

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 03, 2021
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 000-11917



THE DAVEY TREE EXPERT COMPANY

(Exact name of registrant as specified in its charter)

Ohio

34-0176110

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

**1500 North Mantua Street
P.O. Box 5193
Kent, OH 44240**

(Address of principal executive offices) (Zip code)

(330) 673-9511

(Registrant's telephone number, including area code)

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

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Emerging Growth Company

Non-Accelerated Filer

Smaller Reporting Company

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

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

There were 22,609,336 Common Shares, \$1.00 par value, outstanding as of April 30, 2021.

The Davey Tree Expert Company
Quarterly Report on Form 10-Q
April 3, 2021

INDEX

	<u>Page</u>
Part I. Financial Information	
Item 1. Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Operations	3
Condensed Consolidated Statements of Comprehensive Income (Loss)	4
Condensed Consolidated Statements of Shareholders' Equity	5
Condensed Consolidated Statements of Cash Flows	6
Notes to Condensed Consolidated Financial Statements	
A — Basis of Financial Statement Preparation	7
B — Seasonality of Business	9
C — Accounts Receivable, Net and Supplemental Balance-Sheet Information	9
D — Business Combinations	11
E — Identified Intangible Assets and Goodwill, Net	12
F — Long-Term Debt and Commitments Related to Letters of Credit	13
G — Leases	15
H — Stock-Based Compensation	18
I — Income Taxes	20
J — Accumulated Other Comprehensive Income (Loss)	21
K — Per Share Amounts and Common and Redeemable Shares Outstanding	22
L — Operations by Business Segment	23
M — Revenue Recognition	24
N — Fair Value Measurements and Financial Instruments	26
O — Commitments and Contingencies	28
P — The Davey 401KSOP and Employee Stock Ownership Plan	30
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Results of Operations	33
Liquidity and Capital Resources	35
Cash Flow Summary	36
Contractual Obligations Summary and Commercial Commitments	37
Capital Resources	37
Critical Accounting Policies and Estimates	38
Note Regarding Forward-Looking Statements	38
Item 3. Quantitative and Qualitative Disclosures about Market Risk	40
Item 4. Controls and Procedures	40
Part II. Other Information	40
Item 1. Legal Proceedings	40
Item 1A. Risk Factors	41
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 6. Exhibits	43
Exhibit Index	44
Signatures	45

"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)

	April 3, 2021	December 31, 2020
Assets		
Current assets:		
Cash	\$ 28,761	\$ 16,201
Accounts receivable, net	221,685	252,921
Operating supplies	12,801	10,206
Other current assets	28,230	25,734
Total current assets	291,477	305,062
Property and equipment, net	214,273	204,717
Right-of-use assets - operating leases	71,389	55,893
Other assets	30,597	29,756
Intangible assets, net	12,990	11,670
Goodwill	53,647	48,256
Total assets	\$ 674,373	\$ 655,354
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 48,173	\$ 42,787
Accrued expenses	66,146	98,441
Current portion of long-term debt and finance lease liabilities	16,514	21,813
Other current liabilities	59,701	56,831
Total current liabilities	190,534	219,872
Long-term debt	103,134	77,068
Lease liabilities - finance leases	6,000	6,479
Lease liabilities - operating leases	49,233	36,612
Self-insurance accruals	76,977	71,573
Other noncurrent liabilities	11,507	10,689
Total liabilities	437,385	422,293
Commitments and contingencies (Note O)		
Redeemable common shares related to 401KSOP and Employee Stock Ownership Plan (ESOP); 5,177 and 5,113 shares at redemption value as of April 3, 2021 and December 31, 2020	155,307	153,387
Common shareholders' equity:		
Common shares, \$1.00 par value, per share; 48,000 shares authorized; 37,737 and 37,801 shares issued and outstanding before deducting treasury shares and which excludes 5,177 and 5,113 shares subject to redemption as of April 3, 2021 and December 31, 2020	37,737	37,801
Additional paid-in capital	109,774	110,069
Retained earnings	210,567	206,711
Accumulated other comprehensive loss	(4,060)	(4,547)
	354,018	350,034
Less: Cost of common shares held in treasury; 20,075 shares at April 3, 2021 and 20,094 shares at December 31, 2020	272,337	270,360
Total common shareholders' equity	81,681	79,674
Total liabilities and shareholders' equity	\$ 674,373	\$ 655,354

See notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended	
	April 3, 2021	March 28, 2020
Revenues	\$ 298,821	\$ 288,280
Costs and expenses:		
Operating	199,035	198,605
Selling	52,687	50,112
General and administrative	25,351	21,542
Depreciation and amortization	13,458	14,604
Gain on sale of assets, net	(684)	(305)
Total costs and expenses	<u>289,847</u>	<u>284,558</u>
Income from operations	8,974	3,722
Other income (expense):		
Interest expense	(1,274)	(1,946)
Interest income	69	101
Other, net	(2,050)	(1,899)
Income (loss) before income taxes	5,719	(22)
Income taxes (benefit)	1,292	(1)
Net income (loss)	<u>\$ 4,427</u>	<u>\$ (21)</u>
Net income (loss) per share:		
Basic	<u>\$.19</u>	<u>\$ —</u>
Diluted	<u>\$.18</u>	<u>\$ —</u>
Weighted-average shares outstanding:		
Basic	<u>22,841</u>	<u>23,187</u>
Diluted	<u>23,958</u>	<u>24,171</u>

Certain amounts in the prior year have been recast as a result of the change in accounting principle as discussed in Note A.

See notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended	
	April 3, 2021	March 28, 2020
Net income (loss)	\$ 4,427	\$ (21)
Components of other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	450	(1,971)
Amortization of defined benefit pension items:		
Net actuarial loss	25	16
Prior service cost	12	12
Defined benefit pension plan adjustments	37	28
Other comprehensive income (loss), net of tax	487	(1,943)
Comprehensive income (loss)	<u>\$ 4,914</u>	<u>\$ (1,964)</u>

Certain amounts in the prior year have been recast as a result of the change in accounting principle as discussed in Note A.

See notes to condensed consolidated financial statements (unaudited).

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

	Common Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Common Shares Held in Treasury	Total Common Shareholders' Equity
Balances at January 1, 2021	\$ 37,801	\$ 110,069	\$ 206,711	\$ (4,547)	\$ (270,360)	\$ 79,674
Net income	—	—	4,427	—	—	4,427
Change in 401KSOP and ESOP related shares	(64)	(1,855)	—	—	—	(1,919)
Shares sold to employees	—	1,339	—	—	1,121	2,460
Options exercised	—	(363)	—	—	646	283
Stock-based compensation	—	584	—	—	—	584
Dividends, \$.025 per share	—	—	(571)	—	—	(571)
Currency translation adjustments	—	—	—	450	—	450
Defined benefit pension plans	—	—	—	37	—	37
Shares purchased	—	—	—	—	(3,744)	(3,744)
Balances at April 3, 2021	<u>\$ 37,737</u>	<u>\$ 109,774</u>	<u>\$ 210,567</u>	<u>\$ (4,060)</u>	<u>\$ (272,337)</u>	<u>\$ 81,681</u>

	Common Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Common Shares Held in Treasury	Total Common Shareholders' Equity
Balances at January 1, 2020	\$ 37,767	\$ 96,366	\$ 177,711	\$ (5,403)	\$ (246,595)	\$ 59,846
Net loss	—	—	(21)	—	—	(21)
Change in 401KSOP and ESOP related shares	(89)	(2,071)	—	—	—	(2,160)
Shares sold to employees	—	2,566	—	—	2,438	5,004
Options exercised	—	15	—	—	196	211
Stock-based compensation	—	371	—	—	—	371
Dividends, \$.025 per share	—	—	(575)	—	—	(575)
Currency translation adjustments	—	—	—	(1,971)	—	(1,971)
Defined benefit pension plans	—	—	—	28	—	28
Shares purchased	—	—	—	—	(8,061)	(8,061)
Balances at March 28, 2020	<u>\$ 37,678</u>	<u>\$ 97,247</u>	<u>\$ 177,115</u>	<u>\$ (7,346)</u>	<u>\$ (252,022)</u>	<u>\$ 52,672</u>

Certain amounts in the prior year have been recast as a result of the change in accounting principle as discussed in Note A.

See notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended	
	April 3, 2021	March 28, 2020
Operating activities		
Net income (loss)	\$ 4,427	\$ (21)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	13,458	14,604
Other	483	792
Changes in operating assets and liabilities, net of assets acquired:		
Accounts receivable	32,023	(17,161)
Accounts payable and accrued expenses	(29,732)	(7,532)
Self-insurance accruals	4,641	4,620
Prepaid expenses	5,020	8,176
Other, net	(7,925)	(710)
	<u>17,968</u>	<u>2,789</u>
Net cash provided by operating activities	22,395	2,768
Investing activities		
Capital expenditures:		
Equipment	(16,972)	(18,960)
Land and buildings	(1,707)	(747)
Purchases of businesses, net of cash acquired and debt incurred	(8,207)	(1,826)
Proceeds from sales of fixed assets	820	521
	<u>(26,066)</u>	<u>(21,012)</u>
Net cash used in investing activities	(26,066)	(21,012)
Financing activities		
Revolving credit facility borrowings	48,000	244,500
Revolving credit facility payments	(23,000)	(163,500)
Purchase of common shares for treasury	(3,744)	(8,061)
Sale of common shares from treasury	2,743	5,216
Dividends paid	(571)	(575)
Proceeds from notes payable	49,439	27,166
Payments of notes payable	(55,411)	(29,866)
Payments of finance leases	(1,261)	(707)
	<u>16,195</u>	<u>74,173</u>
Net cash provided by financing activities	16,195	74,173
Effect of exchange rate changes on cash	36	(100)
Increase in cash	12,560	55,829
Cash, beginning of period	16,201	11,000
	<u><u>28,761</u></u>	<u><u>66,829</u></u>
Cash, end of period	\$ 28,761	\$ 66,829
Supplemental cash flow information follows:		
Interest paid	\$ 1,967	\$ 2,707
Income taxes paid	10,111	1,910

Certain amounts in the prior year have been recast as a result of the change in accounting principle as discussed in Note A.

See notes to condensed consolidated financial statements (unaudited).

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(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 condensed consolidated financial statements include all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal, recurring nature. All intercompany accounts and transactions have been eliminated in consolidation and certain amounts in three months ended March 28, 2020 have been recast to reflect the retrospective application of the change in accounting principle discussed in the Change in Accounting Method section of this note.

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, 2020 (the “2020 Annual Report”).

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

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

The Company’s fiscal quarters each contain thirteen operating weeks, with the exception of the fourth quarter of a 53-week fiscal year, which contains fourteen operating weeks. The Company’s fiscal quarter that ended April 3, 2021 is referred to as the first quarter of 2021, and the fiscal quarter ended March 28, 2020 is referred to as the first quarter of 2020.

Change in Accounting Method--During the year ended December 31, 2020, we changed our method of accounting for our workers’ compensation accruals from measuring the liabilities on a discounted basis to an undiscounted basis. We believe that measuring the

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

workers' compensation accruals on an undiscounted basis is preferable because it simplifies the accounting for the liabilities, provides consistency with our other lines of coverage (vehicle liability and general liability) and results in financial statement presentation consistent with our industry peers.

As a result of this change in method of accounting, our financial statements and corresponding footnotes for the period ended March 28, 2020 has been recast to reflect the retrospective application of the change in accounting principle. We recorded the cumulative effect for the change in accounting principle as a decrease of \$1,693 to retained earnings as of January 1, 2018. This change decreased our retained earnings by \$2,059 at December 31, 2019.

The following tables present the effects of the change in accounting principle to our financial statements included herein:

Statement of Operations	Three Months Ended March 28, 2020		
	Prior to Change in Accounting Principle	Effect of Change	Recast
Operating expense	\$ 198,393	\$ 212	\$ 198,605
Total costs and expenses	284,346	212	284,558
Income from operations	3,934	(212)	3,722
Income (loss) before income taxes	190	(212)	(22)
Income tax expense (benefit)	17	(18)	(1)
Net income (loss)	173	(194)	(21)
Net income (loss) per share:			
Basic	\$ 0.01	\$ (0.01)	\$ —
Diluted	\$ 0.01	\$ (0.01)	\$ —

Cash Flow	Three Months Ended March 28, 2020		
	Prior to Change in Accounting Principle	Effect of Change	Recast
Net income (loss)	\$ 173	\$ (194)	\$ (21)
Adjustments to reconcile net income (loss) to net cash provided by operating activities--other	810	(18)	792
Self-insurance accruals	4,408	212	4,620
Net cash provided by operating activities	2,768	—	2,768

Recent Accounting Guidance

Accounting Standards Adopted in 2021

Accounting Standards Update 2019-12, Income Taxes (Topic 740)– Simplifying the Accounting for Income Taxes--In December 2019, the FASB issued Accounting Standards Update ("ASU") No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

Income Taxes (ASU 2019-12)", which simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including applicable interim periods. The Company adopted ASU 2019-12 beginning January 1, 2021. The adoption of ASU 2019-12 did not have a material effect on the Company's financial statements.

Accounting Standard Not Yet Adopted

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

B. Seasonality of Business

Due to the seasonality of our business, our operating results for the three months ended April 3, 2021 are not indicative of results that may be expected for any other interim period or for the year ending December 31, 2021. Our business seasonality traditionally results in higher revenues during the second and third quarters as compared with the first and fourth quarters of the year, while the methods of accounting for fixed costs, such as depreciation expense, amortization, rent and interest expense, are not significantly impacted by business seasonality.

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

Accounts receivable, net, consisted of the following:

Accounts receivable, net	April 3, 2021	December 31, 2020
Accounts receivable	\$ 176,887	\$ 214,887
Unbilled receivables ⁽¹⁾	48,470	42,251
	<u>225,357</u>	<u>257,138</u>
Less allowances for credit losses	3,672	4,217
Accounts receivable, net	<u>\$ 221,685</u>	<u>\$ 252,921</u>

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

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

	April 3, 2021	December 31, 2020
Other current assets		
Refundable income taxes	\$ 1,955	\$ —
Prepaid expenses	20,081	24,956
Other	6,194	778
Total	<u>\$ 28,230</u>	<u>\$ 25,734</u>
Property and equipment, net		
Land and land improvements	\$ 19,772	\$ 19,731
Buildings and leasehold improvements	51,241	49,460
Equipment	639,165	623,847
	710,178	693,038
Less accumulated depreciation	495,905	488,321
Total	<u>\$ 214,273</u>	<u>\$ 204,717</u>
Other assets, noncurrent		
Assets invested for self-insurance	\$ 18,859	\$ 19,359
Investment--cost-method affiliate	1,258	1,258
Deferred income taxes	3,328	4,167
Other	7,152	4,972
Total	<u>\$ 30,597</u>	<u>\$ 29,756</u>
Accrued expenses		
Employee compensation	\$ 16,946	\$ 36,108
Accrued compensated absences	11,806	14,534
Self-insured medical claims	1,621	2,065
Income tax payable	41	6,926
Customer advances, deposits	3,580	2,067
Taxes, other than income	26,494	30,354
Other	5,658	6,387
Total	<u>\$ 66,146</u>	<u>\$ 98,441</u>
Other current liabilities		
Current portion of:		
Lease liability-operating leases	\$ 22,753	\$ 19,124
Self-insurance accruals	36,948	37,707
Total	<u>\$ 59,701</u>	<u>\$ 56,831</u>

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

Other noncurrent liabilities	April 3, 2021	December 31, 2020
Pension and retirement plans	\$ 8,063	\$ 7,365
Other	3,444	3,324
Total	\$ 11,507	\$ 10,689

D. Business Combinations

Our investments in businesses during the first three months of 2021 were \$12,558, including liabilities assumed of \$2,258 and debt issued, in the form of notes payable to the sellers, of \$2,093, 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 year ended December 31, 2020, our investment in businesses was \$11,150, including liabilities assumed of \$613 and debt issued, in the form of notes payable to the sellers, of \$2,472.

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

Detail of acquisitions:	Three Months Ended April 3, 2021	Year Ended December 31, 2020
Assets acquired:		
Cash	\$ 36	\$ —
Receivables	581	10
Operating supplies	606	22
Prepaid expense	121	6
Equipment	3,655	1,932
Deposits and other	73	—
Intangibles	2,108	3,545
Goodwill	5,378	5,635
Liabilities assumed	(2,258)	(613)
Debt issued for purchases of businesses	(2,093)	(2,472)
Cash paid	\$ 8,207	\$ 8,065

The results of operations of acquired businesses have been included in the condensed consolidated statements of operations beginning as of the effective dates of acquisition. The effect of these acquisitions on our consolidated revenues and results of operations for the period ended April 3, 2021 was not significant. Pro forma net sales and results of operations for the acquisitions, had they occurred at the beginning of the three months ended April 3, 2021, are not material and, accordingly, are not provided.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

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

E. Identified Intangible Assets and Goodwill, Net

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

	<u>April 3, 2021</u>		<u>December 31, 2020</u>	
	<u>Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Carrying Amount</u>	<u>Accumulated Amortization</u>
Amortized intangible assets:				
Customer lists/relationships	\$ 31,743	\$ 22,577	\$ 30,402	\$ 22,040
Employment-related	9,720	7,891	9,320	7,755
Tradenames	8,310	6,315	7,938	6,195
Amortized intangible assets	49,773	<u>\$ 36,783</u>	47,660	<u>\$ 35,990</u>
Less accumulated amortization	36,783		35,990	
Identified intangible assets, net	<u>\$ 12,990</u>		<u>\$ 11,670</u>	
Goodwill			<u>\$ 48,256</u>	

The changes in the carrying amounts of goodwill, by segment, for the three months ended April 3, 2021 and the year ended December 31, 2020 were as follows:

	<u>Balance at January 1, 2021</u>	<u>Acquisitions</u>	<u>Translation and Other Adjustments</u>	<u>Balance at April 3, 2021</u>
Utility	\$ 4,911	\$ —	\$ —	\$ 4,911
Residential and Commercial	43,345	5,378	13	48,736
Total	<u>\$ 48,256</u>	<u>\$ 5,378</u>	<u>\$ 13</u>	<u>\$ 53,647</u>

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

Estimated future aggregate amortization expense of intangible assets--The estimated future aggregate amortization expense of intangible assets, as of April 3, 2021 was as follows:

	Estimated Future Amortization Expense
Remaining nine months of 2021	\$ 2,212
2022	2,827
2023	2,657
2024	2,182
2025	1,608
Thereafter	1,504
	\$ 12,990

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

Our long-term debt consisted of the following:

	April 3, 2021	December 31, 2020
Revolving credit facility:		
Swing-line borrowings	\$ 10,000	\$ —
LIBOR borrowings	15,000	—
	25,000	—
Senior unsecured notes:		
3.99% Senior unsecured notes	50,000	50,000
4.00% Senior unsecured notes	25,000	25,000
	75,000	75,000
Term loans	18,228	21,864
	118,228	96,864
Less debt issuance costs	222	256
Less current portion	14,872	19,540
	\$ 103,134	\$ 77,068

Revolving Credit Facility --As of April 3, 2021, we had a 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 April 3, 2021, we had unused commitments under the facility approximating \$222,123, with \$27,877 committed, consisting of borrowings of \$25,000 and issued letters of credit of \$2,877.

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

greater of (i) the agent bank's prime rate, (ii) LIBOR plus 1.50%, or (iii) the federal funds rate plus .50%. A commitment fee ranging from .10% to .225% is also required based on the average daily unborrowed commitment.

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

The 3.99% Senior Notes were issued pursuant to a Note Purchase and Private Shelf Agreement (the "Note Purchase and Shelf Agreement") between the Company, PGIM, Inc. and the purchasers of the 3.99% Senior Notes. Subsequent series of promissory notes may be issued pursuant to the Note Purchase and Shelf Agreement (the "Shelf Notes") in an aggregate additional principal amount not to exceed \$50,000 (\$25,000 of which was issued on February 5, 2019).

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

In conjunction with the issuance of the 3.99% Senior Notes, on September 21, 2018, the Company entered into an amendment to its revolving credit facility. The amendment amended certain provisions and covenants in the credit agreement to generally conform them to the corresponding provisions and covenants in the Note Purchase and Shelf Agreement. The amendment also permitted the Company to incur indebtedness arising under the Note Purchase and Shelf Agreement in an aggregate principal amount not to exceed \$75,000, which included the \$50,000 of 3.99% Senior Notes, plus an additional \$25,000 in Shelf Notes (which were issued on February 5, 2019).

4.00% Senior Unsecured Notes--On February 5, 2019, we issued 4.00% Senior Notes, Series B (the "4.00% Senior Notes") pursuant to the Note Purchase and Shelf Agreement in the aggregate principal amount of \$25,000. The 4.00% Senior Notes are due September 21, 2028. Subsequent series of Shelf Notes may be issued pursuant to the Note Purchase and Shelf Agreement in an aggregate additional principal amount not to exceed \$25,000. A further amendment to the revolving credit facility would be required for such a transaction to be permissible under the revolving credit facility. The 4.00% Senior Notes are equal in right of payment with our revolving credit facility and all other senior unsecured obligations of the Company. Interest is payable semiannually and five equal, annual principal payments commence on September 21, 2024.

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

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

Aggregate Maturities of Long-Term Debt--Aggregate maturities of long-term debt based on the principal amounts outstanding at April 3, 2021 were as follows: 2021--\$13,828; 2022--\$27,318; 2023--\$1,318; 2024--\$15,764; 2025--\$15,000; and thereafter \$45,000.

Accounts Receivable Securitization Facility--In May 2020, 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 18, 2021. In addition to

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

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

The AR Securitization program has a limit of \$100,000, of which \$83,355 was issued for LCs as of both April 3, 2021 and December 31, 2020.

Under the AR Securitization program, Davey Tree transfers by selling or contributing current and future trade receivables to a wholly-owned, bankruptcy-remote financing subsidiary which pledges a perfected first priority security interest in the trade receivables--equal to the issued LCs as of April 3, 2021--to the bank in exchange for the bank issuing LCs.

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

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

Total Commitments Related to Issued Letters of Credit--As of April 3, 2021, total commitments related to issued LCs were \$88,243, of which \$2,877 were issued under the revolving credit facility, \$83,355 were issued under the AR Securitization program, and \$2,011 were issued under short-term lines of credit. As of December 31, 2020, total commitments related to issued LCs were \$88,242, of which \$2,877 were issued under the revolving credit facility, \$83,355 were issued under the AR Securitization program, and \$2,010 were issued under short-term lines of credit.

As of April 3, 2021, we were in compliance with all debt covenants.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

G. Leases

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

	Condensed Consolidated Balance Sheet Classification	April 3, 2021	December 31, 2020
Assets			
Operating lease assets	Right-of-use assets - operating leases	\$ 71,389	\$ 55,893
Finance lease assets	Property and equipment, net	8,018	8,788
Total lease assets		\$ 79,407	\$ 64,681
Liabilities			
Current operating lease liabilities	Other current liabilities	\$ 22,753	\$ 19,124
Non-current operating lease liabilities	Lease liabilities - operating leases	49,233	36,612
Total operating lease liabilities		71,986	55,736
Current portion of finance lease liabilities	Current portion of long-term debt and finance lease liabilities	1,642	2,273
Non-current finance lease liabilities	Lease liabilities - finance leases	6,000	6,479
Total finance lease liabilities		7,642	8,752
Total lease liabilities		\$ 79,628	\$ 64,488

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

	Condensed Consolidated Statements of Operations Classification	Three Months Ended	
		April 3, 2021	March 28, 2020
Operating lease cost	Operating expense	\$ 3,700	\$ 2,239
Operating lease cost	Selling expense	2,521	2,393
Operating lease cost	General and administrative expense	284	234
Finance lease cost:			
Amortization of right-of-use assets	Depreciation and amortization	588	351
Interest expense on lease liabilities	Interest expense	38	23
Other lease cost ⁽¹⁾	Operating expense	875	1,767
Other lease cost ⁽¹⁾	Selling expense	316	371
Other lease cost ⁽¹⁾	General and administrative expense	13	9
Total lease cost		\$ 8,335	\$ 7,387

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

We often have options to renew lease terms for buildings and other assets. The exercise of lease renewal options is generally at our sole discretion. In addition, certain lease agreements may be terminated prior to their original expiration date at our discretion. We evaluate each renewal and termination option at the lease commencement date to determine if we are reasonably certain to exercise the option on the basis of economic factors. The table below summarizes the weighted average remaining lease term as of April 3, 2021.

Operating leases	4.1 years
Finance leases	5.5 years

The discount rate implicit within our leases is generally not determinable and therefore the Company determines the discount rate based on its incremental borrowing rate. The incremental borrowing rate for each lease is determined based on its term and the currency in which lease payments are made, adjusted for the impacts of collateral. The table below summarizes the weighted average discount rate used to measure our lease liabilities as of April 3, 2021.

Operating leases	2.51 %
Finance leases	1.88 %

Supplemental Cash Flow Information Related to Leases

	Three Months Ended	
	April 3, 2021	March 28, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ (6,521)	\$ (4,902)
Operating cash flows from finance leases	(38)	(23)
Financing cash flows from finance leases	(1,261)	(707)
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	21,572	14,845
Finance leases	151	—

Maturity Analysis of Lease Liabilities

	As of April 3, 2021	
	Operating Leases	Finance Leases
Remaining nine months of 2021	\$ 18,849	\$ 1,376
2022	21,032	1,510
2023	14,179	1,309
2024	9,138	1,228
2025	6,293	1,127
Thereafter	5,865	1,461
Total lease payments	75,356	8,011
Less interest	3,370	369
Total	\$ 71,986	\$ 7,642

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

H. Stock-Based Compensation

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

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

	Three Months Ended	
	April 3, 2021	March 28, 2020
Compensation expense, all share-based payment plans	\$ 891	\$ 745

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 \$357 being recognized for the three months ended April 3, 2021 and \$342 for the three months ended March 28, 2020.

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 \$125 for the three months ended April 3, 2021 and \$126 for the three months ended March 28, 2020. Beginning in 2021, management and the Compensation Committee replaced the issuance of stock options with performance-based restricted stock units ("PRSUs") for certain employees.

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

The following table summarizes our SSARs as of April 3, 2021.

Stock-Settled Stock Appreciation Rights	Number of Rights	Weighted- Average Award Date Value	Weighted- Average Remaining Contractual Life	Unrecognized Compensation Cost	Aggregate Intrinsic Value
Unvested, January 1, 2021	105,236	\$ 3.73			
Granted	—	—			
Forfeited	—	—			
Vested	(41,511)	3.72			
Unvested, April 3, 2021	<u>63,725</u>	<u>\$ 3.74</u>	<u>1.3 years</u>	<u>\$ 201</u>	<u>\$ 1,912</u>

Compensation costs for SSARs are determined using a fair-value method and amortized over the requisite service period. “Intrinsic value” is defined as the amount by which the fair market value of a common share exceeds the grant date price of a SSAR. Compensation expense for SSARs was \$41 for the three months ended April 3, 2021 and \$61 for the three months ended March 28, 2020.

Restricted Stock Units--During the three months ended April 3, 2021, the Compensation Committee awarded 84,821 PRSUs to certain management employees. The Compensation Committee made similar awards in prior periods. The awards vest over specified periods. The following table summarizes PRSUs and RSUs as of April 3, 2021.

Restricted Stock Units	Number of Stock Units	Weighted- Average Grant Date Value	Weighted- Average Remaining Contractual Life	Unrecognized Compensation Cost	Aggregate Intrinsic Value
Unvested, January 1, 2021	255,307	\$ 20.09			
Granted	84,821	29.64			
Forfeited	—	—			
Vested	(40,274)	16.08			
Unvested, April 3, 2021	<u>299,854</u>	<u>\$ 20.09</u>	<u>2.6 years</u>	<u>\$ 4,924</u>	<u>\$ 8,996</u>
Employee PRSUs	<u>264,704</u>	<u>\$ 23.62</u>	<u>2.9 years</u>	<u>\$ 4,611</u>	<u>\$ 7,941</u>
Nonemployee Director RSUs	<u>35,150</u>	<u>\$ 21.14</u>	<u>1.0 years</u>	<u>\$ 313</u>	<u>\$ 1,055</u>

Compensation cost for PRSUs and RSUs is determined using a fair-value method and amortized on the straight-line recognition method over the requisite service period. “Intrinsic value” is defined as the amount by which the fair market value of a common share exceeds the grant date price of a PRSU or an RSU. Compensation expense on PRSUs and RSUs totaled \$368 for the three months ended April 3, 2021 and \$216 for the three months ended March 28, 2020.

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

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

	Three Months Ended	
	April 3, 2021	March 28, 2020
Volatility rate	9.9 %	9.7 %
Risk-free interest rate	.3 %	.6 %
Expected dividend yield	.4 %	.4 %
Expected life of awards (years)	3.0	6.2

General Stock Option Information--The following table summarizes activity under the stock option plans for the three months ended April 3, 2021.

Stock Options	Number of Options Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, January 1, 2021	1,408,659	\$ 16.67		
Granted	—	—		
Exercised	(28,916)	12.49		
Forfeited	(7,290)	16.89		
Outstanding, April 3, 2021	<u>1,372,453</u>	\$ 16.76	5.4 years	<u>\$ 18,171</u>
Exercisable, April 3, 2021	<u>905,271</u>	\$ 14.60	4.1 years	<u>\$ 13,944</u>

As of April 3, 2021, there was approximately \$1,153 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 and SSARs, the vesting of RSUs and PRSUs or purchases under the Employee Stock Purchase Plan.

I. Income Taxes

Our income tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate and, if our estimated annual tax rate changes, we make a cumulative adjustment. The estimated annual effective tax rate for the three months ended April 3, 2021 was 27.9%. Our effective tax rate was 22.6% and 4.5% for the three months ended April 3, 2021 and March 28, 2020, respectively. The change in the effective tax rate from statutory tax rates was primarily due to the impact of state and local taxes, which was partially offset by favorable discrete items.

As of April 3, 2021, we had unrecognized tax benefits of \$1,206, of which \$759 would affect our effective rate if recognized, and accrued interest expense related to unrecognized benefits of \$76. At December 31, 2020, we had unrecognized tax benefits of \$1,183, of which

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

\$735 would affect our effective rate if recognized, and accrued interest expense related to unrecognized benefits of \$72. Unrecognized tax benefits are the differences between a tax position taken, or expected to be taken in a tax return, and the benefit recognized for financial reporting purposes.

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

The Company is routinely under audit by U.S. federal, state, local and Canadian authorities in the area of income tax. These audits include questioning the timing and the amount of income and deductions and the allocation of income and deductions among various tax jurisdictions. With the exception of U.S. state jurisdictions and Canada, the Company is no longer subject to examination by tax authorities for the years through 2016. As of April 3, 2021, we believe it is reasonably possible that the total amount of unrecognized tax benefits will not significantly increase or decrease.

J. Accumulated Other Comprehensive Income (Loss)

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

The following summarizes the components of other comprehensive income (loss) accumulated in shareholders' equity for the three months ended April 3, 2021 and the three months ended March 28, 2020:

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

Three Months Ended March 28, 2020	Foreign Currency Translation Adjustments	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2020	\$ (4,633)	\$ (770)	\$ (5,403)
Other comprehensive income (loss) before reclassifications			
Unrealized gains (losses)	\$ (1,971)	\$ —	\$ (1,971)
Amounts reclassified from accumulated other comprehensive income (loss)	—	38	38
Tax effect	—	(10)	(10)
Net of tax amount	(1,971)	28	(1,943)
Balance at March 28, 2020	\$ (6,604)	\$ (742)	\$ (7,346)

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

The change in defined benefit pension plans of \$50 for the three months ended April 3, 2021 and \$38 for the three months ended March 28, 2020 is included in net periodic pension expense classified in the condensed consolidated statement of operations as general and administrative expense or other income (expense).

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	
	April 3, 2021	March 28, 2020
Income available to common shareholders:		
Net income (loss)	\$ 4,427	\$ (21)
Weighted-average shares (in thousands):		
Basic:		
Basic weighted-average shares	22,841	23,187
Diluted:		
Basic from above	22,841	23,187
Incremental shares from assumed:		
Exercise of stock options and awards	1,117	984
Diluted weighted-average shares	23,958	24,171
Net income (loss) per share:		
Basic	\$.19	\$ —
Diluted	\$.18	\$ —

Common and Redeemable Shares Outstanding--A summary of the activity of the common and redeemable shares outstanding for the three months ended April 3, 2021 was as follows:

	Common Shares Net of Treasury Shares	Redeemable Shares	Total
Shares outstanding at January 1, 2021	17,707,268	5,112,884	22,820,152
Shares purchased	(106,409)	(18,763)	(125,172)
Shares sold	455	82,773	83,228
Options and awards exercised	60,895	—	60,895
Shares outstanding at April 3, 2021	17,662,209	5,176,894	22,839,103

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

On April 3, 2021, we had 22,839,103 common and redeemable shares outstanding and employee options exercisable to purchase 905,271 common shares.

L. Operations by Business Segment

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

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

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

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

Measurement of Segment Profit and Loss and Segment Assets--We evaluate performance and allocate resources based primarily on operating income and also actively manage business unit operating assets. Segment information, including reconciling adjustments, is presented consistent with the basis described in our 2020 Annual Report.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

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

	<u>Utility</u>	<u>Residential and Commercial</u>	<u>All Other</u>	<u>Reconciling Adjustments</u>	<u>Consolidated</u>
Three Months Ended April 3, 2021					
Revenues	\$ 173,853	\$ 124,507	\$ 461	\$ —	\$ 298,821
Income (loss) from operations	<u>12,458</u>	<u>3,682</u>	<u>(6,102)</u>	(1,064) (a)	8,974
Interest expense				(1,274)	(1,274)
Interest income				69	69
Other income (expense), net				<u>(2,050)</u>	<u>(2,050)</u>
Income before income taxes					<u>\$ 5,719</u>
Segment assets, total	<u>\$ 247,562</u>	<u>\$ 244,692</u>	<u>\$ —</u>	<u>\$ 182,119</u> (b)	<u>\$ 674,373</u>
Three Months Ended March 28, 2020					
Revenues	\$ 185,749	\$ 101,953	\$ 578	\$ —	\$ 288,280
Income (loss) from operations	<u>15,632</u>	<u>(5,661)</u>	<u>(4,907)</u>	(1,342) (a)	3,722
Interest expense				(1,946)	(1,946)
Interest income				101	101
Other income (expense), net				<u>(1,899)</u>	<u>(1,899)</u>
Loss before income tax benefit					<u>\$ (22)</u>
Segment assets, total	<u>\$ 291,426</u>	<u>\$ 221,956</u>	<u>\$ —</u>	<u>\$ 161,768</u> (b)	<u>\$ 675,150</u>

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

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

M. Revenue Recognition

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

Nature of Performance Obligations and Significant Judgments

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

Our contracts with our customers generally originate upon the completion of a quote for services for residential and commercial customers or the receipt of a purchase order (or similar work order) for utility customers. In some cases, our contracts are governed by master services agreements, in which case our contract under ASC 606 consists of the combination of the master services agreement and the quote/purchase order. Many of our contracts have a stated duration of one year or less or contain termination clauses that allow the customer to cancel the contract after a specified notice period, which is typically less than 90 days. Due to the fact that many of our arrangements allow

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

the customer to terminate for convenience, the duration of the contract for revenue recognition purposes generally does not extend beyond the services that we have actually transferred. As a result, many of our contracts are, in effect, day-to-day or month-to-month contracts.

Disaggregation of Revenue

The following tables disaggregate our revenue for the three months ended April 3, 2021 and March 28, 2020 by major sources:

Three Months Ended April 3, 2021	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	\$ 123,967	\$ 71,965	\$ (163)	\$ 195,769
Grounds maintenance	—	29,799	—	29,799
Storm damage services	4,113	1,183	—	5,296
Consulting and other	45,773	21,560	624	67,957
Total revenues	\$ 173,853	\$ 124,507	\$ 461	\$ 298,821

Geography:				
United States	\$ 163,684	\$ 115,882	\$ 461	\$ 280,027
Canada	10,169	8,625	—	18,794
Total revenues	\$ 173,853	\$ 124,507	\$ 461	\$ 298,821

Three Months Ended March 28, 2020	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	\$ 141,743	\$ 60,257	\$ (25)	\$ 201,975
Grounds maintenance	—	23,066	—	23,066
Storm damage services	523	637	—	1,160
Consulting and other	43,483	17,993	603	62,079
Total revenues	\$ 185,749	\$ 101,953	\$ 578	\$ 288,280

Geography:				
United States	\$ 177,087	\$ 95,052	\$ 578	\$ 272,717
Canada	8,662	6,901	—	15,563
Total revenues	\$ 185,749	\$ 101,953	\$ 578	\$ 288,280

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

Contract Balances

Our contract liabilities consist of advance payments and billings in excess of costs incurred and deferred revenue. The Company recognized \$704 of revenue for the three months ended April 3, 2021 that was included in the contract liability balance at December 31, 2020 and \$942 of revenue for the three months ended March 28, 2020 that was included in the contract liability balance at December 31, 2019. Net contract liabilities consisted of the following:

	April 3, 2021	December 31, 2020
Contract liabilities - current	\$ 5,388	\$ 3,242
Contract liabilities - noncurrent	1,757	1,754
Net contract liabilities	<u>\$ 7,145</u>	<u>\$ 4,996</u>

N. Fair Value Measurements and Financial Instruments

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

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

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

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

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

Our assets and liabilities measured at fair value on a recurring basis at April 3, 2021 were as follows:

Assets and Liabilities Recorded at Fair Value on a Recurring Basis	Total Carrying Value at April 3, 2021	Fair Value Measurements at April 3, 2021 Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Assets invested for self-insurance, classified as other assets, noncurrent	\$ 18,859	\$ 18,859	\$ —	\$ —
Liabilities:				
Deferred compensation	\$ 3,875	\$ —	\$ 3,875	\$ —

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

Assets and Liabilities Recorded at Fair Value on a Recurring Basis	Total Carrying Value at December 31, 2020	Fair Value Measurements at December 31, 2020 Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Assets invested for self-insurance, classified as other assets, noncurrent	\$ 19,359	\$ 19,359	\$ —	\$ —
Liabilities:				
Deferred compensation	\$ 3,192	\$ —	\$ 3,192	\$ —

The assets invested for self-insurance are certificates of deposit--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:

	April 3, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Revolving credit facility, noncurrent	\$ 25,000	\$ 25,000	\$ —	\$ —
Senior unsecured notes, noncurrent	75,000	77,095	75,000	81,424
Term loans, noncurrent	3,356	3,343	2,324	2,451
Total	<u>\$ 103,356</u>	<u>\$ 105,438</u>	<u>\$ 77,324</u>	<u>\$ 83,875</u>

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

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

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

O. Commitments and Contingencies

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

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

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

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

On December 6, 2018, a former Wolf Tree employee pled guilty to conspiracy to conceal, harbor, and shield illegal aliens. On December 21, 2018, the United States federal prosecutors filed a motion to stay both actions on the grounds that on December 13, 2018, an

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

indictment was issued charging two former Wolf Tree employees and one other individual with various crimes, including conspiracy to murder the deceased. On December 17, 2018, the United States Attorney's Office for the Southern District of Georgia informed the Company and Wolf Tree that they are also under investigation for potential violations of immigration and other laws relating to the subject matter of the ongoing criminal investigation referenced above. The Company and Wolf Tree are cooperating with the investigation and have met with both the civil and criminal divisions of the Department of Justice ("DOJ") to resolve the matter. Due to pandemic-related issues and delays on the side of the DOJ, the matter currently remains unresolved.

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

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

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

PG&E Bankruptcy Filing

On January 29, 2019, Pacific Gas & Electric Company, and its parent company PG&E Corporation, our largest utility customer, filed voluntary bankruptcy petitions under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Northern District of California. PG&E accounted for approximately 17% of revenues during 2020, and 12% in 2019. As a utility company, PG&E serves residential and industrial customers in California and has an ongoing obligation to continue to serve its customers, and we continue to perform under our contracts with PG&E post-petition. As of the date of the bankruptcy filing, we had pre-petition accounts receivable of approximately \$15,000.

On July 1, 2020, PG&E emerged from Chapter 11, successfully completing its restructuring process and implementing its Plan of Reorganization ("the Plan"). Davey Tree has been paid in full on all amounts outstanding, including interest accrued on the past amounts due at the federal judgment rate. Further, Davey Tree's primary contracts were assumed by PG&E.

Northern California Wildfires

Five lawsuits have been served on Davey Tree for claims arising from wildfires that occurred in Pacific Gas and Electric Company's service territory in northern California beginning on October 8, 2017. An action was brought on August 8, 2019 in Napa County Superior Court, entitled *Donna Walker, et al. v. Davey Tree Surgery Company, et al.*, Case No. 19CV001194. The action currently is stayed until

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

September 14, 2021. An action was brought on October 8, 2019 in San Francisco County Superior Court, entitled *Quinisha Kyree Abram, et al. v. ACRT, Inc., et al.*, Case No. CGC-19-579861. The action currently is stayed until July 28, 2021.

Three actions were brought on January 28, 2021 in San Francisco County Superior Court, entitled *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al.*, Case No. CGC-21-589438; *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al.*, Case No. CGC-21-589439; and *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. ACRT Pacific, LLC, et al.*, Case No. CGC-21-589441. The action is currently in preliminary stages of pleadings, but Davey Tree intends to respond and file an answer denying all liability in this case.

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

P. The Davey 401KSOP and Employee Stock Ownership Plan

On March 15, 1979, the Company consummated a plan, which transferred control of the Company to its employees. As a part of this plan, the Company initially sold 120,000 common shares (presently, 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 certain ownership rights in, but not possession of, the common shares held by the trustee of the ESOT. Annual allocations of shares have been made to individual accounts established for the benefit of the participants.

Defined Contribution and Savings Plans--Most employees are eligible to participate in The Davey 401KSOP and ESOP Plan. Effective January 1, 1997, the plan commenced operations and retained the existing ESOP participant accounts and incorporated a deferred savings plan (a “401(k) plan”) feature. Participants in the 401(k) plan are allowed to make before-tax contributions, within Internal Revenue Service established limits, through payroll deductions. Effective January 1, 2020, we match, in either cash or our common shares, 100% of the first three percent and 50% of the next two percent of each participant's before-tax contribution, limited to the first five percent of the employee’s compensation deferred each year. All nonbargaining domestic employees who attained age 21 and completed one year of service are eligible to participate. In May 2004, we adopted the 401K Match Restoration Plan, a defined contribution plan that supplements the retirement benefits of certain employees that participate in the savings plan feature of The Davey 401KSOP and ESOP Plan, but are limited in contributions because of tax rules and regulations.

Our common shares are not listed or traded on an established public trading market, and market prices are, therefore, not available. Semiannually, an independent stock valuation firm 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 \$3,111 and \$3,298 as of April 3, 2021 and December 31, 2020, respectively. The fair value of the shares held in the Davey 401KSOP and ESOP totaled \$152,196 and \$150,089 as of April 3, 2021 and December 31, 2020, respectively. Due to the Company’s obligation under the put option, the distributed shares subject to the put option and the shares held in the Davey 401KSOP and ESOP (collectively referred to as 401KSOP and ESOP related shares) are recorded at fair value, classified as temporary equity in the mezzanine section of the consolidated

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
April 3, 2021
(Amounts in thousands, except share data)

balance sheets and totaled \$155,307 and \$153,387 as of April 3, 2021 and December 31, 2020, respectively. Changes in the fair value of the 401KSOP and ESOP Plan related shares are reflected in retained earnings while net share activity associated with 401KSOP and ESOP Plan related shares are first reflected in additional paid-in capital and then retained earnings if additional paid-in capital is insufficient.

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

(Amounts in thousands, except share data)

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

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

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

Impact of COVID-19

While the coronavirus ("COVID-19") pandemic did not have a material adverse effect on our reported results for the first three months of 2021, COVID-19 has had, and will continue to have an impact on businesses, financial markets and economic activity throughout the world.

We continue to take steps to support our employees and protect their health and safety, while also ensuring that our business can continue to operate and provide services to our customers. Our employees, where possible, continue to work from home and we continue to adhere to our safety protocols to ensure social distancing when providing services to our customers, including providing personal protective equipment and limiting contact within vehicles. We continue to provide additional administrative leave for employees affected by COVID-19 directly or indirectly and converted our 2021 Annual Meeting of Shareholders to a virtual-only format. We are also working on an approach to bring employees back to our corporate headquarters with increased safety protocols and in compliance with public health and government guidance. In the first three months of 2021, we incurred expenses of \$460 as a result of the COVID-19 pandemic mainly for administrative leave and personal protective equipment. We have also experienced a reduction of travel expenses of approximately \$1,683 largely related to restrictions imposed as a response to the pandemic.

The extent to which our operations may be impacted by COVID-19 will depend largely on future developments, which are highly uncertain and cannot be accurately predicted, including the emergence of new strains of the virus, the availability and effectiveness of vaccines, and actions by government authorities to contain the pandemic or treat its impact, including reimposing previously-lifted measures and the possibility additional restrictions will be put in place, among other things. The situation surrounding COVID-19 remains fluid, and the potential for a material impact on our business continues the longer the coronavirus impacts the level of economic activity in the U.S. and globally. Even after the COVID-19 pandemic has subsided, we may experience an impact to our business as a result of the current economic recession and any economic downturn or recession that may occur in the future.

RESULTS OF OPERATIONS

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

	Three Months Ended		
	April 3, 2021	March 28, 2020	Change
Revenues	100.0 %	100.0 %	— %
Costs and expenses:			
Operating	66.6	68.9	(2.3)
Selling	17.6	17.4	.2
General and administrative	8.5	7.5	1.0
Depreciation and amortization	4.5	5.0	(.5)
Gain on sale of assets, net	(.2)	(.1)	(.1)
Income from operations	3.0	1.3	1.7
Other income (expense):			
Interest expense	(.4)	(.7)	.3
Interest income	—	—	—
Other, net	(.7)	(.6)	(.1)
Income (loss) before income taxes	1.9	—	1.9
Income taxes (benefit)	.4	—	.4
Net income (loss)	<u>1.5 %</u>	<u>— %</u>	<u>1.5 %</u>

First Three Months—Three Months Ended April 3, 2021 Compared to Three Months Ended March 28, 2020

Our results of operations for the three months ended April 3, 2021 compared to the three months ended March 28, 2020 were as follows:

	Three Months Ended			
	April 3, 2021	March 28, 2020	Change	Percentage Change
Revenues	\$ 298,821	\$ 288,280	\$ 10,541	3.7 %
Costs and expenses:				
Operating	199,035	198,605	430	.2
Selling	52,687	50,112	2,575	5.1
General and administrative	25,351	21,542	3,809	17.7
Depreciation and amortization	13,458	14,604	(1,146)	(7.8)
Gain on sale of assets, net	(684)	(305)	(379)	124.3
	<u>289,847</u>	<u>284,558</u>	<u>5,289</u>	<u>1.9</u>
Income from operations	8,974	3,722	5,252	141.1
Other income (expense):				
Interest expense	(1,274)	(1,946)	672	(34.5)
Interest income	69	101	(32)	(31.7)
Other, net	(2,050)	(1,899)	(151)	8.0
Income (loss) before income taxes	5,719	(22)	5,741	nm
Income taxes (benefit)	1,292	(1)	1,293	nm
Net income (loss)	<u>\$ 4,427</u>	<u>\$ (21)</u>	<u>\$ 4,448</u>	<u>nm</u>

nm--not meaningful

Revenues--Revenues of \$298,821 increased \$10,541 compared with \$288,280 in the first three months of 2020. Utility Services decreased \$11,896 or 6.4% compared with the first three months of 2020. The decrease was primarily attributable to less emergency work on our PG&E account as compared to the first three months of 2020, which was partially offset by new accounts, as well as increased work year-over-year on other accounts and price increases on existing accounts within both our U.S. and Canadian operations. Residential and Commercial Services increased \$22,554 or 22.1% compared with the first three months of 2020. Increases were primarily in tree and plant care revenue, consulting and other revenue and grounds maintenance. In 2020, while our Residential and Commercial Services segment work was deemed essential services in most states, we experienced temporary shutdowns or work restrictions related to COVID-19 in a few states and certain Canadian provinces.

Operating Expenses--Operating expenses of \$199,035 increased \$430 compared with the first three months of 2020 but, as a percentage of revenues, decreased to 66.6% from 68.9%. Utility Services decreased \$8,069 or 5.9% compared with the first three months of 2020 but, as a percentage of revenue, increased to 73.5% from 73.2%. The decrease was attributable to decreases in labor and benefits expense and subcontractor expense, which were partially offset by an increase in chemicals expense. Residential and Commercial Services increased \$10,065 or 16.6% compared with the first three months of 2020 but, as a percentage of revenue, decreased to 56.8% from 59.6%. The increase was primarily attributable to increases in labor and benefits expense, fuel expense, subcontractor expense, equipment expense, tool expense and materials expense.

Operating expenses for the first three months of 2021 also included \$460 of expenses related directly to COVID-19, including \$153 for additional administrative leave offered to employees who were unable to work due to COVID-19-related restrictions, whether from the virus itself or government imposed restrictions or closures. For the first three months of 2020, the company had \$812 of expenses directly related to COVID-19.

Fuel costs of \$8,238 increased \$202, or 2.5%, from the \$8,036 incurred in the first three months of 2020 and impacted operating expenses within all segments. The \$202 increase included usage increases approximating \$255 and price decreases approximating \$53.

Selling Expenses--Selling expenses of \$52,687 increased \$2,575 compared with the first three months of 2020 and, as a percentage of revenue, increased to 17.6% from 17.4%. Utility Services increased \$212 or 1.1% compared to the first three months of 2020 and, as a percentage of revenue, increased to 11.6% from 10.7%. The increase was primarily attributable to increases in field management wages and computer expenses, partially offset by a decrease in field management travel expense. Residential and Commercial Services experienced an increase of \$2,299 or 7.4% compared to the first three months of 2020 but, as a percentage of revenue, decreased to 26.8% from 30.5%. The increase was attributable to increases in field management wages and incentive expense, which were partially offset by a decrease in travel expense.

General and Administrative Expenses--General and administrative expenses of \$25,351 increased \$3,809 from \$21,542 in the first three months of 2020. The increase was primarily attributable to increases in salary and incentive expense and computer expenses, which were partially offset by a decrease in travel expense.

Depreciation and Amortization Expense--Depreciation and amortization expense of \$13,458 decreased \$1,146 from \$14,604 incurred in the first three months of 2020. The decrease was attributable to lower capital expenditures in recent years and an increased use of operating leases for equipment.

Gain on the Sale of Assets, Net--Gain on the sale of assets of \$684 for the first three months of 2021 increased \$379 from the \$305 gain in the first three months of 2020. We sold more individual units of equipment at a greater average gain per unit during the first three months of 2021 as compared with the first three months of 2020.

Interest Expense--Interest expense of \$1,274 decreased \$672 from the \$1,946 incurred in the first three months of 2020. The decrease was attributable to lower average borrowing during the first three months of 2021, as compared with the first three months of 2020.

Other, Net--Other expense, net, of \$2,050 increased \$151 from the \$1,899 expense incurred in the first three months of 2020 and consisted of nonoperating income and expense, including pension expense and foreign currency gains/losses on the intercompany account balances of our Canadian operations.

Income Taxes--Income taxes for the first three months of 2021 were \$1,292, as compared to a benefit of \$1 for the first three months of 2020. Our tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. The effective tax rate for the first three months of 2021 was 22.6%. Our effective tax rate for the first three months of 2020 was 4.5%. The change in the effective tax rate from statutory tax rates was primarily due to the impact of state and local taxes, which was partially offset by favorable discrete items.

Net Income--Net income of \$4,427 for the first three months of 2021 was \$4,447 more than the net loss of \$21 for the first three months of 2020.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flow Summary

Our cash flows from operating, investing and financing activities for the three months ended April 3, 2021 and March 28, 2020 were as follows:

	Three Months Ended	
	April 3, 2021	March 28, 2020
Cash provided by (used in):		
Operating activities	\$ 22,395	\$ 2,768
Investing activities	(26,066)	(21,012)
Financing activities	16,195	74,173
Effect of exchange rate changes on cash	36	(100)
Increase in cash	<u>\$ 12,560</u>	<u>\$ 55,829</u>

Cash Provided By Operating Activities--Cash provided by operating activities was \$22,395 for the first three months of 2021, a \$19,627 increase when compared to the first three months of 2020. The \$19,627 increase in operating cash flow was primarily attributable to the increase in net income of \$4,447 resulting from increased revenue and operating margins and a change of \$49,184 related to accounts receivable, partially offset by a change of \$22,200 related to accounts payable and accrued expenses.

Overall, accounts receivable decreased \$32,023 during the first three months of 2021, as compared to an increase of \$17,161 during the first three months of 2020. With respect to the change in accounts receivable arising from business levels, the “days-sales-outstanding” in accounts receivable (sometimes referred to as “DSO”) at the end of the first three months of 2021 decreased by ten days to 68 days, when compared to 78 days at the end of the first three months of 2020. DSO at the end of the first three months of 2020 included approximately \$15,000 of pre-petition receivables from PG&E, which were collected after PG&E emerged from bankruptcy in July 2020. Excluding the pre-petition receivables, DSO would have been 74 days at the end of the first three months of 2020.

Accounts payable and accrued expenses decreased \$29,732 in the first three months of 2021, or \$22,200 more than the \$7,532 decrease in the first three months of 2020. The increase was primarily related to increases in income taxes and payroll taxes payable. Self-insurance accruals increased \$4,641 in the first three months of 2021, which was \$21 more than the increase of \$4,620 experienced in the first three months of 2020. The increase was attributable to increased exposures within our workers compensation, general liability and vehicle liability lines of coverage.

As we cannot predict the duration or scope of the COVID-19 pandemic and its impact on our customers and suppliers (or workforce), the negative financial impact to our results cannot be reasonably estimated, but could be material. We are actively managing the business to maintain cash flow and we have significant liquidity. We believe that these factors will allow us to meet our anticipated funding requirements.

Cash Used In Investing Activities--Cash used in investing activities for the first three months of 2021 was \$26,066, a \$5,054 increase when compared to the first three months of 2020. The increase was primarily the result of increases in purchases of businesses, which was

partially offset by a decrease in capital expenditures. Our decrease in capital expenditures was partially the result of our increased use of operating leases for equipment.

Cash Provided by Financing Activities--Cash provided by financing activities of \$16,195 decreased \$57,978 during the first three months of 2021 as compared with \$74,173 during the first three months of 2020. During the first three months of 2021, our revolving credit facility, net provided \$25,000 in cash as compared with \$81,000 provided during the first three months of 2020. We use the credit facility primarily for capital expenditures, redemptions of shares and payments of notes payable related to acquisitions. In the first quarter of 2020, we drew \$50,000 from our revolving credit facility to provide additional liquidity as a precaution because of uncertainty resulting from COVID-19. The \$50,000 was repaid during the second quarter of 2020. Notes payable used a net \$5,972 during the first three months of 2021, a decrease of \$3,272 when compared to the \$2,700 used in the first three months of 2020. Treasury share transactions (purchases and sales) used \$1,001 for the first three months of 2021, \$1,844 less than the \$2,845 used in the first three months of 2020. Dividends paid of \$571 during the first three months of 2021 decreased \$4 as compared with \$575 paid in the first three months of 2020.

The Company currently repurchases common shares at shareholders' requests in accordance with the terms of the Davey 401KSOP and ESOP Plan and also repurchases common shares from time to time at the Company's discretion. The amount of common shares offered to the Company for repurchase by the holders of shares distributed from the Davey 401KSOP and ESOP Plan is not within the control of the Company, but is at the discretion of the shareholders. The Company expects to continue to repurchase its common shares, as offered by its shareholders from time to time, at their then current fair value. However, other than for repurchases pursuant to the put option under the Davey 401KSOP and ESOP Plan, as described in Note P, such purchases are not required, and the Company retains the right to discontinue them at any time. Repurchases of redeemable common shares at shareholders' request approximated \$195 and \$49 during the three months ended April 3, 2021 and March 28, 2020, respectively. Share repurchases, other than redeemable common shares, approximated \$3,549 and \$8,012 during the three months ended April 3, 2021 and March 28, 2020, respectively.

Contractual Obligations Summary and Commercial Commitments

As of April 3, 2021, total commitments related to issued letters of credit were \$88,243, of which \$2,877 were issued under the revolving credit facility, \$83,355 were issued under the AR Securitization program, and \$2,011 were issued under short-term lines of credit. As of December 31, 2020, total commitments related to issued letters of credit were \$88,242, of which \$2,877 were issued under the revolving credit facility, \$83,355 were issued under the AR Securitization program, and \$2,010 were issued under short-term lines of credit.

Also, as is common in our industry, we have performance obligations that are supported by surety bonds, which expire during 2021 through 2023. We intend to renew the surety bonds where appropriate and as necessary.

Capital Resources

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

Business seasonality traditionally results in higher revenues during the second and third quarters as compared with the first and fourth quarters of the year, while our methods of accounting for fixed costs, such as depreciation and amortization expense, rent and interest expense, are not significantly impacted by business seasonality. Capital resources during these periods are equally affected. We satisfy seasonal working capital needs and other financing requirements with the revolving credit facility and other short-term lines of credit. We continually review our existing sources of financing and evaluating alternatives. At April 3, 2021, we had working capital of \$100,943, short-term lines of credit approximating \$9,184 and \$222,123 available under our revolving credit facility.

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

We believe our sources of capital, at this time, provide us with the financial flexibility to meet our capital-spending plans and to continue to complete business acquisitions for at least the next twelve months and for the reasonably foreseeable future. However, we cannot predict the full extent of the potential impact resulting from the COVID-19 pandemic on our business, results of operations and sources of capital.

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, 2020, we believe that our policies related to revenue recognition, the allowance for credit losses, stock valuation and self-insurance accruals are our “critical accounting policies and estimates”--those most important to the financial presentations and those that require the most difficult, subjective or complex judgments.

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. These statements relate to future events or our future financial performance. In some cases, forward-looking statements may be identified by terminology such as "may," "will," "should," "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, some of which have been, and may further be, exacerbated by the COVID-19 pandemic, include:

- The coronavirus pandemic (COVID-19) has negatively impacted, and could have a material adverse effect on, our business, results of operations, financial position or cash flows.
- 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.
- 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.
- 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.

- We could be materially adversely affected by wildfires in California and other areas as well as other severe weather events and natural disasters, including negative impacts to our business, reputation, financial condition, results of operations, liquidity and cash flows.
- Our business, other than tree services to utility customers, is highly seasonal and weather dependent.
- Significant customers, particularly utilities, may experience financial difficulties, resulting in payment delays or delinquencies.
- We are subject to litigation and third-party and governmental regulatory claims and adverse litigation judgments or settlements resulting from those claims could materially adversely affect our business.
- Significant increases in fuel prices for extended periods of time will increase our operating expenses.
- We are subject to intense competition.
- Various economic factors may adversely impact our customers' spending and pricing for our services, and impede our collection of accounts receivable.
- 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.
- 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.
- We may misjudge a competitive bid and be contractually bound to an unprofitable contract.
- A disruption in our information technology systems, including a disruption related to cybersecurity, or the impact of costs incurred to comply with cybersecurity or data privacy regulations, could adversely affect our financial performance.
- We are dependent, in part, on our reputation of quality, integrity and performance. If our reputation is damaged, we may be adversely affected.
- Our business could be negatively impacted by corporate citizenship and environmental, social and governance matters and/or our reporting of such matters.
- Because no public market exists for our common shares, the ability of shareholders to sell their common shares is limited.
- There can be no assurance that we will continue to declare cash dividends in the future, in any particular amounts or at all.
- Our failure to comply with environmental laws could result in significant liabilities, fines and/or penalties.
- We may encounter difficulties obtaining surety bonds or letters of credit necessary to support our operations.
- The uncertainties in the credit and financial markets, including the negative impact of COVID-19, may limit our access to capital.
- Fluctuations in foreign currency exchange rates may have a material adverse impact on our operating results.
- Significant increases in health care costs could negatively impact our results of operations or financial position.
- 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, such as COVID-19, or other public health concerns, terrorist attacks or other external events.
- Our inability to properly verify the employment eligibility of our employees could adversely affect our business.

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

The factors described above, as well as other factors that may adversely impact our actual results, are discussed in "Part I - Item 1A. Risk Factors." of our annual report on Form 10-K for the year ended December 31, 2020.

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

There have been no material changes in our reported market risks or risk management policies since the filing of our 2020 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 8, 2021.

Item 4. *Controls and Procedures.*

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

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

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended April 3, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Items 3, 4 and 5 are not applicable.

Item 1. Legal Proceedings.

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

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

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

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

On December 6, 2018, a former Wolf Tree employee pled guilty to conspiracy to conceal, harbor, and shield illegal aliens. On December 21, 2018, the United States federal prosecutors filed a motion to stay both actions on the grounds that on December 13, 2018, an indictment was issued charging two former Wolf Tree employees and one other individual with various crimes, including conspiracy to murder the deceased. On December 17, 2018, the United States Attorney's Office for the Southern District of Georgia informed the Company and Wolf Tree that they are also under investigation for potential violations of immigration and other laws relating to the subject matter of the ongoing criminal investigation referenced above. The Company and Wolf Tree are cooperating with the investigation and have met with both the civil and criminal divisions of the Department of Justice ("DOJ") to resolve the matter. Due to pandemic-related issues and delays on the side of the DOJ, the matter currently remains unresolved.

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

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

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

Item 1A. Risk Factors.

Our Annual Report on Form 10-K for the year ended December 31, 2020, includes a detailed discussion of our risk factors. There have been no material changes to the risk factors as previously disclosed; however, some of the risk factors disclosed in our Annual Report on

Form 10-K for the year ended December 31, 2020 have been, and could continue to further be, exacerbated by the impact of the COVID-19 pandemic.

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

The following table provides information on purchases of our common shares outstanding made by us during the first three months of 2021.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Fiscal 2021				
January 1 to January 30	1,581	\$ 24.90	—	690,960
January 31 to February 27	170	24.90	—	690,960
February 28 to April 3	123,421	30.00	—	690,960
Total First Quarter	125,172	29.93	—	
Total Year-to-Date	125,172	\$ 29.93	—	

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.; FirstService Corporation; MYR Group, Inc.; Quanta Services, Inc.; Rollins, Inc.; and Scotts Miracle-Gro Company. The semiannual valuations are effective for a period of six months and the per-share price established by those valuations is the price at which our Board of Directors has determined our common shares will be bought and sold during that six-month period in transactions involving Davey Tree or one of its employee benefit or stock purchase plans. Since 1979, we have provided a ready market for all shareholders through our direct purchase of their common shares, although we are under no obligation to do so (other than for repurchases pursuant to the put option under The Davey 401KSOP and ESOP Plan, as described in Note P, The Davey 401KSOP and Employee Stock Ownership Plan). The purchases described above were added to our treasury stock.

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

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

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

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

In accordance with the amendments to the Articles approved by the Company's shareholders at the 2017 Annual Meeting, on May 17, 2017, the Company's Board of Directors authorized the Company to repurchase up to 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, 690,960 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	
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed Herewith
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed Herewith
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished Herewith
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished Herewith
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended April 3, 2021, formatted in iXBRL (inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets (unaudited), (ii) the Condensed Consolidated Statements of Operations (unaudited), (iii) the Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited), (iv) the Condensed Consolidated Statements of Shareholders' Equity (unaudited), (v) the Condensed Consolidated Statements of Cash Flows (unaudited), and (vi) Notes to Condensed Consolidated Financial Statements (unaudited). The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.	Filed Herewith
104	Cover Page Interactive Data File (embedded within the inline XBRL document)	Filed Herewith

Signatures

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

THE DAVEY TREE EXPERT COMPANY

Date: May 4, 2021

By: /s/ Joseph R. Paul

Joseph R. Paul

Executive Vice President, Chief Financial Officer and Secretary

(Principal Financial Officer)

Date: May 4, 2021

By: /s/ Thea R. Sears

Thea R. Sears

Vice President and Controller

(Principal Accounting Officer)

Certification

Certification of Chief Executive Officer

I, Patrick M. Covey, certify that:

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

Date: May 4, 2021

/s/ Patrick M. Covey

Patrick M. Covey

Chairman, President and Chief Executive Officer

Certification***Certification of Chief Financial Officer***

I, Joseph R. Paul, certify that:

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

Date: May 4, 2021

/s/ Joseph R. Paul

Joseph R. Paul

Executive Vice President, Chief Financial Officer and Secretary

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 April 3, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), as applicable; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2021

/s/ Patrick M. Covey

Patrick M. Covey

Chairman, President and Chief Executive Officer

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

Certification of Chief Financial Officer

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

1. The Quarterly Report on Form 10-Q of the Company for the period ended April 3, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), as applicable; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2021

/s/ Joseph R. Paul

Joseph R. Paul

Executive Vice President, Chief Financial Officer and Secretary