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 June 30, 2018

OR

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

For the transition period from ______________ to ______________

Commission file number 000-11917

DAVEY

THE DAVEY TREE EXPERT COMPANY
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark 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.

(Check one):	☐ Large Accelerated Filer	☒ Accelerated Filer	☐ Emerging Growth Company
	☐ Non-Accelerated Filer (Do not check if a smaller reporting company)	☐ 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 23,631,182 Common Shares, $1.00 par value, outstanding as of August 3, 2018.

The Davey Tree Expert Company
Quarterly Report on Form 10-Q
June 30, 2018
INDEX

We," "us," "our," "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)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash	$ 12,483	$ 13,121
Accounts receivable, net	178,269	168,671
Operating supplies	13,922	10,069
Other current assets	12,326	17,264
Total current assets	217,000	209,125
Property and equipment	640,087	616,036
Less accumulated depreciation	431,851	422,853
	208,236	193,183
Other assets	24,874	29,156
Identified intangible assets and goodwill, net	43,144	41,671
	$ 493,254	$ 473,135
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 37,076	$ 45,093
Accrued expenses	40,512	42,816
Other current liabilities	33,959	40,748
Total current liabilities	111,547	128,657
Long-term debt	157,907	119,210
Self-insurance accruals	45,093	43,912
Other noncurrent liabilities	17,040	19,966
	331,587	311,745
Redeemable common shares related to 401KSOP and Employee Stock Ownership Plan (ESOP); 6,169 and 6,467 shares at redemption value as of June 30, 2018 and December 31, 2017	121,525	123,520
Common shareholders' equity:		
Common shares, $1.00 par value, per share; 48,000 shares authorized; 36,745 and 36,447 shares issued and outstanding before deducting treasury shares and which excludes 6,169 and 6,467 shares subject to redemption as of June 30, 2018 and December 31, 2017	36,745	36,447
Additional paid-in capital	69,810	58,554
Common shares subscribed, unissued	7,131	7,529
Retained earnings	153,647	143,835
Accumulated other comprehensive loss	(9,679)	(8,393)
	257,654	237,972
Less: Cost of common shares held in treasury; 19,290 shares at June 30, 2018 and 18,693 shares at December 31, 2017	216,065	198,327
Common shares subscription receivable	1,447	1,775
Total common shareholders' equity	40,142	37,870
	$ 493,254	$ 473,135

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Revenues	$ 270,649	$ 245,037	$ 479,300	$ 437,850
Costs and expenses:				
Operating	167,682	151,525	312,305	285,184
Selling	44,317	40,816	83,974	76,350
General and administrative	17,358	15,213	35,076	31,613
Depreciation and amortization	13,938	13,000	27,059	25,190
Gain on sale of assets, net	(2,446)	(1,176)	(3,248)	(2,151)
	240,849	219,378	455,166	416,186
Income from operations	29,800	25,659	24,134	21,664
Other income (expense):				
Interest expense	(1,754)	(1,072)	(3,155)	(2,329)
Interest income	101	73	179	143
Other, net	(1,052)	(1,339)	(2,714)	(2,478)
Income before income taxes	27,095	23,321	18,444	17,000
Income taxes	5,381	9,098	3,357	6,664
Net income	$ 21,714	$ 14,223	$ 15,087	$ 10,336
Net income per share:				
Basic	$ .94	$ .57	$ .62	$ .41
Diluted	$ .89	$ .55	$ .59	$ .40
Weighted-average shares outstanding:				
Basic	23,121	24,998	24,439	24,984
Diluted	24,307	25,985	25,561	25,998
Dividends declared per share	$ .025	$ .025	$ .050	$ .050

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net income	$ 21,714	$ 14,223	$ 15,087	$ 10,336
Components of other comprehensive income/(loss), net of tax:				
Foreign currency translation adjustments	(747)	881	(1,579)	1,203
Adjustments to defined benefit pension plans:				
Reclassification to results of operations:				
Amortization of defined benefit pension items:				
Net actuarial loss	135	147	269	294
Prior service cost	12	10	24	20
Defined benefit pension plan adjustments	147	157	293	314
Other comprehensive (loss)/income, net of tax	(600)	1,038	(1,286)	1,517
Comprehensive income	$ 21,114	$ 15,261	$ 13,801	$ 11,853

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2018	Six Months Ended July 1, 2017
Operating activities		
Net income	$ 15,087	$ 10,336
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,059	25,190
Other	(129)	(909)
Changes in operating assets and liabilities:		
Accounts receivable	(9,598)	(9,662)
Operating liabilities	(8,907)	1,123
Other, net	(850)	1,589
	7,575	17,331
Net cash provided by operating activities	22,662	27,667
Investing activities		
Capital expenditures:		
Equipment	(40,228)	(37,858)
Land and building	(238)	(2,992)
Purchases of businesses, net of cash acquired	(2,544)	(7,452)
Other	4,396	2,667
Net cash used in investing activities	(38,614)	(45,635)
Financing activities		
Revolving credit facility proceeds, net	39,000	35,500
Purchase of common shares for treasury	(26,356)	(17,002)
Sale of common shares from treasury	12,920	10,136
Dividends	(1,218)	(1,268)
Payments of notes payable	(9,032)	(8,721)
Net cash provided by financing activities	15,314	18,645
(Decrease)/increase in cash	(638)	677
Cash, beginning of period	13,121	9,006
Cash, end of period	$ 12,483	$ 9,683
Supplemental cash flow information follows:		
Interest paid	$ 3,118	$ 2,480
Income taxes paid	5,126	3,179

See notes to condensed consolidated financial statements.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2018
(Amounts in thousands, except share data)

A. Basis of Financial Statement Preparation

The condensed consolidated financial statements present the financial position, results of operations and cash flows of The Davey Tree Expert Company and its subsidiaries. When we refer to “we,” “us,” “our,” “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 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 significant intercompany accounts and transactions have been eliminated.

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, 2017 (the “2017 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 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, self-insurance accruals, income taxes and revenue recognition. Actual results could differ from those estimates.

Interim Results of Operations--Interim results may not be indicative of calendar year performance because of seasonal and short-term variations.

Recent Accounting Guidance

Accounting Standards Adopted in 2018

Accounting Standards Update 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business--In January 2017, the FASB issued Accounting Standard Update ("ASU") 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," which provides guidance to evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. If substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single asset or a group of similar assets, the assets acquired (or disposed of) are not considered a business. The Company adopted the guidance effective January 1, 2018 and application has been applied prospectively for annual and interim periods beginning after December 15, 2017. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Accounting Standards Update 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)--In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” which provides guidance on how cash receipts and cash payments related to eight specific cash flow issues are presented and classified in the statement of cash flows, with the objective of reducing the existing diversity in practice. The Company adopted ASU 2016-15 on January 1, 2018. The adoption of ASU 2016-15 did not have a material impact on our consolidated financial statements.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2018
(Amounts in thousands, except share data)

A. Basis of Financial Statement Preparation (continued)

Accounting Standards Update 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost--In March 2017, the FASB issued ASU 2017-07, "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which changes the presentation of net periodic benefit cost related to employer sponsored defined benefit plans and other postretirement benefits. Under ASU 2017-07, service costs will be included within the same income statement line item as other compensation costs arising from services rendered by pertinent employees during the period. The other components of net periodic benefit pension cost will be presented separately outside of income from operations. Additionally, only the service cost component of the net periodic benefit cost may be capitalized in assets. The amendments under ASU 2017-07 also provide a practical expedient that permits the use of amounts disclosed in the pension and other postretirement benefit plan footnote for prior year comparative periods as the estimation basis for applying the guidance retrospectively. The Company adopted ASU 2017-07 on January 1, 2018 and chose to use the practical expedient provided when applying the guidance retrospectively. Upon adoption, service costs are recognized in our financial statements as general and administrative expenses while the remaining components of net periodic benefit cost are recognized as other income (expense). Pension expense of $347 for the second quarter 2017 and $694 for the first six months of 2017 have been reclassified from general and administrative expense to other income (expense).

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

The Company adopted ASU 2014-09 and applied it to all contracts that were not completed using the modified retrospective method for those contracts that were not completed as of adoption. The cumulative effect of applying the guidance in ASU 2014-09 to contracts that were not yet completed as of January 1, 2018 was not material. Further, the adoption of ASU 2014-09 did not have a significant impact on the amount or timing of revenue recognition. Therefore, we have not disclosed the amount by which each financial statement line item is affected in the current period as a result of applying ASU 2014-09 or an explanation of significant changes between our results as reported and those that would have been reported under legacy U.S. GAAP, as no significant changes were identified.

Accounting Standards Not Yet Adopted

Accounting Standards Update 2016-02, Leases (Topic 842)--In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 establishes a comprehensive new lease accounting model. The new standard: (a) clarifies the definition of a lease; (b) requires a dual approach to lease classification similar to current lease classifications; and (c) causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease-term of more than twelve months. The new standard is effective for interim and annual periods beginning after December 15, 2018, which for Davey Tree would be January 1, 2019. Early adoption is permitted. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. The Company plans to adopt ASU 2016-02 on January 1, 2019. Management has assembled a project team and is in the process of gathering information to evaluate real estate, personal property and other arrangements that may meet the definition of a lease and has purchased a technology solution to assist with the management of leases. Management expects to adopt the standard using the Comparative Under ASC 840 approach and has evaluated the accounting elections and practical expedients available under the standard.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2018
(Amounts in thousands, except share data)

A. Basis of Financial Statement Preparation (continued)

Management expects that the adoption of ASU 2016-02 will have a material impact on the Company's consolidated financial statements.

Accounting Standards Update 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220)--In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220)." ASU 2018-02 provides an option to reclassify the stranded tax effects within accumulated other comprehensive income to retained earnings as a result of the Tax Cuts and Jobs Act of 2017 (the "Tax Reform Act"). This standard is effective for interim and annual reporting periods beginning after December 15, 2018, which for Davey Tree would be January 1, 2019. Early adoption is permitted. Management has not yet completed its assessment of the impact of the new standard on the Company's consolidated financial statements.

B. Seasonality of Business

Due to the seasonality of our business, our operating results for the six months ended June 30, 2018 are not indicative of results that may be expected for any other interim period or for the year ending December 31, 2018. 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	**June 30, 2018**	**December 31, 2017**
Accounts receivable	$ 135,920	$ 143,244
Receivables under contractual arrangements	46,613	29,895
	182,533	173,139
Less allowances for doubtful accounts	4,264	4,468
Accounts receivable, net	$ 178,269	$ 168,671

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

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

Other current assets	**June 30, 2018**	**December 31, 2017**
Refundable income taxes	$ —	$ 587
Prepaid expense	11,938	15,893
Other	388	784
Total	$ 12,326	$ 17,264

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2018
(Amounts in thousands, except share data)

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

Accrued expenses	June 30, 2018	December 31, 2017
Employee compensation	$ 17,267	$ 20,794
Accrued compensated absences	9,959	9,267
Self-insured medical claims	4,666	3,193
Income tax payable	2,610	3,443
Customer advances, deposits	498	1,672
Taxes, other than income	3,099	2,279
Other	2,413	2,168
Total	$ 40,512	$ 42,816

Other current liabilities	June 30, 2018	December 31, 2017
Note payable	$ —	$ 149
Current portion of:		
Long-term debt	9,944	16,817
Self-insurance accruals	24,015	23,782
Total	$ 33,959	$ 40,748

D. Business Combinations

Our investment in businesses during the first six months of 2018 was $3,534, including debt issued, in the form of notes payable to the sellers, of $990, and 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 six months ended July 1, 2017, our investment in businesses was $10,877, including $3,099 of debt issued.

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

	Six Months Ended June 30, 2018
Detail of acquisitions:	
Assets acquired:	
Operating supplies	$ 22
Equipment	1,869
Deposits and other	65
Intangibles	1,194
Goodwill	1,013
Liabilities assumed	(629)
Debt issued for purchases of businesses	(990)
Cash paid	$ 2,544

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2018
(Amounts in thousands, except share data)

D. Business Combinations (continued)

The results of operations of acquired businesses have been included in the consolidated statements of operations beginning as of the effective dates of acquisition. The effect of these acquisitions on our consolidated revenues and results of operations for the period ending June 30, 2018 was not significant. Pro forma net sales and results of operations for the acquisition had it occurred at the beginning of the six months ended June 30, 2018 are not material and, accordingly, are not provided.

Investments in Businesses Subsequent to June 30, 2018--Subsequent to June 30, 2018 and through August 3, 2018, we made investments in businesses approximating $6,372.

E. Identified Intangible Assets and Goodwill, Net

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

	June 30, 2018		December 31, 2017	
Identified Intangible Assets and Goodwill, Net	**Carrying Amount**	**Accumulated Amortization**	**Carrying Amount**	**Accumulated Amortization**
Amortized intangible assets:				
Customer lists/relationships	$ 22,732	$ 17,472	$ 21,487	$ 16,846
Employment-related	7,431	6,759	7,333	6,624
Tradenames	6,310	5,261	5,978	5,134
Amortized intangible assets	36,473	$ 29,492	34,798	$ 28,604
Less accumulated amortization	29,492		28,604	
Identified intangibles, net	6,981		6,194	
Unamortized intangible assets:				
Goodwill	36,163		35,477	
	$ 43,144		$ 41,671	

The changes in the carrying amounts of goodwill, by segment, for the six months ended June 30, 2018 follow:

	Balance at January 1, 2018	Acquisitions	Translation and Other Adjustments	Balance at June 30, 2018
Utility	$ 3,424	$ —	$ —	$ 3,424
Residential and Commercial	32,053	1,013	(327)	32,739
Total	$ 35,477	$ 1,013	$ (327)	$ 36,163

In the first quarter of 2018, the Company finalized all purchase accounting adjustments related to the Arborguard Tree Specialists, Inc. acquisition. The Company has recorded fair value adjustments based on new information obtained during the measurement period primarily related to customer lists, and deferred taxes. These adjustments

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2018
(Amounts in thousands, except share data)

E. Identified Intangible Assets and Goodwill, Net (continued)

resulted in a decrease in goodwill of $298 from the Company's initial estimate. Additionally, the change to the provisional amount resulted in an increase in amortization expense of $52 and accumulated amortization of $70, of which $52 relates to the previous year.

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

Our long-term debt consisted of the following:

	June 30, 2018	December 31, 2017
Revolving credit facility		
Swing-line borrowings	$ 1,000	$ —
LIBOR borrowings	138,000	100,000
	139,000	100,000
Senior unsecured notes	18,000	18,000
Term loans	8,937	16,242
Capital leases	2,551	2,510
	168,488	136,752
Less debt issuance costs	637	725
Less current portion	9,944	16,817
	$ 157,907	$ 119,210

Revolving Credit Facility --As of June 30, 2018, we had a $250,000 revolving credit facility with a group of banks, which expires in October 2022 and permits borrowings, as defined, up to $250,000, including a letter of credit sublimit of $100,000 and a swing-line commitment of $25,000. Under certain circumstances, the amount available under the revolving credit facility may be increased to $325,000. The revolving credit facility contains certain affirmative and negative covenants customary for this type of facility and includes financial covenant ratios with respect to a maximum leverage ratio (not to exceed 3.00 to 1.00 with exceptions in case of material acquisitions) and a minimum interest coverage ratio (not less than 3.00 to 1.00), in each case subject to certain further restrictions as described in the Credit Agreement. As of June 30, 2018, we had unused commitments under the facility approximating $108,087, with $141,913 committed, consisting of borrowings of $139,000 and issued letters of credit of $2,913.

Borrowings outstanding bear interest, at Davey Tree's option, of either (a) a base rate or (b) LIBOR plus a margin adjustment ranging from .875% to 1.50%--with the margin adjustments in both instances based on the Company's leverage ratio at the time of borrowing. The base rate is the greater of (i) the agent bank's prime rate, (ii) LIBOR plus 1.50%, 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.

5.09% Senior Unsecured Notes--The senior unsecured notes are due July 22, 2020 and were issued during July 2010 as 5.09% Senior Unsecured Notes, Series A (the "5.09% Senior Notes"), pursuant to a Master Note Purchase Agreement (the "Purchase Agreement") between the Company and the purchasers of the 5.09% Senior Notes.

The 5.09% Senior Notes are equal in right of payment with our revolving credit facility and all other senior unsecured obligations of the Company. Interest is payable semiannually and five equal, annual principal payments commenced on July 22, 2016 (the sixth anniversary of issuance). The Purchase Agreement contains customary

F. Long-Term Debt and Commitments Related to Letters of Credit (continued)

events of default and covenants related to limitations on indebtedness and transactions with affiliates and the maintenance of certain financial ratios.

Accounts Receivable Securitization Facility--In May 2018, the Company amended its Accounts Receivable Securitization Facility (the "AR Securitization program") to extend the scheduled termination date for an additional one-year period, to May 6, 2019. In addition, for purposes of determining events of default, the Days' Sales Outstanding calculation was amended to include the most recent six fiscal months. The prior calculation was based on the most recent three fiscal months.

The AR Securitization program has a limit of $100,000, of which $58,150 was issued for letters of credit as of June 30, 2018.

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 letters of credit ("LCs") as of June 30, 2018--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 a reserve-adjusted LIBOR or, in certain circumstances, a base rate equal to the higher of (i) the bank’s prime rate and (ii) the federal funds rate plus .50% and, following any default, 2.00% plus the greater of (a) adjusted LIBOR and (b) a base rate equal to the higher of (i) the bank’s prime rate and (ii) the federal funds rate plus .50%.

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

Total Commitments Related to Issued Letters of Credit--As of June 30, 2018 and December 31, 2017, total commitments related to issued letters of credit were $63,067, of which $2,913 were issued under the revolving credit facility, $58,150 were issued under the AR Securitization program, and $2,004 were issued under short-term lines of credit.

G. Stock-Based Compensation

Our shareholders approved the 2014 Omnibus Stock Plan (the “2014 Stock Plan”) at our annual meeting of shareholders on May 20, 2014. The 2014 Stock Plan replaced the expired 2004 Omnibus Stock Plan (the “2004 plan”) previously approved by the shareholders in 2004. The 2014 Stock Plan is administered by the Compensation Committee of the Board of Directors and has a term of ten years. All directors of the Company and employees of the Company and its subsidiaries are eligible to participate in the 2014 Stock Plan. The 2014 Stock

(Amounts in thousands, except share data)

G. Stock-Based Compensation (continued)

Plan (similar to the 2004 plan) continues the maintenance of the Employee Stock Purchase Plan, as well as provisions for the grant of stock options and other stock-based incentives. The 2014 Stock Plan provides for the grant of five percent of the number of the Company's common shares outstanding as of the first day of each fiscal year plus the number of common shares that were available for grant of awards, but not granted, in prior years. In no event, however, may the number of common shares available for the grant of awards in any fiscal year exceed ten percent of the common shares outstanding as of the first day of that fiscal year. Common shares subject to an award that is forfeited, terminated, or canceled without having been exercised are generally added back to the number of shares available for grant under the 2014 Stock Plan.

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Compensation expense, all share-based payment plans	$ 769	$ 1,462	$ 1,793	$ 2,448

Stock-based compensation consisted of the following:

Employee Stock Purchase Plan--Under the Employee Stock Purchase Plan, all full-time employees with one year of service are eligible to purchase, through payroll deduction, common shares. Employee purchases under the Employee Stock Purchase Plan are at 85% of the fair market value of the common shares--a 15% discount. We recognize compensation costs as payroll deductions are made. The 15% discount of total shares purchased under the plan resulted in compensation cost of $488 being recognized for the six months ended June 30, 2018 and $415 for the six months ended July 1, 2017.

Stock Option Plans--The stock options outstanding were awarded under a graded vesting schedule, measured at fair value, and have a term of ten years. Compensation costs for stock options are recognized over the requisite service period on the straight-line recognition method. Compensation cost recognized for stock options was $346 for the six months ended June 30, 2018 and $395 for the six months ended July 1, 2017.

Stock-Settled Stock Appreciation Rights--During the six months ended June 30, 2018, the Compensation Committee awarded 121,243 stock-settled stock appreciation rights ("SSARs") to certain management employees, which vest ratably over five years. A SSAR is an award that allows the recipient to receive common shares equal to the appreciation in the fair market value of our common shares between the date the award was granted and the conversion date of the shares vested.

(Amounts in thousands, except share data)

G. Stock-Based Compensation (continued)

The following table summarizes our SSARs as of June 30, 2018.

Stock-Settled Stock Appreciation Rights	Number of Rights	Weighted-Average Award Date Value	Weighted-Average Remaining Contractual Life	Unrecognized Compensation Cost	Aggregate Intrinsic Value
Unvested, January 1, 2018	448,180	$ 3.10			
Granted	121,243	3.84			
Forfeited	—	—			
Vested	(150,120)	3.01			
Unvested, June 30, 2018	419,303	$ 3.35	2.5 years	$ 1,173	$ 8,009

Compensation costs for SSARs are determined using a fair-value method and amortized over the requisite service period. Compensation expense for SSARs was $290 for the six months ended June 30, 2018 and $757 for the six months ended July 1, 2017.

Restricted Stock Units--During the six months ended June 30, 2018, the Compensation Committee awarded 31,738 performance-based restricted stock units ("PRSUs") to certain management employees and 13,188 restricted stock units ("RSUs") to nonemployee directors. The Compensation Committee made similar awards in prior periods. The awards vest over specified periods. The following table summarizes PRSUs and RSUs as of June 30, 2018.

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, 2018	290,666	$ 14.41			
Granted	44,926	18.55			
Forfeited	—	—			
Vested	(80,806)	12.71			
Unvested, June 30, 2018	254,786	$ 15.67	2.5 years	$ 2,213	$ 4,866
Employee PRSUs	216,134	$ 15.40	2.7 years	$ 1,783	$ 4,128
Nonemployee Director RSUs	38,652	$ 17.17	1.9 years	$ 430	$ 738

Compensation cost for restricted stock awards is determined using a fair-value method and amortized on the straight-line recognition method over the requisite service period. Compensation expense on restricted stock awards totaled $669 for the six months ended June 30, 2018 and $881 for the six months ended July 1, 2017.

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2018
(Amounts in thousands, except share data)

G. Stock-Based Compensation (continued)

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 assumptions based on an analysis of historical data. The expected life of the stock-based awards is derived from the output of the binomial model and represents the period of time that awards granted are expected to be outstanding.

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

	Six Months Ended	
	June 30, 2018	July 1, 2017
Volatility rate	10.1%	10.3%
Risk-free interest rate	2.7%	2.2%
Expected dividend yield	.7%	.7%
Expected life of awards (years)	9.2	8.9

General Stock Option Information--The following table summarizes activity under the stock option plans for the six months ended June 30, 2018.

Stock Options	Number of Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, January 1, 2018	1,528,615	$ 13.05		
Granted	143,250	19.10		
Exercised	(80,635)	10.07		
Forfeited	(41,300)	12.37		
Outstanding, June 30, 2018	1,549,930	$ 13.78	6.2 years	$ 8,246
Exercisable, June 30, 2018	965,780	$ 11.62	5.0 years	$ 7,225

As of June 30, 2018, there was approximately $1,742 of unrecognized compensation cost related to stock options outstanding. The cost is expected to be recognized over a weighted-average period of 2.6 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, SSARs, RSUs, PRSUs or purchases under the Employee Stock Purchase Plan.

(Amounts in thousands, except share data)

H. Net Periodic Benefit Expense--Defined Benefit Pension Plans

The results of operations included the following net periodic benefit expense (income) recognized related to our defined-benefit pension plans.

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Components of pension expense (income)				
Service costs--increase in benefit obligation earned	$ 100	$ 132	$ 200	$ 265
Interest cost on projected benefit obligation	179	264	359	527
Expected return on plan assets	(57)	(170)	(115)	(339)
Amortization of net actuarial loss	182	238	364	475
Amortization of prior service cost	16	15	32	31
Net pension expense of defined benefit pension plans	$ 420	$ 479	$ 840	$ 959

The components of net periodic benefit expense, other than the service cost component, are included in the line item other income (expense) in the income statement.

I. Income Taxes

Our income tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate and, if our estimated annual tax rate changes, we make a cumulative adjustment. The effective tax rate for the six months ended June 30, 2018 is estimated to approximate 18.2%. Our effective tax rate for the six months ended July 1, 2017 was estimated at 39.2%. The change in rate is primarily due to the Tax Reform Act, that was signed into law on December 22, 2017 by the President of the United States, which reduces the corporate federal income tax rate for 2018 and beyond from 35% to 21%.

As a result of the Tax Reform Act, the Company estimated a tax liability of $6,100 due to the transition toll tax on the deemed repatriation of deferred foreign earnings of non-U.S. operations, which the Company believes will be fully offset by foreign tax credits. The final amounts recorded in subsequent financial statements may differ from these provisional amounts due to, among other things, additional analysis related to foreign deferred earnings, changes in interpretations of the Tax Reform Act and related assumptions of the Company and additional regulatory guidance that may be issued.

On December 22, 2017, the SEC issued Staff Accounting Bulletin 118 (“SAB 118”). This guidance allows registrants a “measurement period”, not to exceed one year from the date of enactment, to complete their accounting for the tax effects of the Tax Reform Act. SAB 118 further directs that during the measurement period, registrants who are able to make reasonable estimates for the tax effects of the Tax Reform Act should include those amounts in their financial statements as “provisional” amounts. Registrants should reflect adjustments over subsequent periods as they are able to refine their estimates and complete their accounting for the tax effects of the Tax Reform Act. The provisional amounts computed by the Company are expected to be finalized when the

I. Income Taxes (continued)

U.S. corporate income tax return for 2017 is filed in 2018, but in no event later than one year from the enactment date.

At December 31, 2017, we had unrecognized tax benefits of $2,581, of which $1,948 would affect our effective rate if recognized, and accrued interest expense related to unrecognized benefits of $128. During the second quarter 2018 we decreased our unrecognized tax benefits by $1,547 as a result of the pending settlement of the IRS audits of our 2015 and 2016 U.S. income tax returns. As of June 30, 2018, we had unrecognized tax benefits of $1,034, of which $561 would affect our effective rate if recognized, and accrued interest expense related to unrecognized benefits of $21. 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 federal, state, local and Canadian authorities in the area of income tax. These audits include questioning the timing and the amount of income and deductions and the allocation of income and deductions among various tax jurisdictions. The IRS finalized their audit of our 2015 and 2016 U.S. income tax returns in July 2018. With the exception of U.S. state jurisdictions, the Company is no longer subject to examination by tax authorities for the years through 2016. As of June 30, 2018, we believe it is reasonably possible that the total amount of unrecognized tax benefits will not significantly increase or decrease.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2018
(Amounts in thousands, except share data)

J. Accumulated Other Comprehensive Income (Loss)

Comprehensive income (or loss) is comprised of net income (or net loss) and other components, including 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 six months ended June 30, 2018 and six months ended July 1, 2017:

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2018	$ (3,305)	$ (5,088)	$ (8,393)
Other comprehensive income (loss) before reclassifications			
Unrealized losses	$ (1,579)	$ —	$ (1,579)
Amounts reclassified from accumulated other comprehensive income (loss)	—	396	396
Tax effect	—	(103)	(103)
Net of tax amount	(1,579)	293	(1,286)
Balance at June 30, 2018	$ (4,884)	$ (4,795)	$ (9,679)

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2017	$ (5,500)	$ (6,662)	$ (12,162)
Other comprehensive income (loss) before reclassifications			
Unrealized gains	$ 1,203	$ —	$ 1,203
Amounts reclassified from accumulated other comprehensive income (loss)	—	506	506
Tax effect	—	(192)	(192)
Net of tax amount	1,203	314	1,517
Balance at July 1, 2017	$ (4,297)	$ (6,348)	$ (10,645)

The change in defined benefit pension plans of $396 for the six months ended June 30, 2018 and the $506 for the six months ended July 1, 2017 is included in net periodic pension expense classified in the condensed statement of operations as general and administrative or other income (expense).

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2018
(Amounts in thousands, except share data)

K. Per Share Amounts and Common and Redeemable Shares Outstanding

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Income available to common shareholders:				
Net income	$ 21,714	$ 14,223	$ 15,087	$ 10,336
Weighted-average shares:				
Basic:				
Outstanding	22,926	24,797	24,077	24,582
Partially-paid share subscriptions	195	201	362	402
Basic weighted-average shares	23,121	24,998	24,439	24,984
Diluted:				
Basic from above	23,121	24,998	24,439	24,984
Incremental shares from assumed:				
Exercise of stock subscription purchase rights	140	141	143	143
Exercise of stock options and awards	1,046	846	979	871
Diluted weighted-average shares	24,307	25,985	25,561	25,998
Net income per share:				
Basic	$ .94	$ .57	$ .62	$ .41
Diluted	$ .89	$ .55	$ .59	$ .40

(Amounts in thousands, except share data)

K. Per Share Amounts and Common and Redeemable Shares Outstanding (continued)

Common and Redeemable Shares Outstanding--A summary of the activity of the common and redeemable shares outstanding for the six months ended June 30, 2018 follows:

	Common Shares Net of Treasury Shares	Redeemable Shares	Total
Shares outstanding at January 1, 2018	17,753,832	6,467,027	24,220,859
Shares purchased	(828,495)	(533,447)	(1,361,942)
Shares sold	369,171	235,195	604,366
Stock subscription offering -- cash purchases	51,296	—	51,296
Options and awards exercised	108,850	—	108,850
Shares outstanding at June 30, 2018	17,454,654	6,168,775	23,623,429

On June 30, 2018, we had 23,623,429 common and redeemable shares outstanding, employee options exercisable to purchase 965,780 common shares, partially-paid subscriptions for 723,914 common shares and purchase rights outstanding for 289,391 common shares.

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

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

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

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2018
(Amounts in thousands, except share data)

L. Operations by Business Segment

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

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

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

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

Measurement of Segment Profit and Loss and Segment Assets--We evaluate performance and allocate resources based primarily on operating income and also actively manage business unit operating assets. Segment information, including reconciling adjustments, is presented consistent with the basis described in our 2017 Annual Report.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2018
(Amounts in thousands, except share data)

L. Operations by Business Segment (continued)

Segment information reconciled to consolidated external reporting information follows:

	Utility	Residential and Commercial	All Other	Reconciling Adjustments		Consolidated
Three Months Ended June 30, 2018						
Revenues	$ 128,496	$ 141,465	$ 688	$ —		$ 270,649
Income (loss) from operations	6,265	26,834	(2,764)	(535)	(a)	29,800
Interest expense				(1,754)		(1,754)
Interest income				101		101
Other income (expense), net				(1,052)		(1,052)
Income before income taxes						$ 27,095
Segment assets, total	$ 197,287	$ 222,638	$ —	$ 73,329	(b)	$ 493,254
Three Months Ended July 1, 2017						
Revenues	$ 112,903	$ 131,299	$ 835	$ —		$ 245,037
Income (loss) from operations	4,270	23,837	(965)	(1,483)	(a)	25,659
Interest expense				(1,072)		(1,072)
Interest income				73		73
Other income (expense), net				(1,339)		(1,339)
Income before income taxes						$ 23,321
Segment assets, total	$ 171,472	$ 202,502	$ —	$ 86,198	(b)	$ 460,172
Six Months Ended June 30, 2018						
Revenues	$ 247,183	$ 230,810	$ 1,307	$ —		$ 479,300
Income (loss) from operations	8,079	23,729	(6,556)	(1,118)	(a)	24,134
Interest expense				(3,155)		(3,155)
Interest income				179		179
Other income (expense), net				(2,714)		(2,714)
Income before income taxes						$ 18,444
Segment assets, total	$ 197,287	$ 222,638	$ —	$ 73,329	(b)	$ 493,254
Six Months Ended July 1, 2017						
Revenues	$ 225,381	$ 210,886	$ 1,583	$ —		$ 437,850
Income (loss) from operations	6,928	20,255	(3,193)	(2,326)	(a)	21,664
Interest expense				(2,329)		(2,329)
Interest income				143		143
Other income (expense), net				(2,478)		(2,478)
Income before income taxes						$ 17,000
Segment assets, total	$ 171,472	$ 202,502	$ —	$ 86,198	(b)	$ 460,172

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

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

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

M. Revenue Recognition

We account for revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers, which we adopted on January 1, 2018, using the modified retrospective method. See Note A for further discussion of the adoption, including the impact on our 2018 financial statements.

Nature of Performance Obligations and Significant Judgments

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

- Residential and Commercial Services - We provide a wide array of services for our residential and commercial customers including the treatment, preservation, maintenance, removal and planting of trees, shrubs and other plant life, landscaping, grounds maintenance, the application of fertilizer, herbicides and insecticides, natural resource management and consulting, forestry research and development, and environmental planning. A contract with a customer may include only one of these services, all of these services, or a combination of these services. For contracts in which we provide all, or a combination of, these services, we believe that the nature of our promise is to provide an integrated property management service for our customer. In these contracts, the customer has effectively outsourced the care and maintenance of its property grounds to us during the duration of the contract as we are responsible for providing a continuous delivery of outsourced maintenance activities over the contract term. As such, for contracts that contain a combination of services, we have concluded that we have a single performance obligation, which is accounted for as a series of distinct services.
- Utility Services - We provide a suite of vegetation management or arboricultural services to our utility customers (investor-owned, municipal utilities, and rural electric cooperatives) including the practice of line-clearing and vegetation management around power lines and rights-of-way, chemical brush control, natural resource management and consulting, forestry research and development, and environmental planning. A contract with a customer may include only one of these services, all of these services, or a combination of these services. For contracts in which we provide all, or a combination of, these services, we believe that the nature of our promise is to provide an integrated overall vegetation management service, rather than the performance of discrete activities or services for the customer. As such, for contracts that contain a combination of services, we have concluded that we have a single performance obligation, which is accounted for as a series of distinct services.

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

(Amounts in thousands, except share data)

M. Revenue Recognition (continued)

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

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

Disaggregation of Revenue

The following tables disaggregate our revenue for the three and six months ended June 30, 2018 by major sources:

Three Months Ended June 30, 2018	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	$ 97,118	$ 86,540	$ (26)	$ 183,632
Grounds maintenance	—	37,786	—	37,786
Storm damage services	621	911	—	1,532
Consulting and other	30,757	16,228	714	47,699
Total revenues	$ 128,496	$ 141,465	$ 688	$ 270,649
Geography:				
United States	$ 118,661	$ 129,905	$ 688	$ 249,254
Canada	9,835	11,560	—	21,395
Total revenues	$ 128,496	$ 141,465	$ 688	$ 270,649

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2018
(Amounts in thousands, except share data)

M. Revenue Recognition (continued)

Six Months Ended June 30, 2018	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	$ 183,435	$ 142,937	$ (12)	$ 326,360
Grounds maintenance	—	60,588	—	60,588
Storm damage services	3,834	1,810	—	5,644
Consulting and other	59,914	25,475	1,319	86,708
Total revenues	$ 247,183	$ 230,810	$ 1,307	$ 479,300
Geography:				
United States	$ 229,114	$ 212,383	$ 1,307	$ 442,804
Canada	18,069	18,427	—	36,496
Total revenues	$ 247,183	$ 230,810	$ 1,307	$ 479,300

Contract Balances

Our contract liabilities consist of advance payments and billings in excess of costs incurred and deferred revenue. The Company has recognized $654 and $1,222 of revenue for the three and six months ended June 30, 2018 that was included in the contract liability balance at December 31, 2017. Net contract liabilities consisted of the following:

	June 30, 2018	December 31, 2017
Contract liabilities - current	$ 3,847	$ 2,072
Contract liabilities - noncurrent	2,080	2,020
Net contract liabilities	$ 5,927	$ 4,092

Practical Expedients & Accounting Policy Elections

- *Remaining performance obligations* - The Company’s contracts for service revenue have an original duration of one year or less. Therefore, because of the short duration of these contracts, the Company has not disclosed the transaction price for the future performance obligations as of the end of each reporting period or when the Company expects to recognize this revenue.

- *Incremental costs of obtaining a contract* - The Company’s contracts for service revenue have an original duration of one year or less. Therefore, the Company has elected to expense these costs as incurred.

- *Right to invoice* - For the Company’s contracts in which it has the right to invoice the customer on the basis of actual work performed (i.e., output), the Company has elected to measure the satisfaction of performance obligation(s) on the basis of actual work performed, as the invoiced amount directly corresponds to the value transferred to the customer.

- *Sales taxes* - The Company has, as an accounting policy election, decided to exclude from the measurement of the transaction price all sales taxes assessed by a governmental authority.

(Amounts in thousands, except share data)

M. Revenue Recognition (continued)

- *Significant financing component* - The Company’s contracts do not allow for payment terms which exceed one year, and thus need not account for the effects of a significant financing component.

N. Fair Value Measurements and Financial Instruments

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

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

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

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

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

Our assets and liabilities measured at fair value on a recurring basis at June 30, 2018 were as follows:

		Fair Value Measurements at June 30, 2018 Using:		
Assets and Liabilities Recorded at Fair Value on a Recurring Basis	**Total Carrying Value at June 30, 2018**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Assets invested for self-insurance, classified as other assets, noncurrent	$ 14,909	$ 14,909	$ —	$ —
Liabilities:				
Deferred compensation	$ 2,310	$ —	$ 2,310	$ —

(Amounts in thousands, except share data)

N. Fair Value Measurements and Financial Instruments (continued)

Our assets and liabilities measured at fair value on a recurring basis at December 31, 2017 were as follows:

Assets and Liabilities Recorded at Fair Value on a Recurring Basis	Total Carrying Value at December 31, 2017	Fair Value Measurements at December 31, 2017 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, classified as other assets, noncurrent	$ 19,422	$ 19,422	$ —	$ —
Liabilities:				
Deferred compensation	$ 2,146	$ —	$ 2,146	$ —

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

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

	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Revolving credit facility, noncurrent	$ 139,000	$ 139,000	$ 100,000	$ 100,000
Senior unsecured notes	12,000	12,059	12,000	12,389
Term loans, noncurrent	5,801	6,293	7,935	10,038
Total	$ 156,801	$ 157,352	$ 119,935	$ 122,427

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

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2018
(Amounts in thousands, except share data)

N. Fair Value Measurements and Financial Instruments (continued)

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.

O. Contingencies

We are party to a number of lawsuits, threatened lawsuits and other claims arising out of the normal course of business. On a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. These legal reserves 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 accrue legal reserves, consistent with applicable accounting guidance. Based on information currently available to us, advice of counsel, and available insurance coverage, we believe that our established reserves 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 reserves. As a result, the outcome of a particular matter or a combination of matters may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

In November 2017, a suit was filed against Davey Tree, its subsidiary, Wolf Tree, Inc., a former Davey employee, two Wolf employees, and a former Wolf employee alleging various acts of negligence and seeking compensatory and punitive damages for wrongful death and assault and battery of the plaintiff’s husband, a Wolf Tree employee in Savannah, Georgia, who was killed in August 2017. The case has been set for trial on January 22, 2019. In July 2018, a survival action was filed by the deceased's estate against Davey Tree, its subsidiary, Wolf Tree, Inc., and four current and former employees in Savannah, Georgia, which arises out of the same allegations, seeks compensatory and punitive damages and also includes three RICO claims under Georgia law seeking compensatory damages, treble damages, and punitive damages. The 2018 case has been removed to the United States District Court for the Southern District of Georgia, Savannah Division, on August 2, 2018. The Company has denied all liability and is vigorously defending the action. It also has retained separate counsel for three of the individual defendants, each of whom has denied all liability and also is vigorously defending the action.

P. The Davey 401KSOP and Employee Stock Ownership Plan

On March 15, 1979, the Company consummated a plan, which transferred control of the Company to its employees. As a part of this plan, the Company initially sold 120,000 common shares (presently, 23,040,000 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 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, 2009 we match, in either cash or our common shares, 100% of the first one percent and 50% of the next three percent of each participant's before-tax contribution, limited to the first four

P. The Davey 401KSOP and Employee Stock Ownership Plan (continued)

percent of the employee's compensation deferred each year. All nonbargaining domestic employees who attained age 21 and completed one year of service are eligible to participate.

Our common shares are not listed or traded on an established public trading market, and market prices are, therefore, not available. Semiannually, an independent stock valuation firm determines the fair market value of our common shares based upon our performance and financial condition. The Davey 401KSOP and ESOP Plan includes a put option for shares of the Company's common stock distributed from the plan. Shares are distributed from the Davey 401KSOP and ESOP Plan to former participants of the plan, their beneficiaries, donees or heirs (each, a "participant"). Since our common stock is not currently traded on an established securities market, if the owners of distributed shares desire to sell their shares, the Company is required to purchase the shares at fair value for two 60-day periods after distribution of the shares from the Davey 401KSOP and ESOP. The fair value of distributed shares subject to the put option totaled $5,677 and $3,843 as of June 30, 2018 and December 31, 2017, respectively. The fair value of the shares held in the Davey 401KSOP and ESOP totaled $115,848 and $119,677 as of June 30, 2018 and December 31, 2017, 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 $121,525 and $123,520 as of June 30, 2018 and December 31, 2017, respectively. Changes in the fair value of the 401KSOP and ESOP Plan related shares are reflected in retained earnings while net share activity associated with 401KSOP and ESOP Plan related shares are first reflected in additional paid-in capital and then retained earnings if additional paid-in capital is insufficient.

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

(Amounts in thousands, except share data)

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

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

Our Business--Our operating results are reported in two segments: 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, 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."

RESULTS OF OPERATIONS

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

	Three Months Ended			Six Months Ended		
	June 30, 2018	July 1, 2017	Percentage Change	June 30, 2018	July 1, 2017	Percentage Change
Revenues	100.0%	100.0%	—%	100.0%	100.0%	—%
Costs and expenses:						
Operating	62.0	61.8	.2	65.2	65.1	.1
Selling	16.4	16.7	(.3)	17.5	17.4	.1
General and administrative	6.4	6.2	.2	7.3	7.2	.1
Depreciation and amortization	5.1	5.3	(.2)	5.7	5.8	(.1)
Gain on sale of assets, net	(.9)	(.5)	(.4)	(.7)	(.5)	(.2)
Income from operations	11.0	10.5	.5	5.0	4.8	.2
Other income (expense):						
Interest expense	(.6)	(.4)	(.2)	(.7)	(.5)	(.2)
Interest income	—	—	—	—	—	—
Other, net	(.4)	(.5)	.1	(.5)	(.6)	.1
Income before income taxes	10.0	9.5	.5	3.8	3.9	(.1)
Income taxes	2.0	3.7	(1.7)	.7	1.5	(.8)
Net income	8.0%	5.8%	2.2%	3.1%	2.4%	.7%

Second Quarter—Three Months Ended June 30, 2018 Compared to Three Months Ended July 1, 2017

Our results of operations for the three months ended June 30, 2018 compared to the three months ended July 1, 2017 follows:

	Three Months Ended			
	June 30, 2018	July 1, 2017	Change	Percentage Change
Revenues	$ 270,649	$ 245,037	$ 25,612	10.5%
Costs and expenses:				
Operating	167,682	151,525	16,157	10.7
Selling	44,317	40,816	3,501	8.6
General and administrative	17,358	15,213	2,145	14.1
Depreciation and amortization	13,938	13,000	938	7.2
Gain on sale of assets, net	(2,446)	(1,176)	(1,270)	nm
	240,849	219,378	21,471	9.8
Income from operations	29,800	25,659	4,141	16.1
Other income (expense):				
Interest expense	(1,754)	(1,072)	(682)	63.6
Interest income	101	73	28	38.4
Other, net	(1,052)	(1,339)	287	(21.4)
Income before income taxes	27,095	23,321	3,774	16.2
Income taxes	5,381	9,098	(3,717)	(40.9)
Net income	$ 21,714	$ 14,223	$ 7,491	52.7%

nm--not meaningful

Revenues--Revenues of $270,649 increased $25,612 compared with $245,037 in the second quarter of 2017. Utility Services increased $15,593 or 13.8% compared with the second quarter of 2017. The increase is attributable to new accounts as well as increased work year-over-year and price increases on existing accounts. Residential and Commercial Services increased $10,166 or 7.7% from the second quarter of 2017. Increases in tree and plant care and consulting revenues were partially offset by decreases in grounds maintenance and storm damage revenues. Total revenues of $270,649 included $155 production incentive revenue during the second quarter of 2018 compared with $1,034 during the second quarter of 2017.

Operating Expenses--Operating expenses of $167,682 increased $16,157 compared with the second quarter of 2017. Utility Services increased $11,345 or 13.4% compared with the second quarter of 2017 but, as a percentage of revenue, decreased .3% to 74.8%. The increase is attributable to additional expenses for labor, fuel, equipment maintenance, subcontractors and tools and saws associated with the increased revenue. Residential and Commercial Services increased $5,106 or 7.9% compared with the second quarter of 2017 and, as a percentage of revenue, increased .1% to 49.5%. Increases in labor expense, fuel expense, subcontractor expense and tool and parts expense were partially offset by a reduction in materials expense.

Fuel costs of $8,700 increased $1,988, or 29.6%, from the $6,712 incurred in the second quarter of 2017 and impacted operating expenses within all segments. The $1,988 increase included price increases approximating $243 and usage increases approximating $1,745.

Selling Expenses--Selling expenses of $44,317 increased $3,501 compared with the second quarter of 2017 but, as a percentage of revenues, decreased .3% to 16.4%. Utility Services increased $1,491 or 12.4% over the second quarter of 2017 but, as a percentage of revenue, decreased .1% to 10.5%. Increases in field management wages and incentive expense and employee development were partially offset by decreases in travel and rent expenses.

Residential and Commercial Services experienced an increase of $1,876 or 6.2% over the second quarter of 2017 but, as a percentage of revenue, decreased .3% to 22.6%. Increases in field management wages and incentive expense, office support wages, field management auto expense, field management travel expense, computer expense rent and employee development primarily accounted for the increase.

General and Administrative Expenses--General and administrative expenses of $17,358 increased $2,145 from $15,213 in the second quarter of 2017. Increases in salary and incentive expense, travel and living expenses, professional services and general insurance expense were partially offset by reductions in employee development expense.

Depreciation and Amortization Expense--Depreciation and amortization expense of $13,938 increased $938 from $13,000 incurred in the second quarter of 2017, primarily due to increased capital expenditures and purchases of businesses in recent years.

Gain on the Sale of Assets, Net--Gain on the sale of assets of $2,446 for the second quarter of 2018 increased $1,270 from the $1,176 gain in the second quarter of 2017. Higher average sales prices on units sold and the sale of real estate were partially offset by reductions in the quantity of units sold in the second quarter of 2018 as compared with the second quarter of 2017.

Interest Expense--Interest expense of $1,754 increased $682 from the $1,072 incurred in the second quarter of 2017. The increase is attributable to higher-average debt levels necessary to fund operations and capital expenditures during the second quarter of 2018, as compared with the second quarter of 2017.

Other, Net--Other, net, of $1,052 decreased $287 from the $1,339 incurred in the second quarter of 2017 and consisted of nonoperating income and expense, including foreign currency transaction gains/losses on the intercompany account balances of our Canadian operations.

Income Tax Expense--Income tax expense for the second quarter of 2018 was $5,381, as compared to $9,098 for the second quarter of 2017. 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 2018 effective tax rate as of the second quarter of 2018 is estimated to approximate 18.2%, as compared with the second quarter of 2017 of 39.2%. The decrease is attributable to the reduction in the corporate federal income tax rate with the passage of the Tax Cuts and Jobs Act that was signed into law in December 2017.

Net Income--Net income of $21,714 for the second quarter of 2018 was $7,491 more than the $14,223 for the second quarter of 2017.

First Half—Six Months Ended June 30, 2018 Compared to Six Months Ended July 1, 2017

Our results of operations for the six months ended June 30, 2018 compared to the six months ended July 1, 2017 follows:

	Six Months Ended			
	June 30, 2018	July 1, 2017	Change	Percentage Change
Revenues	$ 479,300	$ 437,850	$ 41,450	9.5%
Costs and expenses:				
Operating	312,305	285,184	27,121	9.5
Selling	83,974	76,350	7,624	10.0
General and administrative	35,076	31,613	3,463	11.0
Depreciation and amortization	27,059	25,190	1,869	7.4
Gain on sale of assets, net	(3,248)	(2,151)	(1,097)	51.0
	455,166	416,186	38,980	9.4
Income from operations	24,134	21,664	2,470	11.4
Other income (expense):				
Interest expense	(3,155)	(2,329)	(826)	35.5
Interest income	179	143	36	25.2
Other, net	(2,714)	(2,478)	(236)	9.5
Income before income taxes	18,444	17,000	1,444	8.5
Income taxes	3,357	6,664	(3,307)	(49.6)
Net income	$ 15,087	$ 10,336	$ 4,751	46.0%

Revenues--Revenues of $479,300 increased $41,450 compared with $437,850 in the first half of 2017. Utility Services increased $21,802 or 9.7% compared with the first half of 2017. Contracts lost and significant reductions in contract scope with two utility providers within our U.S. Utility operations were offset by new contracts obtained and increases in rates and productivity on other contracts within both our U.S. and Canadian operations. Residential and Commercial Services increased $19,924 or 9.4% from the first half of 2017. Increases in tree and plant care, grounds maintenance and consulting revenues were partially offset by decreases in storm damage revenues. Total revenues of $479,300 included production incentive revenue, recognized under the completed-performance method, of $401 during the first half of 2018 compared with $1,056 during the first half of 2017.

Operating Expenses--Operating expenses of $312,305 increased $27,121 compared with the first half of 2017 and, as a percentage of revenues, increased .1% to 65.2%. Utility Services increased $16,554 or 9.7% compared with the first half of 2017 but, as a percentage of revenue, remained at 75.8%. Increases in labor expense, fuel expense and equipment maintenance expense were partially offset by a decrease in equipment rental expense. Residential and Commercial Services increased $10,711 or 9.6% compared with the first half of 2017 and, as a percentage of revenue, increased .1% to 53.0%. The increase was attributable to additional expenses for labor expense, equipment maintenance expense, materials expense, subcontractor expense, fuel expense, tool expense and crew expenses associated with the increased revenue.

Fuel costs of $15,642 increased $3,319, or 26.9%, from the $12,323 incurred in the first half of 2017 and impacted operating expenses within all segments. The $3,319 increase included price increases approximating $426 and usage increases approximating $2,893.

Selling Expenses--Selling expenses of $83,974 increased $7,624 compared with the first half of 2017 and, as a percentage of revenue, increased .1% to 17.5%. Utility Services increased $2,547 or 10.6% over the first half of 2017 and, as a percentage of revenue increased .1% to 10.7%. Increases in field management wages and incentive expense, computer expense, rent and travel expense were partially offset by a decrease in office support wages. Residential and Commercial Services experienced an increase of $4,936 or 9.1% over the first half of 2017 but as a percentage of revenue, decreased .1% to 25.7%. Increases in field management wages and incentive expense, office rent expense, employee development expense, field management travel expense, office support wages, and communication expense contributed to the increase.

General and Administrative Expenses--General and administrative expenses of $35,076 increased $3,463 from $31,613 in the first half of 2017. Increases in salary and incentive expense, stock compensation expense, computer expense, pension expense, professional service expense, travel, rent, general insurance expense and advertising expense contributed to the increase.

Depreciation and Amortization Expense--Depreciation and amortization expense of $27,059 increased $1,869 from $25,190 incurred in the first half of 2017. The increase was attributable to higher capital expenditures necessary to support the business and purchases of businesses in recent years.

Gain on the Sale of Assets, Net--Gain on the sale of assets of $3,248 for the first half of 2018 increased $1,097 from the $2,151 gain in the first half of 2017 due to higher average sales prices on fewer units sold and the sale of a property in the first half of 2018 as compared with the first half of 2017.

Interest Expense--Interest expense of $3,155 increased $826 from the $2,329 incurred in the first half of 2017. The increase is attributable to higher-average debt levels necessary to fund operations, capital expenditures and purchases of businesses during the first six months of 2018, as compared with the first six months of 2017.

Other, Net--Other, net, of $2,714 increased $236 from the $2,478 incurred in the first half of 2017 and consisted of nonoperating income and expense, including foreign currency gains/losses on the intercompany account balances of our Canadian operations.

Income Tax Expense--Income tax expense for the first half of 2018 was $3,357, as compared to $6,664 for the first half of 2017. 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 2018 effective tax rate for the first half of 2018 is estimated to approximate 18.2%. Our effective tax rate for the first half of 2017 was 39.2%. The decrease is attributable to the reduction in the corporate federal income tax rate with the passage of the Tax Cuts and Jobs Act that was signed into law in December 2017.

Net Income--Net income of $15,087 for the first half of 2018 was $4,751 more than the $10,336 for the first half of 2017.

LIQUIDITY AND CAPITAL RESOURCES

Our principal financial requirements are for capital spending, working capital and business acquisitions.

Cash Flow Summary

Our cash flows from operating, investing and financing activities for the six months ended June 30, 2018 and July 1, 2017 follow:

	Six Months Ended	
	June 30, 2018	**July 1, 2017**
Cash provided by (used in):		
Operating activities	$ 22,662	$ 27,667
Investing activities	(38,614)	(45,635)
Financing activities	15,314	18,645
(Decrease)/Increase in cash	$ (638)	$ 677

Cash Provided By Operating Activities--Cash provided by operating activities was $22,662 for the first six months of 2018, or $5,005 less than the $27,667 provided in the first six months of 2017. The $5,005 decrease in operating cash flow provided was primarily attributable to a $12,469 increase in cash used for operating assets and liabilities, excluding accounts receivable, partially offset by a $4,751 increase in net income, an increase of $1,869 in depreciation and amortization and $64 less cash used in accounts receivable.

Overall, accounts receivable increased $9,598 during the first six months of 2018, as compared to an increase of $9,662 during the first six months of 2017. 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 six months of 2018 increased by one day to 60 days, when compared to the end of the first six months of 2017. The DSO at July 1, 2017 was 59 days.

Operating liabilities decreased $8,907 in the first six months of 2018, or $10,030 more than the $1,123 increase in the first six months of 2017. Accounts payable and accrued expenses decreased $10,321 during the first six months of 2018 as compared with a decrease of $4,252 for the first six months of 2017. Decreases in employee compensation accruals, trade payables, income taxes payable and advance payments from customers were partially offset by increases in self-insured medical accruals, compensated absence accruals and non-income taxes payable. Self-insurance accruals increased $1,414 in the first six months of 2018, which was $3,961 less than the increase of $5,375 experienced in the first six months of 2017.

Operating assets and liabilities other, net, used $850 of cash for the first six months of 2018 as compared with providing $1,589 of cash for the first six months of 2017. The $2,439 net change related primarily to an increase in operating supplies, and decreases in deposits and pension and post-retirement benefits.

Cash Used In Investing Activities--Cash used in investing activities for the first six months of 2018 was $38,614, or $7,021 less than the $45,635 used during the first six months of 2017. Reductions in capital expenditures for equipment, land and buildings and purchases of businesses account for the decrease.

Cash Provided By Financing Activities--Cash provided by financing activities of $15,314 decreased $3,331 during the first six months of 2018 as compared with $18,645 of cash provided during the first six months of 2017. During the first six months of 2018, our revolving credit facility provided $39,000 in cash as compared with $35,500 provided during the first six months of 2017. We use the credit facility primarily for capital expenditures and payments of notes payable related to acquisitions. Payments of notes payable used $9,032 during the first six months of 2018, an increase of $311 when compared to the $8,721 used in the first six months of 2017. Treasury share transactions (purchases and sales) used $13,436 for the first six months of 2018, $6,570 more than the $6,866 used in the first six months of 2017, and included $328 of cash received from our common share subscriptions. Dividends paid of $1,218 during the first six months of 2018 decreased $50 as compared with $1,268 paid in the first six months of 2017.

The Company currently repurchases common shares at the shareholders’ request in accordance with the terms of the Davey 401KSOP and ESOP Plan and also repurchases common shares from time to time at the Company’s discretion. The amount of common shares offered to the Company for repurchase by the holders of shares distributed from the Davey 401KSOP and ESOP Plan is not within the control of the Company, but is at the discretion of the shareholders. The Company expects to continue to repurchase its common shares, as offered by its shareholders from time to time, at their then current fair value. However, other than for repurchases pursuant to the put option under The Davey 401KSOP and ESOP Plan, as described in Note P, such purchases are not required, and the Company retains the right to discontinue them at any time. Repurchases of redeemable common shares at the shareholders' request approximated $20,179 and $8,778 during the six months ended June 30, 2018 and July 1, 2017, respectively. Share repurchases, other than redeemable common shares, approximated $6,177 and $8,224 during the six months ended June 30, 2018 and July 1, 2017, respectively.

Revolving Credit Facility--In October 2017, we amended our revolving credit facility. The Amended and Restated Credit Agreement provides for a revolving credit facility with a group of banks under which up to an aggregate of $250,000 is available, with a letter of credit sublimit of $100,000 and a swing-line commitment of $25,000. Under certain circumstances, the amount available under the revolving credit facility may be increased to $325,000.

The Amended and Restated Credit Agreement extended the term of the revolving credit facility to October 6, 2022. The revolving credit facility contains certain affirmative and negative covenants customary for this type of facility and includes financial covenant ratios with respect to a maximum leverage ratio (not to exceed 3.00 to 1.00 with exceptions in case of material acquisitions) and a minimum interest coverage ratio (not less than 3.00 to 1.00), in each case subject to certain further restrictions as described in the Credit Agreement.

As of June 30, 2018, we had unused commitments under the facility approximating $108,087, with $141,913 committed, consisting of borrowings of $139,000 and issued letters of credit of $2,913.

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

5.09% Senior Unsecured Notes--The senior unsecured notes are due July 22, 2020 and were issued during July 2010 as 5.09% Senior Unsecured Notes, Series A (the "5.09% Senior Notes"), pursuant to a Master Note Purchase Agreement (the “Purchase Agreement”) between the Company and the purchasers of the 5.09% Senior Notes.

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

Accounts Receivable Securitization Facility--In May 2018, the Company amended its Accounts Receivable Securitization Facility (the "AR Securitization program") to extend the scheduled termination date for an additional one-year period, to May 6, 2019. In addition, for purposes of determining events of default, the Days' Sales Outstanding calculation was amended to include the most recent six fiscal months. The prior calculation was based on the most recent three fiscal months.

The AR Securitization program has a limit of $100,000 of which $58,150 was issued for letters of credit as of June 30, 2018 .

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 letters of credit ("LCs") as of June 30, 2018--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 a reserve-adjusted LIBOR or, in certain circumstances, a base rate equal to the higher of (i) the bank's prime rate and (ii) the federal funds rate plus .50% and, following any default, 2.00% plus the greater of (a) adjusted LIBOR and (b) a base rate equal to the higher of (i) the bank's prime rate and (ii) the federal funds rate plus .50%.

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

Contractual Obligations Summary and Commercial Commitments

The following summarizes our long-term contractual obligations, as of June 30, 2018, to make future payments for the periods indicated:

		Six Months Ending December 31,	Year Ending December 31,				
Description	**Total**	**2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**
Revolving credit facility	$ 139,000	$ —	$ —	$ —	$ —	$ 139,000	$ —
Senior unsecured notes	18,000	6,000	6,000	6,000	—	—	—
Term loans	8,937	3,055	1,092	4,790	—	—	—
Capital lease obligations	2,551	811	945	709	86	—	—
Operating lease obligations	24,013	6,284	4,636	3,150	2,074	4,383	3,486
Self-insurance accruals	69,108	24,015	12,630	8,134	4,991	6,039	13,299
Purchase obligations	7,979	7,979	—	—	—	—	—
Other liabilities	17,039	3,444	6,136	1,754	2,025	1,474	2,206
	$ 286,627	$ 51,588	$ 31,439	$ 24,537	$ 9,176	$ 150,896	$ 18,991

The self-insurance accruals in the summary above reflect the total of the undiscounted amount accrued, for which amounts estimated to be due each year may differ from actual payments required to fund claims. Purchase obligations in the summary above represent open purchase-order amounts that we anticipate will become payable for goods and services that we have negotiated for delivery as of June 30, 2018. Other liabilities include estimates of future expected funding requirements related to retirement plans and other sundry items. Because their future cash outflows are uncertain, accrued income tax liabilities for uncertain tax positions, as of June 30, 2018, have not been included in the summary above. Noncurrent deferred taxes and payments related to defined benefit pension plans are also not included in the summary.

As of June 30, 2018, total commitments related to issued letters of credit were $63,067, of which $2,913 were issued under the revolving credit facility, $58,150 were issued under the AR Securitization program, and $2,004 were issued under short-term lines of credit. As of December 31, 2017, total commitments related to issued letters of credit were $63,242, of which $3,088 were issued under the revolving credit facility, $58,150 were issued under the AR Securitization facility, and $2,004 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 2018 through 2023. We intend to renew the surety bonds where appropriate and as necessary.

Capital Resources

Cash generated from operations and our revolving credit facility 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 are continually reviewing our existing sources of financing and evaluating alternatives. At June 30, 2018, we had working capital of $105,453, and short-term lines of credit approximating $7,133 and $108,087 available under our revolving credit facility.

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.

Recent Accounting Guidance

Accounting Standards Adopted in 2018

Accounting Standards Update 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business--In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," which provides guidance to evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. If substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single asset or a group of similar assets, the assets acquired (or disposed of) are not considered a business. The Company adopted the guidance effective January 1, 2018 and application will be applied prospectively for annual and interim periods beginning after December 15, 2017. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Accounting Standards Update 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)--In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” which provides guidance on how cash receipts and cash payments related to eight specific cash flow issues are presented and classified in the statement of cash flows, with the objective of reducing the existing diversity in practice. The Company adopted ASU 2016-15 on January 1, 2018. The adoption of ASU 2016-15 did not have a material impact on our consolidated financial statements.

Accounting Standards Update 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost--In March 2017, the FASB issued ASU 2017-07, “Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” which changes the presentation of net periodic benefit cost related to employer sponsored defined benefit plans and other postretirement benefits. Under ASU 2017-07, service costs will be included within the same income statement line item as other compensation costs arising from services rendered by pertinent employees during the period. The other components of net periodic benefit pension cost will be presented separately outside of income from operations. Additionally, only the service cost component of the net periodic benefit cost may be capitalized in assets. The amendments under ASU 2017-07 also provide a practical expedient that permits the use of amounts disclosed in its pension and other postretirement benefit plan note for prior year comparative periods as the estimation basis for applying the guidance retrospectively. The Company adopted ASU 2017-07 on January 1, 2018 and chose to use the practical expedient provided when applying the guidance retrospectively. Upon adoption, service costs are recognized in our financial statements as general and administrative expenses while the remaining components of net periodic benefit cost are recognized as other income (expense). Pension expense of $347 for the second quarter 2017 and

$694 for the first six months of 2017 have been reclassified from general and administrative expense to other income (expense).

Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606)--In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” which replaces all current U.S. GAAP guidance on revenue recognition and eliminates all industry-specific guidance. The Company adopted ASU 2014-09 and applied it to all contracts that were not completed using the modified retrospective method. The cumulative effect of applying the guidance in ASU 2014-09 to contracts that were not yet completed as of January 1, 2018 was not material. Further, the adoption of ASU 2014-09 did not have a significant impact on the amount or timing of revenue recognition. Therefore, we have not disclosed the amount by which each financial statement line item is affected in the current period as a result of applying ASU 2014-09 or an explanation of significant changes between our results as reported and those that would have been reported under legacy GAAP as no significant changes were identified.

Accounting Standards Not Yet Adopted

Accounting Standards Update 2016-02, Leases (Topic 842)--In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” ASU 2016-02 establishes a comprehensive new lease accounting model. The new standard: (a) clarifies the definition of a lease; (b) requires a dual approach to lease classification similar to current lease classifications; and, (c) causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease-term of more than twelve months. The new standard is effective for interim and annual periods beginning after December 15, 2018, which for Davey Tree would be January 1, 2019. Early adoption is permitted. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. The Company plans to adopt ASU 2016-02 on January 1, 2019. Management has assembled a project team and is in the process of gathering information to evaluate real estate, personal property and other arrangements that may meet the definition of a lease and has purchased a technology solution to assist with the management of leases. Management expects to adopt the standard using the Comparative Under ASC 840 approach and has evaluated the accounting elections and practical expedients available under the standard. Management expects that the adoption of ASU 2016-02 will have a material impact on the Company's consolidated financial statements.

Accounting Standards Update 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220)--In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220)." ASU 2018-02 provides an option to reclassify the stranded tax effects within accumulated other comprehensive income to retained earnings as a result of the Tax Cuts and Jobs Act of 2017. This standard is effective for interim and annual reporting periods beginning after December 15, 2018, which for Davey Tree would be January 1, 2019. Early adoption is permitted. Management has not yet completed its assessment of the impact of the new standard on the Company's consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

As discussed in our annual report on Form 10-K for the year ended December 31, 2017, we believe that our policies related to revenue recognition, the allowance for doubtful accounts 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. During the first quarter 2018, we updated our revenue recognition policies in conjunction with our adoption of Accounting Standards Codification 606, "Revenue from

Contracts with Customers" as further described in Note M Revenue Recognition of the Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

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 doubtful accounts; and self-insurance accruals. We base our estimates on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. These statements relate to future events or our future financial performance. In some cases, forward-looking statements may be identified by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to differ materially from what is expressed or implied in these forward-looking statements. Some important factors that could cause actual results to differ materially from those in the forward-looking statements include:

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

- A disruption in our information technology systems, including a disruption related to cybersecurity, could adversely affect our financial performance.
- We are subject to third-party and governmental regulatory claims and litigation that may have an adverse effect on us.
- We may misjudge a competitive bid and be contractually bound to an unprofitable contract.

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

The factors described above, as well as other factors that may adversely impact our actual results, are discussed in "Part II - Item 1A. Risk Factors." of this quarterly report on Form 10-Q and in our annual report on Form 10-K for the year ended December 31, 2017 in “Part I - Item 1A. Risk Factors.”

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

During the quarter ended June 30, 2018, there have been no material changes in the market risk previously presented in our annual report on Form 10-K for the year ended December 31, 2017.

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 SEC’s rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Davey Tree Expert Company

Part II. Other Information

Items 3, 4 and 5 are not applicable.

Item 1. *Legal Proceedings.*

In November 2017, a suit was filed against Davey Tree, its subsidiary, Wolf Tree, Inc., a former Davey employee, two Wolf employees, and a former Wolf employee alleging various acts of negligence and seeking compensatory and punitive damages for wrongful death and assault and battery of the plaintiff's husband, a Wolf Tree employee in Savannah, Georgia, who was killed in August 2017. The case has been set for trial on January 22, 2019. In July 2018, a survival action was filed by the deceased's estate against Davey Tree, its subsidiary, Wolf Tree, Inc., and four current and former employees in Savannah, Georgia, which arises out of the same allegations, seeks compensatory and punitive damages and also includes three RICO claims under Georgia law seeking compensatory damages, treble damages, and punitive damages. The 2018 case has been removed to the United States District Court for the Southern District of Georgia, Savannah Division, on August 2, 2018. The Company has denied all liability and is vigorously defending the action. It also has retained separate counsel for three of the individual defendants, each of whom has denied all liability and also is vigorously defending the action.

On a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. These legal reserves 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 accrue legal reserves, consistent with applicable accounting guidance. Based on information currently available to us, advice of counsel, and available insurance coverage, we believe that our established reserves 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 reserves. 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.

Item 1A. *Risk Factors.*

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

Our business is highly seasonal and weather dependent.

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

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

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

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

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

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

We derive approximately 51% of our total annual revenues from our Utility segment, including approximately 11% of our total annual revenues from Pacific Gas & Electric Company. Significant adverse developments in the utility industry generally, or specifically for our major utility customers, could result in pressure to reduce costs by utility industry service providers (such as us), delays in payments of our accounts receivable, or increases in uncollectible accounts receivable, among other things. As a result, such developments could have an adverse effect on our results of operations.

Our quarterly results may fluctuate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The costs of employee health care insurance have been increasing in recent years due to rising health care costs, legislative changes, and general economic conditions. We cannot predict what other health care programs and regulations will ultimately be implemented at the federal or state level or the effect of any future legislation or regulations on our business, results of operations and cash flows. In addition, we cannot predict when and if Congress will repeal and/or replace certain health care programs and regulations at the federal level and the impact that such changes would have on our business. A continued increase in health care costs or additional costs incurred as a result of the Patient Protection and Affordable Care Act and the Health Care and Education

Reconciliation Act of 2010 or other future health care reform laws imposed by Congress or state legislatures could have a negative impact on our financial position, results of operations and cash flows.

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

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

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

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

We are subject to intense competition.

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

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

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

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

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

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

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

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

We may be adversely affected if our reputation is damaged.

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

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

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

We may be unable to attract and retain skilled management.

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

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

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

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

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

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

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

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

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

Item 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 six months of 2018.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
Fiscal 2018				
January 1 to January 27	1,052	$ 18.30	—	129,761
January 28 to February 24	213	18.30	—	129,761
February 25 to March 31	299,799	19.10	—	129,761
Total First Quarter	301,064	19.10	—	
April 1 to April 28	336,766	19.10	—	129,761
April 29 to May 26	250,173	19.10	—	1,129,761
May 27 to June 30	473,939	19.10	127,486	1,002,275
Total Second Quarter	1,060,878	19.10	127,486	
Total Year-to-Date	1,361,942	$ 19.10	127,486	

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

At the Annual Meeting of Shareholders of the Company held on May 16, 2017, the shareholders of the Company approved proposals to amend the Company's Articles of Incorporation to (i) expand the Company's current 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 right 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 will be 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 will also be 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 200,000 common shares, which authorization was increased by an additional 1,000,000 common shares in May 2018. Of the 1,200,000 total shares authorized, 1,002,275 remain available under the program. Share repurchases may be made from time to time and the timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors. The Company is not obligated to purchase any shares, and repurchases may be commenced, suspended or discontinued from time to time without prior notice. The repurchase program does not have an expiration date.

Item 6. ***Exhibits.***

See Exhibit Index page below.

Exhibit Index

Exhibit No.	Description	
10.1	Amendment No. 3 to Receivables Financing Agreement, dated May 7, 2018, by and among The Davey Tree Expert Company, Davey Receivables LLC and PNC Bank, National Association (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 8, 2018).	
10.2	Joinder Agreement, dated May 7, 2018, by and among Davey Receivables LLC, Davey Resource Group, Inc. and PNC Bank, National Association, to the Receivables Purchase Agreement, dated May 9, 2016 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 8, 2018).	
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 June 30, 2018, formatted in XBRL (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 (Loss) (unaudited), (iv) the Condensed Consolidated Statements of Cash Flows (unaudited), and (v) Notes to Condensed Consolidated Financial Statements (unaudited).	Filed Herewith

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: August 9, 2018	By:	/s/ Joseph R. Paul
		Joseph R. Paul Executive Vice President, Chief Financial Officer and Secretary (Principal Financial Officer)
Date: August 9, 2018	By:	/s/ Thea R. Sears
		Thea R. Sears Vice President and Controller (Principal Accounting Officer)

Exhibit 31.2

Certification

Certification of Chief Financial Officer

I, Joseph R. Paul, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Davey Tree Expert Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: August 9, 2018

/s/ Joseph R. Paul

Joseph R. Paul

Executive Vice President, Chief Financial Officer and Secretary

Exhibit 31.1

Certification

Certification of Chief Executive Officer

I, Patrick M. Covey, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 9, 2018

/s/ Patrick M. Covey

Patrick M. Covey

President and Chief Executive Officer

Exhibit 32.1

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

Certification of Chief Executive Officer

I, Patrick M. Covey, 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 June 30, 2018 (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: August 9, 2018

/s/ Patrick M. Covey

Patrick M. Covey

President and Chief Executive Officer

Exhibit 32.2

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

Certification of Chief Financial Officer

I, Joseph R. Paul, Executive Vice President, Chief Financial Officer and 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 June 30, 2018 (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: August 9, 2018

/s/ Joseph R. Paul

Joseph R. Paul

Executive Vice President, Chief Financial Officer and Secretary