Form 10-K filed with the SEC on March 8, 2021](#); which specific discussion is incorporated herein by reference.

Goodwill—Impairment Tests

Annually, we perform the impairment tests for goodwill during the fourth quarter. Impairment of goodwill is tested at the reporting-unit level, which for us are also our business segments. Impairment of goodwill is tested by comparing the reporting unit's carrying value, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using discounted projected cash flows. If the carrying value of the reporting unit exceeds its fair value, goodwill is considered impaired and an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the carrying value of the goodwill allocated to that reporting unit. We conducted our annual impairment tests and determined that no impairment loss was required to be recognized in 2021 or for any prior periods. There were no events or circumstances from the date of our assessment through December 31, 2021 that would impact this conclusion.

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

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

The carrying value of the recorded goodwill for all reporting units totaled approximately \$55,980 at December 31, 2021. Based upon the goodwill impairment analysis conducted in the fourth quarter 2021, the determined fair value of the reporting units exceeded their carrying value by more than a significant amount.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flow Summary

Our cash flows from operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flow for the years ended December 31, 2021 and December 31, 2020, are summarized as follows:

| | 2021 | 2020 |
|---|-----------------|-----------------|
| Cash provided by (used in): | | |
| Operating activities | \$ 75,969 | \$ 152,081 |
| Investing activities | (87,178) | (54,928) |
| Financing activities | 14,443 | (92,059) |
| Effect of exchange rate changes on cash | 25 | 107 |
| Increase in cash | <u>\$ 3,259</u> | <u>\$ 5,201</u> |

Net Cash Provided by Operating Activities--Operating activities in 2021 provided cash of \$75,969 as compared to \$152,081 provided in 2020. The \$76,112 net decrease was primarily attributable to (i) an increase of \$3,088 in the change in self-insurance accruals, (ii) a \$78,926 difference in the change in accounts payable and accrued expenses, and (iii) a \$3,487 increase in the change in accounts receivable.

Overall, accounts receivable increased \$24,853 in 2021 as compared to the increase of \$21,366 experienced in 2020. The increase in 2021 was attributable to the timing of payments from Utility segment customers. With respect to the change in accounts receivable arising from business levels, the "days-sales-outstanding" in accounts receivable ("DSO") at the end of 2021 increased by five days to 72 days, as compared to 2020. The DSO at December 31, 2020 was 67 days. We use DSO to monitor trends in customer payment patterns and collection efforts.

Accounts payable and accrued expenses decreased \$26,349 in 2021, a \$78,926 change from the increase of \$52,577 experienced in 2020. The change was primarily attributable to decreases in payroll taxes payable, income taxes payables, and employee compensation accruals. The decrease in payroll taxes payable was attributable to the deferral of \$23,023 for certain federal payroll taxes under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act in 2020 and the partial repayment of \$10,453 of those payroll taxes in 2021. Income taxes payable was impacted by the increase in net income and the timing of estimated payments. Employee compensation accruals increased by a greater amount in 2020 than in 2021.

Self-insurance accruals increased \$16,685 in 2021, a change of \$3,088 compared to the increase of \$13,597 experienced in 2020. The increase occurred within our workers compensation and general liability classifications and resulted primarily from an overall increase in deductible amounts under commercial insurance or the self-insured risk retention.

Net Cash Used in Investing Activities--Investing activities used \$87,178 in cash, \$32,250 more than the \$54,928 used in 2020. The increase was primarily attributable to an increase in expenditures for equipment, land and building and business acquisitions.

Net Cash Used in Financing Activities--Financing activities provided \$14,443 in cash in 2021, \$106,502 more than the \$92,059 of cash used in 2020. Our borrowing on our revolving credit facility was \$46,119 in 2021 as compared with the \$62,000 paid during 2020. We use the revolving credit facility primarily for capital expenditures and payments of notes payable, primarily related to acquisitions. Proceeds from notes payable totaled \$235,083 and payments of notes payable totaled \$235,087 during 2021. Purchases of common shares for treasury of \$50,946 were partially offset by net cash received of \$25,520 from the sale of common shares. Dividends paid during 2021 totaled \$2,898.

The Company currently repurchases common shares at the shareholders' request in accordance with the terms of the Davey 401KSOP and ESOP Plan and also repurchases common shares from time to time at the Company's discretion. The amount of common shares offered to the Company for repurchase by the holders of shares distributed from the Davey 401KSOP and ESOP Plan is not within the control of the Company, but is at the discretion of the shareholders. The Company expects to continue to repurchase its common shares, as offered by its shareholders from time to time, at their then current fair value. However, other than for repurchases pursuant to the put option under the Davey 401KSOP and ESOP Plan, as described in Note N, such purchases are not required, and the Company retains the right to discontinue them at any time. Repurchases of redeemable common shares from the Davey 401KSOP and ESOP at the shareholders' request approximated \$11,814 and \$8,206 in 2021 and 2020, respectively. Purchases of common shares, other than redeemable common shares, approximated \$39,132 and \$30,873 in 2021 and 2020, respectively.

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 December 31, 2021, we had unused commitments under the revolving credit facility approximating \$275,291 and \$49,709 committed, which consisted of \$46,832 borrowings and issued letters of credit of \$2,877. Borrowings outstanding bear interest, at the Company's option, of either (a) the base rate or (b) LIBOR plus a margin adjustment ranging from .875% to 1.50%--with the margin adjustments 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.

As of December 31, 2021, we were in compliance with all financial covenants under the revolving credit facility.

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 of \$10,000 commence on September 21, 2024 (the sixth anniversary of issuance). The Note Purchase and Shelf Agreement contains customary events of default and covenants related to limitations on indebtedness and transactions with affiliates and the maintenance of certain financial ratios. The Company may prepay at any time all, or from time to time any part of, the outstanding principal amount of the 3.99% Senior Notes, subject to the payment of a make-whole amount.

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.

As of December 31, 2021, we were in compliance with all financial covenants contained in our senior notes.

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

Accounts Receivable Securitization Facility--In May 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.

The AR Securitization program has a limit of \$100,000, of which \$83,355 was issued for LCs as of both December 31, 2021 and December 31, 2020.

Under the AR Securitization program, Davey Tree transfers by selling or contributing current and future trade receivables to a wholly-owned, bankruptcy-remote financing subsidiary which pledges a perfected first priority security interest in the trade receivables--equal to the issued LCs as of December 31, 2021--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.

Contractual Obligations Summary

The following is a summary of our long-term contractual obligations, at December 31, 2021, to make future payments for the periods indicated:

| Description | Total | Contractual Obligations Due -- Year Ending December 31, | | | | | |
|-----------------------------|-------------------|---|------------------|------------------|------------------|------------------|------------------|
| | | 2022 | 2023 | 2024 | 2025 | 2026 | Thereafter |
| Senior unsecured notes | \$ 89,975 | \$ 2,995 | \$ 2,995 | \$ 17,995 | \$ 17,396 | \$ 16,797 | \$ 31,797 |
| Term loans | 25,536 | 23,066 | 1,608 | 862 | — | — | — |
| Financing lease obligations | 11,674 | 2,661 | 2,451 | 2,330 | 1,811 | 1,602 | 819 |
| Operating lease obligations | 90,078 | 30,313 | 22,979 | 16,084 | 11,182 | 4,590 | 4,930 |
| Self-insurance accruals | 125,966 | 48,867 | 28,728 | 16,462 | 9,744 | 5,604 | 16,561 |
| Purchase obligations | 27,290 | 27,290 | — | — | — | — | — |
| Other liabilities | 11,583 | 1,347 | 2,444 | 2,975 | 1,879 | 1,078 | 1,860 |
| | <u>\$ 428,934</u> | <u>\$ 136,539</u> | <u>\$ 61,205</u> | <u>\$ 56,708</u> | <u>\$ 42,012</u> | <u>\$ 76,503</u> | <u>\$ 55,967</u> |

The self-insurance accruals in the summary above reflect the total of the undiscounted amount accrued, for which amounts estimated to be due each year may differ from actual payments required to fund claims. Purchase obligations in the summary above represent open purchase-order amounts that we anticipate will become payable within the next year for goods and services we have negotiated for delivery as of December 31, 2021. Other liabilities include estimates of future expected funding requirements related to retirement plans and other sundry items. Because their future cash outflows are uncertain, accrued income tax liabilities for uncertain tax positions, as of December 31, 2021, have not been included in the summary above. Noncurrent deferred taxes are also not included in the summary.

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. As of December 31, 2020, total commitments related to issued letters of credit were \$88,242, of which \$2,877 were issued under the revolving credit facility, \$83,355 were issued under the AR Securitization program, and \$2,010 were issued under short-term lines of credit.

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

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

Capital Resources

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

Cash of \$19,460 as of December 31, 2021 included \$17,442 in the U.S. and \$2,018 in Canada, all of which is subject to U.S. federal income taxes and Canadian taxes if repatriated to the U.S. Currently, we do not expect to repatriate any portion of our 2021 Canadian earnings to satisfy our 2022 U.S. based cash flow needs.

Business seasonality results in higher revenues during the second and third quarters as compared with the first and fourth quarters of the year, while our methods of accounting for fixed costs, such as depreciation and interest expense, are not significantly impacted by business seasonality. Capital resources during these periods are equally affected. We satisfy seasonal working capital needs and other financing requirements with the revolving credit facility and several other short-term lines of credit. We are continually reviewing our existing

sources of financing and evaluating alternatives. At December 31, 2021, we had working capital of \$127,279, unused short-term lines of credit approximating \$9,051, and \$275,291 available under our revolving credit facility.

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

RECENT ACCOUNTING GUIDANCE

See [Note C](#) - Recent Accounting Guidance for a discussion of our recent accounting guidance.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

On an ongoing basis, we evaluate our estimates and assumptions, including those related to accounts receivable, specifically those receivables under contractual arrangements primarily arising from Utility customers; allowance for 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.

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

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

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

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

Our self-insurance accruals include claims for which the ultimate losses will develop over a period of years. Estimating ultimate losses of reported and unreported claims is subject to a high degree of variability as it involves complex estimates that are generally derived

using a variety of actuarial estimation techniques and numerous assumptions and expectations about future events, many of which are highly uncertain. Accordingly, our estimates of ultimate losses can change as claims mature. Our accruals also are affected by changes in the number of new claims incurred and claim severity. The methods for estimating the ultimate losses and the total cost of claims were determined by third-party consulting actuaries; the resulting accruals are reviewed by management, and any adjustments arising from changes in estimates are reflected in income.

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

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

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

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

MARKET RISK INFORMATION

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

Interest Rate Risk

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

The following table provides information, as of December 31, 2021, about our debt obligations, including principal cash flows, weighted-average interest rates by expected maturity dates and fair values. Weighted-average interest rates used for variable-rate obligations are based on rates as derived from published spot rates, in effect as of December 31, 2021.

| | Expected Maturity Date | | | | | | Total | Fair Value December 31, 2021 |
|-----------------------|------------------------|----------|-----------|-----------|-----------|------------|------------|------------------------------------|
| | 2022 | 2023 | 2024 | 2025 | 2026 | Thereafter | | |
| Liabilities | | | | | | | | |
| Long-term debt: | | | | | | | | |
| Fixed rate | \$ 22,809 | \$ 1,477 | \$ 15,896 | \$ 15,000 | \$ 15,000 | \$ 30,000 | \$ 100,182 | \$ 103,673 |
| Average interest rate | 1.9 % | 4.3 % | 4.0 % | 4.0 % | 4.0 % | 4.0 % | | |
| Variable rate | \$ — | \$ — | \$ — | \$ — | \$ 46,832 | \$ — | \$ 46,832 | \$ 46,832 |
| Average interest rate | — % | — % | — % | — % | 1.0 % | — % | | |

The interest rate on the variable-rate debt, as of December 31, 2021, was 1.0%.

Foreign Currency Exchange Rate Risk

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

For the year ended December 31, 2021, the result of a hypothetical 10% uniform change in the value of the U.S. dollar as compared with the Canadian dollar would not have a material effect on our results of operations or our financial position. Our sensitivity analysis of the effect of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices. Presently, we do not engage in hedging activities related to our foreign currency exchange rate risk.

Commodity Price Risk

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

Impact of Inflation

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

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

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

Item 8. *Financial Statements and Supplementary Data.*

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

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

None.

Item 9A. *Controls and Procedures.*

Management's Evaluation of Disclosure Controls and Procedures

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

Management's Annual Report on Internal Control over Financial Reporting

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

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

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

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation as of December 31, 2021, as to the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway

Commission. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2021.

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

/s/ Patrick M. Covey

Patrick M. Covey

Chairman, President and Chief Executive Officer

/s/ Joseph R. Paul

Joseph R. Paul

Executive Vice President, Chief Financial Officer and Assistant Secretary

/s/ Thea R. Sears

Thea R. Sears

Vice President and Controller

Kent, Ohio

March 11, 2022

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The Company is in the midst of a multi-year transformation project to achieve better analytics, customer service and process efficiencies through the implementation of SAP S/4Hana, a cloud-based Enterprise Resource Planning system. The initial phase to implement the human resource and payroll process was deployed during the fourth quarter of 2021. Additional phases will continue over the next several years. Emphasis has been on the maintenance of effective internal controls and assessment of the design and operating effectiveness of key control activities throughout the development and deployment of each phase. With the exception of the human resource and payroll process phase implementation described, there were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) through the fourth quarter of fiscal 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company will continue to evaluate additional deployments.

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of The Davey Tree Expert Company (the “Company”) as of December 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2021, of the Company and our report dated March 11, 2022, expressed an unqualified opinion on those financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte & Touche LLP

Cleveland, Ohio
March 11, 2022

Item 9B. *Other Information.*

None.

Item 9C. *Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.*

Not Applicable.

PART III

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

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

Information about our directors will be included in the sections "Proposal One-Election of Directors" and "Corporate Governance-Board Independence" of our 2022 Proxy Statement, which is incorporated into this report by reference.

Information about our audit committee and our audit committee financial expert will be included in the sections "Corporate Governance-Audit Committee" and "Corporate Governance-Committees of the Board of Directors" of our 2022 Proxy Statement, which are incorporated into this report by reference.

Information required by Item 405 of Regulation S-K will be included in the section "Ownership of Common Shares-Delinquent Section 16(a) Reports" of our 2022 Proxy Statement, which is incorporated into this report by reference. See also the section titled "Corporate Governance-Shareholder Nominations for Director," which is incorporated into this report by reference.

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

Item 11. *Executive Compensation.*

Information about executive and director compensation will be included in the sections "Compensation Discussion and Analysis," "Report of the Compensation Committee," "Compensation Risk Analysis," "Compensation of Named Executive Officers," "2021 Director Compensation", and "Corporate Governance-Compensation Committee Interlocks and Insider Participation" of our 2022 Proxy Statement, which are incorporated into this report by reference.

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

Information about ownership of our common shares by certain persons will be included in the section "Ownership of Common Shares" of our 2022 Proxy Statement, which is incorporated into this report by reference. Information about our securities authorized for issuance under equity compensation plans will be included in the section "Compensation of Named Executive Officers-Equity Compensation Plan Information" of our 2022 Proxy Statement, which is incorporated into this report by reference.

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

Information about certain transactions between us and our affiliates and certain other persons and the independence of directors will be included in the sections "Corporate Governance-Board Independence" and "Corporate Governance-Transactions with Related Persons, Promoters and Certain Control Persons" of our 2022 Proxy Statement, which are incorporated into this report by reference.

Item 14. *Principal Accountant Fees and Services.*

Information about our principal accountant's fees and services is in the section "Proposal 2 - Ratification of the Appointment of the Independent Registered Public Accounting Firm-Fees and Other Matters" of our 2022 Proxy Statement, which is incorporated into this report by reference.

PART IV

Item 15. *Exhibits and Financial Statement Schedules.*

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

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

(b) Exhibits.

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

Item 16. *Form 10-K Summary.*

None.

EXHIBIT INDEX

| Exhibit No. | Description | |
|------------------------|--|----------------|
| 3.1 | 2017 Amended Articles of Incorporation of the Davey Tree Expert Company (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2017). | |
| 3.2 | Certificate of Amendment to the 2017 Amended Articles of Incorporation, dated as of September 20, 2021 (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 21, 2021). | |
| 3.3 | 2017 Amended and Restated Regulations of the Davey Tree Expert Company (Incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2017). | |
| 4.1 | Description of The Davey Tree Expert Company's Registered Securities. | Filed Herewith |
| 10.1 * | Agreement, effective as of July 22, 2017, between The Davey Tree Expert Company and Karl J. Warnke (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017). | |
| 10.2 | Fourth Amended and Restated Credit Agreement, dated as of August 18, 2021, by and among The Davey Tree Expert Company, as borrower, various lending institutions party thereto, as banks, KeyBank National Association, as lead arranger, syndication agent and administrative agent, and PNC Bank, National Association and Wells Fargo Bank, N.A., as co-documentation agents (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 12, 2021). | |
| 10.3 * | 2004 Omnibus Stock Plan (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004). | |
| 10.4 * | 401KSOP Match Restoration Plan (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004). | |
| 10.5 * | First Amendment to The Davey Tree Expert Company 401KSOP Match Restoration Plan, dated December 7, 2007 (Incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018). | |
| 10.6 * | Second Amendment to The Davey Tree Expert Company 401KSOP Match Restoration Plan, effective January 1, 2017 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 9, 2017). | |
| 10.7 * | Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004). | |

EXHIBIT INDEX

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

EXHIBIT INDEX

| Exhibit No. | Description |
|------------------------------|--|
| <u>10.17</u> | <u>Receivables Financing Agreement Amendment No. 5, dated January 24, 2019, by and among The Davey Tree Expert Company, Davey Receivables LLC, and PNC Bank, National Association (Incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018).</u> |
| <u>10.18</u> | <u>Receivables Financing Agreement Amendment No. 6, dated April 23, 2019, by and among The Davey Tree Expert Company, Davey Receivables LLC and PNC Bank, National Association (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2019).</u> |
| <u>10.19</u> | <u>Receivables Financing Agreement Amendment No. 7, dated May 21, 2019, by and among The Davey Tree Expert Company, Davey Receivables LLC and PNC Bank, National Association (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2019).</u> |
| <u>10.20</u> | <u>Receivables Financing Receivables Financing Agreement Amendment No. 8, dated May 19, 2020, by and among The Davey Tree Expert Company, Davey Receivables LLC and PNC Bank, National Association (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 21, 2020).</u> |
| <u>10.21</u> | <u>Receivables Financing Agreement Amendment No. 9, dated May 18, 2021, by and among The Davey Tree Expert Company, Davey Receivables LLC and PNC Bank, National Association (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2021).</u> |
| <u>10.22</u> | <u>Receivables Purchase Agreement, dated May 9, 2016, among The Davey Tree Expert Company, Davey Tree Surgery Company, and Davey Receivables LLC (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 11, 2016).</u> |
| <u>10.23</u> | <u>Joinder Agreement, dated May 7, 2018, by and among Davey Receivables LLC, and PNC Bank, National Association, to the Receivables Purchase Agreement, dated May 9, 2016 (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 8, 2018).</u> |
| <u>10.24</u> | <u>Note Purchase and Private Shelf Agreement, dated September 21, 2018, by and among PGIM, Inc., each of the Purchasers thereto, and The Davey Tree Expert Company (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 27, 2018).</u> |

EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------------------|---|
| <u>10.25</u> | <u>Amendment No. 1 to Note Purchase and Private Shelf Agreement, dated September 20, 2021, by and among PGIM, Inc., each of the Purchasers thereto, and The Davey Tree Expert Company (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 21, 2021).</u> |
| <u>10.26</u> * | <u>Form of 2014 Omnibus Stock Plan Non-Qualified Stock Option Agreement (Incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018).</u> |
| <u>10.27</u> * | <u>Form of 2014 Omnibus Stock Plan Performance Restricted Stock Unit Agreement (Incorporated by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018).</u> |
| <u>10.28</u> * | <u>The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (Incorporated by reference to Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).</u> |
| <u>10.29</u> * | <u>First Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (Incorporated by reference to Exhibit 99.2 to the Registrant's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).</u> |
| <u>10.30</u> * | <u>Second Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (Incorporated by reference to Exhibit 99.3 to the Registrant's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).</u> |
| <u>10.31</u> * | <u>Third Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (Incorporated by reference to Exhibit 99.4 to the Registrant's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).</u> |
| <u>10.32</u> * | <u>Fourth Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (Incorporated by reference to Exhibit 99.5 to the Registrant's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).</u> |
| <u>10.33</u> * | <u>Fifth Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (Incorporated by reference to Exhibit 99.6 to the Registrant's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).</u> |
| <u>10.34</u> * | <u>Sixth Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (Incorporated by reference to Exhibit 99.7 to the Registrant's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).</u> |

| Exhibit No. | Description | |
|-------------------------|--|--------------------|
| 10.35 * | Seventh Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (Incorporated by reference to Exhibit 99.8 to the Registrant's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021). | |
| 10.36 * | Eighth Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (Incorporated by reference to Exhibit 99.9 to the Registrant's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021). | |
| 10.37 * | Ninth Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (Incorporated by reference to Exhibit 99.10 to the Registrant's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021). | |
| 10.38 * | 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). | |
| 21 | Subsidiaries of the Registrant. | |
| 23.1 | Consent of Independent Registered Public Accounting Firm (Deloitte & Touche LLP). | Filed Herewith |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed Herewith |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed Herewith |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. | Furnished Herewith |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. | Furnished Herewith |
| 99.1 | Policy of Implementation of Certain Company Rights Under Article Sixth of the Amended Articles of Incorporation (Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 11, 2017). | |
| 101 | The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2021, formatted in iXBRL (inline eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document. | Filed Herewith |
| 104 | Cover Page Interactive Data File (embedded within the inline XBRL document) | Filed Herewith |

* Management contracts or compensatory plans or arrangements.

The Registrant is a party to certain instruments, copies of which will be furnished to the Securities and Exchange Commission upon request, defining the rights of holders of long-term debt under which, in each case, the total amount of securities authorized does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 11, 2022.

THE DAVEY TREE EXPERT COMPANY

/s/ Patrick M. Covey

Patrick M. Covey

Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 11, 2022.

/s/ Donald C. Brown

Donald C. Brown

Director

/s/ Catherine M. Kilbane

Catherine M. Kilbane

Director

/s/ Patrick M. Covey

Patrick M. Covey

*Director, Chairman, President and Chief Executive Officer
(Principal Executive Officer)*

/s/ Charles D. Stapleton

Charles D. Stapleton

Director

/s/ Alejandra Evans

Alejandra Evans

Director

/s/ Karl J. Warnke

Karl J. Warnke

Director

/s/ William J. Ginn

William J. Ginn

Director

/s/ Joseph R. Paul

Joseph R. Paul

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

/s/ Douglas K. Hall

Douglas K. Hall

Director

/s/ Thea R. Sears

Thea R. Sears

*Vice President and Controller
(Principal Accounting Officer)*

/s/ Thomas A. Haught

Thomas A. Haught

Director

ANNUAL REPORT ON FORM 10-K

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

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FINANCIAL STATEMENTS SCHEDULES

YEAR ENDED DECEMBER 31, 2021

THE DAVEY TREE EXPERT COMPANY

KENT, OHIO

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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

THE DAVEY TREE EXPERT COMPANY

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

Audited Consolidated Financial Statements:

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| Report of Independent Registered Public Accounting Firm (PCAOB ID No. 34) | F-2 |
| Consolidated Balance Sheets -- December 31, 2021 and 2020 | F-4 |
| Consolidated Statements of Operations -- Years ended December 31, 2021, 2020 and 2019 | F-5 |
| Consolidated Statements of Comprehensive Income -- Years ended December 31, 2021, 2020, and 2019 | F-6 |
| Consolidated Statements of Shareholders' Equity -- Years ended December 31, 2021, 2020 and 2019 | F-7 |
| Consolidated Statements of Cash Flows -- Years ended December 31, 2021, 2020 and 2019 | F-8 |
| Notes to Consolidated Financial Statements -- December 31, 2021 | |
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| D – Business Combinations | F-13 |
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| | |
| F – Supplemental Cash Flow Information | F-15 |
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| | |
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| | |
| O – Stock-Based Compensation | F-28 |
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Financial Statement Schedules:

None.

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

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of The Davey Tree Expert Company (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows, for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2022, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Self-Insurance Accruals — Refer to Notes B and J to the financial statements

Critical Audit Matter Description

The Company is generally self-insured for losses and liabilities related primarily to workers' compensation, vehicle liability, and general liability claims. The Company uses commercial insurance as a risk-reduction strategy to minimize catastrophic losses. Self-insurance accruals consist of the projected settlement value of reported and unreported claims. Ultimate losses are accrued based upon estimates of the aggregate liability for claims incurred using certain actuarial assumptions followed in the insurance industry and based on Company-specific experience. Self-insurance accruals as of December 31, 2021, were \$126 million.

We identified self-insurance accruals as a critical audit matter because estimating ultimate losses of reported and unreported claims is subject to a high degree of variability as it involves complex estimates that are generally derived using a variety of actuarial estimation techniques and numerous assumptions and expectations about future events, many of which are highly uncertain. Changes in claims incurred, claim severity, or other estimates and judgments used by management could have a material impact on the amount and timing of expense for any period.

Given the degree of subjectivity related to estimating self-insurance losses and liabilities, auditing these accruals required a higher degree of auditor judgment and an increased extent of effort, including the need to involve our actuarial specialists, when performing audit procedures to evaluate whether self-insurance accruals were appropriately recorded as of December 31, 2021.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the self-insurance accrual included the following, among others:

- We tested the effectiveness of controls related to the self-insurance accruals, including management's control over the projection of settlement value of reported and unreported claims.
- We evaluated the methods and assumptions used by management to understand the claims incurred in order to estimate the self-insurance accruals by:
 - Testing the underlying data that served as the basis for the actuarial analysis, including historical claims, to test that the inputs to the actuarial estimate were accurate and complete.
 - Comparing management's historical estimates to actual payments during the current year to identify potential bias in the determination of the self-insurance accruals.
- With the assistance of our actuarial specialists, we developed independent estimates of the self-insurance accruals using actuarial valuation methods and loss development factors derived from both the Company's own experience as well as insurance industry information. We used the results from each analysis to form a range of ultimate and unpaid losses and then compared our estimates to management's estimates.

/s/ Deloitte & Touche LLP

Cleveland, Ohio
March 11, 2022

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

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

| | December 31, | |
|--|---------------------|-------------------|
| | 2021 | 2020 |
| Assets | | |
| Current assets: | | |
| Cash | \$ 19,460 | \$ 16,201 |
| Accounts receivable, net | 278,280 | 252,921 |
| Operating supplies | 12,662 | 10,206 |
| Prepaid expenses | 30,911 | 24,956 |
| Other current assets | 6,942 | 778 |
| Total current assets | 348,255 | 305,062 |
| Property and equipment, net | 227,985 | 204,717 |
| Right-of-use assets - operating leases | 86,423 | 55,893 |
| Other assets | 42,665 | 29,756 |
| Intangible assets, net | 11,633 | 11,670 |
| Goodwill | 55,980 | 48,256 |
| Total assets | <u>\$ 772,941</u> | <u>\$ 655,354</u> |
| Liabilities and shareholders' equity | | |
| Current liabilities: | | |
| Current portion of long-term debt, finance lease liabilities and short-term debt | \$ 25,268 | \$ 21,813 |
| Current portion of operating lease liabilities | 28,682 | 19,124 |
| Accounts payable | 43,021 | 42,787 |
| Accrued expenses | 75,138 | 98,441 |
| Self-insurance accruals | 48,867 | 37,707 |
| Total current liabilities | 220,976 | 219,872 |
| Long-term debt | 48,552 | 2,101 |
| Senior unsecured notes | 74,979 | 74,967 |
| Lease liabilities - finance leases | 8,646 | 6,479 |
| Lease liabilities - operating leases | 57,335 | 36,612 |
| Self-insurance accruals | 77,099 | 71,573 |
| Other liabilities | 11,583 | 10,689 |
| Total liabilities | 499,170 | 422,293 |
| Commitments and contingencies (Note V) | | |
| Redeemable common shares related to 401KSOP and Employee Stock Ownership Plan (ESOP): 9,392 and 10,226 shares at redemption value as of December 31, 2021 and 2020* | 169,931 | 153,387 |
| Common shareholders' equity:* | | |
| Common shares, \$0.50 par value, per share; 96,000 shares authorized; 76,436 and 75,602 shares issued and outstanding before deducting treasury shares and which excludes 9,392 and 10,226 shares subject to redemption as of December 31, 2021 and 2020 | 38,379 | 37,801 |
| Additional paid-in capital | 135,897 | 110,069 |
| Retained earnings | 239,979 | 206,711 |
| Accumulated other comprehensive loss | (4,173) | (4,547) |
| | 410,082 | 350,034 |
| Less: Cost of Common shares held in treasury; 41,325 shares in 2021 and 40,187 in 2020 | 306,242 | 270,360 |
| Total common shareholders' equity | 103,840 | 79,674 |
| Total liabilities and shareholders' equity | <u>\$ 772,941</u> | <u>\$ 655,354</u> |

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

See notes to consolidated financial statements.

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

| | Year Ended December 31, | | |
|--|-------------------------|---------------------|---------------------|
| | 2021 | 2020 | 2019 |
| Revenues | \$ 1,378,053 | \$ 1,287,552 | \$ 1,143,720 |
| Costs and expenses: | | | |
| Operating | 884,232 | 823,297 | 730,096 |
| Selling | 242,453 | 227,392 | 209,148 |
| General and administrative | 99,784 | 89,528 | 76,738 |
| Depreciation | 52,927 | 53,888 | 57,292 |
| Amortization of intangible assets | 3,044 | 2,827 | 2,545 |
| Gain on sale of assets, net | (5,653) | (3,581) | (2,055) |
| | <u>1,276,787</u> | <u>1,193,351</u> | <u>1,073,764</u> |
| Income from operations | 101,266 | 94,201 | 69,956 |
| Other income (expense): | | | |
| Interest expense | (4,973) | (6,899) | (8,514) |
| Interest income | 175 | 2,135 | 348 |
| Other | (7,021) | (5,555) | (8,112) |
| | | | |
| Income before income taxes | 89,447 | 83,882 | 53,678 |
| Income taxes | 23,748 | 22,945 | 12,628 |
| | | | |
| Net income | \$ 65,699 | \$ 60,937 | \$ 41,050 |
| Share data:* | | | |
| Earnings per share--basic | <u>\$ 1.46</u> | <u>\$ 1.39</u> | <u>\$.90</u> |
| | | | |
| Earnings per share--diluted | <u>\$ 1.38</u> | <u>\$ 1.32</u> | <u>\$.86</u> |
| | | | |
| Weighted-average shares outstanding:* | | | |
| Basic | <u>45,081</u> | <u>43,964</u> | <u>45,813</u> |
| | | | |
| Diluted | <u>47,590</u> | <u>46,066</u> | <u>47,956</u> |

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

See notes to consolidated financial statements.

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

| | Year Ended December 31, | | |
|--|--------------------------------|------------------|------------------|
| | 2021 | 2020 | 2019 |
| Net income | \$ 65,699 | \$ 60,937 | \$ 41,050 |
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation adjustments gains/(losses) | 84 | 895 | 1,186 |
| Defined benefit pension plans: | | | |
| Net gain (loss) arising during the year | 141 | (152) | (147) |
| Reclassification to results of operations: | | | |
| Amortization of defined benefit pension items: | | | |
| Net actuarial (gain) loss | 102 | 66 | (1,456) |
| Prior service cost | 47 | 47 | 48 |
| | <u>149</u> | <u>113</u> | <u>(1,408)</u> |
| Defined benefit pension plan adjustments | <u>290</u> | <u>(39)</u> | <u>(1,555)</u> |
| Total other comprehensive income (loss), net of tax | 374 | 856 | (369) |
| Comprehensive income | \$ 66,073 | \$ 61,793 | \$ 40,681 |

See notes to consolidated financial statements.

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

| | Common Shares | Additional Paid-in Capital | Common Shares Subscribed, Unissued | Retained Earnings | Accumulated Other Comprehensive Income (Loss), Net of Tax | Common Shares Held in Treasury | Common Shares Subscription Receivable | Total Common Shareholders' Equity |
|--|------------------|----------------------------------|---|----------------------|---|---|--|--|
| Balances at January 1, 2019 | \$ 37,272 | \$ 82,623 | \$ 6,799 | \$ 155,160 | \$ (5,034) | \$ (235,042) | \$ (729) | \$ 41,049 |
| Net income | — | — | — | 41,050 | — | — | — | 41,050 |
| Change in 401KSOP and ESOP related shares | 495 | 10,180 | — | (16,182) | — | — | — | (5,507) |
| Shares sold to employees | — | 5,604 | — | — | — | 8,948 | — | 14,552 |
| Options exercised | — | (1,850) | — | — | — | 3,638 | — | 1,788 |
| Subscription shares | — | (1,988) | (6,799) | — | — | 10,508 | 729 | 2,450 |
| Stock-based compensation | — | 1,797 | — | — | — | — | — | 1,797 |
| Dividends, \$.05 per share* | — | — | — | (2,317) | — | — | — | (2,317) |
| Currency translation adjustments | — | — | — | — | 1,186 | — | — | 1,186 |
| Defined benefit pension plans | — | — | — | — | (1,555) | — | — | (1,555) |
| Shares purchased | — | — | — | — | — | (34,647) | — | (34,647) |
| Balances at December 31, 2019 | \$ 37,767 | \$ 96,366 | \$ — | \$ 177,711 | \$ (5,403) | \$ (246,595) | \$ — | \$ 59,846 |
| Net income | — | — | — | 60,937 | — | — | — | 60,937 |
| Change in 401KSOP and ESOP related shares | 34 | 801 | — | (29,666) | — | — | — | (28,831) |
| Shares sold to employees | — | 10,973 | — | — | — | 12,334 | — | 23,307 |
| Options exercised | — | (461) | — | — | — | 2,980 | — | 2,519 |
| Stock-based compensation | — | 2,390 | — | — | — | — | — | 2,390 |
| Dividends, \$.05 per share* | — | — | — | (2,271) | — | — | — | (2,271) |
| Currency translation adjustments | — | — | — | — | 895 | — | — | 895 |
| Defined benefit pension plans | — | — | — | — | (39) | — | — | (39) |
| Shares purchased | — | — | — | — | — | (39,079) | — | (39,079) |
| Balances at December 31, 2020 | \$ 37,801 | \$ 110,069 | \$ — | \$ 206,711 | \$ (4,547) | \$ (270,360) | \$ — | \$ 79,674 |
| Net income | — | — | — | 65,699 | — | — | — | 65,699 |
| Change in 401KSOP and ESOP related shares | 578 | 12,405 | — | (29,533) | — | — | — | (16,550) |
| Shares sold to employees | — | 10,899 | — | — | — | 10,291 | — | 21,190 |
| Options exercised | — | (443) | — | — | — | 4,773 | — | 4,330 |
| Stock-based compensation | — | 2,967 | — | — | — | — | — | 2,967 |
| Dividends, \$.06 per share* | — | — | — | (2,898) | — | — | — | (2,898) |
| Currency translation adjustments | — | — | — | — | 84 | — | — | 84 |
| Defined benefit pension plans | — | — | — | — | 290 | — | — | 290 |
| Shares purchased | — | — | — | — | — | (50,946) | — | (50,946) |
| Balances at December 31, 2021 | <u>\$ 38,379</u> | <u>\$ 135,897</u> | <u>\$ —</u> | <u>\$ 239,979</u> | <u>\$ (4,173)</u> | <u>\$ (306,242)</u> | <u>\$ —</u> | <u>\$ 103,840</u> |

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

See notes to consolidated financial statements.

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

| | Year Ended December 31, | | |
|--|-------------------------|------------------|------------------|
| | 2021 | 2020 | 2019 |
| Operating activities | | | |
| Net income | \$ 65,699 | \$ 60,937 | \$ 41,050 |
| Adjustments to reconcile net income to net cash provided by operating activities net of assets/liabilities acquired: | | | |
| Depreciation | 52,927 | 53,888 | 57,292 |
| Amortization | 3,044 | 2,827 | 2,545 |
| Gain on sale of assets | (5,653) | (3,581) | (2,055) |
| Deferred income taxes | (1,652) | (5,358) | 1,398 |
| Other | 4,091 | (29) | 2,860 |
| Changes in operating assets and liabilities, net of assets acquired: | | | |
| Accounts receivable | (24,853) | (21,366) | (32,573) |
| Accounts payable and accrued expenses | (26,349) | 52,577 | 7,188 |
| Self-insurance accruals | 16,685 | 13,597 | 8,791 |
| Other assets, net | (7,970) | (1,411) | (3,143) |
| | 10,270 | 91,144 | 42,303 |
| Net cash provided by operating activities | 75,969 | 152,081 | 83,353 |
| Investing activities | | | |
| Capital expenditures: | | | |
| Equipment | (50,929) | (46,407) | (52,841) |
| Land and buildings | (16,599) | (5,243) | (5,514) |
| Purchases of businesses, net of cash acquired and debt incurred | (11,725) | (8,065) | (8,529) |
| Proceeds from sales of property and equipment | 6,955 | 4,787 | 3,562 |
| Purchases of marketable securities | (14,888) | — | — |
| Proceeds from sale of marketable securities | 8 | — | — |
| Net cash used in investing activities | (87,178) | (54,928) | (63,322) |
| Financing activities | | | |
| Revolving credit facility borrowings | 420,443 | 596,500 | 469,500 |
| Revolving credit facility payments | (374,324) | (658,500) | (501,000) |
| Proceeds from notes payable | 235,083 | 269,445 | 114,140 |
| Payments of notes payable | (235,087) | (281,985) | (95,007) |
| Payments of financing leases | (3,348) | (1,996) | (1,282) |
| Purchases of common shares for treasury | (50,946) | (39,079) | (34,647) |
| Sales of common shares from treasury | 25,520 | 25,827 | 18,060 |
| Cash received on common-share subscriptions | — | — | 729 |
| Dividends | (2,898) | (2,271) | (2,317) |
| Net cash provided by (used in) financing activities | 14,443 | (92,059) | (31,824) |
| Effect of exchange rate changes on cash | 25 | 107 | 132 |
| Increase (Decrease) in cash | 3,259 | 5,201 | (11,661) |
| Cash, beginning of year | 16,201 | 11,000 | 22,661 |
| Cash, end of year | \$ 19,460 | \$ 16,201 | \$ 11,000 |

See notes to consolidated financial statements.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements
December 31, 2021
(In thousands, except share data)

A. Our Business

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

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

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

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

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

B. Summary of Significant Accounting Policies

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

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 the issued and unissued common shares from \$1.00 per share to \$.50 per share.

We have given retroactive consideration to the two-for-one stock split of our common shares effected in October 2021, including all common share and per share data.

Use of Estimates in Financial Statement Preparation--The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts. Estimates are used for, but not limited to, accounts

The Davey Tree Expert Company
Notes to Consolidated Financial Statements
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receivable valuation, depreciable lives of fixed assets, long-lived asset valuation, self-insurance accruals, 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 our 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.

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.

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

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

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

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

Goodwill--Goodwill is recorded when the cost of acquired businesses exceeds the fair value of the identified net assets acquired. Goodwill is not amortized, but tested for impairment annually or when events or circumstances indicate that impairment may have occurred. Annually, we perform the impairment tests for goodwill during the fourth quarter. Our annual impairment assessment date has been designated as the first day of our fourth fiscal quarter. Impairment of goodwill is tested at the reporting-unit level, which for us are also our business segments. Impairment of goodwill is tested by comparing the reporting unit's carrying value, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using discounted projected cash flows. If the carrying value of the reporting unit exceeds its fair value, goodwill is considered impaired and an impairment loss should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the carrying value of the goodwill allocated to that reporting unit. We conducted our annual impairment tests and determined that no impairment loss was required to be recognized in 2021 or

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

for any prior periods. There were no events or circumstances from the date of our assessment through December 31, 2021 that would impact this conclusion.

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

Our self-insurance accruals include claims for which the ultimate losses will develop over a period of years. Estimating ultimate losses of reported and unreported claims is subject to a high degree of variability as it involves complex estimates that are generally derived using a variety of actuarial estimation techniques and numerous assumptions and expectations about future events, many of which are highly uncertain. Accordingly, our estimates of ultimate losses can change as claims mature. Our accruals also are affected by changes in the number of new claims incurred and claim severity. The methods for estimating the ultimate losses and the total cost of claims were determined by third-party consulting actuaries; the resulting accruals are reviewed by management, and any adjustments arising from changes in estimates are reflected in income.

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

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

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

The Davey Tree Expert Company
Notes to Consolidated Financial Statements
December 31, 2021
(In thousands, except share data)

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

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

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

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

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

Accounts Receivable--Our residential and commercial customers are located geographically throughout the United States and Canada and, as to commercial customers, within differing industries; thus, minimizing credit risk. The credit exposure of utility services customers is directly affected by conditions within the utility industries as well as the financial condition of individual customers. One utility customer approximated 13% of revenues during 2021, 17% in 2020 and 12% in 2019. To reduce credit risk, we evaluate the credit of customers, but generally do not require advance payments or collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition.

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

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

The Davey Tree Expert Company
Notes to Consolidated Financial Statements
December 31, 2021
(In thousands, except share data)

C. Recent Accounting Guidance

Accounting Standard Adopted in 2021

Accounting Standards Update 2019-12, Income Taxes (Topic 740)– Simplifying the Accounting for Income Taxes--In December 2019, the FASB issued Accounting Standards Update ("ASU") No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (ASU 2019-12)", which simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including applicable interim periods. The Company adopted ASU 2019-12 beginning January 1, 2021. The adoption of ASU 2019-12 did not have a material effect on the Company's financial statements.

D. Business Combinations

Our investments in businesses were: (a) \$18,399 in 2021, including liabilities assumed of \$3,713 and debt issued of \$2,961; (b) \$11,150 in 2020, including liabilities assumed of \$613 and debt issued of \$2,472; and (c) \$12,620 in 2019, including \$1,479 of liabilities assumed and debt issued of \$2,612.

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

The Company's intangible assets consist of tradenames, non-competition agreements and customer relationships. The tradenames and customer relationships intangible assets were assigned an average 6-year useful life, and the non-competition agreements were assigned an average 5-year useful life.

The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as an increase in goodwill of approximately \$7,723 in 2021 (\$2,228 of which is deductible for tax purposes), \$5,635 in 2020 (5,635 of which is deductible for tax purposes) and \$4,174 in 2019 (\$1,610 of which is deductible for tax purposes).

The results of operations of acquired businesses have been included in the consolidated statements of operations beginning as of the effective dates of acquisition. The effect of these acquisitions on our consolidated revenues and results of operations, either individually or in the aggregate, for the years ended December 31, 2021, 2020 and 2019 was not significant.

The Davey Tree Expert Company
Notes to Consolidated Financial Statements
December 31, 2021
(In thousands, except share data)

E. Accounts Receivable, Net and Supplemental Balance Sheet Information

Accounts receivable, net, consisted of the following:

| | December 31, | |
|-------------------------------------|---------------------|-------------------|
| | 2021 | 2020 |
| Accounts receivable, net | | |
| Accounts receivable | \$ 215,336 | \$ 214,887 |
| Unbilled receivables ⁽¹⁾ | 65,957 | 42,251 |
| | 281,293 | 257,138 |
| Less allowances for credit losses | 3,013 | 4,217 |
| Total | \$ 278,280 | \$ 252,921 |

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

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

| | December 31, | |
|------------------------------------|---------------------|---------------|
| | 2021 | 2020 |
| Other current assets | | |
| Refundable income taxes | \$ 1,346 | \$ — |
| Assets invested for self-insurance | 4,250 | — |
| Other | 1,346 | 778 |
| Total | \$ 6,942 | \$ 778 |

| | December 31, | |
|--------------------------------------|---------------------|-------------------|
| | 2021 | 2020 |
| Property and equipment, net | | |
| Land and land improvements | \$ 22,129 | \$ 19,731 |
| Buildings and leasehold improvements | 63,933 | 49,460 |
| Equipment | 646,552 | 623,847 |
| | 732,614 | 693,038 |
| Less accumulated depreciation | 504,629 | 488,321 |
| Total | \$ 227,985 | \$ 204,717 |

| | December 31, | |
|------------------------------------|---------------------|------------------|
| | 2021 | 2020 |
| Other assets, noncurrent | | |
| Assets invested for self-insurance | \$ 25,401 | \$ 19,359 |
| Investment--cost-method affiliate | 1,258 | 1,258 |
| Deferred income taxes | 4,937 | 4,167 |
| Cloud computing arrangements | 6,530 | — |
| Other | 4,539 | 4,972 |
| Total | \$ 42,665 | \$ 29,756 |

The Davey Tree Expert Company
Notes to Consolidated Financial Statements
December 31, 2021
(In thousands, except share data)

| | December 31, | |
|------------------------------|------------------|------------------|
| | 2021 | 2020 |
| Accrued expenses | | |
| Employee compensation | \$ 37,828 | \$ 36,108 |
| Accrued compensated absences | 11,007 | 14,534 |
| Self-insured medical claims | 2,891 | 2,065 |
| Customer advances, deposits | 4,009 | 2,067 |
| Income taxes payable | 145 | 6,926 |
| Taxes, other than income | 13,789 | 30,354 |
| Other | 5,469 | 6,387 |
| Total | <u>\$ 75,138</u> | <u>\$ 98,441</u> |

| | December 31, | |
|--------------------------------------|------------------|------------------|
| | 2021 | 2020 |
| Other liabilities, noncurrent | | |
| Pension and retirement plans | \$ 8,713 | \$ 7,365 |
| Other | 2,870 | 3,324 |
| Total | <u>\$ 11,583</u> | <u>\$ 10,689</u> |

F. Supplemental Cash Flow Information

Supplemental cash flow information follows:

| Supplemental cash flow information | Year Ended December 31, | | |
|---|-------------------------|-----------------|-----------------|
| | 2021 | 2020 | 2019 |
| Interest paid | \$ 4,929 | \$ 7,159 | \$ 8,463 |
| Income taxes paid, net | <u>34,094</u> | <u>27,494</u> | <u>5,758</u> |
| Noncash transactions: | | | |
| Debt issued for purchases of businesses | <u>\$ 2,961</u> | <u>\$ 2,472</u> | <u>\$ 2,612</u> |
| Detail of acquisitions: | | | |
| Assets acquired: | | | |
| Cash | \$ 292 | \$ — | \$ 3 |
| Accounts receivable | 509 | 10 | 2,332 |
| Operating supplies | 1,044 | 22 | 84 |
| Prepaid expense | 203 | 6 | 27 |
| Equipment | 4,049 | 1,932 | 1,837 |
| Other assets | 1,574 | — | 96 |
| Intangible assets | 3,005 | 3,545 | 4,067 |
| Goodwill | 7,723 | 5,635 | 4,174 |
| Liabilities assumed | (3,713) | (613) | (1,479) |
| Debt issued for purchases of businesses | (2,961) | (2,472) | (2,612) |
| Cash paid | <u>\$ 11,725</u> | <u>\$ 8,065</u> | <u>\$ 8,529</u> |

The Davey Tree Expert Company
Notes to Consolidated Financial Statements
December 31, 2021
(In thousands, except share data)

G. Marketable Securities

The following table summarizes available-for-sale debt securities held at December 31, 2021 by asset type:

| | Available-For-Sale Debt Securities | | | |
|---|------------------------------------|------------------------|-------------------------|----------------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value (Net Carrying Amount) |
| December 31, 2021 | | | | |
| Fixed maturity: | | | | |
| United States Government and agency securities | \$ 3,244 | \$ 11 | \$ (25) | \$ 3,230 |
| Corporate notes and bonds | 174 | 2 | — | 176 |
| Total available for sale debt securities | \$ 3,418 | \$ 13 | \$ (25) | \$ 3,406 |

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

Available-for-sale debt securities are included in other assets totaling \$3,406 at December 31, 2021. Realized gains and losses on sales of available-for-sale debt securities are recognized in net income on the specific identification basis. Changes in the fair values of available-for-sale debt securities that are determined to be holding gains or losses are recorded through accumulated other comprehensive income (loss) net of applicable taxes, within shareholders' equity. In assessing whether a credit loss exists, we evaluate our ability to hold the investment, the strength of the underlying collateral and the extent to which the investment's amortized cost or cost, as appropriate, exceeds its related fair value.

As of December 31, 2021 we held approximately \$11,386 in marketable equity securities. Realized and unrealized gains and losses on marketable equity securities are included in other income (expense) in the Consolidated Statements of Operations.

The net carrying values of available-for-sale debt securities at December 31, 2021 by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

| | Amortized Cost | Fair Value |
|-----------------------------|-----------------|-----------------|
| Due: | | |
| Less than one year | \$ — | \$ — |
| One year through five years | 1,807 | 1,802 |
| Six years through ten years | 193 | 195 |
| After ten years | 1,418 | 1,409 |
| Total | \$ 3,418 | \$ 3,406 |

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H. Intangible Assets and Goodwill, Net

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

| | Weighted-Average Amortization Period (Years) | December 31, 2021 | | December 31, 2020 | |
|-------------------------------|--|--------------------|-----------------------------|--------------------|-----------------------------|
| | | Carrying Amount | Accumulated Amortization | Carrying Amount | Accumulated Amortization |
| Amortized intangible assets: | | | | | |
| Customer lists/relationships | 4.0 years | \$ 32,294 | \$ 24,090 | \$ 30,402 | \$ 22,040 |
| Employment-related | 2.7 years | 9,946 | 8,301 | 9,320 | 7,755 |
| Tradenames | 3.9 years | 8,426 | 6,642 | 7,938 | 6,195 |
| Amortized intangible assets | | 50,666 | \$ 39,033 | 47,660 | \$ 35,990 |
| Less accumulated amortization | | 39,033 | | 35,990 | |
| Intangible assets, net | | \$ 11,633 | | \$ 11,670 | |
| | | | | | |
| Goodwill | | \$ 55,980 | | \$ 48,256 | |

The changes in the carrying amounts of goodwill, by segment, for the years ended December 31, 2021 and December 31, 2020 were as follows:

| | 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 | <u>\$ 48,256</u> | <u>\$ 7,723</u> | <u>\$ 1</u> | <u>\$ 55,980</u> |

| | Balance at January 1, 2020 | Acquisitions | Translation and Other Adjustments | Balance at December 31, 2020 |
|----------------------------|----------------------------------|-----------------|---|------------------------------------|
| Utility | \$ 4,911 | \$ — | \$ — | \$ 4,911 |
| Residential and Commercial | 37,374 | 5,635 | 336 | 43,345 |
| Total | <u>\$ 42,285</u> | <u>\$ 5,635</u> | <u>\$ 336</u> | <u>\$ 48,256</u> |

Future aggregate amortization expense of intangible assets--The aggregate amortization expense of intangible assets, as of December 31, 2021, in each of the next five years was as follows:

| | Future Amortization Expense |
|-------------------------------|-----------------------------|
| Year ending December 31, 2022 | \$ 3,030 |
| 2023 | 2,860 |
| 2024 | 2,538 |
| 2025 | 1,755 |
| 2026 | 915 |
| Thereafter | 535 |
| | <u>\$ 11,633</u> |

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

Short-term debt consisted of the following:

| | December 31, | |
|-----------------------------------|---------------------|------------------|
| | 2021 | 2020 |
| Current portion of long-term debt | \$ 22,809 | \$ 19,540 |
| Current portion of finance leases | 2,459 | 2,273 |
| | <u>\$ 25,268</u> | <u>\$ 21,813</u> |

We have short-term lines of credit with several banks totaling \$11,181. At December 31, 2021, we had \$9,051 available under the lines of credit and \$2,130 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%.

Long-term debt consisted of the following:

| | December 31, | |
|------------------------------|---------------------|------------------|
| | 2021 | 2020 |
| Revolving credit facility | | |
| Swing-line borrowings | \$ 16,832 | \$ — |
| LIBOR borrowings | 30,000 | — |
| | 46,832 | — |
| 3.99% Senior unsecured notes | 50,000 | 50,000 |
| 4.00% Senior unsecured notes | 25,000 | 25,000 |
| Term loans | 25,182 | 21,864 |
| | 147,014 | 96,864 |
| Less debt issuance costs | 674 | 256 |
| Less current portion | 22,809 | 19,540 |
| | <u>\$ 123,531</u> | <u>\$ 77,068</u> |

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 December 31, 2021, we had unused commitments under the revolving credit facility approximating \$275,291 and \$49,709 committed, which consisted of \$46,832 borrowings and issued letters of credit of \$2,877. Borrowings outstanding bear interest, at the Company's option, of either (a) the base rate or (b) LIBOR plus a margin adjustment ranging from .875% to 1.50%--with the margin adjustments based on the Company's leverage ratio at the time of borrowing. The base rate is the greater of (i) the agent bank's

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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 of \$10,000 commence on September 21, 2024 (the sixth anniversary of issuance). The Note Purchase and Shelf Agreement contains customary events of default and covenants related to limitations on indebtedness and transactions with affiliates and the maintenance of certain financial ratios. The Company may prepay at any time all, or from time to time any part of, the outstanding principal amount of the 3.99% Senior Notes, subject to the payment of a make-whole amount.

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.

Term Loans, Weighted-Average Interest Rate--The weighted-average interest rate on the term loans approximated 2.22% at December 31, 2021 and 3.89% at December 31, 2020.

Aggregate Maturities of Long-Term Debt--Aggregate maturities of long-term debt for the five years subsequent to December 31, 2021 were as follows: 2022--\$22,809; 2023--\$1,477; 2024--\$15,896; 2025--\$15,000; 2026--\$61,832; 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

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extending the termination date, the amendment included a change to the letter of credit ("LC") issuance fee payable under the terms of the agreement.

The AR Securitization program has a limit of \$100,000, of which \$83,355 was issued for LCs as of both December 31, 2021 and December 31, 2020.

Under the AR Securitization program, Davey Tree transfers by selling or contributing current and future trade receivables to a wholly-owned, bankruptcy-remote financing subsidiary which pledges a perfected first priority security interest in the trade receivables--equal to the issued LCs as of December 31, 2021--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% 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 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 December 31, 2020, total commitments related to issued letters of credit were \$88,242, of which \$2,877 were issued under the revolving credit facility, \$83,355 were issued under the AR Securitization program and \$2,010 were issued under short-term lines of credit.

As of December 31, 2021, we were in compliance with all debt covenants.

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J. Self-Insurance Accruals

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

| | December 31, | |
|-----------------------|---------------------|------------------|
| | 2021 | 2020 |
| Workers' compensation | \$ 58,187 | \$ 52,060 |
| Vehicle liability | 12,966 | 10,046 |
| General liability | 54,813 | 47,174 |
| Total | 125,966 | 109,280 |
| Less current portion | 48,867 | 37,707 |
| Noncurrent portion | <u>\$ 77,099</u> | <u>\$ 71,573</u> |

The changes in our self-insurance accruals are summarized in the table below.

| | December 31, | |
|----------------------------|---------------------|-------------------|
| | 2021 | 2020 |
| Balance, beginning of year | \$ 109,280 | \$ 95,683 |
| Provision for claims | 57,498 | 51,988 |
| Payment of claims | (40,812) | (38,391) |
| Balance, end of year | <u>\$ 125,966</u> | <u>\$ 109,280</u> |

K. Leases

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

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

| | Consolidated Balance Sheet Classification | December 31, 2021 | December 31, 2020 |
|--|--|------------------------------|------------------------------|
| Assets | | | |
| Operating lease assets | Right-of-use assets - operating leases | \$ 86,423 | \$ 55,893 |
| Finance lease assets | Property and equipment, net | 11,592 | 8,788 |
| Total lease assets | | <u>\$ 98,015</u> | <u>\$ 64,681</u> |
| Liabilities | | | |
| Current operating lease liabilities | Current portion of operating lease liabilities | \$ 28,682 | \$ 19,124 |
| Non-current operating lease liabilities | Lease liabilities - operating leases | 57,335 | 36,612 |
| Total operating lease liabilities | | 86,017 | 55,736 |
| Current portion of finance lease liabilities | Current portion of long-term debt, finance lease liabilities and short-term debt | 2,459 | 2,273 |
| Non-current finance lease liabilities | Lease liabilities - finance leases | 8,646 | 6,479 |
| Total finance lease liabilities | | 11,105 | 8,752 |
| Total lease liabilities | | <u>\$ 97,122</u> | <u>\$ 64,488</u> |

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

| | | Year Ended | |
|---------------------------------------|--|----------------------|----------------------|
| | | December 31, 2021 | December 31, 2020 |
| | Consolidated Statement of Operations Classification | | |
| Operating lease cost | Operating expense | \$ 18,557 | \$ 11,349 |
| Operating lease cost | Selling expense | 10,384 | 9,572 |
| Operating lease cost | General and administrative expense | 1,153 | 1,115 |
| Finance lease cost: | | | |
| Amortization of right-of-use assets | Depreciation | 2,803 | 2,015 |
| Interest expense on lease liabilities | Interest expense | 192 | 148 |
| Other lease cost ⁽¹⁾ | Operating expense | 3,984 | 5,357 |
| Other lease cost ⁽¹⁾ | Selling expense | 1,352 | 1,351 |
| Other lease cost ⁽¹⁾ | General and administrative expense | 23 | 52 |
| Total lease cost | | <u>\$ 38,448</u> | <u>\$ 30,959</u> |

⁽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 table below summarizes the weighted average remaining lease term as of December 31, 2021.

| | |
|------------------|-----------|
| Operating leases | 3.9 years |
| Finance leases | 5.0 years |

The discount rate implicit within our leases is generally not determinable and therefore the Company determines the discount rate based on its incremental borrowing rate. The incremental borrowing rate for each lease is determined based on its term and the currency in which lease payments are made, adjusted for the impacts of collateral. The table below summarizes the weighted average discount rate used to measure our lease liabilities as of December 31, 2021.

| | |
|------------------|--------|
| Operating leases | 2.39 % |
| Finance leases | 2.09 % |

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Supplemental Cash Flow Information Related to Leases

| | Year Ended | |
|---|------------------------------|------------------------------|
| | December 31, 2021 | December 31, 2020 |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | \$ (30,410) | \$ (21,786) |
| Operating cash flows from finance leases | (192) | (148) |
| Financing cash flows from finance leases | (3,348) | (1,996) |
| Right-of-use assets obtained in exchange for lease obligations: | | |
| Operating leases | 59,863 | 36,653 |
| Finance leases | 5,790 | 7,664 |

Maturity Analysis of Lease Liabilities

| | As of December 31, 2021 | |
|-------------------------------|--------------------------------|---------------------------|
| | Operating Leases | Finance Leases |
| Year ending December 31, 2022 | \$ 30,313 | \$ 2,661 |
| 2023 | 22,979 | 2,451 |
| 2024 | 16,084 | 2,330 |
| 2025 | 11,182 | 1,811 |
| 2026 | 4,590 | 1,602 |
| Thereafter | 4,930 | 819 |
| Total lease payments | 90,078 | 11,674 |
| Less interest | 4,061 | 569 |
| Total | <u>\$ 86,017</u> | <u>\$ 11,105</u> |

L. Common Shares, Redeemable Common Shares and Preferred Shares

As further described in note B, we have given retroactive consideration to the two-for-one stock split of our common shares effected in October 2021 including all common share and per share data.

Preferred Shares--We have authorized a class of 4,000,000 preferred shares, no par value, of which none were issued as of December 31, 2021.

Redeemable Common Shares--Our Davey 401KSOP and ESOP Plan includes a put option for shares of the Company's common stock distributed from the plan. Due to the Company's obligation under the put option, shares held in the Davey 401KSOP and ESOP Plan as well as distributed shares subject to the put option are reclassified from permanent equity to temporary equity. The number of redeemable common shares for each of the three years in the period ended December 31, 2021 was as follows: 2021--9,391,790; 2020--10,225,768; and 2019--10,293,764.

Common Shares--The number of common shares authorized is 96,000,000, par value \$0.50. The number of common shares issued during each of the three years in the period ended December 31, 2021 was as follows: 2021--76,435,752; 2020--75,601,752; and

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2019--75,533,756. The number of shares in the treasury for each of the three years in the period ended December 31, 2021 was as follows: 2021--41,325,298; 2020--40,187,216; and 2019--39,473,914.

Our common and redeemable common shares are not listed or traded on an established public trading market, and market prices are, therefore, not available. Semiannually, an independent stock valuation firm determines the fair market value of our common and redeemable common shares based upon our performance and financial condition. Since 1979, we have provided a ready market for all shareholders through our direct purchase of their common shares, although we are under no obligation to do so (other than repurchases pursuant to the put option under the Davey 401KSOP and ESOP Plan, as described in Note N). During 2021, purchases of common shares, both redeemable and common, totaled 3,259,943 shares for \$50,946 in cash; we also had direct sales to directors and employees of 178,245 shares for \$2,667, excluding those shares issued through either the exercise of options or the Employee Stock Purchase Plan. We also sold 190,465 shares to our 401(k) plan for \$2,919 and issued 409,018 shares to participant accounts to satisfy our liability for the 2020 and 2021 employer match in the amount of \$6,304. The liability accrued at December 31, 2021 for the 2021 employer match was \$2,100. There were also 696,725 shares purchased during 2021 under the Employee Stock Purchase Plan.

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

| | Common Shares Net of Treasury Shares | Redeemable Shares | Total |
|---------------------------------------|---|------------------------------|--------------|
| Shares outstanding, December 31, 2019 | 36,059,842 | 10,293,764 | 46,353,606 |
| Shares purchased | (2,152,056) | (1,043,802) | (3,195,858) |
| Shares sold | 1,046,288 | 975,806 | 2,022,094 |
| Options exercised | 460,462 | — | 460,462 |
| Shares outstanding, December 31, 2020 | 35,414,536 | 10,225,768 | 45,640,304 |
| Shares purchased | (1,906,714) | (1,353,229) | (3,259,943) |
| Shares sold | 955,202 | 519,251 | 1,474,453 |
| Options exercised | 647,408 | — | 647,408 |
| Shares outstanding, December 31, 2021 | 35,110,432 | 9,391,790 | 44,502,222 |

On December 31, 2021, we had 44,502,222 common shares outstanding and employee options exercisable to purchase 1,738,725 common shares.

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

Under the plan, a participant in the offering purchasing common shares for an aggregate purchase price of less than \$5 was required to pay with cash. All participants (excluding Company directors and officers) purchasing \$5 or more of the common shares had an option to finance their purchase through a down-payment of at least 10% of the total purchase price and a seven-year promissory note for the

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balance due with interest at 2%. Payments on the promissory note were made either by payroll deductions or annual lump-sum payments of both principal and interest.

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

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

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M. Accumulated Other Comprehensive Income (Loss)

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

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

| | Foreign Currency Translation Adjustments | Defined Benefit Pension Plans | Accumulated Other Comprehensive Income (Loss) |
|---|---|--|--|
| Balance at January 1, 2019 | <u>\$ (5,819)</u> | <u>\$ 785</u> | <u>\$ (5,034)</u> |
| Unrealized gains (losses) | 1,186 | — | 1,186 |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | (1,551) | (1,551) |
| Tax effect | — | 143 | 143 |
| Unrecognized amounts from defined benefit pension plans | — | (323) | (323) |
| Tax effect | — | 176 | 176 |
| Net of tax amount | <u>1,186</u> | <u>(1,555)</u> | <u>(369)</u> |
| Balance at December 31, 2019 | <u>\$ (4,633)</u> | <u>\$ (770)</u> | <u>\$ (5,403)</u> |
| Unrealized gains (losses) | 895 | — | 895 |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | 152 | 152 |
| Tax effect | — | (39) | (39) |
| Unrecognized amounts from defined benefit pension plans | — | (259) | (259) |
| Tax effect | — | 107 | 107 |
| Net of tax amount | <u>895</u> | <u>(39)</u> | <u>856</u> |
| Balance at December 31, 2020 | <u>\$ (3,738)</u> | <u>\$ (809)</u> | <u>\$ (4,547)</u> |
| Unrealized gains (losses) | 84 | — | 84 |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | 201 | 201 |
| Tax effect | — | (52) | (52) |
| Unrecognized amounts from defined benefit pension plans | — | 110 | 110 |
| Tax effect | — | 31 | 31 |
| Net of tax amount | <u>84</u> | <u>290</u> | <u>374</u> |
| Balance at December 31, 2021 | <u>\$ (3,654)</u> | <u>\$ (519)</u> | <u>\$ (4,173)</u> |

The amounts reclassified from accumulated other comprehensive income (loss) related to defined benefit pension plans for 2021, 2020 and 2019 are included in net periodic pension expense classified in the statement of operations as general and administrative expense or other income (expense).

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N. The Davey 401KSOP and Employee Stock Ownership Plan

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

Defined Contribution and Savings Plans--Most employees are eligible to participate in The Davey 401KSOP and ESOP 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 amended the 401(k) plan to be a safe harbor 401K plan. Under the amendment, the Company made changes to the hardship provisions and will make quarterly contributions in cash or our common shares equal to, 100% of the first three percent and 50% of the next two percent of each participant's before-tax contributions, subject to IRS limitations, which will be fully vested. This represents a potential maximum contribution of four percent. All nonbargaining domestic employees who attained 21 years of age and completed one year of service are eligible to participate. In May 2004, we adopted the 401K Match Restoration Plan, a defined contribution plan that supplements the retirement benefits of certain employees that participate in the savings plan feature of The Davey 401KSOP and ESOP Plan, but are limited in contributions because of tax rules and regulations.

Our common shares are not listed or traded on an established public trading market, and market prices are, therefore, not available. Semiannually, an independent stock valuation firm assists with the appraisal of the fair market value of our common shares based upon our performance and financial condition. The Davey 401KSOP and ESOP Plan includes a put option for shares of the Company's common stock distributed from the plan. Shares are distributed from the Davey 401KSOP and ESOP Plan to former participants of the plan, their beneficiaries, donees or heirs (each, a "participant"). Since our common stock is not currently traded on an established securities market, if the owners of distributed shares desire to sell their shares, the Company is required to purchase the shares at fair value for two 60-day periods after distribution of the shares from the Davey 401KSOP and ESOP. The fair value of distributed shares subject to the put option totaled \$1,279 and \$3,298 as of December 31, 2021 and December 31, 2020, respectively. The fair value of the shares held in the Davey 401KSOP and ESOP totaled \$168,652 and \$150,089 as of December 31, 2021 and December 31, 2020, 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 \$169,931 and \$153,387 as of December 31, 2021 and December 31, 2020, respectively. Changes in the fair value of the Davey 401KSOP and ESOP Plan related shares are reflected in retained earnings while net share activity associated with the Davey 401KSOP and ESOP Plan related shares are first reflected in additional paid-in capital and then retained earnings if additional paid-in capital is insufficient.

Total compensation for these plans, consisting primarily of the employer match, was \$8,485 in 2021, \$7,687 in 2020, and \$4,600 in 2019.

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O. Stock-Based Compensation

As further described in note B, we have given retroactive consideration to the two-for-one stock split of our common shares effected in October 2021 including all common share and per share data.

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.

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")—included in the results of operations was as follows:

| | Year Ended December 31, | | |
|---|-------------------------|----------|----------|
| | 2021 | 2020 | 2019 |
| Compensation expense, all share-based payment plans | \$ 4,625 | \$ 3,407 | \$ 2,845 |
| Income tax benefit | 793 | 538 | 404 |

Stock-based compensation consisted of the following:

Employee Stock Purchase Plan--Under the Employee Stock Purchase Plan, all full-time employees with one year of service are eligible to purchase, through payroll deduction, common shares. Employee purchases under the Employee Stock Purchase Plan are at 85% of the fair market value of the common shares--a 15% discount. Compensation costs are recognized as payroll deductions are made. The 15% discount of total shares purchased under the plan resulted in compensation cost recognized of \$1,632 in 2021, \$1,442 in 2020 and \$1,118 in 2019.

Stock Options Plan--The stock options outstanding were awarded under a graded vesting schedule, measured at fair value, and have a term of ten years. Compensation costs for stock options are recognized over the requisite service period on the straight-line recognition method. Compensation cost recognized for stock options was \$429 in 2021, \$517 in 2020 and \$550 in 2019. 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

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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 the SSARs as of December 31, 2021:

| 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, 2021 | 210,472 | \$ 1.87 | | | |
| Granted | — | — | | | |
| Forfeited | — | — | | | |
| Vested | (122,938) | 1.84 | | | |
| Unvested, December 31, 2021 | <u>87,534</u> | <u>\$ 1.92</u> | <u>1.0 year</u> | <u>\$ 84</u> | <u>\$ 1,436</u> |

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 totaled \$157 in 2021, \$282 in 2020 and \$363 in 2019.

Restricted Stock Units--During the year ended December 31, 2021, the Compensation Committee of the Board of Directors awarded 330,714 PRSUs to certain management employees and 19,200 restricted stock units ("RSUs") to nonemployee directors. The Compensation Committee made similar awards in prior periods. The awards vest over specified periods. The following table summarizes PRSUs and RSUs as of December 31, 2021:

| 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, 2021 | 510,614 | \$ 10.05 | | | |
| Granted | 349,914 | 14.82 | | | |
| Forfeited | — | — | | | |
| Vested | (120,368) | 8.86 | | | |
| Unvested, December 31, 2021 | <u>740,160</u> | <u>\$ 12.49</u> | <u>2.1 years</u> | <u>\$ 5,557</u> | <u>\$ 12,139</u> |
| Employee PRSUs | <u>673,268</u> | <u>\$ 12.52</u> | <u>2.2 years</u> | <u>\$ 5,159</u> | <u>\$ 11,042</u> |
| Nonemployee Director RSUs | <u>66,892</u> | <u>\$ 12.20</u> | <u>1.3 years</u> | <u>\$ 398</u> | <u>\$ 1,097</u> |

Compensation cost for PRSUs and RSUs is determined using a fair-value method and amortized on the straight-line recognition method over the requisite service period. "Intrinsic value" is defined as the amount by which the fair market value of a common share exceeds the grant date price of a PRSU or an RSU. Compensation expense on PRSUs and RSUs totaled \$2,407 in 2021, \$1,166 in 2020 and \$814 in 2019.

The fair value of each stock-based award was estimated on the date of grant using a binomial option-pricing model. The binomial model considers a range of assumptions related to volatility, risk-free interest rate and employee exercise behavior. Expected volatilities utilized

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in the binomial model are based on historical volatility of our share prices and other factors. Similarly, the dividend yield is based on historical experience and expected future changes. The binomial model also incorporates exercise and forfeiture assumptions based on an analysis of historical data. The expected life of the stock-based awards is derived from the output of the binomial model and represents the period of time that awards granted are expected to be outstanding.

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

| | Year Ended December 31, | | |
|---------------------------------|-------------------------|-------|-------|
| | 2021 | 2020 | 2019 |
| Volatility rate | 9.9 % | 9.7 % | 9.9 % |
| Risk-free interest rate | .3 % | .7 % | 2.3 % |
| Expected dividend yield | .4 % | .4 % | .7 % |
| Expected life of awards (years) | 3.0 | 8.1 | 8.8 |

General Stock Option Information--The following table summarizes activity under the stock option plans for the year ended December 31, 2021:

| Stock Options | Number of Options Outstanding | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Life | Unrecognized Compensation Cost | Aggregate Intrinsic Value |
|--------------------------------|-------------------------------------|---|--|--------------------------------------|---------------------------------|
| Outstanding, January 1, 2021 | 2,817,318 | \$ 8.34 | | | |
| Granted | — | — | | | |
| Exercised | (418,694) | 7.15 | | | |
| Forfeited | (47,690) | 7.93 | | | |
| Outstanding, December 31, 2021 | <u>2,350,934</u> | \$ 8.56 | 4.8 years | <u>\$ 804</u> | <u>\$ 18,431</u> |
| Exercisable, December 31, 2021 | <u>1,738,725</u> | \$ 7.71 | 3.9 years | | <u>\$ 15,115</u> |

"Intrinsic value" is defined as the amount by which the market price of a common share exceeds the exercise price of an option.

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Information regarding the stock options outstanding at December 31, 2021 is summarized below:

| | Stock Options Exercise Price | Number Outstanding | Weighted-Average Remaining Contractual Life | Weighted- Average Exercise Price | Number Exercisable | Weighted- Average Exercise Price |
|-------------------|---|-------------------------------|--|---|-------------------------------|---|
| Employee options: | | | | | | |
| | \$ 5.80 | 281,210 | 1.5 years | \$ 5.80 | 281,210 | \$ 5.80 |
| | 6.60 | 366,060 | 2.5 years | 6.60 | 366,060 | 6.60 |
| | 7.53 | 305,930 | 3.5 years | 7.53 | 305,930 | 7.53 |
| | 8.18 | 357,000 | 4.5 years | 8.18 | 357,000 | 8.18 |
| | 8.80 | 221,800 | 5.5 years | 8.80 | 185,400 | 8.80 |
| | 9.55 | 238,130 | 6.5 years | 9.55 | 123,530 | 9.55 |
| | 10.55 | 53,000 | 7.2 years | 10.55 | 19,640 | 10.55 |
| | 10.55 | 209,250 | 7.5 years | 10.55 | 61,236 | 10.55 |
| | 12.10 | 56,794 | 8.5 years | 12.10 | 11,359 | 12.10 |
| | 12.10 | 261,760 | 8.2 years | 12.10 | 27,360 | 12.10 |
| | | <u>2,350,934</u> | 4.8 years | \$ 8.56 | <u>1,738,725</u> | \$ 7.71 |

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

Tax Benefits of Stock-Based Compensation--Our total income tax benefit from share-based awards--as recognized in our consolidated statement of operations--for the last three years was: \$793 in 2021, \$538 in 2020, and \$404 in 2019. Tax benefits for share-based awards are accrued as stock compensation expense and recognized in our consolidated statement of operations. Tax benefits on share-based awards are realized when: (a) SSARs are exercised; (b) PRSUs and RSUs vest; and (c) stock options are exercised.

When actual tax benefits realized exceed the tax benefits accrued for share-based awards, we realize an excess tax benefit. We had excess tax benefits of: \$1,102 in 2021, \$530 in 2020, and \$1,181 in 2019.

P. Defined Benefit Pension Plans

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

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

Effective December 31, 2008, enhanced benefits were implemented to our defined contribution savings plan--The Davey 401KSOP and ESOP--at which time, the Board of Directors approved an amendment to freeze the Restoration Plan. In connection with the freeze of the Restoration Plan and the SERP, all balances remain intact and participant account balances, as well as service credits for vesting and

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retirement eligibility, remain intact and continue in accordance with the terms of the plans. Only future accruals were eliminated with: (i) the 2008 freeze of the Restoration Plan and (ii) the 2015 freeze of the SERP.

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

| | December 31, | |
|---|---------------------|-----------------|
| | 2021 | 2020 |
| Change in benefit obligation | | |
| Projected benefit obligation at beginning of year | \$ 3,471 | \$ 3,265 |
| Service cost | — | — |
| Interest cost | 85 | 105 |
| Actuarial (gains)/losses | (110) | 259 |
| Settlements | — | — |
| Benefits paid | (158) | (158) |
| Projected benefit obligation at end of year | <u>\$ 3,288</u> | <u>\$ 3,471</u> |
| Accumulated benefit obligation at end of year | <u>\$ 3,288</u> | <u>\$ 3,471</u> |

| | December 31, | |
|--|---------------------|-------------|
| | 2021 | 2020 |
| Change in fair value of plan assets | | |
| Fair value of plan assets at beginning of year | \$ — | \$ — |
| Employer contributions | 158 | 158 |
| Benefits paid | (158) | (158) |
| Fair value of plan assets at end of year | <u>\$ —</u> | <u>\$ —</u> |

With the termination of the Employee Retirement Plan ("ERP") in the second quarter of 2019, future benefit payments made to participants under the remaining SERP and Restoration Plan are made from the Company's general assets.

| | December 31, | |
|-----------------------------------|---------------------|-------------------|
| | 2021 | 2020 |
| Funded status of the plans | | |
| Fair value of plan assets | \$ — | \$ — |
| Projected benefit obligation | 3,288 | 3,471 |
| Funded status of the plans | <u>\$ (3,288)</u> | <u>\$ (3,471)</u> |

| | December 31, | |
|------------------------------|---------------------|-------------------|
| | 2021 | 2020 |
| Funded status by plan | | |
| SERP | \$ (2,894) | \$ (3,019) |
| Restoration Plan | (394) | (452) |
| Funded status of the plans | <u>\$ (3,288)</u> | <u>\$ (3,471)</u> |

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| | December 31, | |
|--|---------------------|-------------------|
| | 2021 | 2020 |
| Amounts reported in the consolidated balance sheets | | |
| Current liability | \$ (166) | \$ (203) |
| Noncurrent liability | (3,122) | (3,268) |
| Funded status of the plans | <u>\$ (3,288)</u> | <u>\$ (3,471)</u> |

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

| | At December 31, 2021 | | At December 31, 2020 | |
|---|-----------------------------|-------------------|-----------------------------|-------------------|
| | Pretax | Net of Tax | Pretax | Net of Tax |
| Amounts reported in accumulated other comprehensive income | | | | |
| Unrecognized net actuarial loss | \$ 645 | \$ 501 | \$ 892 | \$ 737 |
| Unrecognized prior service cost | 23 | 18 | 87 | 72 |
| Amounts reported in accumulated other comprehensive income | <u>\$ 668</u> | <u>\$ 519</u> | <u>\$ 979</u> | <u>\$ 809</u> |

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

The total amortization associated with these amounts that is expected to be recognized in net periodic benefit expense for 2022 follows:

| | Year ending December 31, 2022 | |
|--|--------------------------------------|-------------------|
| | Pretax | Net of Tax |
| Amortization of Costs Expected to be Recognized Next Year | | |
| Unrecognized net actuarial loss | \$ 96 | \$ 70 |
| Unrecognized prior service cost | 23 | 17 |
| Amortization of Costs Expected to be Recognized Next Year | <u>\$ 119</u> | <u>\$ 87</u> |

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

| | December 31, | |
|--|---------------------|-------------|
| | 2021 | 2020 |
| For pension plans with accumulated benefit obligations in excess of plan assets | | |
| Projected benefit obligation | \$ 3,288 | \$ 3,471 |
| Accumulated benefit obligation | 3,288 | 3,471 |
| Fair value of plan assets | — | — |

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

| | December 31, | | |
|---|--------------|--------|--------|
| | 2021 | 2020 | 2019 |
| Actuarial assumptions - Discount Rates | | | |
| SERP | 2.55 % | 3.34 % | 3.34 % |
| Restoration Plan | 2.33 % | 3.23 % | 3.23 % |

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

| | Year Ended December 31, | | |
|--|-------------------------|---------------|-----------------|
| | 2021 | 2020 | 2019 |
| Components of pension expense (income) | | | |
| Service costs--increase in benefit obligation earned | \$ — | \$ — | \$ 75 |
| Interest cost on projected benefit obligation | 85 | 105 | 198 |
| Expected return on plan assets | — | — | (59) |
| Settlement loss | — | — | 1,677 |
| Amortization of net actuarial loss | 137 | 89 | 87 |
| Amortization of prior service cost | 64 | 64 | 64 |
| Net pension expense of defined benefit pension plans | <u>\$ 286</u> | <u>\$ 258</u> | <u>\$ 2,042</u> |

Expected Benefit Plan Payments--The benefits, as of December 31, 2021, expected to be paid to defined-benefit plan participants in each of the next five years, and in the aggregate for the five years thereafter, follows:

| | Participants Benefits |
|----------------------------------|-----------------------|
| Estimated future payments | |
| Year ending December 31, 2022 | \$ 168 |
| 2023 | 181 |
| 2024 | 179 |
| 2025 | 176 |
| 2026 | 174 |
| Years 2027 to 2031 | <u>1,025</u> |

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

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

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

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

| Pension Fund | EIN/Pension Plan Number | Pension Protection Act Zone Status | | FIP/RP Status Pending Implemented | Davey Tree Contributions | | | Surcharge Imposed | Expiration Dates of Bargaining Agreement |
|---|-------------------------|------------------------------------|-------|-----------------------------------|--------------------------|-----------------|-----------------|-------------------|---|
| | | 2021 | 2020 | | 2021 | 2020 | 2019 | | |
| National Electric Benefit Fund | 53-0181657/001 | Green | Green | No | \$ 2,827 | \$ 3,239 | \$ 904 | No | Ranging from December 31, 2021 to December 31, 2024 |
| Eighth District Electrical Pension Fund | 84-6100393/001 | Green | Green | No | 125 | 161 | 190 | No | December 31, 2023 |
| | | | | | <u>\$ 2,952</u> | <u>\$ 3,400</u> | <u>\$ 1,094</u> | | |

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

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

We are party to twelve collective-bargaining agreements with the National Electric Benefit Fund, with expiration dates ranging from December 31, 2021 to December 31, 2024, and one collective-bargaining agreement with Eighth District Electrical Pension Fund which expires on December 21, 2023. Expired agreements are currently being renegotiated.

Q. Income Taxes

On March 27, 2020, Congress approved and the President signed the Coronavirus Aid, Relief, and Economic Security ("CARES") Act into law. The CARES Act is a tax-and-spending package intended to provide economic relief to address the impact of the COVID-19 pandemic. After evaluating several significant business tax provisions, such as net operating losses and employee retention credits, the Company has determined that there is no significant impact on the Company. On December 21, 2020, the President of the United States signed into law the "Consolidated Appropriations Act, 2021" which included further COVID-19 economic relief and extensions of certain expiring tax provisions. Additional pandemic relief tax measures included an expansion of the employee retention credit, enhanced charitable contribution deductions and a temporary full deduction for business expenses for food and beverages provided by a restaurant. These benefits did not have a material impact on the current tax provision.

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

| | Year Ended December 31, | | |
|---------------|--------------------------------|------------------|------------------|
| | 2021 | 2020 | 2019 |
| United States | \$ 89,086 | \$ 82,382 | \$ 54,569 |
| Canada | 361 | 1,500 | (891) |
| Total | \$ 89,447 | \$ 83,882 | \$ 53,678 |

The provision for income taxes follows:

| | Year Ended December 31, | | |
|------------------------------|--------------------------------|------------------|------------------|
| | 2021 | 2020 | 2019 |
| Current provision (benefit): | | | |
| Federal | \$ 18,101 | \$ 22,093 | \$ 7,934 |
| State | 7,221 | 6,260 | 3,624 |
| Canadian | 78 | (50) | (328) |
| Total current | 25,400 | 28,303 | 11,230 |
| Deferred taxes | (1,652) | (5,358) | 1,398 |
| Total taxes on income | \$ 23,748 | \$ 22,945 | \$ 12,628 |

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

| | Year Ended December 31, | | |
|--|--------------------------------|---------------|---------------|
| | 2021 | 2020 | 2019 |
| Statutory U.S. federal tax rate | 21.0 % | 21.0 % | 21.0 % |
| State income taxes, net of federal benefit | 5.5 | 5.2 | 5.6 |
| Effect of Canadian income taxes | .1 | .2 | — |
| Nondeductible expenses | 1.5 | 1.3 | 2.2 |
| Stock compensation | (.9) | (.3) | (1.8) |
| ESOP dividend deduction | (.1) | (.1) | (.2) |
| Uncertain tax adjustments and audit settlement | (.5) | .1 | .2 |
| Pension termination | — | — | (2.9) |
| All other, net | — | — | (.7) |
| Effective income tax rate | 26.6 % | 27.4 % | 23.4 % |

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

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

| | December 31, | |
|---|---------------------|-----------------|
| | 2021 | 2020 |
| Deferred tax assets: | | |
| Self-insurance accruals | \$ 26,516 | \$ 22,847 |
| Accrued compensated absences | 1,730 | 1,876 |
| Accrued expenses and other liabilities | 979 | 942 |
| Accrued stock compensation | 2,386 | 2,105 |
| Foreign tax credit carryforward | 1,617 | 1,597 |
| Lease obligations | 17,077 | 11,267 |
| Other future deductible amounts, net | 4,789 | 4,114 |
| | 55,094 | 44,748 |
| Less deferred tax asset valuation allowance | 1,185 | 1,185 |
| | 53,909 | 43,563 |
| Deferred tax liabilities: | | |
| Intangibles | 2,079 | 1,407 |
| Prepaid expenses | 5,032 | 4,243 |
| Lease right of use assets | 17,173 | 11,305 |
| Property and equipment | 24,688 | 22,441 |
| | 48,972 | 39,396 |
| Net deferred tax asset--noncurrent | <u>\$ 4,937</u> | <u>\$ 4,167</u> |

We treat all of our Canadian subsidiary earnings through December 31, 2021 as permanently reinvested and have not provided any U.S. federal or state tax thereon. As of December 31, 2021, approximately \$30,814 of undistributed earnings attributable to our Canadian operations was considered to be indefinitely invested. Presently, our intention is to reinvest the earnings permanently.

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

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

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

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

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

| | December 31, | |
|---|---------------------|-------------|
| | 2021 | 2020 |
| Unrecognized tax benefits | \$ 700 | \$ 1,183 |
| Portion, if recognized, would reduce tax expense and effective tax rate | 327 | 735 |
| Accrued interest on unrecognized tax benefits | 56 | 72 |

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

The Company is routinely under audit by U.S. federal, state, local and Canadian authorities in the area of income tax. These audits include questioning the timing and the amount of income and deductions and the allocation of income and deductions among various tax jurisdictions. With the exception of U.S. state jurisdictions and Canada, the Company is no longer subject to examination by tax authorities for the years through 2017. As of December 31, 2021, we believe it is reasonably possible that the total amount of unrecognized tax benefits will not significantly increase or decrease.

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

| | Year Ended December 31, | | |
|---|--------------------------------|-----------------|-----------------|
| | 2021 | 2020 | 2019 |
| Balance, beginning of year | \$ 1,183 | \$ 1,850 | \$ 1,325 |
| Additions based on tax positions related to the current year | 4 | — | 547 |
| Reductions based on tax positions related to the current year | — | (187) | — |
| Additions for tax positions of prior years | — | 101 | 23 |
| Reductions for tax positions of prior years | (13) | — | — |
| Lapses in statutes of limitations | (474) | (581) | (45) |
| Balance, end of year | <u>\$ 700</u> | <u>\$ 1,183</u> | <u>\$ 1,850</u> |

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R. Earnings Per Share Information

Earnings per share was computed as follows (Adjusted for the two-for-one stock split of our common shares effective October 1, 2021):

| | Year Ended December 31, | | |
|--|-------------------------|------------|------------|
| | 2021 | 2020 | 2019 |
| Income available to common shareholders: | | | |
| Net income | \$ 65,699 | \$ 60,937 | \$ 41,050 |
| Weighted-average shares:* | | | |
| Basic: | | | |
| Outstanding | 45,081,254 | 43,963,900 | 45,812,528 |
| Basic weighted-average shares | 45,081,254 | 43,963,900 | 45,812,528 |
| Diluted: | | | |
| Basic from above | 45,081,254 | 43,963,900 | 45,812,528 |
| Incremental shares from assumed: | | | |
| Exercise of stock subscription purchase rights | — | — | 109,922 |
| Exercise of stock options and awards | 2,508,822 | 2,102,272 | 2,033,728 |
| Diluted weighted-average shares | 47,590,076 | 46,066,172 | 47,956,178 |
| Share data:* | | | |
| Earnings per share--basic | \$ 1.46 | \$ 1.39 | \$.90 |
| Earnings per share--diluted | \$ 1.38 | \$ 1.32 | \$.86 |

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

S. Operations by Business Segment and Geographic Information

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

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

Utility--Utility is principally engaged in providing services to our utility customers--investor-owned, municipal utilities, and rural electric cooperatives--including: the practice of line-clearing and vegetation management around power lines 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. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies except that (a) we compute and recognize depreciation expense for

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our segments only by the straight-line method and (b) state income taxes are allocated to the segments. Corporate expenses are substantially allocated among the operating segments, but the nature of expenses allocated may differ from year-to-year. There are no intersegment revenues. Segment assets are those generated or directly used by each segment, and include accounts receivable, operating supplies, and property and equipment.

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

| | Utility Services | Residential Commercial Services | All Other | Reconciling Adjustments | Consolidated |
|-------------------------------|---------------------|---------------------------------------|-----------------|----------------------------|------------------|
| Fiscal Year 2021 | | | | | |
| Revenues | \$ 765,072 | \$ 610,666 | \$ 2,315 | \$ — | \$ 1,378,053 |
| Income (loss) from operations | <u>73,893</u> | <u>60,261</u> | <u>(27,016)</u> | (5,872) (a) | 101,266 |
| Interest expense | | | | (4,973) | (4,973) |
| Interest income | | | | 175 | 175 |
| Other income (expense), net | | | | <u>(7,021)</u> | (7,021) |
| Income before income taxes | | | | | <u>\$ 89,447</u> |
| Depreciation | \$ 25,364 | \$ 24,634 | \$ — | \$ 2,929 (b) | \$ 52,927 |
| Amortization | 611 | 2,430 | — | 3 | 3,044 |
| Capital expenditures | 23,303 | 36,506 | — | 15,882 | 75,691 |
| Segment assets, total | <u>298,070</u> | <u>275,204</u> | <u>—</u> | <u>199,667 (c)</u> | <u>772,941</u> |
| Fiscal Year 2020 | | | | | |
| Revenues | \$ 739,118 | \$ 545,357 | \$ 3,077 | \$ — | \$ 1,287,552 |
| Income (loss) from operations | <u>73,592</u> | <u>53,623</u> | <u>(25,297)</u> | (7,717) (a) | 94,201 |
| Interest expense | | | | (6,899) | (6,899) |
| Interest income | | | | 2,135 | 2,135 |
| Other income (expense), net | | | | <u>(5,555)</u> | (5,555) |
| Income before income taxes | | | | | <u>\$ 83,882</u> |
| Depreciation | \$ 27,545 | \$ 23,553 | \$ — | \$ 2,790 (b) | \$ 53,888 |
| Amortization | 530 | 2,297 | — | — | 2,827 |
| Capital expenditures | 22,595 | 21,327 | — | 7,728 | 51,650 |
| Segment assets, total | <u>280,467</u> | <u>238,876</u> | <u>—</u> | <u>136,011 (c)</u> | <u>655,354</u> |
| Fiscal Year 2019 | | | | | |
| Revenues | \$ 607,556 | \$ 534,655 | \$ 1,509 | \$ — | \$ 1,143,720 |
| Income (loss) from operations | <u>37,696</u> | <u>52,471</u> | <u>(12,963)</u> | (7,248) (a) | 69,956 |
| Interest expense | | | | (8,514) | (8,514) |
| Interest income | | | | 348 | 348 |
| Other income (expense), net | | | | <u>(8,112)</u> | (8,112) |
| Income before income taxes | | | | | <u>\$ 53,678</u> |
| Depreciation | \$ 30,304 | \$ 23,537 | \$ — | \$ 3,451 (b) | \$ 57,292 |
| Amortization | 474 | 2,071 | — | — | 2,545 |
| Capital expenditures | 26,528 | 24,573 | — | 7,564 | 58,665 |
| Segment assets, total | <u>267,982</u> | <u>226,313</u> | <u>—</u> | <u>102,629 (c)</u> | <u>596,924</u> |

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

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

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

| | Year Ended December 31, | | |
|-------------------------------|-------------------------|---------------------|---------------------|
| | 2021 | 2020 | 2019 |
| Revenues | | | |
| United States | \$ 1,292,496 | \$ 1,214,628 | \$ 1,066,035 |
| Canada | 85,557 | 72,924 | 77,685 |
| | <u>\$ 1,378,053</u> | <u>\$ 1,287,552</u> | <u>\$ 1,143,720</u> |
| | | | |
| | December 31, | | |
| | 2021 | 2020 | 2019 |
| Long-lived assets, net | | | |
| United States | \$ 397,624 | \$ 324,776 | \$ 288,196 |
| Canada | 27,062 | 25,516 | 27,303 |
| | <u>\$ 424,686</u> | <u>\$ 350,292</u> | <u>\$ 315,499</u> |

T. Revenue Recognition

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

Nature of Performance Obligations and Significant Judgments

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

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

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of the contract as we are responsible for providing a continuous delivery of outsourced maintenance activities over the contract term. As such, for contracts that contain a combination of services, we have concluded that we have a single performance obligation, which is accounted for as a series of distinct services.

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

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

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

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

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Disaggregation of Revenue

The following tables disaggregate our revenue for the years ended December 31, 2021, December 31, 2020 and December 31, 2019 by major sources:

| Year Ended December 31, 2021 | Utility | Residential and Commercial | All Other | Consolidated |
|-------------------------------------|-------------------|-----------------------------------|------------------|---------------------|
| Type of service: | | | | |
| Tree and plant care | \$ 530,632 | \$ 358,589 | \$ (337) | \$ 888,884 |
| Grounds maintenance | — | 155,543 | — | 155,543 |
| Storm damage services | 16,763 | 6,690 | — | 23,453 |
| Consulting and other | 217,677 | 89,844 | 2,652 | 310,173 |
| Total revenues | <u>\$ 765,072</u> | <u>\$ 610,666</u> | <u>\$ 2,315</u> | <u>\$ 1,378,053</u> |

Geography:

| | | | | |
|----------------|-------------------|-------------------|-----------------|---------------------|
| United States | \$ 723,577 | \$ 566,604 | \$ 2,315 | \$ 1,292,496 |
| Canada | 41,495 | 44,062 | — | 85,557 |
| Total revenues | <u>\$ 765,072</u> | <u>\$ 610,666</u> | <u>\$ 2,315</u> | <u>\$ 1,378,053</u> |

| Year Ended December 31, 2020 | Utility | Residential and Commercial | All Other | Consolidated |
|-------------------------------------|-------------------|-----------------------------------|------------------|---------------------|
| Type of service: | | | | |
| Tree and plant care | \$ 535,260 | \$ 318,061 | \$ 61 | \$ 853,382 |
| Grounds maintenance | — | 138,885 | — | 138,885 |
| Storm damage services | 20,907 | 9,724 | — | 30,631 |
| Consulting and other | 182,951 | 78,687 | 3,016 | 264,654 |
| Total revenues | <u>\$ 739,118</u> | <u>\$ 545,357</u> | <u>\$ 3,077</u> | <u>\$ 1,287,552</u> |

Geography:

| | | | | |
|----------------|-------------------|-------------------|-----------------|---------------------|
| United States | \$ 703,324 | \$ 508,227 | \$ 3,077 | \$ 1,214,628 |
| Canada | 35,794 | 37,130 | — | 72,924 |
| Total revenues | <u>\$ 739,118</u> | <u>\$ 545,357</u> | <u>\$ 3,077</u> | <u>\$ 1,287,552</u> |

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

Geography:

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

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Contract Balances

Our contract liabilities consist of advance payments, billings in excess of costs incurred and deferred revenue. The Company has recognized \$1,353 and \$1,530 of revenue for the twelve months ended December 31, 2021 and December 31, 2020, respectively, that was included in the contract liability balance at December 31, 2020 and December 31, 2019, respectively. Net contract liabilities consisted of the following:

| | December 31, 2021 | December 31, 2020 |
|-----------------------------------|----------------------|----------------------|
| Contract liabilities - current | \$ 3,888 | \$ 3,242 |
| Contract liabilities - noncurrent | 1,845 | 1,754 |
| Net contract liabilities | <u>\$ 5,733</u> | <u>\$ 4,996</u> |

Practical Expedients & Accounting Policy Elections

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

U. 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.

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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.

Our assets and liabilities measured at fair value on a recurring basis at December 31, 2021 and December 31, 2020, were as follows:

| Description | Total Carrying Value at December 31, 2021 | Fair Value Measurements at December 31, 2021 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 | \$ 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 | \$ — |

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| Description | Total Carrying Value at December 31, 2020 | Fair Value Measurements at December 31, 2020 Using: | | |
|--------------------------------------|--|--|---|--|
| | | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Assets: | | | | |
| Certificates of deposits, noncurrent | \$ 19,359 | \$ 19,359 | \$ — | \$ — |
| Liabilities: | | | | |
| Deferred compensation | \$ 3,192 | \$ — | \$ 3,192 | \$ — |

The assets invested for self-insurance are certificates of deposits, 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.

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:

| | December 31, 2021 | | December 31, 2020 | |
|---------------------------------------|-------------------|-------------------|-------------------|------------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Assets: | | | | |
| Available-for-sale debt securities | \$ 3,406 | \$ 3,406 | \$ — | \$ — |
| Marketable equity securities | 11,386 | 11,386 | — | — |
| Liabilities: | | | | |
| Revolving credit facility, noncurrent | 46,832 | 46,832 | — | — |
| Senior unsecured notes | 75,000 | 78,432 | 75,000 | 81,424 |
| Term loans, noncurrent | 2,373 | 2,431 | 2,324 | 2,451 |
| Total | <u>\$ 124,205</u> | <u>\$ 127,695</u> | <u>\$ 77,324</u> | <u>\$ 83,875</u> |

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.

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V. Commitments and Contingencies

Letters of Credit

At December 31, 2021, we were contingently liable to our principal banks in the amount of \$88,362 for letters of credit outstanding primarily related to insurance coverage.

Surety Bonds

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

Litigation

We are party to a number of lawsuits, threatened lawsuits and other claims arising out of the normal course of business. On a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. These legal accruals may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, we do not record 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.

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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. 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. On December 27, 2021, the DOJ advised that criminal cases (unrelated to the Company) for the individual criminal defendants was now scheduled, with the trial for Higinio Perez-Braco scheduled for April 12, 2022 and the trial of Pablo Rangel and Juan Rangel-Rubio scheduled for May 10, 2022. 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

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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 by April 29, 2022, 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 Plaintiff's 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.

Subsidiaries of the Registrant

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

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

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in:

- a. Registration Statement (Form S-8 No. 333-123767) pertaining to The Davey Tree Expert Company 2004 Omnibus Stock Plan;
- b. Registration Statements (Form S-8 No. 333-172738, Form S-8 No. 333-187205, Form S-8 No. 333-203865, Form S-8 No. 333-211465 and Form S-8 No. 333-259875) pertaining to The Davey 401KSOP and ESOP; and
- c. Registration Statement (Form S-8 No. 333-196224) pertaining to The Davey Tree Expert Company 2014 Omnibus Stock Plan.

of our reports dated March 11, 2022, relating to (1) the consolidated financial statements of The Davey Tree Expert Company (the “Company”), and (2) the effectiveness of The Davey Tree Expert Company’s internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2021.

/s/ Deloitte & Touche LLP

Cleveland, Ohio

March 11, 2022

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

Certification of Chief Executive Officer

I, Patrick M. Covey, certify that:

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

Date: March 11, 2022

/s/ Patrick M. Covey

Patrick M. Covey

Chairman, President and Chief Executive Officer

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

Certification of Chief Financial Officer

I, Joseph R. Paul, certify that:

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

Date: March 11, 2022

/s/ Joseph R. Paul

Joseph R. Paul

Executive Vice President, Chief Financial Officer and Assistant Secretary

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

Certification of Chief Executive Officer

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

1. The Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and,
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 11, 2022

/s/ Patrick M. Covey

Patrick M. Covey

Chairman, President and Chief Executive Officer

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

Certification of Chief Financial Officer

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

1. The Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and,
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 11, 2022

/s/ Joseph R. Paul

Joseph R. Paul

Executive Vice President, Chief Financial Officer and Assistant Secretary

DESCRIPTION OF THE DAVEY TREE EXPERT COMPANY COMMON STOCK

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

Authorized Capital

The Company’s authorized capital consists of 96,000,000 shares of common stock, \$0.50 par value per share (the “Common Stock”), and 4,000,000 shares of preferred stock, without par value (the “Preferred Stock”).

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

No Public Market for Common Stock

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

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

Rights and Preferences

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

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

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

Voting Rights

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

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

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

Dividends

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

Transfer Restrictions

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

Right of First Refusal and Repurchase Right

Article SIXTH of the Company's Articles of Incorporation generally provides that when a shareholder, or following the death of a shareholder, the shareholder's estate or personal representative, proposes to sell, assign, transfer, pledge, hypothecate or otherwise dispose of, by operation of law or otherwise (each, a "transfer"), shares of Common Stock, other than transfers to an employee of the Company or any subsidiary of the Company, then the Company and the ESOT have the right, at their option, to purchase all (but not less than all) of the shares of Common Stock proposed to be transferred on the terms and conditions set forth in Article SIXTH. The right of first refusal is intended to encompass all proposed transfers of shares of Common Stock to third parties, except for transfers to current employees of the Company, in order to fully support the Company's policy of favoring employee ownership.

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

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

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

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

2014 Omnibus Plan

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

Preferred Stock

Shares of Preferred Stock are issuable only to holders of Common Stock as a class, unless the holders of Common Stock as a class waive such right of issuance. The Board, without any further action by the holders of Common Stock, may, at any time and from time to time, adopt an amendment or amendments to the Articles of Incorporation in respect of any shares of Preferred Stock which constitute unissued or treasury shares at the time of such adoption, for the purpose of dividing any or all of such shares of Preferred Stock into such series as the Board shall determine. The Board may, within the limitations prescribed by Ohio law, fix the express terms of any series of Preferred Stock, including dividend rights, liquidation rights, redemption rights, sinking fund requirements, if any, conversion rights and restrictions on the issuance of shares of any class or series of the Company.

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

The Company has no outstanding shares of Preferred Stock.

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

Ohio Anti-Takeover Law

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

Ohio Control Share Acquisition Act

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

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

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

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

Ohio Merger Moratorium Statute

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

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

Articles of Incorporation and Code of Regulations

The Company's Articles of Incorporation and Regulations include anti-takeover provisions that:

- a. authorize the Board of Directors, subject to a right of first refusal by the holders of Common Stock, to issue shares of Preferred Stock in one or more series, and with respect to each series, to fix the number of shares constituting that series,

and establish the rights and terms of that series with limitations prescribed by the provisions of the Ohio General Corporation Law;

- b. divide the Board of Directors into three classes consisting of not less than three directors (including vacancies), each of whose terms in office expire in consecutive years;
- c. establish advance notice procedures for shareholders to submit nominations of candidates for election to the Board of Directors;
- d. require holders of at least 25% of the shares of Common Stock to call a special meeting of shareholders;
- e. allow the Company's Board of Directors to fill vacancies on the Board by the vote of a majority, however caused (subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances); and
- f. grant the Company and the ESOT rights of first refusal and repurchase rights upon certain proposed transfers of shares of Common Stock.

Provisions of the Company's Articles of Incorporation and Regulations may delay or discourage transactions involving an actual or potential change in the Company's control or change in the Company's Board of Directors or management, including transactions in which shareholders might otherwise receive a premium for their shares or transactions that the Company's shareholders might otherwise deem to be in their best interests.

Authorized and Unissued Shares

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

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