
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 28, 2024

OR

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

For the transition period from _____ to _____

Commission file number 000-11917



THE DAVEY TREE EXPERT COMPANY

(Exact name of registrant as specified in its charter)

Ohio

34-0176110

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

1500 North Mantua Street

P.O. Box 5193

Kent, OH 44240

(Address of principal executive offices) (Zip code)

(330) 673-9511

(Registrant's telephone number, including area code)

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

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Emerging Growth Company

Non-Accelerated Filer

Smaller Reporting Company

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

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

There were 40,398,305 Common Shares, \$.50 par value, outstanding as of November 1, 2024. The registrant's Common Shares are not traded on a public market.

The Davey Tree Expert Company
Quarterly Report on Form 10-Q
September 28, 2024

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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.

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

	September 28, 2024	December 31, 2023
Assets		
Current assets:		
Cash	\$ 17,623	\$ 11,070
Accounts receivable, net	384,108	360,470
Operating supplies	18,466	18,369
Other current assets	113,988	116,771
Total current assets	534,185	506,680
Property and equipment, net	386,948	312,678
Right-of-use assets - operating leases	98,346	110,248
Marketable securities and other investments	38,973	34,565
Insurance receivable	207,544	200,000
Other assets	17,972	11,875
Intangible assets, net	19,781	20,214
Goodwill	95,531	84,800
Total assets	\$ 1,399,280	\$ 1,281,060
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 61,367	\$ 59,140
Accrued expenses	96,662	81,944
Current portion of long-term debt and finance lease liabilities	57,694	45,223
Other current liabilities	86,007	89,965
Total current liabilities	301,730	276,272
Long-term debt	332,832	283,177
Lease liabilities - finance leases	13,269	13,544
Lease liabilities - operating leases	61,343	71,134
Self-insurance accruals	96,327	84,053
Litigation accruals	207,545	200,000
Other noncurrent liabilities	11,712	11,726
Total liabilities	1,024,758	939,906
Commitments and contingencies (Note P)		
Redeemable common shares related to 401KSOP and Employee Stock Ownership Plan (ESOP) 8,381 and 8,499 shares at redemption value as of September 28, 2024 and December 31, 2023	191,093	188,680
Common shareholders' equity:		
Common shares, \$.50 par value, per share; 96,000 shares authorized; 77,446 and 77,328 shares issued and outstanding before deducting treasury shares and which excludes 8,381 and 8,499 shares subject to redemption as of September 28, 2024 and December 31, 2023	38,723	39,308
Additional paid-in capital	212,941	197,962
Common shares subscribed, unissued	21,462	22,832
Retained earnings	375,751	330,436
Accumulated other comprehensive loss	(5,086)	(4,785)
	643,791	585,753
Less: Cost of common shares held in treasury; 44,746 shares at September 28, 2024 and 44,480 shares at December 31, 2023	446,959	416,616
Common shares subscription receivable	13,403	16,663
Total common shareholders' equity	183,429	152,474
Total liabilities and shareholders' equity	\$ 1,399,280	\$ 1,281,060

See notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended		Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Revenues	\$ 479,440	\$ 450,634	\$ 1,365,903	\$ 1,267,174
Costs and expenses:				
Operating	300,535	285,019	881,620	808,509
Selling	84,319	84,982	235,806	229,480
General and administrative	36,956	31,155	112,817	95,041
Depreciation and amortization	17,860	14,935	51,639	43,479
Gain on sale of assets, net	(1,190)	(1,694)	(3,651)	(6,530)
Total costs and expenses	<u>438,480</u>	<u>414,397</u>	<u>1,278,231</u>	<u>1,169,979</u>
Income from operations	40,960	36,237	87,672	97,195
Other income (expense):				
Interest expense	(5,319)	(4,751)	(14,608)	(13,588)
Interest income	970	502	2,494	1,329
Other, net	(1,111)	(2,890)	(4,644)	(4,365)
Income before income taxes	35,500	29,098	70,914	80,571
Income taxes	9,476	8,401	17,445	21,835
Net income	<u>\$ 26,024</u>	<u>\$ 20,697</u>	<u>\$ 53,469</u>	<u>\$ 58,736</u>
Net income per share:				
Basic	<u>\$.63</u>	<u>\$.48</u>	<u>\$ 1.27</u>	<u>\$ 1.35</u>
Diluted	<u>\$.60</u>	<u>\$.46</u>	<u>\$ 1.21</u>	<u>\$ 1.29</u>
Weighted-average shares outstanding:				
Basic	<u>41,629</u>	<u>43,123</u>	<u>42,209</u>	<u>43,394</u>
Diluted	<u>43,302</u>	<u>45,186</u>	<u>44,059</u>	<u>45,501</u>

See notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended		Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Net income	\$ 26,024	\$ 20,697	\$ 53,469	\$ 58,736
Components of other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	346	(515)	(480)	81
Unrealized gain (loss) on available-for-sale securities	344	2	179	(139)
Other comprehensive income (loss), net of tax	<u>690</u>	<u>(513)</u>	<u>(301)</u>	<u>(58)</u>
Comprehensive income	<u>\$ 26,714</u>	<u>\$ 20,184</u>	<u>\$ 53,168</u>	<u>\$ 58,678</u>

See notes to condensed consolidated financial statements (unaudited).

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

	Common Shares	Additional Paid-in Capital	Common Shares Subscribed, Unissued	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Common Shares Held in Treasury	Common Shares Subscription Receivable	Total Common Shareholders' Equity
Balances at June 29, 2024	\$ 38,757	\$ 210,806	\$ 22,041	\$ 350,779	\$ (5,776)	\$ (439,799)	\$ (15,552)	\$ 161,256
Net income	—	—	—	26,024	—	—	—	26,024
Change in 401KSOP and ESOP related shares	(34)	(1,513)	—	—	—	—	—	(1,547)
Shares sold to employees	—	1,666	—	—	—	1,278	—	2,944
Options exercised	—	(16)	—	—	—	145	—	129
Subscription shares	—	285	(579)	—	—	340	2,149	2,195
Stock-based compensation	—	1,713	—	—	—	—	—	1,713
Dividends, \$.025 per share	—	—	—	(1,052)	—	—	—	(1,052)
Other comprehensive income	—	—	—	—	690	—	—	690
Shares purchased	—	—	—	—	—	(8,923)	—	(8,923)
Balances at September 28, 2024	<u>\$ 38,723</u>	<u>\$ 212,941</u>	<u>\$ 21,462</u>	<u>\$ 375,751</u>	<u>\$ (5,086)</u>	<u>\$ (446,959)</u>	<u>\$ (13,403)</u>	<u>\$ 183,429</u>
Balances at January 1, 2024	\$ 39,308	\$ 197,962	\$ 22,832	\$ 330,436	\$ (4,785)	\$ (416,616)	\$ (16,663)	\$ 152,474
Net income	—	—	—	53,469	—	—	—	53,469
Change in 401KSOP and ESOP related shares	(585)	3,160	—	(4,988)	—	—	—	(2,413)
Shares sold to employees	—	11,267	—	—	—	9,608	—	20,875
Options exercised	—	280	—	—	—	8,542	—	8,822
Subscription shares	—	428	(1,370)	—	—	507	3,260	2,825
Stock-based compensation	—	(156)	—	—	—	—	—	(156)
Dividends, \$.075 per share	—	—	—	(3,166)	—	—	—	(3,166)
Other comprehensive loss	—	—	—	—	(301)	—	—	(301)
Shares purchased	—	—	—	—	—	(49,000)	—	(49,000)
Balances at September 28, 2024	<u>\$ 38,723</u>	<u>\$ 212,941</u>	<u>\$ 21,462</u>	<u>\$ 375,751</u>	<u>\$ (5,086)</u>	<u>\$ (446,959)</u>	<u>\$ (13,403)</u>	<u>\$ 183,429</u>

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

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

See notes to condensed consolidated financial statements (unaudited).

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

	Nine Months Ended	
	September 28, 2024	September 30, 2023
Operating activities		
Net income	\$ 53,469	\$ 58,736
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	51,639	43,479
Other	2,644	(1,331)
Changes in operating assets and liabilities, net of assets acquired:		
Accounts receivable	(22,538)	(44,944)
Accounts payable and accrued expenses	16,624	(10,213)
Self-insurance accruals	10,485	5,760
Prepaid expenses	(1,365)	(14,069)
Mitigation bank credit inventory	656	(14,520)
Other, net	(1,783)	13,440
	<u>56,362</u>	<u>(22,398)</u>
Net cash provided by operating activities	109,831	36,338
Investing activities		
Capital expenditures:		
Equipment	(81,405)	(48,872)
Land and buildings	(30,963)	(15,408)
Purchases of businesses, net of cash acquired and debt incurred	(18,705)	(18,002)
Proceeds from sales of property and equipment	6,709	10,116
Purchases of marketable securities	(24,033)	(36,331)
Proceeds from sale of marketable securities	15,989	30,086
	<u>(132,408)</u>	<u>(78,411)</u>
Net cash used in investing activities	(132,408)	(78,411)
Financing activities		
Revolving credit facility borrowings	573,696	549,226
Revolving credit facility payments	(510,746)	(493,398)
Purchase of common shares for treasury	(49,000)	(49,836)
Sale of common shares from treasury	32,190	30,212
Dividends paid	(3,166)	(2,807)
Proceeds from notes payable	74,816	58,317
Payments of notes payable	(83,571)	(51,444)
Payments of finance leases	(5,048)	(2,943)
	<u>29,171</u>	<u>37,327</u>
Net cash provided by financing activities	29,171	37,327
Effect of exchange rate changes on cash	(41)	11
Increase (Decrease) in cash	6,553	(4,735)
Cash, beginning of period	11,070	18,526
	<u>\$ 17,623</u>	<u>\$ 13,791</u>
Cash, end of period	\$ 17,623	\$ 13,791
Supplemental cash flow information follows:		
Interest paid	\$ 17,631	\$ 13,914
Income taxes paid	8,793	20,633

See notes to condensed consolidated financial statements (unaudited).

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 28, 2024
(Amounts in thousands, except share data)

A. Basis of Financial Statement Preparation

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

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

Certain information and disclosures required by U.S. GAAP for complete financial statements have been omitted in accordance with the rules and regulations of the SEC. We suggest that these condensed consolidated financial statements be read in conjunction with the financial statements included in our annual report on Form 10-K for the year ended December 31, 2023 (the “2023 Annual Report”).

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

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

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

The Company’s fiscal quarters each contain thirteen operating weeks, with the exception of the fourth quarter of a 53-week fiscal year, which contains fourteen operating weeks. The Company’s fiscal quarter that ended September 28, 2024 is referred to as the third quarter of 2024, and the fiscal quarter ended September 30, 2023 is referred to as the third quarter of 2023.

Recent Accounting Guidance

Accounting Standards not yet Adopted

Accounting Standards Update 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures--In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 28, 2024
(Amounts in thousands, except share data)

new standard provides improvements to reportable segment disclosure requirements through amendments that require disclosure of significant segment expenses and other segment items on an interim and annual basis and requires all annual disclosures about a reportable segment's profit or loss and assets to be made on an interim basis. The standard also requires the disclosure of the chief operating decision maker's ("CODM") title and position and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources. The standard also clarifies that if the CODM uses more than one measure in assessing segment performance and deciding how to allocate resources, a company may report the additional segment profit or loss measure(s) and that companies with a single reportable segment must provide all disclosures required by this amendment. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The standard should be applied retrospectively to all prior periods presented in the financial statements. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

Accounting Standards Update 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures--In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. The new standard was issued to improve transparency and decision usefulness of income tax disclosures by providing information that helps investors better understand how an entity's operations, tax risks, tax planning and operational opportunities affect its tax rate and prospects for future cash flows. The amendments in this update primarily relate to requiring greater disaggregated disclosure of information in the rate reconciliation, income taxes paid, income (loss) from continuing operations before income tax expense (benefit), and income tax expense (benefit) from continuing operations. The ASU is effective for fiscal years beginning after December 15, 2024, and early adoption is permitted. The standard can be applied prospectively or retrospectively. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

B. Seasonality of Business

Due to the seasonality of our business, our operating results for the three and nine months ended September 28, 2024 are not indicative of results that may be expected for any other interim period or for the year ending December 31, 2024. Our business seasonality traditionally results in higher revenues during the second and third quarters as compared with the first and fourth quarters of the year, while the methods of accounting for fixed costs, such as depreciation expense, amortization, rent and interest expense, are not significantly impacted by business seasonality.

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

Accounts receivable, net, consisted of the following:

Accounts receivable, net	September 28, 2024	December 31, 2023
Accounts receivable	\$ 264,226	\$ 263,426
Unbilled receivables ⁽¹⁾	123,605	99,485
	<u>387,831</u>	<u>362,911</u>
Less allowances for credit losses	3,723	2,441
Accounts receivable, net	<u>\$ 384,108</u>	<u>\$ 360,470</u>

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 28, 2024
(Amounts in thousands, except share data)

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

	September 28, 2024	December 31, 2023
Other current assets		
Prepaid expenses	\$ 48,078	\$ 44,534
Mitigation bank credit inventory	27,729	28,385
Assets invested for self-insurance	25,324	20,959
Payroll taxes refundable	12,704	22,591
Other	153	302
Total	<u>\$ 113,988</u>	<u>\$ 116,771</u>
	September 28, 2024	December 31, 2023
Property and equipment, net		
Land and land improvements	\$ 28,814	\$ 28,177
Buildings and leasehold improvements	124,894	99,964
Equipment	744,118	684,562
	<u>897,826</u>	<u>812,703</u>
Less accumulated depreciation	510,878	500,025
Total	<u>\$ 386,948</u>	<u>\$ 312,678</u>
	September 28, 2024	December 31, 2023
Other assets, noncurrent		
Investment--cost-method affiliate	\$ 1,654	\$ 1,405
Deferred income taxes	6,514	6,001
Cloud computing arrangements	52	107
Other	9,752	4,362
Total	<u>\$ 17,972</u>	<u>\$ 11,875</u>
	September 28, 2024	December 31, 2023
Accrued expenses		
Employee compensation	\$ 41,942	\$ 40,656
Accrued compensated absences	16,066	14,483
Self-insured medical claims	3,135	2,309
Income tax payable	10,357	1,135
Customer advances, deposits	2,331	1,275
Taxes, other than income	10,972	6,017
Other	11,859	16,069
Total	<u>\$ 96,662</u>	<u>\$ 81,944</u>
	September 28, 2024	December 31, 2023
Other current liabilities		
Notes payable	\$ —	\$ 543
Current portion of:		
Lease liability-operating leases	37,417	39,043
Self-insurance accruals	48,590	50,379
Total	<u>\$ 86,007</u>	<u>\$ 89,965</u>

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 28, 2024
(Amounts in thousands, except share data)

Other noncurrent liabilities	September 28, 2024	December 31, 2023
Non-qualified retirement plans	\$ 5,783	\$ 5,630
Other	5,929	6,096
Total	\$ 11,712	\$ 11,726

D. Business Combinations

Our cash investments in businesses during the first nine months of 2024 were \$18,865 and we issued debt, in the form of notes payable to the sellers, of \$6,134 which have been included in our Residential and Commercial segment. Measurement-period adjustments are not complete. The measurement period for purchase price allocations ends as soon as information of the facts and circumstances becomes available, but does not exceed one year from the acquisition date. During the year ended December 31, 2023, our cash investments in businesses was \$21,746 and debt issued, in the form of notes payable to the sellers, was \$7,046.

Pro forma net sales and results of operations for the acquisitions, had they occurred at the beginning of the nine months ended September 28, 2024, are not material and, accordingly, are not provided.

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

The effect of these acquisitions on our consolidated revenues and results of operations for the three and nine months ended September 28, 2024 was not significant.

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

Detail of acquisitions:	Nine Months Ended September 28, 2024	Year Ended December 31, 2023
Assets acquired:		
Cash	\$ 160	\$ 249
Receivables	1,379	211
Operating supplies	735	1,538
Prepaid expense	—	141
Equipment	9,841	7,220
Deposits and other	1,323	2,658
Intangible assets	3,568	7,302
Goodwill	10,782	14,758
Liabilities assumed	(2,789)	(5,285)
Debt issued for purchases of businesses	(6,134)	(7,046)
Cash paid	\$ 18,865	\$ 21,746

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E. Marketable Securities

The following table summarizes available-for-sale debt securities held at September 28, 2024 and December 31, 2023 by asset type:

	Available-For-Sale Debt Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Net Carrying Amount)
September 28, 2024				
Fixed maturity:				
United States Government and agency securities	\$ 43,930	\$ 710	\$ (19)	\$ 44,621
Total available-for-sale debt securities	<u>\$ 43,930</u>	<u>\$ 710</u>	<u>\$ (19)</u>	<u>\$ 44,621</u>
December 31, 2023				
Fixed maturity:				
United States Government and agency securities	\$ 36,409	\$ 411	\$ (18)	\$ 36,802
Corporate notes and bonds	260	—	—	260
Total available-for-sale debt securities	<u>\$ 36,669</u>	<u>\$ 411</u>	<u>\$ (18)</u>	<u>\$ 37,062</u>

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

Available-for-sale debt securities are included in other current assets and marketable securities and other investments totaling \$44,621 and \$37,062 at September 28, 2024 and December 31, 2023, respectively. Realized gains and losses on sales of available-for-sale debt securities are recognized in net income on the specific identification basis. Changes in the fair values of available-for-sale debt securities that are determined to be holding gains or losses are recorded through accumulated other comprehensive income (loss) net of applicable taxes, within shareholders' equity. In assessing whether a credit loss exists, we evaluate our ability to hold the investment, the strength of the underlying collateral and the extent to which the investment's amortized cost or cost, as appropriate, exceeds its related fair value.

We held \$14,427 and \$12,102 in marketable equity securities as of September 28, 2024 and December 31, 2023, respectively. Realized and unrealized gains and losses on marketable equity securities are included in other income (expense) in the Consolidated Statements of Operations.

The net carrying values of available-for-sale debt securities at September 28, 2024 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	\$ 22,556	\$ 22,825
One year through five years	21,374	21,796
Six years through ten years	—	—
After ten years	—	—
Total	<u>\$ 43,930</u>	<u>\$ 44,621</u>

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F. Identified Intangible Assets and Goodwill, Net

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

	<u>September 28, 2024</u>		<u>December 31, 2023</u>	
	<u>Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Carrying Amount</u>	<u>Accumulated Amortization</u>
Amortized intangible assets:				
Customer lists/relationships	\$ 43,743	\$ 31,602	\$ 41,679	\$ 29,252
Employment-related	13,885	10,823	13,007	9,957
Tradenames	13,473	8,895	12,860	8,123
Amortized intangible assets	71,101	<u>\$ 51,320</u>	67,546	<u>\$ 47,332</u>
Less accumulated amortization	51,320		47,332	
Identified intangible assets, net	<u>\$ 19,781</u>		<u>\$ 20,214</u>	
Goodwill	<u>\$ 95,531</u>		<u>\$ 84,800</u>	

The changes in the carrying amounts of goodwill, by segment, for the nine months ended September 28, 2024 and the year ended December 31, 2023 were as follows:

	<u>Balance at January 1, 2024</u>	<u>Acquisitions</u>	<u>Translation and Other Adjustments</u>	<u>Balance at September 28, 2024</u>
Utility	\$ 4,941	\$ —	\$ —	\$ 4,941
Residential and Commercial	79,859	10,782	(51)	90,590
Total	<u>\$ 84,800</u>	<u>\$ 10,782</u>	<u>\$ (51)</u>	<u>\$ 95,531</u>

	<u>Balance at January 1, 2023</u>	<u>Acquisitions</u>	<u>Translation and Other Adjustments</u>	<u>Balance at December 31, 2023</u>
Utility	\$ 4,941	\$ —	\$ —	\$ 4,941
Residential and Commercial	65,166	14,758	(65)	79,859
Total	<u>\$ 70,107</u>	<u>\$ 14,758</u>	<u>\$ (65)</u>	<u>\$ 84,800</u>

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Estimated future aggregate amortization expense of intangible assets--The estimated future aggregate amortization expense of intangible assets, as of September 28, 2024, was as follows:

	Estimated Future Amortization Expense
Remaining three months of 2024	\$ 1,445
2025	4,910
2026	4,070
2027	3,485
2028	2,688
2029	2,164
Thereafter	1,019
	\$ 19,781

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

We have short-term lines of credit with several banks totaling \$11,097. At September 28, 2024, we had \$10,323 available under the lines of credit with \$508 borrowings outstanding and \$265 committed through issued letters of credit. Borrowings outstanding generally bear interest at the bank's prime rate or Secured Overnight Financing Rate ("SOFR") plus a margin adjustment of 1.86%.

Our long-term debt consisted of the following:

	September 28, 2024	December 31, 2023
Revolving credit facility:		
Swing-line borrowings	\$ 5,492	\$ 6,616
SOFR borrowings	200,000	135,000
	205,492	141,616
Senior unsecured notes:		
3.99% Senior unsecured notes	40,000	50,000
4.00% Senior unsecured notes	20,000	25,000
6.19% Senior unsecured notes	75,000	75,000
	135,000	150,000
Term loans	45,959	32,442
	386,451	324,058
Less debt issuance costs	1,326	452
Less current portion	52,293	40,429
	\$ 332,832	\$ 283,177

Revolving Credit Facility--In July 2024, the Company amended and restated its revolving credit facility with its existing bank group. The amended and restated credit agreement, which expires in July 2029, permits borrowings, as defined, of up to \$400,000, including a combined term loan and letter of credit sublimit of \$150,000 and a swing-line commitment of \$50,000. Under certain circumstances, the Company may increase the revolving credit commitments and/or establish new incremental term loan commitments in an aggregate amount of up to \$150,000. 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 3.25 to 1.00 with exceptions in case

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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. The revolving credit facility allows for an adjustment to earnings before interest, taxes, depreciation and amortization of up to \$55,000 for four quarters in the event certain legal claims are settled. As of September 28, 2024, we had unused commitments under the facility approximating \$191,884, with \$208,116 committed, consisting of borrowings of \$205,492 and issued letters of credit of \$2,624.

Borrowings outstanding bear interest, at Davey Tree's option, of either (a) the base rate or (b) SOFR plus a margin adjustment ranging from .875% to 1.50%--with the margin adjustments based on the Company's leverage ratio at the time of borrowing. The base rate is the greater of (i) the agent bank's prime rate, (ii) Adjusted Term SOFR plus 1.50%, or (iii) the federal funds rate plus .50%. A commitment fee ranging from .10% to .225% is also required based on the average daily unborrowed commitment.

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

The 3.99% Senior Notes were issued pursuant to a Note Purchase and Private Shelf Agreement (the "Note Purchase and Shelf Agreement") between the Company, PGIM, Inc. and the purchasers of the 3.99% Senior Notes, which was amended in August 2024. Among other things, the amendment increased the total facility limit to \$250,000 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 August 2027. 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 2024 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 \$250,000. As the Company has previously issued notes with an aggregate amount outstanding of \$135,000 under the Note Purchase and Shelf Agreement, as of September 28, 2024, it has the capacity to issue subsequent series of promissory notes pursuant to the Note Purchase and Shelf Agreement in the amount of \$115,000.

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 commenced 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 commenced on September 21, 2024.

6.19% Senior Unsecured Notes--On November 28, 2023, we issued 6.19% Senior Notes, Series C (the "6.19% Senior Notes") pursuant to the Note Purchase and Shelf Agreement in the aggregate principal amount of \$75,000. The 6.19% Senior Notes are due November 28,

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2028. The 6.19% 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 quarterly and three annual principal payments commence on November 28, 2026.

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

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

Aggregate Maturities of Long-Term Debt--Aggregate maturities of long-term debt based on the principal amounts outstanding at September 28, 2024 were as follows: 2024--\$11,892; 2025--\$43,039; 2026--\$34,096; 2027--\$46,931; 2028--\$45,000; and 2029 and thereafter--\$205,492.

Accounts Receivable Securitization Facility--In July 2024, the Company amended its Accounts Receivable Securitization Facility (as amended, the "AR Securitization program") to extend the scheduled termination date for an additional one-year period, to July 20, 2025. In addition to extending the termination date for another year, the amendment increased the limit of the AR Securitization program to \$125,000 and provided that the lender may issue loans, in addition to letters of credit, under the AR Securitization program.

The AR Securitization program has a limit of \$125,000, of which \$97,104 and \$89,689 were issued for letters of credit ("LCs") as of September 28, 2024 and December 31, 2023, respectively.

Under the AR Securitization program, Davey Tree transfers by selling or contributing current and future trade receivables to a wholly-owned, bankruptcy-remote financing subsidiary which pledges a perfected first priority security interest in the trade receivables--equal to the issued LCs as of September 28, 2024--to the bank in exchange for the bank issuing LCs.

Fees payable to the bank include: (a) an LC issuance fee, payable on each settlement date, in the amount of .90% per annum on the aggregate amount of all LCs outstanding plus outstanding reimbursement obligations (e.g., arising from drawn LCs), if any, and (b) an unused LC fee, payable monthly, equal to (i) .35% per annum for each day on which the sum of the total LCs outstanding plus any outstanding reimbursement obligations is greater than or equal to 50% of the facility limit and (ii) .45% per annum for each day on which the sum of the total LCs outstanding plus any outstanding reimbursement obligations is less than 50% of the facility limit. If an LC is drawn and the bank is not immediately reimbursed in full for the drawn amount, any outstanding reimbursement obligation will accrue interest at a per annum rate equal to the term SOFR, plus .10% or, in certain circumstances, a base rate equal to the greatest of (i) the bank's prime rate, (ii) the federal funds rate plus .50% and (iii) 1.00% above the daily one month SOFR plus .10% and, following any default, 2.00% plus the greater of (a) the term SOFR plus .10% and (b) a base rate equal to the greatest of (i), (ii) and (iii) above.

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

Total Commitments Related to Issued Letters of Credit--As of September 28, 2024, total commitments related to issued LCs were \$99,993, of which \$2,624 were issued under the revolving credit facility, \$97,104 were issued under the AR Securitization program, and \$265 were issued under short-term lines of credit. As of December 31, 2023, total commitments related to issued LCs were \$94,702, of

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which \$2,624 were issued under the revolving credit facility, \$89,689 were issued under the AR Securitization program, and \$2,389 were issued under short-term lines of credit.

As of September 28, 2024, we were in compliance with all debt covenants.

H. Leases

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

	Condensed Consolidated Balance Sheet Classification	September 28, 2024	December 31, 2023
Assets			
Operating lease assets	Right-of-use assets - operating leases	\$ 98,346	\$ 110,248
Finance lease assets	Property and equipment, net	18,689	18,613
Total lease assets		\$ 117,035	\$ 128,861
Liabilities			
Current operating lease liabilities	Other current liabilities	\$ 37,417	\$ 39,043
Non-current operating lease liabilities	Lease liabilities - operating leases	61,343	71,134
Total operating lease liabilities		98,760	110,177
Current portion of finance lease liabilities	Current portion of long-term debt and finance lease liabilities	5,401	4,794
Non-current finance lease liabilities	Lease liabilities - finance leases	13,269	13,544
Total finance lease liabilities		18,670	18,338
Total lease liabilities		\$ 117,430	\$ 128,515

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

Condensed Consolidated Statements of Operations Classification		Three Months Ended		Nine Months Ended	
		September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Operating lease cost	Operating expense	\$ 7,998	\$ 8,028	\$ 24,989	\$ 23,642
Operating lease cost	Selling expense	2,686	3,258	7,961	9,665
Operating lease cost	General and administrative expense	262	260	800	925
Finance lease cost:					
Amortization of right-of-use assets	Depreciation and amortization	1,584	1,123	4,520	2,965
Interest expense on lease liabilities	Interest expense	214	123	626	324
Other lease cost ⁽¹⁾	Operating expense	2,404	2,619	6,375	5,443
Other lease cost ⁽¹⁾	Selling expense	548	485	1,323	1,467
Other lease cost ⁽¹⁾	General and administrative expense	6	4	36	78
Total lease cost		<u>\$ 15,702</u>	<u>\$ 15,900</u>	<u>\$ 46,630</u>	<u>\$ 44,509</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 weighted average remaining lease terms as of September 28, 2024 was 3.4 years for operating leases and 4.0 years for finance leases.

The discount rate implicit within our leases is generally not determinable, and therefore the Company determines the discount rate based on its incremental borrowing rate. The incremental borrowing rate for each lease is determined based on its term and the currency in which lease payments are made, adjusted for the impacts of collateral. The weighted average discount rates used to measure our lease liabilities as of September 28, 2024 were 4.28% for operating leases and 4.61% for finance leases.

Supplemental Cash Flow Information Related to Leases

	Nine Months Ended	
	September 28, 2024	September 30, 2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ (35,391)	\$ (33,546)
Operating cash flows from finance leases	(626)	(325)
Financing cash flows from finance leases	(5,048)	(2,943)
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	22,699	35,666
Finance leases	5,381	5,231

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Maturity Analysis of Lease Liabilities

	As of September 28, 2024	
	Operating Leases	Finance Leases
Remaining three months of 2024	\$ 11,068	\$ 1,539
2025	38,532	6,041
2026	26,561	5,266
2027	15,363	3,228
2028	7,637	2,210
2029	3,268	1,260
Thereafter	4,039	886
Total lease payments	106,468	20,429
Less interest	7,708	1,759
Total	<u>\$ 98,760</u>	<u>\$ 18,670</u>

I. Stock-Based Compensation

Our shareholders approved the 2024 Omnibus Stock Plan (the “2024 Stock Plan”) at our annual meeting of shareholders on May 21, 2024. The 2024 Stock Plan replaced the expired 2014 Omnibus Stock Plan (the “2014 plan”) previously approved by the shareholders in 2014. The 2024 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 2024 Stock Plan. The 2024 Stock Plan (similar to the 2014 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 2024 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 2024 Stock Plan.

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

	Three Months Ended		Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Compensation expense, all share-based payment plans	\$ 1,741	\$ 1,700	\$ 6,868	\$ 5,105

Stock-based compensation consisted of the following:

Employee Stock Purchase Plan--Under the Employee Stock Purchase Plan, all full-time employees with six months of service are eligible to purchase, through payroll deduction, common shares. Employee purchases under the Employee Stock Purchase Plan are at 85% of the fair market value of the common shares--a 15% discount. We recognize compensation costs as payroll deductions are made. The 15%

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discount of total shares purchased under the plan resulted in compensation cost of \$1,580 being recognized for the nine months ended September 28, 2024 and \$1,338 for the nine months ended September 30, 2023.

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 \$74 for the nine months ended September 28, 2024 and \$173 for the nine months ended September 30, 2023. Beginning in 2021, management and the Compensation Committee replaced the issuance of stock options with performance-based restricted stock units ("PRSUs") for certain employees.

Restricted Stock Units--During the nine months ended September 28, 2024, the Compensation Committee awarded 234,485 PRSUs to certain management employees and 8,560 RSUs to nonemployee directors. The Compensation Committee made similar awards in prior periods. The awards vest over specified periods. The following table summarizes PRSUs and RSUs as of September 28, 2024.

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, 2024	933,843	\$ 16.02			
Granted	243,045	21.95			
Forfeited	(8,816)	16.55			
Vested	(398,760)	15.17			
Unvested, September 28, 2024	<u>769,312</u>	<u>\$ 18.32</u>	<u>1.5 years</u>	<u>\$ 6,493</u>	<u>\$ 17,540</u>
Employee PRSUs	<u>731,681</u>	<u>\$ 18.29</u>	<u>1.5 years</u>	<u>\$ 6,123</u>	<u>\$ 16,682</u>
Nonemployee Director RSUs	<u>37,631</u>	<u>\$ 18.97</u>	<u>1.5 years</u>	<u>\$ 370</u>	<u>\$ 858</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 \$5,214 for the nine months ended September 28, 2024 and \$3,594 for the nine months ended September 30, 2023.

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

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

	Nine Months Ended	
	September 28, 2024	September 30, 2023
Volatility rate	9.5 %	9.6 %
Risk-free interest rate	4.6 %	4.1 %
Expected dividend yield	.4 %	.4 %
Expected life of awards (years)	3.0	3.0

General Stock Option Information--The following table summarizes activity under the stock option plans for the nine months ended September 28, 2024.

Stock Options	Number of Options Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, January 1, 2024	1,688,831	\$ 9.04		
Granted	—	—		
Exercised	(273,375)	7.39		
Forfeited	(74,600)	6.60		
Outstanding, September 28, 2024	<u>1,340,856</u>	<u>\$ 9.51</u>	<u>3.2 years</u>	<u>\$ 17,820</u>
Exercisable, September 28, 2024	<u>1,270,897</u>	<u>\$ 9.37</u>	<u>3.1 years</u>	<u>\$ 17,068</u>

As of September 28, 2024, there was approximately \$55 of unrecognized compensation cost related to stock options outstanding. The cost is expected to be recognized over a weighted-average period of 0.7 years. "Intrinsic value" is defined as the amount by which the market price of a common share exceeds the exercise price of an option.

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

J. Income Taxes

Our income tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate and, if our estimated annual tax rate changes, we make a cumulative adjustment. The estimated annual effective tax rate for the nine months ended September 28, 2024 was 26.0%. Our actual effective tax rate was 26.7% and 28.9% for the three months ended September 28, 2024 and September 30, 2023, respectively. Our actual effective tax rate was 24.6% and 27.1% for the nine months ended September 28, 2024 and September 30, 2023, respectively. The change in the effective tax rate from statutory tax rates was primarily due to the impact of favorable discrete items which are a set amount and therefore have a larger impact on the rate based on our net income before tax in the first nine

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months compared to the impact they will have on the rate for the full year. In addition, we amended the 2021 federal income tax return during the third quarter of 2024 and the changes from the original filing had a favorable impact on the rate for the full year.

As of September 28, 2024, we had unrecognized tax benefits of \$1,069, of which \$418 would affect our effective rate if recognized, and accrued interest expense related to unrecognized benefits of \$55. At December 31, 2023, we had unrecognized tax benefits of \$1,022, of which \$369 would affect our effective rate if recognized, and accrued interest expense related to unrecognized benefits of \$47. Unrecognized tax benefits are the differences between a tax position taken, or expected to be taken, in a tax return, and the benefit recognized for financial reporting purposes.

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

The Company is routinely under audit by U.S. federal, state and local authorities and Canadian authorities in the area of income tax. These audits include questioning the timing and the amount of income and deductions and the allocation of income and deductions among various tax jurisdictions. With the exception of U.S. state jurisdictions and Canada, the Company is no longer subject to examination by tax authorities for the years through 2019. As of September 28, 2024, we believe it is reasonably possible that the total amount of unrecognized tax benefits will not significantly increase or decrease.

K. Accumulated Other Comprehensive Income (Loss)

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

The following summarizes the components of other comprehensive income (loss) accumulated in shareholders' equity for the three and nine months ended September 28, 2024 and September 30, 2023:

Three Months Ended September 28, 2024	Foreign Currency	Available for Sale Securities	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at June 29, 2024	\$ (5,748)	\$ (73)	\$ 45	\$ (5,776)
Other comprehensive income (loss) before reclassifications				
Translation adjustment	\$ 346	\$ —	\$ —	\$ 346
Unrealized gains	—	483	—	483
Amounts reclassified from accumulated other comprehensive income (loss)	—	(49)	—	(49)
Tax effect	—	(90)	—	(90)
Net of tax amount	346	344	—	690
Balance at September 28, 2024	\$ (5,402)	\$ 271	\$ 45	\$ (5,086)

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

Nine Months Ended September 28, 2024	Foreign Currency	Available-for- Sale Securities	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2024	\$ (4,922)	\$ 92	\$ 45	\$ (4,785)
Other comprehensive income (loss) before reclassifications				
Translation adjustment	\$ (480)	\$ —	\$ —	\$ (480)
Unrealized gains	—	276	—	276
Amounts reclassified from accumulated other comprehensive income (loss)	—	(49)	—	(49)
Tax effect	—	(48)	—	(48)
Net of tax amount	(480)	179	—	(301)
Balance at September 28, 2024	<u>\$ (5,402)</u>	<u>\$ 271</u>	<u>\$ 45</u>	<u>\$ (5,086)</u>

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

There were no changes in defined benefit pension plans for either the three and nine months ended September 28, 2024 or September 30, 2023. Changes in defined benefit pension plans are included in net periodic pension expense classified in the condensed consolidated statement of operations as general and administrative expense or other income (expense).

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L. Per Share Amounts and Common and Redeemable Shares Outstanding

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

	Three Months Ended		Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Income available to common shareholders:				
Net income	\$ 26,024	\$ 20,697	\$ 53,469	\$ 58,736
Weighted-average shares (in thousands):				
Basic:				
Outstanding	41,333	42,809	41,320	42,452
Partially-paid share subscriptions	296	314	889	942
Basic weighted-average shares	<u>41,629</u>	<u>43,123</u>	<u>42,209</u>	<u>43,394</u>
Diluted:				
Basic from above	41,629	43,123	42,209	43,394
Incremental shares from assumed:				
Exercise of stock subscription purchase rights	88	38	87	38
Exercise of stock options and awards	1,585	2,025	1,763	2,068
Diluted weighted-average shares	<u>43,302</u>	<u>45,186</u>	<u>44,059</u>	<u>45,501</u>
Net income per share:				
Basic	\$.63	\$.48	\$ 1.27	\$ 1.35
Diluted	<u>\$.60</u>	<u>\$.46</u>	<u>\$ 1.21</u>	<u>\$ 1.29</u>

Common and Redeemable Shares Outstanding--A summary of the activity of the common and redeemable shares outstanding for the nine months ended September 28, 2024 was as follows:

	Common Shares Net of Treasury Shares	Redeemable Shares	Total
Shares outstanding at January 1, 2024	32,848,308	8,499,086	41,347,394
Shares purchased	(1,559,384)	(637,537)	(2,196,921)
Shares sold	473,341	519,742	993,083
Stock subscription offering -- cash purchases	40,904	—	40,904
Options and awards exercised	896,702	—	896,702
Shares outstanding at September 28, 2024	<u>32,699,871</u>	<u>8,381,291</u>	<u>41,081,162</u>

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On September 28, 2024, we had 41,081,162 common and redeemable shares outstanding, employee options exercisable to purchase 1,270,897 common shares, partially-paid subscriptions for 1,185,550 common shares and purchase rights outstanding for 429,052 common shares.

2022 Subscription Offering

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

Participants in the subscription offering who purchased common shares for an aggregate purchase price of less than \$5 were required to pay with cash. All participants (excluding Company directors and officers) purchasing common shares for an aggregate purchase price of \$5 or more had an option to finance their purchase through a down-payment of at least 10% of the total purchase price and a seven-year promissory note for the balance due with interest at the greater of 2.00% or the applicable federal rate in effect as of August 1, 2022, which was 3.15%. Payments on the promissory note can be made either by payroll deductions or annual lump-sum payments of both principal and interest. Common shares purchased in the offering were pledged as security for the payment of the promissory note, and the common shares will not be issued until the promissory note is paid-in-full. Dividends will be paid on all subscribed shares, subject to forfeiture to the extent that payment is not ultimately made for the shares.

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

M. Operations by Business Segment

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

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

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

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

Measurement of Segment Profit and Loss and Segment Assets--We evaluate performance and allocate resources based primarily on operating income and also actively manage business unit operating assets. Segment information, including reconciling adjustments, is presented consistent with the basis described in our 2023 Annual Report.

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

	<u>Utility</u>	<u>Residential and Commercial</u>	<u>All Other</u>	<u>Reconciling Adjustments</u>	<u>Consolidated</u>
Three Months Ended September 28, 2024					
Revenues	\$ 258,222	\$ 218,925	\$ 2,293	\$ —	\$ 479,440
Income (loss) from operations	<u>23,054</u>	<u>28,312</u>	<u>(4,714)</u>	(5,692) (a)	40,960
Interest expense				(5,319)	(5,319)
Interest income				970	970
Other income (expense), net				<u>(1,111)</u>	<u>(1,111)</u>
Income before income taxes					\$ 35,500
Segment assets, total	<u>\$ 390,632</u>	<u>\$ 376,607</u>	<u>\$ 199</u>	<u>\$ 631,842</u> (b)	<u>\$ 1,399,280</u>

Three Months Ended September 30, 2023

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

Nine Months Ended September 28, 2024

Revenues	\$ 753,418	\$ 608,291	\$ 4,194	\$ —	\$ 1,365,903
Income (loss) from operations	<u>57,533</u>	<u>62,465</u>	<u>(19,037)</u>	(13,289) (a)	87,672
Interest expense				(14,608)	(14,608)
Interest income				2,494	2,494
Other income (expense), net				<u>(4,644)</u>	<u>(4,644)</u>
Income before income taxes					\$ 70,914
Segment assets, total	<u>\$ 390,632</u>	<u>\$ 376,607</u>	<u>\$ 199</u>	<u>\$ 631,842</u> (b)	<u>\$ 1,399,280</u>

Nine Months Ended September 30, 2023

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

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

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

N. Revenue Recognition

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

Nature of Performance Obligations and Significant Judgments

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

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

Disaggregation of Revenue

The following tables disaggregate our revenue for the three and nine months ended September 28, 2024 and September 30, 2023 by major sources:

Three Months Ended September 28, 2024	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	\$ 157,355	\$ 118,779	\$ 117	\$ 276,251
Grounds maintenance	—	52,273	—	52,273
Storm damage services	18,436	8,953	—	27,389
Consulting and other	82,431	38,920	2,176	123,527
Total revenues	<u>\$ 258,222</u>	<u>\$ 218,925</u>	<u>\$ 2,293</u>	<u>\$ 479,440</u>
Geography:				
United States	\$ 243,063	\$ 205,823	\$ 2,293	\$ 451,179
Canada	15,159	13,102	—	28,261
Total revenues	<u>\$ 258,222</u>	<u>\$ 218,925</u>	<u>\$ 2,293</u>	<u>\$ 479,440</u>

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

Geography:

United States	\$ 229,046	\$ 189,044	\$ 1,403	\$ 419,493
Canada	18,432	12,709	—	31,141
Total revenues	<u>\$ 247,478</u>	<u>\$ 201,753</u>	<u>\$ 1,403</u>	<u>\$ 450,634</u>

Nine Months Ended September 28, 2024	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	\$ 467,811	\$ 321,197	\$ (109)	\$ 788,899
Grounds maintenance	—	150,707	—	150,707
Storm damage services	27,646	14,645	—	42,291
Consulting and other	257,961	121,742	4,303	384,006
Total revenues	<u>\$ 753,418</u>	<u>\$ 608,291</u>	<u>\$ 4,194</u>	<u>\$ 1,365,903</u>

Geography:

United States	\$ 711,110	\$ 572,099	\$ 4,194	\$ 1,287,403
Canada	42,308	36,192	—	78,500
Total revenues	<u>\$ 753,418</u>	<u>\$ 608,291</u>	<u>\$ 4,194</u>	<u>\$ 1,365,903</u>

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

Geography:

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

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Contract Balances

Our contract liabilities consist of advance payments and billings in excess of costs incurred and deferred revenue. The Company recognized \$1,480 and \$3,370 of revenue for the three and nine months ended September 28, 2024, that was included in the contract liability balance at December 31, 2023 and \$351 and \$2,048 of revenue for the three and nine months ended September 30, 2023, that was included in the contract liability balance at December 31, 2022. Net contract liabilities consisted of the following:

	September 28, 2024	December 31, 2023
Contract liabilities - current	\$ 4,758	\$ 3,430
Contract liabilities - noncurrent	3,119	3,700
Net contract liabilities	<u>\$ 7,877</u>	<u>\$ 7,130</u>

O. Fair Value Measurements and Financial Instruments

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

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

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

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

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

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Our assets and liabilities measured at fair value on a recurring basis at September 28, 2024 were as follows:

Assets and Liabilities Recorded at Fair Value on a Recurring Basis	Total Carrying Value at September 28, 2024	Fair Value Measurements at September 28, 2024 Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Assets invested for self-insurance				
Certificates of deposits, current	\$ 2,500	\$ 2,500	\$ —	\$ —
Certificates of deposits, noncurrent	2,750	2,750	—	—
Available-for-sale debt securities:				
United States Government and agency securities	44,621	44,621	—	—
Total available-for-sale debt securities	44,621	44,621	—	—
Marketable equity securities:				
Mutual funds	12,711	12,711	—	—
Exchange traded funds	1,716	1,716	—	—
Total marketable equity securities	14,427	14,427	—	—
Liabilities:				
Deferred compensation	\$ 1,486	\$ —	\$ —	\$ 1,486

Our assets and liabilities measured at fair value on a recurring basis at December 31, 2023 were as follows:

Assets and Liabilities Recorded at Fair Value on a Recurring Basis	Total Carrying Value at December 31, 2023	Fair Value Measurements at December 31, 2023 Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Assets invested for self-insurance				
Certificates of deposits, current	\$ 2,859	\$ 2,859	\$ —	\$ —
Certificates of deposits, noncurrent	3,500	3,500	—	—
Available-for-sale debt securities:				
United States Government and agency securities	36,802	36,802	—	—
Corporate notes and bonds	260	260	—	—
Total available-for-sale debt securities	37,062	37,062	—	—
Marketable equity securities:				
Mutual funds	6,842	6,842	—	—
Corporate stocks	3,780	3,780	—	—
Exchange traded funds	1,480	1,480	—	—
Total marketable equity securities	12,102	12,102	—	—
Liabilities:				
Deferred compensation	\$ 1,572	\$ —	\$ —	\$ 1,572

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

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The Company's common shares are not listed or traded on an established public trading market and market prices are, therefore, not available. Semiannually, for purposes of the Davey 401KSOP and ESOP, the fair market value of the common shares is determined by an independent stock valuation firm. The semiannual valuations utilize two approaches in determining the fair value of the common shares, a market approach and an income approach. Each approach utilizes Company performance and financial condition, using a peer group of comparable companies selected by the firm as well as significant unobservable inputs such as projected earnings and cash flow, EBITDA and cost of capital. The results of each valuation approach are utilized in a weighted average calculation to arrive at the fair market value.

The peer group at September 28, 2024 consisted of: ABM Industries Incorporated; Comfort Systems USA, Inc.; Dycom Industries, Inc.; FirstService Corporation; MYR Group, Inc.; Quanta Services, Inc.; Rollins, Inc.; and Scotts Miracle-Gro Company. The semiannual valuations are effective for a period of six months and the per-share price established by those valuations is the price at which the Board of Directors of the Company has determined that the common shares will be bought and sold during that six-month period in transactions involving the Company or one of its employee benefit or stock purchase plans. The Company provides a ready market for all shareholders through its direct purchase of their common shares, although the Company is under no obligation to do so (other than for repurchases pursuant to the put option, as described in Note Q).

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

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

	September 28, 2024		December 31, 2023	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Available-for-sale debt securities	\$ 44,621	\$ 44,621	\$ 37,062	\$ 37,062
Marketable equity securities	14,427	14,427	12,102	12,102
Liabilities:				
Revolving credit facility, noncurrent	\$ 205,492	\$ 205,492	\$ 141,616	\$ 141,616
Senior unsecured notes, noncurrent	120,000	116,368	135,000	130,959
Term loans, noncurrent	8,666	8,802	7,012	7,252
Total	\$ 334,158	\$ 330,662	\$ 283,628	\$ 279,827

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

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purposes. In prior years, we have used derivative financial instruments to manage risk, in part, associated with changes in interest rates and changes in fuel prices. Presently, we are not engaged in any hedging or derivative activities.

P. Commitments and Contingencies

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

Georgia Wrongful Death Suit

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

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

The cases were mediated unsuccessfully in December 2018 and the State Court case was originally set for trial on January 22, 2019. However, as discussed below, the two civil cases were ultimately stayed for more than four years.

On December 6, 2018, a former Wolf Tree employee pled guilty to conspiracy to conceal, harbor, and shield illegal aliens. On December 21, 2018, the United States Department of Justice (“DOJ”) filed a motion to stay both actions on the grounds that on December 7, 2018, an indictment was issued charging two former Wolf Tree employees and another individual with various crimes, including conspiracy to murder the deceased. The State Court case was stayed on December 28, 2018 and the Federal Court case was stayed on January 8, 2019. On January 29, 2019, the State Court ordered the parties to return to mediation, which occurred on April 17, 2019, but was unsuccessful in resolving the matters.

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

During the pendency of the criminal cases, the civil cases were stayed. Once the individual defendants' criminal matters resolved, the State Court permitted limited additional discovery and amended motions for summary judgment. On March 6, 2024, the State Court granted the plaintiff's motion to drop less than all parties from the lawsuit. As a result, Davey Tree is the only remaining defendant in the State Court case. The State Court had also set a civil jury trial for the week of July 29 to August 2, 2024. The Company filed a Third Motion for Summary Judgment after the dismissal of the other defendants, and the Court granted the Company's Third Motion for Summary Judgment in part and denied it in part on June 25, 2024. Due to the significant change to the claims in the case, the Court further vacated the previously set trial date of July 29, 2024. A new trial date has been set for June 2, 2025.

The stay in the Federal Court case was lifted on April 4, 2023. The Company moved to dismiss the alleged civil RICO claims, further filed a motion to stay the case until the motion to dismiss was decided, and moved for partial summary judgment on certain state law claims. The Federal Court granted the Company's motion to stay discovery pending resolution of the motion to dismiss. On March 27, 2024, the Federal Court ordered the plaintiff to refile a deficient RICO statement, dismissed the Company's motion to dismiss without prejudice and leave to refile once the plaintiff's RICO statement has been refiled, and set a briefing schedule. The Company then refiled its Motion to Dismiss in early summer 2024 and that Motion to Dismiss remains pending. The Federal Court has not yet set a trial date.

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

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

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

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

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The civil cases in the State Court of Chatham County in Georgia and the United States District Court for the Southern District of Georgia, Savannah Division relating to the same subject matter, remain pending. The civil case in the State Court of Chatham County, Georgia has set a trial date of June 2, 2025. No trial date has been set in the Federal Court civil case. In both civil cases, the Company and Wolf Tree have denied all liability and are vigorously defending against the actions. The Company also has retained separate counsel for some of the individual defendants, each of whom has denied all liability and also are vigorously defending the actions.

Northern California Wildfires

Five lawsuits were filed that name contractors for PG&E Corporation and its subsidiary, Pacific Gas and Electric Company (together, “PG&E”), including Davey Tree, with respect to claims arising from a wildfire event 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 *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 *Abram, et al. v. ACRT, Inc., et al.*, Case No. CGC-19-579861. An action was brought on October 7, 2019 in San Francisco Superior Court, entitled *Adams, et al. v. Davey Resource Group, Inc., et al.*, Case No. CGC-19-579828. An action was brought on October 8, 2019 in Sacramento Superior Court, entitled *Antone, et al. v. ACRT, Inc. et al.*, Case No. 34-2019-00266662. An action was brought on October 7, 2019 in Sacramento Superior Court, entitled *Bennett, et al. v. ACRT, Inc. et al.*, Case No. 2019-00266501.

Three additional actions were brought on January 28, 2021 in San Francisco County Superior Court, by fire victims represented by a trust (“Plaintiffs’ Trust”), which was assigned contractual rights in the PG&E bankruptcy proceedings. These cases are entitled *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al.*, Case No. CGC-21-589438; *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al.*, Case No. CGC-21-589439; and *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. ACRT Pacific, LLC, et al.*, Case No. CGC-21-589441. On September 22, 2021, the Court granted Davey Tree’s petition to coordinate all cases as a California Judicial Council Coordination Proceeding, *In Re North Bay Fire Cases*, JCCP No. 4955. As a result of the coordination order, all of the actions were stayed in their home jurisdictions, subject to further court order.

In November 2022, Davey Tree filed a cross-complaint against the Plaintiffs’ Trust and PG&E related to the contractual obligations of limitation of liability and hold harmless. Since that time, Davey Tree has dismissed the cross-complaint against PG&E without prejudice. The Plaintiffs’ Trust filed a demurrer which challenged Davey Tree’s claim that the hold harmless provisions in its contracts with PG&E are an obligation of the Plaintiffs’ Trust. In response to the demurrer, Davey Tree filed an amended cross-complaint against the Plaintiffs’ Trust on April 13, 2023. The Plaintiffs’ Trust has since filed another demurrer seeking to dismiss the cross complaint by Davey Tree, and Davey Tree has filed a response. The Plaintiffs’ Trust filed a motion for summary adjudication which challenged the limitation of liability as set forth in the assigned contracts. The Court denied the motion for summary adjudication in an order entered April 12, 2023.

At a case management conference in JCCP No. 4955 on February 24, 2022, the Court ordered that Davey Tree and the plaintiffs participate in a mediation. The mediation commenced on October 17, 2022. At a case management conference on September 26, 2023, the parties reported to the Court that they had reached a settlement in principle and needed additional time to work on a long form settlement agreement. The parties jointly requested that the Court continue trial dates and other proceedings while the parties attempt to reach final terms on a global resolution. The Court originally set a trial date for October 2, 2023 involving the claim of the Plaintiffs’ Trust as to the

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Atlas burn location. On July 26, 2023, based on a joint request by the parties, the Court vacated the October 2, 2023 Atlas trial date and reset the Atlas trial for February 26, 2024, which has been vacated.

On November 10, 2022, the Court authorized the plaintiffs to contact Napa County Superior Court for the purpose of setting a trial date in the *Walker* case for claims related to the Patrick burn location. On December 15, 2022, the Court in the *Walker* case set a trial date of March 4, 2024. Pursuant to the parties' stipulation, that trial date has been continued to August 19, 2024. On April 30, 2024 the parties filed a joint stipulation to continue the trial date for 90 days. The trial was later set for December 4, 2024. On October 9, 2024, the parties filed a joint stipulation mutually requesting that the trial and all related dates be continued approximately 45 days after the current December 4, 2024 trial date, or thereafter as a convenient to the court.

Davey Tree has responded to all claims asserted by the plaintiffs in these actions, denying all liability, and is vigorously defending against plaintiffs' alleged claims. However, we believe that a range of losses is probable and we have accrued our best estimate within this range which is also equal to our total coverage limits under our self-insurance and third party insurance providers for the 2017-2018 policy year of \$220,000. We believe that any losses would be recovered through our self-insurance and third party insurance providers and have accrued a corresponding insurance recoverable within our Condensed Consolidated Balance Sheet as of December 31, 2023.

Q. The Davey 401KSOP and Employee Stock Ownership Plan

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

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

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periods after distribution of the shares from the Davey 401KSOP and ESOP. The fair value of distributed shares subject to the put option totaled \$5,652 and \$5,272 as of September 28, 2024 and December 31, 2023, respectively. The fair value of the shares held in the Davey 401KSOP and ESOP totaled \$185,441 and \$183,408 as of September 28, 2024 and December 31, 2023, 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 \$191,093 and \$188,680 as of September 28, 2024 and December 31, 2023, respectively. Changes in the fair value of the 401KSOP and ESOP Plan related shares are reflected in retained earnings while net share activity associated with the 401KSOP and ESOP Plan related shares are first reflected in additional paid-in capital and then retained earnings if additional paid-in capital is insufficient.

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

(Amounts in thousands, except share data)

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

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

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

Recent Trends

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

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

RESULTS OF OPERATIONS

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

	Three Months Ended			Nine Months Ended		
	September 28, 2024	September 30, 2023	Change	September 28, 2024	September 30, 2023	Change
Revenues	100.0 %	100.0 %	— %	100.0 %	100.0 %	— %
Costs and expenses:						
Operating	62.7	63.2	(.5)	64.5	63.8	.7
Selling	17.6	18.9	(1.3)	17.3	18.1	(.8)
General and administrative	7.7	6.9	.8	8.3	7.5	.8
Depreciation and amortization	3.7	3.2	.5	3.7	3.4	.3
Gain on sale of assets, net	(.2)	(.3)	.1	(.3)	(.5)	.2
Income from operations	8.5	8.0	.5	6.4	7.7	(1.3)
Other income (expense):						
Interest expense	(1.1)	(1.1)	—	(1.1)	(1.1)	—
Interest income	.2	.1	.1	.2	.1	.1
Other, net	(.2)	(.5)	.3	(.3)	(.4)	.1
Income before income taxes	7.4	6.5	.9	5.2	6.4	(1.2)
Income tax expense	2.0	1.9	.1	1.3	1.7	(.4)
Net income	<u>5.4 %</u>	<u>4.6 %</u>	<u>.8 %</u>	<u>3.9 %</u>	<u>4.6 %</u>	<u>(.7)%</u>

Third Quarter—Three Months Ended September 28, 2024 Compared to Three Months Ended September 30, 2023

Our results of operations for the three months ended September 28, 2024 compared to the three months ended September 30, 2023 were as follows:

	Three Months Ended			
	September 28, 2024	September 30, 2023	Change	Percentage Change
Revenues	\$ 479,440	\$ 450,634	\$ 28,806	6.4 %
Costs and expenses:				
Operating	300,535	285,019	15,516	5.4
Selling	84,319	84,982	(663)	(0.8)
General and administrative	36,956	31,155	5,801	18.6
Depreciation and amortization	17,860	14,935	2,925	19.6
Gain on sale of assets, net	(1,190)	(1,694)	504	(29.8)
	<u>438,480</u>	<u>414,397</u>	<u>24,083</u>	<u>5.8</u>
Income from operations	40,960	36,237	4,723	13.0
Other income (expense):				
Interest expense	(5,319)	(4,751)	(568)	12.0
Interest income	970	502	468	93.2
Other, net	(1,111)	(2,890)	1,779	(61.6)
Income before income taxes	35,500	29,098	6,402	22.0
Income taxes	9,476	8,401	1,075	12.8
Net income	<u>\$ 26,024</u>	<u>\$ 20,697</u>	<u>\$ 5,327</u>	<u>25.7 %</u>

Revenues--Revenues of \$479,440 increased \$28,806 compared with \$450,634 in the third quarter of 2023. Utility Services increased \$10,744 or 4.3% compared with the third quarter of 2023. The increase was attributable to new accounts as well as increased work year-over-year and price increases on existing accounts. Residential and Commercial Services increased \$17,172 or 8.5% from the third quarter of 2023. Increases were primarily in tree and plant care revenues and storm damage revenue.

Operating Expenses--Operating expenses of \$300,535 increased \$15,516 compared with the third quarter of 2023. Utility Services increased \$5,547 or 3.0% compared with the third quarter of 2023 but, as a percentage of revenue, decreased to 73.3% from 74.2%. The increase was attributable to additional expenses for labor and benefits expenses, insurance expense and subcontractor expense, which were partially offset by decreases in materials expenses and equipment expenses. Residential and Commercial Services increased \$9,400 or 9.3% compared with the third quarter of 2023 and, as a percentage of revenue, increased to 50.7% from 50.3%. The increase was attributable to increases in labor and benefits expenses, equipment expenses and subcontracting expense which were partially offset by a decrease in materials expense.

Fuel costs of \$13,255 decreased \$360, or 2.6%, from the \$13,615 incurred in the third quarter of 2023 and impacted operating expenses within all segments. The \$360 decrease included usage decreases approximating \$1,270 and price increases approximating \$910.

Selling Expenses--Selling expenses of \$84,319 decreased \$663 compared with the third quarter of 2023 and, as a percentage of revenue, decreased to 17.6% from 18.9%. Utility Services decreased \$1,848 or 6.0% compared to the third quarter of 2023 and, as a percentage of revenue, decreased to 11.2% from 12.4%. The decrease was primarily attributable to decreases in field management wages and incentive expense which were partially offset by an increase in travel expenses. Residential and Commercial Services increased \$1,781 or 3.3% from the third quarter of 2023 but, as a percentage of revenue, decreased to 25.7% from 27.0%. The increase was primarily attributable to increases in field management expense, advertising expenses, personnel development and office expenses.

General and Administrative Expenses--General and administrative expenses of \$36,956 increased \$5,801 from \$31,155 in the third quarter of 2023. The increase was primarily attributable to increases in salary and benefits expense, professional services expense and advertising expenses which were partially offset by a decrease in personnel development expense.

Depreciation and Amortization Expense--Depreciation and amortization expense of \$17,860 increased \$2,925 from \$14,935 incurred in the third quarter of 2023 which was primarily attributable to placing our enterprise software in service.

Gain on the Sale of Assets, Net--Gain on the sale of assets of \$1,190 for the third quarter of 2024 decreased \$504 from the \$1,694 gain in the third quarter of 2023. We sold fewer units of equipment at a lower average gain per unit in the third quarter of 2024 as compared with the third quarter of 2023.

Interest Expense--Interest expense of \$5,319 increased \$568 from the \$4,751 incurred in the third quarter of 2023. The increase was attributable to higher average borrowing and higher interest rates during the third quarter of 2024, as compared with the third quarter of 2023.

Other, Net--Other expense, net, of \$1,111 decreased \$1,779 from the \$2,890 of other expense incurred in the third quarter of 2023 and consisted of nonoperating income and expense, including gains and losses on marketable securities, pension expense and foreign currency translation adjustments.

Income Taxes--Income taxes for the third quarter of 2024 were \$9,476, as compared to \$8,401 for the third quarter of 2023. Our tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. The effective tax rate for the third quarter of 2024 was 26.7% as compared with the third quarter of 2023 effective tax rate of 28.9%.

Net Income--Net income of \$26,024 for the third quarter of 2024 was \$5,327 more than the \$20,697 of net income for the third quarter of 2023.

Nine Months—Nine Months Ended September 28, 2024 Compared to Nine Months Ended September 30, 2023

Our results of operations for the nine months ended September 28, 2024 compared to the nine months ended September 30, 2023 were as follows:

	Nine Months Ended			
	September 28, 2024	September 30, 2023	Change	Percentage Change
Revenues	\$ 1,365,903	\$ 1,267,174	\$ 98,729	7.8 %
Costs and expenses:				
Operating	881,620	808,509	73,111	9.0
Selling	235,806	229,480	6,326	2.8
General and administrative	112,817	95,041	17,776	18.7
Depreciation and amortization	51,639	43,479	8,160	18.8
Gain on sale of assets, net	(3,651)	(6,530)	2,879	(44.1)
	<u>1,278,231</u>	<u>1,169,979</u>	<u>108,252</u>	<u>9.3</u>
Income from operations	87,672	97,195	(9,523)	(9.8)
Other income (expense):				
Interest expense	(14,608)	(13,588)	(1,020)	7.5
Interest income	2,494	1,329	1,165	87.7
Other, net	(4,644)	(4,365)	(279)	6.4
	<u>70,914</u>	<u>80,571</u>	<u>(9,657)</u>	<u>(12.0)</u>
Income before income taxes	70,914	80,571	(9,657)	(12.0)
Income tax expense	17,445	21,835	(4,390)	(20.1)
	<u>53,469</u>	<u>58,736</u>	<u>(5,267)</u>	<u>(9.0)%</u>
Net income	<u>\$ 53,469</u>	<u>\$ 58,736</u>	<u>\$ (5,267)</u>	<u>(9.0)%</u>

Revenues--Revenues of \$1,365,903 increased \$98,729 compared with \$1,267,174 in the first nine months of 2023. Utility Services increased \$53,040 or 7.6% compared with the first nine months of 2023. The increase was primarily attributable to new accounts, as well as increased work year-over-year on accounts and price increases on existing accounts within both our U.S. and Canadian operations. Residential and Commercial Services increased \$44,349 or 7.9% compared with the first nine months of 2023. Increases were primarily in tree and plant care revenue, grounds maintenance revenue and consulting and other revenue.

Operating Expenses--Operating expenses of \$881,620 increased \$73,111 compared with the first nine months of 2023 and, as a percentage of revenue, increased to 64.5% from 63.8%. Utility Services increased \$42,068 or 8.1% compared with the first nine months of 2023 and, as a percentage of revenue, increased to 74.2% from 73.8%. The increase was attributable to increases in labor and benefits expense, subcontractor expense, equipment expense and tools and parts expense, which were partially offset by a decrease in travel expense. Residential and Commercial Services increased \$29,680 or 10.1% compared with the first nine months of 2023 and, as a percentage of revenue, increased to 53.0% from 51.8%. The increase was primarily attributable to increases in labor and benefits expense, material expense, equipment expense and subcontractor expense and was partially offset by a decrease in disposal expense.

Fuel costs of \$38,004 decreased \$1,590, or 4.0%, from the \$39,594 incurred in the first nine months of 2023 and impacted operating expenses within all segments. The \$1,590 decrease included usage decreases approximating \$4,322 and price increases approximating \$2,732.

Selling Expenses--Selling expenses of \$235,806 increased \$6,326 compared with the first nine months of 2023 but, as a percentage of revenue, decreased to 17.3% from 18.1%. Utility Services increased \$807 or .9% compared to the first nine months of 2023 but, as a percentage of revenue, decreased to 11.4% from 12.2%. The increase was primarily attributable to increases in field management wages and field management travel expense which were partially offset by a decrease in taxes and branch office expenses. Residential and Commercial Services experienced an increase of \$5,539 or 3.8% compared to the first nine months of 2023 but, as a percentage of revenue, decreased to 25.1% from 26.1%. The increase was primarily attributable to increases in field management wages, office rent, office expenses, advertising expense, personnel development expenses and travel expenses which were offset by decreases in professional service expense and auto expense.

General and Administrative Expenses--General and administrative expenses of \$112,817 increased \$17,776 from \$95,041 in the first nine months of 2023. The increase was primarily attributable to increases in salary and incentive expense, professional services and office supplies expense.

Depreciation and Amortization Expense--Depreciation and amortization expense of \$51,639 increased \$8,160 from \$43,479 incurred in the first nine months of 2023, which was primarily attributable to placing our enterprise software in service.

Gain on the Sale of Assets, Net--Gain on the sale of assets of \$3,651 for the first nine months of 2024 decreased \$2,879 from the \$6,530 gain in the first nine months of 2023. We sold fewer units of equipment at a lower average gain per unit during the first nine months of 2024 as compared with the first nine months of 2023.

Interest Expense--Interest expense of \$14,608 increased \$1,020 from the \$13,588 incurred in the first nine months of 2023. The increase was attributable to higher average borrowing and increased interest rates during the first nine months of 2024, as compared with the first nine months of 2023.

Other, Net--Other expense, net, of \$4,644 increased \$279 from the \$4,365 expense incurred in the first nine months of 2023 and consisted of nonoperating income and expense, including gains and losses on marketable securities, pension expense and foreign currency translation adjustments.

Income Tax Expense--Income tax expense for the first nine months of 2024 was \$17,445, as compared to expense of \$21,835 for the first nine months of 2023. Our tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. The effective tax rate for the first nine months of 2024 was 24.6%. Our effective tax rate for the first nine months of 2023 was 27.1%. The change in the effective tax rate from statutory tax rates was primarily due to the impact of discrete items and state and local taxes. In addition, we amended the 2021 federal income tax return during the third quarter of 2024 and the changes from the original filing had a favorable impact on the rate for the full year.

Net Income--Net income of \$53,469 for the first nine months of 2024 was \$5,267 less than the net income of \$58,736 for the first nine months of 2023.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flow Summary

Our cash flows from operating, investing and financing activities for the nine months ended September 28, 2024 and September 30, 2023 were as follows:

	Nine Months Ended	
	September 28, 2024	September 30, 2023
Cash provided by (used in):		
Operating activities	\$ 109,831	\$ 36,338
Investing activities	(132,408)	(78,411)
Financing activities	29,171	37,327
Effect of exchange rate changes on cash	(41)	11
Increase (decrease) in cash	<u>\$ 6,553</u>	<u>\$ (4,735)</u>

Cash Provided By Operating Activities--Cash provided by operating activities was \$109,831 for the first nine months of 2024, a change of \$73,493 when compared to the first nine months of 2023. The \$73,493 increase in operating cash flow was primarily attributable to the change of \$22,406 related to accounts receivable, a \$26,837 difference in the change in accounts payable and accrued expenses, the change of \$15,176 related to mitigation credit inventories and the change of \$12,704 related to prepaid expenses, which were partially offset by the change of \$15,223 related to other operating assets and liabilities.

Overall, accounts receivable increased \$22,538 during the first nine months of 2024, as compared to an increase of \$44,944 during the first nine months of 2023. With respect to the change in accounts receivable arising from business levels, the “days-sales-outstanding” in accounts receivable (sometimes referred to as “DSO”) at the end of the first nine months of 2024 decreased by 4 days to 71 days, when compared to 75 days at the end of the first nine months of 2023. As we continue to grow and expand our service offerings, our DSO will be influenced by various factors such as individual contract terms, the nature of the work performed and special situations such as storm work.

Accounts payable and accrued expenses increased \$16,624 in the first nine months of 2024, a change of \$26,837 compared to the \$10,213 decrease in the first nine months of 2023. The change was primarily related to the timing of estimated income tax payments, employer payroll taxes payable and customer deposits. Self-insurance accruals increased \$10,485 in the first nine months of 2024, which was \$4,725 more than the increase of \$5,760 experienced in the first nine months of 2023. The increase in both the first nine months of 2024 and 2023 were attributable to increased exposures within our workers compensation lines of coverage.

Mitigation bank credit inventory decreased \$656 in the first nine months of 2024, a change of \$15,176 compared to the increase of \$14,520 in the first nine months of 2023. Mitigation bank credit inventory was more stable in 2024 after a build up of inventory in 2023. This service involves the creation of mitigation credits that are available to sell to third parties through remediation of properties such as stream or wetland restoration.

Prepaid expenses increased \$1,365 in the first nine months of 2024, a change of \$12,704 compared to the \$14,069 increase in the first nine months of 2023. The change was primarily related to prepaid insurance premiums and cloud computing costs recorded in 2023.

Other operating assets and liabilities increased \$1,783 in the first nine months of 2024, a change of \$15,223 compared to the \$13,440 decrease in the first nine months of 2023. The change was primarily attributable to increases in deposits and operating supplies.

Cash Used In Investing Activities--Cash used in investing activities for the first nine months of 2024 was \$132,408, a \$53,997 increase when compared to the first nine months of 2023. The increase was primarily the result of increases in capital expenditures for land and buildings and equipment.

Cash Provided By Financing Activities--Cash provided by financing activities was \$29,171 during the first nine months of 2024, a decrease of \$8,156 as compared with the \$37,327 provided during the first nine months of 2023. During the first nine months of 2024, our revolving credit facility, net provided \$62,950 in cash as compared with \$55,828 provided during the first nine months of 2023. We use the credit facility primarily for capital expenditures, redemptions of shares and payments of notes payable related to acquisitions. Notes payable decreased \$8,755 during the first nine months of 2024, a change of \$15,628 when compared to the \$6,873 increase in the first nine months of 2023. Treasury share transactions (purchases and sales) used \$16,810 for the first nine months of 2024, \$2,814 less than the \$19,624 used in the first nine months of 2023. Dividends paid of \$3,166 during the first nine months of 2024 increased \$359 as compared with \$2,807 paid in the first nine months of 2023.

The Company currently repurchases common shares at shareholders' requests in accordance with the terms of the Davey 401KSOP and ESOP Plan and also repurchases common shares from time to time at the Company's discretion. The amount of common shares offered to the Company for repurchase by the holders of shares distributed from the Davey 401KSOP and ESOP Plan is not within the control of the Company, but is at the discretion of the shareholders. The Company expects to continue to repurchase its common shares, as offered by its shareholders from time to time, at their then current fair value. However, other than for repurchases pursuant to the put option under the Davey 401KSOP and ESOP Plan, as described in Note Q, such purchases are not required, and the Company retains the right to discontinue them at any time. Repurchases of redeemable common shares at shareholders' request approximated \$11,905 and \$14,922 during the nine months ended September 28, 2024 and September 30, 2023, respectively. Share repurchases, other than redeemable common shares, approximated \$37,095 and \$34,914 during the nine months ended September 28, 2024 and September 30, 2023, respectively.

Contractual Obligations Summary and Commercial Commitments

As of September 28, 2024, total commitments related to issued letters of credit were \$99,993, of which \$2,624 were issued under the revolving credit facility, \$97,104 were issued under the AR Securitization program, and \$265 were issued under short-term lines of credit. As of December 31, 2023, total commitments related to issued letters of credit were \$94,702, of which \$2,624 were issued under the revolving credit facility, \$89,689 were issued under the AR Securitization program, and \$2,389 were issued under short-term lines of credit.

Also, as is common in our industry, we have performance obligations that are supported by surety bonds, which expire during 2024 through 2027. We intend to renew the surety bonds where appropriate and as necessary.

Capital Resources

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

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

continually review our existing sources of financing and evaluate alternatives. At September 28, 2024, we had working capital of \$232,455, availability under short-term lines of credit approximating \$10,323 and \$191,884 available under our revolving credit facility.

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

As discussed in our 2023 Annual Report, we believe that our policies related to revenue recognition, the allowance for credit losses, stock valuation and self-insurance accruals are our “critical accounting policies and estimates”--those most important to the financial presentations and those that require the most difficult, subjective or complex judgments.

On an ongoing basis, we evaluate our estimates and assumptions, including those related to accounts receivable, specifically those receivables under contractual arrangements primarily with Utility customers; allowance for credit losses; and self-insurance accruals. We base our estimates on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates. Our critical accounting policies have not changed materially from those discussed in our 2023 Annual Report.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995). These statements relate to future events or our future financial performance. In some cases, forward-looking statements may be identified by terminology such as “may,” “will,” “should,” “could,” “might,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “seeks,” “predicts,” “potential,” “would,” “continue” or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, many of which are difficult to predict and are outside of our control, that may cause our or our industry's actual results, levels of activity, performance or achievements to differ materially from what is expressed or implied in these forward-looking statements. Some important factors that could cause actual results to differ materially from those in the forward-looking statements or materially adversely affect our business, results of operations or financial condition include: an overall decline in the health of the economy or our industry, including as a result of high inflation or interest rates, instability in the global banking system, geopolitical conditions, the possibility of an economic recession, or public health crises; our inability to attract and retain a sufficient number of qualified employees for our field operations or qualified management personnel and the possibility that increased wage rates may result from our need to attract and retain employees; increases in the cost of obtaining adequate insurance, or the inadequacy of our self-insurance accruals or insurance coverages; inability to obtain, or cancellation of, third-party insurance coverage; the impact of wildfires in California and other areas, as well as other severe weather events and natural disasters, which events may worsen or increase due to the effects of climate change; payment delays or delinquencies resulting from financial

difficulties of our significant customers, particularly utilities; the outcome of litigation and third-party and governmental regulatory claims against us; an increase in our operating expenses due to significant increases in fuel prices for extended periods of time, and recent volatility arising from the effects of the Russia-Ukraine conflict and the Israel-Hamas war; disruptions, delays or price increases within our supply chain; our ability to withstand intense competition; the potential impact of acquisitions or other strategic transactions; the effect of various economic factors, including inflationary pressures, that may adversely impact our customers' spending and pricing for our services, and impede our collection of accounts receivable; the impact of global climate change and related regulations; fluctuations in our quarterly results due to the seasonal nature of our business or changes in general and local economic conditions, among other factors; being contractually bound to an unprofitable contract; a disruption in our information technology systems, including a disruption related to cybersecurity, or the impact of costs incurred to comply with cybersecurity or data privacy regulations; widespread outages, interruptions or other failures of operational, communication and other systems; damage to our reputation of quality, integrity and performance; limitations on our shareholders' ability to sell their common shares due to the lack of a public market for such shares; our ability to continue to declare cash dividends; our failure to comply with environmental laws resulting in significant liabilities, fines and/or penalties; difficulties obtaining surety bonds or letters of credit necessary to support our operations; uncertainties in the credit and financial markets, including the negative impacts of the Russia-Ukraine conflict and the Israel-Hamas war, supply chain shortages and disruptions, high interest rates, labor shortages and inflationary cost pressures, among other factors, potentially limiting our access to capital; fluctuations in foreign currency exchange rates; significant increases in health care costs; the impact of corporate citizenship and environmental, social and governance matters and/or our reporting of such matters; our ability to successfully implement our new enterprise resource planning system in a cost-effective and timely manner; the impact of events such as natural disasters, public health epidemics or pandemics, such as COVID-19, terrorist attacks or other external events; the impact of tax increases and changes in tax rules; and our inability to properly verify the employment eligibility of our employees.

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

The factors described above, as well as other factors that may adversely impact our actual results, are discussed in "Part I - Item 1A. Risk Factors." of our 2023 Annual Report.

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

While we have experienced inflation and higher interest rates during 2024, there have been no material changes in our reported market risks or risk management policies since the filing of our 2023 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 11, 2024.

Item 4. *Controls and Procedures.*

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

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this report in

ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended September 28, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(c) Inherent Limitation on Effectiveness of Controls

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

Part II. Other Information

Items 3 and 4 are not applicable.

Item 1. Legal Proceedings.

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

Georgia Wrongful Death Suit

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

In July 2018, a related survival action was filed in Savannah, Georgia by the deceased's estate against Davey Tree, its subsidiary, Wolf Tree, and four current and former employees, which arises out of the same allegations, seeks compensatory and punitive damages and also

includes three Racketeer Influenced and Corrupt Organizations Act (“RICO”) claims under Georgia law seeking treble damages. The 2018 case was removed to the United States District Court for the Southern District of Georgia, Savannah Division (“Federal Court”), on August 2, 2018.

The cases were mediated unsuccessfully in December 2018 and the State Court case was originally set for trial on January 22, 2019. However, as discussed below, the two civil cases were ultimately stayed for more than four years.

On December 6, 2018, a former Wolf Tree employee pled guilty to conspiracy to conceal, harbor, and shield illegal aliens. On December 21, 2018, the United States Department of Justice (“DOJ”) filed a motion to stay both actions on the grounds that on December 7, 2018, an indictment was issued charging two former Wolf Tree employees and another individual with various crimes, including conspiracy to murder the deceased. The State Court case was stayed on December 28, 2018 and the Federal Court case was stayed on January 8, 2019. On January 29, 2019, the State Court ordered the parties to return to mediation, which occurred on April 17, 2019, but was unsuccessful in resolving the matters.

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

During the pendency of the criminal cases, the civil cases were stayed. Once the individual defendants' criminal matters resolved, the State Court permitted limited additional discovery and amended motions for summary judgment. On March 6, 2024, the State Court granted the plaintiff's motion to drop less than all parties from the lawsuit. As a result, Davey Tree is the only remaining defendant in the State Court case. The State Court had also set a civil jury trial for the week of July 29 to August 2, 2024. The Company filed a Third Motion for Summary Judgment after the dismissal of the other defendants, and the Court granted the Company's Third Motion for Summary Judgment in part and denied it in part on June 25, 2024. Due to the significant change to the claims in the case, the Court further vacated the previously set trial date of July 29, 2024. A new trial date has been set for June 2, 2025.

The stay in the Federal Court case was lifted on April 4, 2023. The Company moved to dismiss the alleged civil RICO claims, further filed a motion to stay the case until the motion to dismiss was decided, and moved for partial summary judgment on certain state law claims. The Federal Court granted the Company's motion to stay discovery pending resolution of the motion to dismiss. On March 27, 2024, the Federal Court ordered the plaintiff to refile a deficient RICO statement, dismissed the Company's motion to dismiss without prejudice and leave to refile once the plaintiff's RICO statement has been refiled, and set a briefing schedule. The Company then refiled its Motion to Dismiss in early summer 2024 and that Motion to Dismiss remains pending. The Federal Court has not yet set a trial date.

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

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

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

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

The civil cases in the State Court of Chatham County in Georgia and the United States District Court for the Southern District of Georgia, Savannah Division relating to the same subject matter, remain pending. The civil case in the State Court of Chatham County, Georgia has set a trial date of June 2, 2025. No trial date has been set in the District Court civil case. In both civil cases, the Company and Wolf Tree have denied all liability and are vigorously defending against the actions. The Company also has retained separate counsel for some of the individual defendants, each of whom has denied all liability and also are vigorously defending the actions.

Northern California Wildfires

Five lawsuits were filed that name contractors for PG&E Corporation and its subsidiary, Pacific Gas and Electric Company (together, "PG&E"), including Davey Tree, with respect to claims arising from a wildfire event 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 *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 *Abram, et al. v. ACRT, Inc., et al.*, Case No. CGC-19-579861. An action was brought on October 7, 2019 in San Francisco Superior Court, entitled *Adams, et al. v. Davey Resource Group, Inc., et al.*, Case No. CGC-19-579828. An action was brought on October 8, 2019 in Sacramento Superior Court, entitled *Antone, et al. v. ACRT, Inc. et al.*, Case No. 34-2019-00266662. An action was brought on October 7, 2019 in Sacramento Superior Court, entitled *Bennett, et al. v. ACRT, Inc. et al.*, Case No. 2019-00266501.

Three additional actions were brought on January 28, 2021 in San Francisco County Superior Court, by fire victims represented by a trust ("Plaintiffs' Trust"), which was assigned contractual rights in the PG&E bankruptcy proceedings. These cases are entitled *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al.*, Case No. CGC-21-589438; *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al.*, Case No. CGC-21-589439; and *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. ACRT Pacific, LLC, et al.*, Case No. CGC-21-589441. On September 22, 2021, the Court granted Davey Tree's petition to coordinate all cases as a California Judicial Council Coordination Proceeding, *In Re North Bay Fire Cases*, JCCP No. 4955. As a result of the coordination order, all of the actions were stayed in their home jurisdictions, subject to further court order.

In November 2022, Davey Tree filed a cross-complaint against the Plaintiffs' Trust and PG&E related to the contractual obligations of limitation of liability and hold harmless. Since that time, Davey Tree has dismissed the cross-complaint against PG&E without prejudice. The Plaintiffs' Trust filed a demurrer which challenged Davey Tree's claim that the hold harmless provisions in its contracts with PG&E are an obligation of the Plaintiffs' Trust. In response to the demurrer, Davey Tree filed an amended cross-complaint against the Plaintiffs' Trust on April 13, 2023. The Plaintiffs' Trust has since filed another demurrer seeking to dismiss the cross complaint by Davey Tree, and

Davey Tree has filed a response. The Plaintiffs' Trust filed a motion for summary adjudication which challenged the limitation of liability as set forth in the assigned contracts. The Court denied the motion for summary adjudication in an order entered April 12, 2023.

At a case management conference in JCCP No. 4955 on February 24, 2022, the Court ordered that Davey Tree and the plaintiffs participate in a mediation. The mediation commenced on October 17, 2022. At a case management conference on September 26, 2023, the parties reported to the Court that they had reached a settlement in principle and needed additional time to work on a long form settlement agreement. The parties jointly requested that the Court continue trial dates and other proceedings while the parties attempt to reach final terms on a global resolution. The Court originally set a trial date for October 2, 2023 involving the claim of the Plaintiffs' Trust as to the Atlas burn location. On July 26, 2023, based on a joint request by the parties, the Court vacated the October 2, 2023 Atlas trial date and reset the Atlas trial for February 26, 2024, which has been vacated.

On November 10, 2022, the Court authorized the plaintiffs to contact Napa County Superior Court for the purpose of setting a trial date in the *Walker* case for claims related to the Patrick burn location. On December 15, 2022, the Court in the *Walker* case set a trial date of March 4, 2024. Pursuant to the parties' stipulation, that trial date was continued to August 19, 2024. On April 30, 2024 the parties filed a joint stipulation to continue the trial date for 90 days. The trial was later set for December 4, 2024. On October 9, 2024, the parties filed a joint stipulation mutually requesting that the trial and all related dates be continued approximately 45 days after the current December 4, 2024 trial date, or thereafter as convenient to the court.

Davey Tree has responded to all claims asserted by the plaintiffs in these actions, denying all liability, and is vigorously defending against plaintiffs' alleged claims. However, we believe that a range of losses is probable and we have accrued our best estimate within this range which is also equal to our total coverage limits under our self-insurance and third party insurance providers for the 2017-2018 policy year of \$220,000,000. We believe that any losses would be recovered through our self-insurance and third party insurance providers and have accrued a corresponding insurance recoverable within our Condensed Consolidated Balance Sheet as of December 31, 2023.

Item 1A. Risk Factors.

Our 2023 Annual Report includes a detailed discussion of our risk factors. Disclosure of risks should not be interpreted to imply that the risks have not already materialized. There have been no material changes to the risk factors described in the 2023 Annual Report during the nine months ended September 28, 2024.

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

The following table provides information on purchases of our common shares outstanding made by us during the first nine months of 2024.

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 2024				
January 1 to January 27	2,262	\$ 20.80	—	2,798,291
January 28 to February 24	77	20.80	—	2,798,291
February 25 to March 30	382,242	22.20	—	2,798,291
Total First Quarter	384,581	22.19	—	
March 31 to April 27	508,621	22.20	—	2,798,291
April 28 to May 25	494,944	22.20	—	2,798,291
May 26 to June 29	417,582	22.20	—	2,798,291
Total Second Quarter	1,421,147	22.20	—	
June 30 to July 27	2,258	22.20	—	2,798,291
July 28 to August 24	81,820	22.80	—	2,798,291
August 25 to September 28	307,115	22.80	—	2,798,291
Total Third Quarter	391,193	22.80	—	
Total Year-to-Date	2,196,921	\$ 22.30	—	

⁽¹⁾ During the nine months ended September 28, 2024, the Company purchased 2,196,921 shares from shareholders excluding those purchased through publicly announced plans. The Company provides a ready market for all shareholders through our direct purchase of their common shares although we are under no obligation to do so (other than for repurchases pursuant to the put option under The Davey 401KSOP and ESOP Plan).

Our common shares are not listed or traded on an established public trading market and market prices are, therefore, not available. Semiannually, for purposes of the Davey 401KSOP and ESOP, an independent stock valuation firm assists with the appraisal of the fair market value of the common shares, based upon our performance and financial condition, using a peer group of comparable companies selected by that firm. The peer group currently consists of: ABM Industries Incorporated; Comfort Systems USA, Inc.; Dycom Industries, Inc.; FirstService Corporation; MYR Group, Inc.; Quanta Services, Inc.; Rollins, Inc.; and Scotts Miracle-Gro Company. The semiannual valuations are effective for a period of six months and the per-share price established by those valuations is the price at which our Board of Directors has determined our common shares will be bought and sold during that six-month period in transactions involving Davey Tree or one of its employee benefit or stock purchase plans. Since 1979, we have provided a ready market for all shareholders through our direct purchase of their common shares, although we are under no obligation to do so (other than for repurchases pursuant to the put option under The Davey 401KSOP and ESOP Plan, as described in “Part I - Item 1 - Note Q, The Davey 401KSOP and Employee Stock Ownership Plan”). The purchases described above were added to our treasury stock.

At the Annual Meeting of Shareholders of the Company held on May 16, 2017, the shareholders of the Company approved proposals to amend the Company's Articles of Incorporation to (i) expand the Company's right of first refusal with respect to proposed transfers of shares of the Company's common shares, (ii) clarify provisions regarding when the Company may provide notice of its decision to exercise

its right of first refusal with respect to proposed transfers of common shares by the estate or personal representative of a deceased shareholder, and (iii) grant the Company a right to repurchase common shares held by certain shareholders of the Company.

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

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

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

In accordance with the amendments to the Articles approved by the Company's shareholders at the 2017 Annual Meeting, on May 17, 2017, the Company's Board of Directors authorized the Company to repurchase up to 400,000 common shares, which authorization was increased by an additional 2,000,000 common shares in May 2018 and increased further by an additional 3,000,000 common shares in September 2021. Of the 5,400,000 total shares authorized, 2,798,291 remained available under the program, as of September 28, 2024. Share repurchases may be made from time to time and the timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors. The Company is not obligated to purchase any shares, and repurchases may be commenced, suspended or discontinued from time to time without prior notice. The repurchase program does not have an expiration date.

Item 5. *Other Information.*

Rule 10b5-1 Trading Plans

The Company's securities are not traded on a public market. During the quarter ended September 28, 2024, none of the Company's directors or executive officers adopted, modified or terminated any contract, instruction or written plan for the purchase or sale of the Company's securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act or any "non-Rule 10b5-1 trading arrangement" (as defined in Item 408(c) of Regulation S-K).

Item 6. *Exhibits.*

See the Exhibit Index below.

Exhibits

<u>Exhibit No.</u>	<u>Description</u>	
10.1 +	Receivables Financing Agreement Amendment No. 12, dated July 19, 2024, among The Davey Tree Expert Company, Davey Receivables LLC and PNC Bank, National Association (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 24, 2024).	
10.2 +	Fifth Amended and Restated Credit Agreement among The Davey Tree Expert Company, as borrower, various lending institutions party thereto, as banks, KeyBank National Association, as administrative agent, and PNC Bank, National Association and Wells Fargo Bank, National Association, as co-syndication agents, dated as of July 29, 2024 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 30, 2024).	
10.3 +	Amendment No. 2 to Note Purchase and Private Shelf Agreement dated August 15, 2024, 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 Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 20, 2024).	
10.4 *	First Amendment to The Davey 401KSOP and ESOP (January 1, 2022 Restatement) (Incorporated by reference to Exhibit 99.2 to the Company's Registration Statement on Form S-8 (File No. 333-282427) filed with the Securities and Exchange Commission on October 1, 2024).	Filed Herewith
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed Herewith
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed Herewith
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished Herewith
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished Herewith
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 28, 2024, formatted in iXBRL (inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets (unaudited), (ii) the Condensed Consolidated Statements of Operations (unaudited), (iii) the Condensed Consolidated Statements of Comprehensive Income (unaudited), (iv) the Condensed Consolidated Statements of Shareholders' Equity (unaudited), (v) the Condensed Consolidated Statements of Cash Flows (unaudited), and (vi) Notes to Condensed Consolidated Financial Statements (unaudited). The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.	Filed Herewith
104	Cover Page Interactive Data File (embedded within the inline XBRL document)	Filed Herewith

* Management contracts or compensatory plans or arrangements.

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

Signatures

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

THE DAVEY TREE EXPERT COMPANY

Date: November 7, 2024

By: /s/ Joseph R. Paul

Joseph R. Paul

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

Date: November 7, 2024

By: /s/ Thea R. Sears

Thea R. Sears

Vice President and Controller
(Principal Accounting Officer)

FIRST AMENDMENT
TO
THE DAVEY 401KSOP AND ESOP
(January 1, 2022 Restatement)

The Davey 401KSOP and ESOP (the “Plan”), presently maintained under an amendment and restatement made effective as of January 1, 2022, is hereby amended, effective July 1, 2024, to provide as follows:

1. Section 8.3(a) of the Plan is hereby amended in its entirety to read as follows:

(a) In the event that the Participant has no vested interest in his Separate Accounts upon the occurrence of his Settlement Date or the aggregate value as of the date of distribution does not exceed \$7,000 resulting in the Participant’s receipt of a single sum payment of the vested portions of his Separate Account, the non vested balance of his Separate Accounts attributable to Employer Contributions will be forfeited and his Separate Accounts closed as of the last day of the Plan Year (i) in which such Settlement Date occurs, if the Participant has no vested interest in his Separate Accounts, or (ii) in which the single sum distribution occurs.

2. Section 8.3(b) of the Plan is hereby amended in its entirety to read as follows:

(b) In the event that the Participant’s vested interest in his Separate Accounts has an aggregate value that exceeds \$7,000 and the Participant is eligible for and consents in writing to a single sum distribution of such vested interest, the balances remaining in the Participant’s Separate Accounts will be forfeited and his Separate Accounts closed as of the last day of the Plan Year in which such single sum distribution occurs, provided that such distribution occurs prior to the end of the second Plan Year beginning on or after the Participant’s Settlement Date.

* * *

EXECUTED at Kent, Ohio, this 30 day of June, 2024.

THE DAVEY TREE EXPERT COMPANY

By: Jennifer Behrend
Title: Director, Human Resources Administration

Certification

Certification of Chief Executive Officer

I, Patrick M. Covey, certify that:

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

Date: November 7, 2024 /s/ Patrick M. Covey

Patrick M. Covey
Chairman, President and Chief Executive Officer

Certification

Certification of Chief Financial Officer

I, Joseph R. Paul, certify that:

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

Date: November 7, 2024 /s/ Joseph R. Paul

Joseph R. Paul

Executive Vice President, Chief Financial Officer and Assistant Secretary

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

Certification of Chief Executive Officer

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

1. The Quarterly Report on Form 10-Q of the Company for the period ended September 28, 2024 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), as applicable; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2024

/s/ Patrick M. Covey

Patrick M. Covey

Chairman, President and Chief Executive Officer

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

Certification of Chief Financial Officer

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

1. The Quarterly Report on Form 10-Q of the Company for the period ended September 28, 2024 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), as applicable; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2024

/s/ Joseph R. Paul

Joseph R. Paul

Executive Vice President, Chief Financial Officer and Assistant Secretary