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 October 02, 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 44,645,640 Common Shares, $.50 par value, outstanding as of October 29, 2021.

The Davey Tree Expert Company
Quarterly Report on Form 10-Q
October 2, 2021

INDEX

"We," "us," "our," the "Company," "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)

	October 2, 2021	December 31, 2020
Assets		
Current assets:		
Cash	$ 33,057	$ 16,201
Accounts receivable, net	283,702	252,921
Operating supplies	12,395	10,206
Other current assets	47,418	25,734
Total current assets	376,572	305,062
Property and equipment, net	229,575	204,717
Right-of-use assets - operating leases	81,789	55,893
Other assets	20,880	29,756
Intangible assets, net	11,825	11,670
Goodwill	55,072	48,256
Total assets	$ 775,713	$ 655,354
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 43,013	$ 42,787
Accrued expenses	92,665	98,441
Current portion of long-term debt and finance lease liabilities	33,488	21,813
Other current liabilities	61,671	56,831
Total current liabilities	230,837	219,872
Long-term debt	111,777	77,068
Lease liabilities - finance leases	7,886	6,479
Lease liabilities - operating leases	54,249	36,612
Self-insurance accruals	88,051	71,573
Other noncurrent liabilities	11,456	10,689
Total liabilities	504,256	422,293
Commitments and contingencies (Note O)		
Redeemable common shares related to 401KSOP and Employee Stock Ownership Plan (ESOP); 9,762 and 10,226 shares at redemption value as of October 2, 2021 and December 31, 2020*	160,097	153,387
Common shareholders' equity:*		
Common shares, $0.50 par value, per share; 96,000 shares authorized; 76,066 and 75,602 shares issued and outstanding before deducting treasury shares and which excludes 9,762 and 10,226 shares subject to redemption as of October 2, 2021 and December 31, 2020	38,033	37,801
Additional paid-in capital	125,178	110,069
Retained earnings	248,853	206,711
Accumulated other comprehensive loss	(4,330)	(4,547)
	407,734	350,034
Less: Cost of common shares held in treasury; 41,089 shares at October 2, 2021 and 40,187 shares at December 31, 2020	296,374	270,360
Total common shareholders' equity	111,360	79,674
Total liabilities and shareholders' equity	$ 775,713	$ 655,354

* Prior period has been adjusted for the two-for-one stock split.

See notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended		Nine Months Ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Revenues	$ 370,244	$ 337,453	$ 1,024,541	$ 944,980
Costs and expenses:				
Operating	232,599	208,638	650,909	598,225
Selling	67,353	60,203	178,876	162,287
General and administrative	20,739	19,891	69,712	60,477
Depreciation and amortization	14,127	13,825	41,287	42,553
Gain on sale of assets, net	(1,507)	(476)	(4,174)	(2,045)
Total costs and expenses	333,311	302,081	936,610	861,497
Income from operations	36,933	35,372	87,931	83,483
Other income (expense):				
Interest expense	(1,449)	(1,579)	(4,093)	(5,477)
Interest income	39	1,688	161	1,885
Other, net	(2,298)	(1,499)	(5,548)	(4,550)
Income before income taxes	33,225	33,982	78,451	75,341
Income taxes	8,298	9,447	20,554	20,945
Net income	$ 24,927	$ 24,535	$ 57,897	$ 54,396
Net income per share:*				
Basic	$ .56	$ .54	$ 1.28	$ 1.18
Diluted	$ .52	$ .51	$ 1.21	$ 1.13
Weighted-average shares outstanding:*				
Basic	44,885	45,748	45,257	45,912
Diluted	47,951	47,708	47,785	48,005

* Prior period has been adjusted for the two-for-one stock split.

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		Nine Months Ended	
	October 2, 2021	**September 26, 2020**	**October 2, 2021**	**September 26, 2020**
Net income	$ 24,927	$ 24,535	$ 57,897	$ 54,396
Components of other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(788)	629	105	(610)
Amortization of defined benefit pension items:				
Net actuarial loss	27	16	77	49
Prior service cost	11	13	35	36
Defined benefit pension plan adjustments	38	29	112	85
Other comprehensive income (loss), net of tax	(750)	658	217	(525)
Comprehensive income	$ 24,177	$ 25,193	$ 58,114	$ 53,871

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 July 3, 2021	$ 38,049	$ 123,822	$ 224,707	$ (3,580)	$ (290,253)	$ 92,745
Net income	—	—	24,927	—	—	24,927
Change in 401KSOP and ESOP related shares	(16)	(529)	—	—	—	(545)
Shares sold to employees	—	1,655	—	—	1,293	2,948
Options exercised	—	(228)	—	—	1,828	1,600
Stock-based compensation	—	458	—	—	—	458
Dividends, $.015 per share *	—	—	(781)	—	—	(781)
Currency translation adjustments	—	—	—	(788)	—	(788)
Defined benefit pension plans	—	—	—	38	—	38
Shares purchased	—	—	—	—	(9,242)	(9,242)
Balances at October 2, 2021	$ 38,033	$ 125,178	$ 248,853	$ (4,330)	$ (296,374)	$ 111,360
Balances at January 1, 2021	$ 37,801	$ 110,069	$ 206,711	$ (4,547)	$ (270,360)	$ 79,674
Net income	—	—	57,897	—	—	57,897
Change in 401KSOP and ESOP related shares	232	6,679	(13,628)	—	—	(6,717)
Shares sold to employees	—	7,098	—	—	6,645	13,743
Options exercised	—	(636)	—	—	3,849	3,213
Stock-based compensation	—	1,968	—	—	—	1,968
Dividends, $.043 per share *	—	—	(2,127)	—	—	(2,127)
Currency translation adjustments	—	—	—	105	—	105
Defined benefit pension plans	—	—	—	112	—	112
Shares purchased	—	—	—	—	(36,508)	(36,508)
Balances at October 2, 2021	$ 38,033	$ 125,178	$ 248,853	$ (4,330)	$ (296,374)	$ 111,360

* Adjusted for the two-for-one stock split.

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

	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 June 27, 2020	$ 37,784	$ 103,291	$ 202,843	$ (6,586)	$ (262,210)	$ 75,122
Net income	—	—	24,535	—	—	24,535
Change in 401KSOP and ESOP related shares	(44)	(1,067)	—	—	—	(1,111)
Shares sold to employees	—	1,119	—	—	1,058	2,177
Options exercised	—	84	—	—	458	542
Stock-based compensation	—	796	—	—	—	796
Dividends, $.013 per share *	—	—	(569)	—	—	(569)
Currency translation adjustments	—	—	—	629	—	629
Defined benefit pension plans	—	—	—	29	—	29
Shares purchased	—	—	—	—	(3,473)	(3,473)
Balances at September 26, 2020	$ 37,740	$ 104,223	$ 226,809	$ (5,928)	$ (264,167)	$ 98,677
Balances at January 1, 2020	$ 37,767	$ 96,366	$ 177,711	$ (5,403)	$ (246,595)	$ 59,846
Net income	—	—	54,396	—	—	54,396
Change in 401KSOP and ESOP related shares	(27)	(661)	(3,590)	—	—	(4,278)
Shares sold to employees	—	7,269	—	—	8,053	15,322
Options exercised	—	(489)	—	—	1,864	1,375
Stock-based compensation	—	1,738	—	—	—	1,738
Dividends, $.038 per share *	—	—	(1,708)	—	—	(1,708)
Currency translation adjustments	—	—	—	(610)	—	(610)
Defined benefit pension plans	—	—	—	85	—	85
Shares purchased	—	—	—	—	(27,489)	(27,489)
Balances at September 26, 2020	$ 37,740	$ 104,223	$ 226,809	$ (5,928)	$ (264,167)	$ 98,677

*Adjusted for the two-for-one stock split.

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)

	Nine Months Ended	
	October 2, 2021	September 26, 2020
Operating activities		
Net income	$ 57,897	$ 54,396
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	41,287	42,553
Other	(1,242)	35
Changes in operating assets and liabilities, net of assets acquired:		
Accounts receivable	(30,268)	(34,801)
Accounts payable and accrued expenses	(9,471)	28,389
Self-insurance accruals	13,041	14,686
Prepaid expenses	(13,442)	(7,506)
Other, net	(401)	1,676
	(496)	45,032
Net cash provided by operating activities	57,401	99,428
Investing activities		
Capital expenditures:		
Equipment	(47,907)	(38,071)
Land and buildings	(8,728)	(2,408)
Purchases of businesses, net of cash acquired and debt incurred	(10,227)	(3,826)
Other	7,085	2,691
Net cash used in investing activities	(59,777)	(41,614)
Financing activities		
Revolving credit facility borrowings	279,163	522,500
Revolving credit facility payments	(245,685)	(554,500)
Purchase of common shares for treasury	(36,508)	(27,489)
Sale of common shares from treasury	16,956	16,698
Dividends paid	(2,127)	(1,708)
Proceeds from notes payable	217,867	152,128
Payments of notes payable	(207,786)	(149,843)
Payments of finance leases	(2,688)	(1,525)
Net cash provided by (used in) financing activities	19,192	(43,739)
Effect of exchange rate changes on cash	40	(17)
Increase in cash	16,856	14,058
Cash, beginning of period	16,201	11,000
Cash, end of period	$ 33,057	$ 25,058
Supplemental cash flow information follows:		
Interest paid	$ 4,715	$ 6,408
Income taxes paid	21,204	17,055

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)
October 2, 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,” the "Company," “Davey,” or “Davey Tree”, we mean The Davey Tree Expert Company and its subsidiaries, unless otherwise expressly stated or the context indicates otherwise.

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”), as codified in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”), and with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. The condensed consolidated financial statements include all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal, recurring nature. All intercompany accounts and transactions have been eliminated in consolidation and certain amounts in the three and nine months ended September 26, 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”).

Per Common Share Information--All common share and per share data have been retroactively adjusted to recognize a two-for-one stock split of our common shares effective October 1, 2021. On September 20, 2021, in connection with the stock split, the Company filed a Certificate of Amendment to its 2017 Amended Articles of Incorporation with the Secretary of State of the State of Ohio, which became effective upon filing and (1) proportionately increased the authorized number of common shares from 48,000,000 to 96,000,000 and (2) proportionately decreased the par value of the issued and unissued common shares from $1.00 per share to $.50 per share.

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 nine months of our 2021 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 and implementing vaccine mandates, which could impact our labor supply and future results of operations, as well as the possibility additional measures will be put in place, especially as sporadic outbreaks of COVID-19 continue to occur, and the success of vaccine rollouts and the effectiveness of such vaccines, among other things.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 2, 2021
(Amounts in thousands, except share data)

The Company’s fiscal quarters each contain thirteen operating weeks, with the exception of the fourth quarter of a 53-week fiscal year, which contains fourteen operating weeks. The Company’s fiscal quarter that ended October 2, 2021 is referred to as the third quarter of 2021, and the fiscal quarter ended September 26, 2020 is referred to as the third 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 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 three and nine months ended September 26, 2020 have 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:

	Three Months Ended September 26, 2020			Nine Months Ended September 26, 2020		
Statement of Operations	**Prior to Change in Accounting Principle**	**Effect of Change**	**Recast**	**Prior to Change in Accounting Principle**	**Effect of Change**	**Recast**
Operating expense	$ 208,510	$ 128	$ 208,638	$ 597,963	$ 262	$ 598,225
Total costs and expenses	301,953	128	302,081	861,235	262	861,497
Income from operations	35,500	(128)	35,372	83,745	(262)	83,483
Income before income taxes	34,110	(128)	33,982	75,603	(262)	75,341
Income tax expense (benefit)	9,483	(36)	9,447	21,018	(73)	20,945
Net income	24,627	(92)	24,535	54,585	(189)	54,396
Net income per share:						
Basic	$ .54	$ —	$ .54	$ 1.19	$ (.01)	$ 1.18
Diluted	$ .52	$ (.01)	$ .51	$ 1.14	$ (.01)	$ 1.13

(Amounts in thousands, except share data)

	Nine Months Ended September 26, 2020		
Cash Flow	**Prior to Change in Accounting Principle**	**Effect of Change**	**Recast**
Net income	$ 54,585	$ (189)	$ 54,396
Adjustments to reconcile net income to net cash provided by operating activities--other	108	(73)	35
Self-insurance accruals	14,424	262	14,686
Net cash provided by operating activities	99,428	—	99,428

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 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 and nine months ended October 2, 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.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 2, 2021
(Amounts in thousands, except share data)

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

Accounts receivable, net, consisted of the following:

Accounts receivable, net	**October 2, 2021**	**December 31, 2020**
Accounts receivable	$ 200,895	$ 214,887
Unbilled receivables[1]	85,064	42,251
	285,959	257,138
Less allowances for credit losses	2,257	4,217
Accounts receivable, net	$ 283,702	$ 252,921

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

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

Other current assets	**October 2, 2021**	**December 31, 2020**
Refundable income taxes	$ 2,215	$ —
Prepaid expenses	38,543	24,956
Other	6,660	778
Total	$ 47,418	$ 25,734

Property and equipment, net	**October 2, 2021**	**December 31, 2020**
Land and land improvements	$ 19,924	$ 19,731
Buildings and leasehold improvements	55,559	49,460
Equipment	653,656	623,847
	729,139	693,038
Less accumulated depreciation	499,564	488,321
Total	$ 229,575	$ 204,717

Other assets, noncurrent	**October 2, 2021**	**December 31, 2020**
Assets invested for self-insurance	$ 11,859	$ 19,359
Investment--cost-method affiliate	1,258	1,258
Deferred income taxes	3,194	4,167
Other	4,569	4,972
Total	$ 20,880	$ 29,756

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 2, 2021
(Amounts in thousands, except share data)

Accrued expenses	October 2, 2021	December 31, 2020
Employee compensation	$ 33,163	$ 36,108
Accrued compensated absences	12,399	14,534
Self-insured medical claims	1,221	2,065
Income tax payable	8,978	6,926
Customer advances, deposits	3,519	2,067
Taxes, other than income	28,681	30,354
Other	4,704	6,387
Total	$ 92,665	$ 98,441

Other current liabilities	October 2, 2021	December 31, 2020
Notes payable	$ 149	$ —
Current portion of:		
Lease liability-operating leases	27,253	19,124
Self-insurance accruals	34,269	37,707
Total	$ 61,671	$ 56,831

Other noncurrent liabilities	October 2, 2021	December 31, 2020
Non-qualified retirement plans	$ 8,516	$ 7,365
Other	2,940	3,324
Total	$ 11,456	$ 10,689

D. Business Combinations

Our investments in businesses during the first nine months of 2021 were $16,376, including liabilities assumed of $3,662 and debt issued, in the form of notes payable to the sellers, of $2,487, and have been included in our Residential and Commercial and Utility segments. 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.

(Amounts in thousands, except share data)

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

	Nine Months Ended October 2, 2021	Year Ended December 31, 2020
Detail of acquisitions:		
Assets acquired:		
Cash	$ 199	$ —
Receivables	511	10
Operating supplies	976	22
Prepaid expense	121	6
Equipment	3,750	1,932
Deposits and other	1,574	—
Intangible assets	2,434	3,545
Goodwill	6,811	5,635
Liabilities assumed	(3,662)	(613)
Debt issued for purchases of businesses	(2,487)	(2,472)
Cash paid	$ 10,227	$ 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 October 2, 2021 was not significant. Pro forma net sales and results of operations for the acquisitions, had they occurred at the beginning of the nine months ended October 2, 2021, are not material and, accordingly, are not provided.

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

E. Identified Intangible Assets and Goodwill, Net

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

	October 2, 2021		December 31, 2020	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists/relationships	$ 31,847	$ 23,576	$ 30,402	$ 22,040
Employment-related	9,822	8,161	9,320	7,755
Tradenames	8,426	6,533	7,938	6,195
Amortized intangible assets	50,095	$ 38,270	47,660	$ 35,990
Less accumulated amortization	38,270		35,990	
Identified intangible assets, net	$ 11,825		$ 11,670	
Goodwill	$ 55,072		$ 48,256	

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 2, 2021
(Amounts in thousands, except share data)

The changes in the carrying amounts of goodwill, by segment, for the nine months ended October 2, 2021 and the year ended December 31, 2020 were as follows:

	Balance at January 1, 2021	Acquisitions	Translation and Other Adjustments	Balance at October 2, 2021
Utility	$ 4,911	$ —	$ —	$ 4,911
Residential and Commercial	43,345	6,811	5	50,161
Total	$ 48,256	$ 6,811	$ 5	$ 55,072

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

Estimated future aggregate amortization expense of intangible assets--The estimated future aggregate amortization expense of intangible assets, as of October 2, 2021, was as follows:

	Estimated Future Amortization Expense
Remaining three months of 2021	$ 743
2022	2,884
2023	2,714
2024	2,234
2025	1,634
2026	1,060
Thereafter	556
	$ 11,825

(Amounts in thousands, except share data)

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

Our long-term debt consisted of the following:

	October 2, 2021	December 31, 2020
Revolving credit facility:		
Swing-line borrowings	$ 14,191	$ —
LIBOR borrowings	20,000	—
	34,191	—
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	34,524	21,864
	143,715	96,864
Less debt issuance costs	713	256
Less current portion	31,225	19,540
	$ 111,777	$ 77,068

Revolving Credit Facility--In August 2021, the Company amended its revolving credit facility with its existing bank group. The amended and restated credit agreement, which expires in August 2026, permits borrowings, as defined, of up to $325,000, including a letter of credit sublimit of $150,000 and a swing-line commitment of $30,000. Under certain circumstances, the amount available under the revolving credit facility may be increased to $425,000. The revolving credit facility contains certain affirmative and negative covenants customary for this type of facility and includes financial covenant ratios with respect to a maximum leverage ratio (not to exceed 3.00 to 1.00 with exceptions in case of material acquisitions) and a minimum interest coverage ratio (not less than 3.00 to 1.00), in each case subject to certain further restrictions as described in the credit agreement. As of October 2, 2021, we had unused commitments under the facility approximating $287,931, with $37,069 committed, consisting of borrowings of $34,191 and issued letters of credit of $2,878.

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

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

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

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

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

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

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

Aggregate Maturities of Long-Term Debt--Aggregate maturities of long-term debt based on the principal amounts outstanding at October 2, 2021 were as follows: 2021--$9,583; 2022--$22,573; 2023--$1,472; 2024--$15,896; 2025--$15,000; 2026--$49,191; and thereafter $30,000.

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

The AR Securitization program has a limit of $100,000, of which $83,355 was issued for LCs as of both October 2, 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 October 2, 2021--to the bank in exchange for the bank issuing LCs.

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

(Amounts in thousands, except share data)

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 October 2, 2021, total commitments related to issued LCs were $88,363, of which $2,878 were issued under the revolving credit facility, $83,355 were issued under the AR Securitization program, and $2,131 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 October 2, 2021, we were in compliance with all debt covenants.

G. Leases

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

	Condensed Consolidated Balance Sheet Classification	October 2, 2021	December 31, 2020
Assets			
Operating lease assets	Right-of-use assets - operating leases	$ 81,789	$ 55,893
Finance lease assets	Property and equipment, net	10,782	8,788
Total lease assets		$ 92,571	$ 64,681
Liabilities			
Current operating lease liabilities	Other current liabilities	$ 27,253	$ 19,124
Non-current operating lease liabilities	Lease liabilities - operating leases	54,249	36,612
Total operating lease liabilities		81,502	55,736
Current portion of finance lease liabilities	Current portion of long-term debt and finance lease liabilities	2,263	2,273
Non-current finance lease liabilities	Lease liabilities - finance leases	7,886	6,479
Total finance lease liabilities		10,149	8,752
Total lease liabilities		$ 91,651	$ 64,488

(Amounts in thousands, except share data)

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

		Three Months Ended		Nine Months Ended	
	Condensed Consolidated Statements of Operations Classification	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Operating lease cost	Operating expense	$ 4,965	$ 2,877	$ 13,065	$ 7,776
Operating lease cost	Selling expense	2,631	2,322	7,718	7,127
Operating lease cost	General and administrative expense	290	389	867	844
Finance lease cost:					
Amortization of right-of-use assets	Depreciation and amortization	752	570	1,985	1,404
Interest expense on lease liabilities	Interest expense	52	45	134	103
Other lease cost [(1)]	Operating expense	999	1,216	2,839	3,895
Other lease cost [(1)]	Selling expense	360	284	1,013	953
Other lease cost [(1)]	General and administrative expense	8	13	28	31
Total lease cost		$ 10,057	$ 7,716	$ 27,649	$ 22,133

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

We often have options to renew lease terms for buildings and other assets. The exercise of lease renewal options is generally at our sole discretion. In addition, certain lease agreements may be terminated prior to their original expiration date at our discretion. We evaluate each renewal and termination option at the lease commencement date to determine if we are reasonably certain to exercise the option on the basis of economic factors. The weighted average remaining lease terms as of October 2, 2021 was 3.9 years for operating leases and 5.2 years for finance leases.

The discount rate implicit within our leases is generally not determinable and therefore the Company determines the discount rate based on its incremental borrowing rate. The incremental borrowing rate for each lease is determined based on its term and the currency in which lease payments are made, adjusted for the impacts of collateral. The weighted average discount rates used to measure our lease liabilities as of October 2, 2021 was 2.40% for operating leases and 2.04% for finance leases.

Supplemental Cash Flow Information Related to Leases	Nine Months Ended	
	October 2, 2021	September 26, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ (21,822)	$ (15,222)
Operating cash flows from finance leases	(134)	(103)
Financing cash flows from finance leases	(2,688)	(1,525)
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	47,069	28,246
Finance leases	4,174	7,339

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 2, 2021
(Amounts in thousands, except share data)

Maturity Analysis of Lease Liabilities	**As of October 2, 2021**	
	Operating Leases	**Finance Leases**
Remaining three months of 2021	$ 7,706	$ 554
2022	27,259	2,361
2023	20,061	2,151
2024	13,395	2,029
2025	9,607	1,510
Thereafter	7,313	2,069
Total lease payments	85,341	10,674
Less interest	3,839	525
Total	$ 81,502	$ 10,149

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		**Nine Months Ended**	
	October 2, 2021	**September 26, 2020**	**October 2, 2021**	**September 26, 2020**
Compensation expense, all share-based payment plans	$ 1,167	$ 858	$ 3,432	$ 2,567

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 $1,187 being recognized for the nine months ended October 2, 2021 and $1,067 for the nine months ended September 26, 2020.

(Amounts in thousands, except share data)

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 $343 for the nine months ended October 2, 2021 and $398 for the nine months ended September 26, 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 following table summarizes our SSARs as of October 2, 2021.

Stock-Settled Stock Appreciation Rights	Number of Rights	Weighted-Average Award Date Value	Weighted-Average Remaining Contractual Life	Unrecognized Compensation Cost	Aggregate Intrinsic Value
Unvested, January 1, 2021	210,472	$ 1.87			
Granted	—	—			
Forfeited	—	—			
Vested	(85,938)	1.86			
Unvested, October 2, 2021	124,534	$ 1.88	0.8 years	$ 121	$ 2,042

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 $120 for the nine months ended October 2, 2021 and $214 for the nine months ended September 26, 2020.

Restricted Stock Units--During the nine months ended October 2, 2021, the Compensation Committee awarded 330,714 PRSUs to certain management employees and 19,200 RSUs to nonemployee directors. The Compensation Committee made similar awards in prior periods. The awards vest over specified periods. The following table summarizes PRSUs and RSUs as of October 2, 2021.

Restricted Stock Units	Number of Stock Units	Weighted-Average Grant Date Value	Weighted-Average Remaining Contractual Life	Unrecognized Compensation Cost	Aggregate Intrinsic Value
Unvested, January 1, 2021	510,614	$ 10.05			
Granted	349,914	14.82			
Forfeited	—	—			
Vested	(120,368)	8.86			
Unvested, October 2, 2021	740,160	$ 12.49	2.4 years	$ 6,182	$ 12,139
Employee PRSUs	673,268	$ 12.52	2.5 years	$ 5,719	$ 11,042
Nonemployee Director RSUs	66,892	$ 12.20	1.6 years	$ 463	$ 1,097

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 2, 2021
(Amounts in thousands, except share data)

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 $1,782 for the nine months ended October 2, 2021 and $888 for the nine months ended September 26, 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 fair values of stock-based awards granted were estimated at the dates of grant with the following weighted-average assumptions.

	Nine Months Ended	
	October 2, 2021	September 26, 2020
Volatility rate	9.9 %	9.7 %
Risk-free interest rate	.3 %	.7 %
Expected dividend yield	.4 %	.4 %
Expected life of awards (years)	3.0	8.1

General Stock Option Information--The following table summarizes activity under the stock option plans for the nine months ended October 2, 2021.

Stock Options	Number of Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, January 1, 2021	2,817,318	$ 8.34		
Granted	—	—		
Exercised	(307,180)	7.11		
Forfeited	(37,090)	7.98		
Outstanding, October 2, 2021	2,473,048	$ 8.49	5.0 years	$ 19,562
Exercisable, October 2, 2021	1,882,383	$ 7.71	4.1 years	$ 16,353

As of October 2, 2021, there was approximately $904 of unrecognized compensation cost related to stock options outstanding. The cost is expected to be recognized over a weighted-average period of 3.7 years. "Intrinsic value" is defined as the amount by which the market price of a common share exceeds the exercise price of an option.

Common shares are issued from treasury upon the exercise of stock options 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 nine months ended October 2, 2021 was 26.1%. Our actual effective tax rate was 25.0% and 27.8% for the three months ended October 2, 2021 and September 26, 2020, respectively. Our actual effective tax rate was 26.2% and 27.8% for the nine months ended October 2, 2021 and September 26, 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 October 2, 2021, we had unrecognized tax benefits of $754, of which $307 would affect our effective rate if recognized, and accrued interest expense related to unrecognized benefits of $46. At December 31, 2020, we had unrecognized tax benefits of $1,183, of which $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 October 2, 2021, we believe it is reasonably possible that the total amount of unrecognized tax benefits will not significantly increase or decrease.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 2, 2021
(Amounts in thousands, except share data)

J. Accumulated Other Comprehensive Income (Loss)

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

The following summarizes the components of other comprehensive income (loss) accumulated in shareholders' equity for the three and nine months ended October 2, 2021 and September 26, 2020:

Three Months Ended October 2, 2021	Foreign Currency Translation Adjustments	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at July 3, 2021	$ (2,845)	$ (735)	$ (3,580)
Other comprehensive income (loss) before reclassifications			
Unrealized gains (losses)	$ (788)	$ —	$ (788)
Amounts reclassified from accumulated other comprehensive income (loss)	—	51	51
Tax effect	—	(13)	(13)
Net of tax amount	(788)	38	(750)
Balance at October 2, 2021	$ (3,633)	$ (697)	$ (4,330)

Three Months Ended September 26, 2020	Foreign Currency Translation Adjustments	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at June 27, 2020	$ (5,872)	$ (714)	$ (6,586)
Other comprehensive income (loss) before reclassifications			
Unrealized gains (losses)	$ 629	$ —	$ 629
Amounts reclassified from accumulated other comprehensive income (loss)	—	38	38
Tax effect	—	(9)	(9)
Net of tax amount	629	29	658
Balance at September 26, 2020	$ (5,243)	$ (685)	$ (5,928)

Nine Months Ended October 2, 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)	$ 105	$ —	$ 105
Amounts reclassified from accumulated other comprehensive income (loss)	—	151	151
Tax effect	—	(39)	(39)
Net of tax amount	105	112	217
Balance at October 2, 2021	$ (3,633)	$ (697)	$ (4,330)

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 2, 2021
(Amounts in thousands, except share data)

Nine Months Ended September 26, 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)	$ (610)	$ —	$ (610)
Amounts reclassified from accumulated other comprehensive income (loss)	—	114	114
Tax effect	—	(29)	(29)
Net of tax amount	(610)	85	(525)
Balance at September 26, 2020	$ (5,243)	$ (685)	$ (5,928)

The change in defined benefit pension plans of $51 and $151 for the three and nine months ended October 2, 2021, respectively and $38 and $114 for the three and nine months ended September 26, 2020, respectively, was included in net periodic pension expense classified in the condensed consolidated statement of operations as 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 (Adjusted for the two-for-one stock split of our common shares effective October 1, 2021):

	Three Months Ended		Nine Months Ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Income available to common shareholders:				
Net income	$ 24,927	$ 24,535	$ 57,897	$ 54,396
Weighted-average shares (in thousands):				
Basic:				
Basic weighted-average shares	44,885	45,748	45,257	45,912
Diluted:				
Basic from above	44,885	45,748	45,257	45,912
Incremental shares from assumed:				
Exercise of stock options and awards	3,066	1,960	2,528	2,093
Diluted weighted-average shares	47,951	47,708	47,785	48,005
Net income per share:				
Basic	$ .56	$ .54	$ 1.28	$ 1.18
Diluted	$ .52	$ .51	$ 1.21	$ 1.13

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 2, 2021
(Amounts in thousands, except share data)

Common and Redeemable Shares Outstanding--A summary of the activity of the common and redeemable shares outstanding for the nine months ended October 2, 2021 was as follows:

	Common Shares Net of Treasury Shares	Redeemable Shares	Total
Shares outstanding at January 1, 2021	35,414,536	10,225,768	45,640,304
Shares purchased	(1,434,170)	(949,838)	(2,384,008)
Shares sold	470,490	486,112	956,602
Options and awards exercised	526,492	—	526,492
Shares outstanding at October 2, 2021	34,977,348	9,762,042	44,739,390

On October 2, 2021, we had 44,739,390 common and redeemable shares outstanding and employee options exercisable to purchase 1,882,383 common shares.

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

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)
October 2, 2021
(Amounts in thousands, except share data)

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

	Utility	Residential and Commercial	All Other	Reconciling Adjustments		Consolidated
Three Months Ended October 2, 2021						
Revenues	$ 204,960	$ 164,737	$ 547	$ —		$ 370,244
Income (loss) from operations	23,124	17,595	(2,701)	(1,085)	(a)	36,933
Interest expense				(1,449)		(1,449)
Interest income				39		39
Other income (expense), net				(2,298)		(2,298)
Income before income taxes						$ 33,225
Segment assets, total	$ 286,157	$ 278,847	$ —	$ 210,709	(b)	$ 775,713
Three Months Ended September 26, 2020						
Revenues	$ 185,500	$ 151,435	$ 518	$ —		$ 337,453
Income (loss) from operations	20,301	20,273	(2,886)	(2,316)	(a)	35,372
Interest expense				(1,579)		(1,579)
Interest income				1,688		1,688
Other income (expense), net				(1,499)		(1,499)
Income before income taxes						$ 33,982
Segment assets, total	$ 296,519	$ 227,977	$ —	$ 147,188	(b)	$ 671,684
Nine Months Ended October 2, 2021						
Revenues	$ 557,349	$ 465,524	$ 1,668	$ —		$ 1,024,541
Income (loss) from operations	50,015	51,893	(11,367)	(2,610)	(a)	87,931
Interest expense				(4,093)		(4,093)
Interest income				161		161
Other income (expense), net				(5,548)		(5,548)
Income before income taxes						$ 78,451
Segment assets, total	$ 286,157	$ 278,847	$ —	$ 210,709	(b)	$ 775,713
Nine Months Ended September 26, 2020						
Revenues	$ 547,984	$ 396,293	$ 703	$ —		$ 944,980
Income (loss) from operations	56,817	42,242	(11,267)	(4,309)	(a)	83,483
Interest expense				(5,477)		(5,477)
Interest income				1,885		1,885
Other income (expense), net				(4,550)		(4,550)
Income before income taxes						$ 75,341
Segment assets, total	$ 296,519	$ 227,977	$ —	$ 147,188	(b)	$ 671,684

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.

(Amounts in thousands, except share data)

M. Revenue Recognition

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

Nature of Performance Obligations and Significant Judgments

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

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

Disaggregation of Revenue

The following tables disaggregate our revenue for the three and nine months ended October 2, 2021 and September 26, 2020 by major sources:

Three Months Ended October 2, 2021	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	$ 140,039	$ 96,961	$ (29)	$ 236,971
Grounds maintenance	—	40,452	—	40,452
Storm damage services	10,052	2,688	—	12,740
Consulting and other	54,869	24,636	576	80,081
Total revenues	$ 204,960	$ 164,737	$ 547	$ 370,244
Geography:				
United States	$ 194,140	$ 153,009	$ 547	$ 347,696
Canada	10,820	11,728	—	22,548
Total revenues	$ 204,960	$ 164,737	$ 547	$ 370,244

(Amounts in thousands, except share data)

Three Months Ended September 26, 2020	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	$ 135,021	$ 90,049	$ (10)	$ 225,060
Grounds maintenance	—	36,296	—	36,296
Storm damage services	7,061	4,069	—	11,130
Consulting and other	43,418	21,021	528	64,967
Total revenues	$ 185,500	$ 151,435	$ 518	$ 337,453
Geography:				
United States	$ 176,528	$ 140,571	$ 518	$ 317,617
Canada	8,972	10,864	—	19,836
Total revenues	$ 185,500	$ 151,435	$ 518	$ 337,453

Nine Months Ended October 2, 2021	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	$ 393,742	$ 271,682	$ (224)	$ 665,200
Grounds maintenance	—	116,810	—	116,810
Storm damage services	13,997	5,486	—	19,483
Consulting and other	149,610	71,546	1,892	223,048
Total revenues	$ 557,349	$ 465,524	$ 1,668	$ 1,024,541
Geography:				
United States	$ 525,818	$ 432,158	$ 1,668	$ 959,644
Canada	31,531	33,366	—	64,897
Total revenues	$ 557,349	$ 465,524	$ 1,668	$ 1,024,541

Nine Months Ended September 26, 2020	Utility	Residential and Commercial	All Other	Consolidated
Type of service:				
Tree and plant care	$ 408,371	$ 233,810	$ (121)	$ 642,060
Grounds maintenance	—	100,352	—	100,352
Storm damage services	8,087	6,047	—	14,134
Consulting and other	131,526	56,084	824	188,434
Total revenues	$ 547,984	$ 396,293	$ 703	$ 944,980
Geography:				
United States	$ 522,094	$ 369,297	$ 703	$ 892,094
Canada	25,890	26,996	—	52,886
Total revenues	$ 547,984	$ 396,293	$ 703	$ 944,980

(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 $239 and $1,294 of revenue for the three and nine months ended October 2, 2021, respectively, that was included in the contract liability balance at December 31, 2020 and $150 and $1,411 of revenue for the three and nine months ended September 26, 2020, respectively, that was included in the contract liability balance at December 31, 2019. Net contract liabilities consisted of the following:

	October 2, 2021	December 31, 2020
Contract liabilities - current	$ 4,006	$ 3,242
Contract liabilities - noncurrent	1,879	1,754
Net contract liabilities	$ 5,885	$ 4,996

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.

(Amounts in thousands, except share data)

Our assets and liabilities measured at fair value on a recurring basis at October 2, 2021 were as follows:

Assets and Liabilities Recorded at Fair Value on a Recurring Basis	Total Carrying Value at October 2, 2021	Fair Value Measurements at October 2, 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 current assets, current	$ 5,500	$ 5,500	$ —	$ —
Assets invested for self-insurance, classified as other assets, noncurrent	11,859	11,859	—	—
Liabilities:				
Deferred compensation	$ 4,299	$ —	$ 4,299	$ —

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:

	October 2, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Revolving credit facility, noncurrent	$ 34,191	$ 34,191	$ —	$ —
Senior unsecured notes, noncurrent	75,000	78,772	75,000	81,424
Term loans, noncurrent	3,299	3,447	2,324	2,451
Total	$ 112,490	$ 116,410	$ 77,324	$ 83,875

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 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.

Northern California Wildfires

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

Three additional actions were brought on January 28, 2021 in San Francisco County Superior Court, by fire victims represented by a trust, which was assigned contractual rights in the PG&E bankruptcy proceedings. These cases are entitled *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al*., Case No. CGC-21-589438; *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. Davey Resource Group, Inc., et al*., Case No. CGC-21-589439; and *John K. Trotter, Trustee of the PG&E Fire Victim Trust v. ACRT Pacific, LLC, et al*., Case No. CGC-21-589441. On September 22, 2021, the court granted Davey Tree's petition to coordinate all cases, including *Walker* a California Judicial Council Coordination Proceeding, *In Re North Bay Fire Cases,* JCCP No. 4955. As a result of the coordination order, all five of the individual actions are stayed in their home jurisdictions. The next case management conference in JCCP No. 4955 is scheduled for December 6, 2021. These actions are currently in preliminary stages of pleadings, but Davey Tree has responded, denying all liability in these cases.

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
October 2, 2021
(Amounts in thousands, except share data)

P. The Davey 401KSOP and Employee Stock Ownership Plan

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

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

Our common shares are not listed or traded on an established public trading market, and market prices are, therefore, not available. Semiannually, an independent stock valuation firm 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 $1,157 and $3,298 as of October 2, 2021 and December 31, 2020, respectively. The fair value of the shares held in the Davey 401KSOP and ESOP totaled $158,940 and $150,089 as of October 2, 2021 and December 31, 2020, respectively. Due to the Company's obligation under the put option, the distributed shares subject to the put option and the shares held in the Davey 401KSOP and ESOP (collectively referred to as 401KSOP and ESOP related shares) are recorded at fair value, classified as temporary equity in the mezzanine section of the consolidated balance sheets and totaled $160,097 and $153,387 as of October 2, 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."

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

Impact of COVID-19

While the coronavirus ("COVID-19") pandemic did not have a material adverse effect on our reported results for the first nine 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. 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. During the second and third quarters of 2021, we began to bring employees back to our corporate headquarters on a limited basis with increased safety protocols and in compliance with public health and government guidance and also began to lift travel restrictions in situations where necessary. In the first nine months of 2021, we incurred expenses of $1,058 as a result of the COVID-19 pandemic mainly for administrative leave and personal protective equipment.

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

RESULTS OF OPERATIONS

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

	Three Months Ended			Nine Months Ended		
	October 2, 2021	September 26, 2020	Change	October 2, 2021	September 26, 2020	Change
Revenues	100.0 %	100.0 %	— %	100.0 %	100.0 %	— %
Costs and expenses:						
Operating	62.8	61.8	1.0	63.5	63.2	.3
Selling	18.2	17.8	.4	17.5	17.2	.3
General and administrative	5.6	5.9	(.3)	6.8	6.4	.4
Depreciation and amortization	3.8	4.1	(.3)	4.0	4.5	(.5)
Gain on sale of assets, net	(.4)	(.1)	(.3)	(.4)	(.2)	(.2)
Income from operations	10.0	10.5	(.5)	8.6	8.9	(.3)
Other income (expense):						
Interest expense	(.4)	(.5)	.1	(.4)	(.6)	.2
Interest income	—	.5	(.5)	—	.2	(.2)
Other, net	(.6)	(.4)	(.2)	(.5)	(.5)	—
Income before income taxes	9.0	10.1	(1.1)	7.7	8.0	(.3)
Income taxes	2.3	2.8	(.5)	2.0	2.2	(.2)
Net income	6.7 %	7.3 %	(.6)%	5.7 %	5.8 %	(.1)%

Third Quarter—Three Months Ended October 2, 2021 Compared to Three Months Ended September 26, 2020

Our results of operations for the three months ended October 2, 2021 compared to the three months ended September 26, 2020 were as follows:

	Three Months Ended			
	October 2, 2021	September 26, 2020	Change	Percentage Change
Revenues	$ 370,244	$ 337,453	$ 32,791	9.7 %
Costs and expenses:				
Operating	232,599	208,638	23,961	11.5
Selling	67,353	60,203	7,150	11.9
General and administrative	20,739	19,891	848	4.3
Depreciation and amortization	14,127	13,825	302	2.2
Gain on sale of assets, net	(1,507)	(476)	(1,031)	216.6
	333,311	302,081	31,230	10.3
Income from operations	36,933	35,372	1,561	4.4
Other income (expense):				
Interest expense	(1,449)	(1,579)	130	(8.2)
Interest income	39	1,688	(1,649)	(97.7)
Other, net	(2,298)	(1,499)	(799)	53.3
Income before income taxes	33,225	33,982	(757)	(2.2)
Income taxes	8,298	9,447	(1,149)	(12.2)
Net income	$ 24,927	$ 24,535	$ 392	1.6 %

Revenues--Revenues of $370,244 increased $32,791 compared with $337,453 in the third quarter of 2020. Utility Services increased $19,460 or 10.5% compared with the third quarter of 2020. The increase was attributable to new accounts as well as increased work year-over-year and price increases on existing accounts. Residential and Commercial Services increased $13,302 or 8.8% from the third quarter of 2020. Increases were primarily in tree and plant care revenues, grounds maintenance revenue and consulting and other revenue.

Operating Expenses--Operating expenses of $232,599 increased $23,961 compared with the third quarter of 2020. Utility Services increased $13,803 or 10.5% compared with the third quarter of 2020 but, as a percentage of revenue, remained at 71.0%. The increase was attributable to additional expenses for labor and benefits expenses, fuel expense, crew meals and lodging expenses, subcontractor expense, tools and parts expense and materials expense, which were partially offset by a decrease in rented equipment expense. Residential and Commercial Services increased $11,167 or 14.9% compared with the third quarter of 2020 and, as a percentage of revenue, increased to 52.4% from 49.7%. The increase was primarily attributable to increases in labor and benefits expenses, fuel expense, subcontractor expense, tools and parts expenses and materials expense.

Operating expenses for the third quarter of 2021 also included $204 of expenses related directly to COVID-19, including $80 for additional administrative leave offered to employees who have been unable to work due to COVID-19 imposed restrictions, whether from the virus itself or government imposed restrictions or closures. For the third quarter of 2020, the Company had $953 of expenses directly related to COVID-19.

Fuel costs of $11,436 increased $3,336, or 41.2%, from the $8,100 incurred in the third quarter of 2020 and impacted operating expenses within all segments. The $3,336 increase included usage increases approximating $108 and price increases approximating $3,228.

Selling Expenses--Selling expenses of $67,353 increased $7,150 compared with the third quarter of 2020 and, as a percentage of revenues, increased to 18.2% from 17.8%. Utility Services increased $2,219 or 10.9% compared to the third quarter of 2020 but, as a percentage of revenue, remained at 11.0%. The increase was primarily attributable to increases in field management wages and incentive expense and travel expenses. Residential and Commercial Services increased $4,671 or 11.4% from the third quarter of 2020 and, as a percentage of revenue, increased to 27.7% from 27.0%. The increase was primarily attributable to an increase in field management and sales wage expenses and office rent.

General and Administrative Expenses--General and administrative expenses of $20,739 increased $848 from $19,891 in the third quarter of 2020. The increase was primarily attributable to increases in professional services, travel and living expenses and office expenses, which were partially offset by a decrease in salary expense.

Depreciation and Amortization Expense--Depreciation and amortization expense of $14,127 increased $302 from $13,825 incurred in the third quarter of 2020.

Gain on the Sale of Assets, Net--Gain on the sale of assets of $1,507 for the third quarter of 2021 increased $1,031 from the $476 gain in the third quarter of 2020. We sold more individual units of equipment at a higher average gain per unit in the third quarter of 2021 as compared with the third quarter of 2020.

Interest Expense--Interest expense of $1,449 decreased $130 from the $1,579 incurred in the third quarter of 2020. The decrease was attributable to lower average borrowing during the third quarter of 2021, as compared with the third quarter of 2020.

Other, Net--Other expense, net, of $2,298 increased $799 from the $1,499 of other expense incurred in the third quarter of 2020 and consisted of nonoperating income and expense, including pension expense and foreign currency transaction gains/losses on the intercompany account balances of our Canadian operations.

Income Taxes--Income taxes for the third quarter of 2021 were $8,298, as compared to $9,447 for the third quarter 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 third quarter of 2021 was 25.0% as compared with the third quarter of 2020 effective tax rate of 27.8%.

Net Income--Net income of $24,927 for the third quarter of 2021 was $392 more than the $24,535 net income for the third quarter of 2020.

First Nine Months—Nine Months Ended October 2, 2021 Compared to Nine Months Ended September 26, 2020

Our results of operations for the nine months ended October 2, 2021 compared to the nine months ended September 26, 2020 were as follows:

	Nine Months Ended			
	October 2, 2021	September 26, 2020	Change	Percentage Change
Revenues	$ 1,024,541	$ 944,980	$ 79,561	8.4 %
Costs and expenses:				
Operating	650,909	598,225	52,684	8.8
Selling	178,876	162,287	16,589	10.2
General and administrative	69,712	60,477	9,235	15.3
Depreciation and amortization	41,287	42,553	(1,266)	(3.0)
Gain on sale of assets, net	(4,174)	(2,045)	(2,129)	104.1
	936,610	861,497	75,113	8.7
Income from operations	87,931	83,483	4,448	5.3
Other income (expense):				
Interest expense	(4,093)	(5,477)	1,384	(25.3)
Interest income	161	1,885	(1,724)	(91.5)
Other, net	(5,548)	(4,550)	(998)	21.9
Income before income taxes	78,451	75,341	3,110	4.1
Income taxes	20,554	20,945	(391)	(1.9)
Net income	$ 57,897	$ 54,396	$ 3,501	6.4 %

Revenues--Revenues of $1,024,541 increased $79,561 compared with $944,980 in the first nine months of 2020. Utility Services increased $9,365 or 1.7% compared with the first nine months of 2020. The increase was primarily attributable to new accounts, as well as increased work year-over-year on other accounts and price increases on existing accounts within both our U.S. and Canadian operations, which was partially offset by less emergency work on our PG&E account as compared to the first nine months of 2020. Residential and Commercial Services increased $69,231 or 17.5% compared with the first nine 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 $650,909 increased $52,684 compared with the first nine months of 2020 and, as a percentage of revenues, increased to 63.5% from 63.2%. Utility Services increased $14,553 or 3.7% compared with the first nine months of 2020 and, as a percentage of revenue, increased to 72.5% from 71.0%. The increase was attributable to increases in fuel expense, materials expense, crew meals and lodging expenses and tools and parts expense, which were partially offset by decreases in benefits expense, equipment expenses, and subcontractor expense. Residential and Commercial Services increased $40,875 or 20.1% compared with the first nine months of 2020 and, as a percentage of revenue, increased to 52.5% from 51.3%. 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 nine months of 2021 also included $1,058 of expenses related directly to COVID-19, including $362 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 nine months of 2020, the Company had $3,148 of expenses directly related to COVID-19.

Fuel costs of $29,970 increased $6,732, or 29.0%, from the $23,238 incurred in the first nine months of 2020 and impacted operating expenses within all segments. The $6,732 increase included usage increases approximating $455 and price increases approximating $6,277.

Selling Expenses--Selling expenses of $178,876 increased $16,589 compared with the first nine months of 2020 and, as a percentage of revenue, increased to 17.5% from 17.2%. Utility Services increased $1,996 or 3.3% compared to the first nine months of 2020 and, as a percentage of revenue, increased to 11.2% from 11.0%. The increase was primarily attributable to increases in field management wages and field management travel expense. Residential and Commercial Services experienced an increase of $14,885 or 14.2% compared to the first nine months of 2020 but, as a percentage of revenue, decreased to 25.7% from 26.4%. The increase was primarily attributable to increases in field management wages and incentive expense, travel expense, computer expense and rent expense.

General and Administrative Expenses--General and administrative expenses of $69,712 increased $9,235 from $60,477 in the first nine months of 2020. The increase was primarily attributable to increases in salary and incentive expense, professional services expense and computer expenses.

Depreciation and Amortization Expense--Depreciation and amortization expense of $41,287 decreased $1,266 from $42,553 incurred in the first nine 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 $4,174 for the first nine months of 2021 increased $2,129 from the $2,045 gain in the first nine months of 2020. We sold a comparable number of units of equipment, but at a higher average gain per unit during the first nine months of 2021 as compared with the first nine months of 2020.

Interest Expense--Interest expense of $4,093 decreased $1,384 from the $5,477 incurred in the first nine months of 2020. The decrease was attributable to lower average borrowing during the first nine months of 2021, as compared with the first nine months of 2020.

Other, Net--Other expense, net, of $5,548 increased $998 from the $4,550 expense incurred in the first nine 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 nine months of 2021 were $20,554, as compared to $20,945 for the first nine 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 nine months of 2021 was 26.2%. Our effective tax rate for the first nine months of 2020 was 27.8%. 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 $57,897 for the first nine months of 2021 was $3,501 more than the net income of $54,396 for the first nine 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 nine months ended October 2, 2021 and September 26, 2020 were as follows:

	Nine Months Ended	
	October 2, 2021	September 26, 2020
Cash provided by (used in):		
Operating activities	$ 57,401	$ 99,428
Investing activities	(59,777)	(41,614)
Financing activities	19,192	(43,739)
Effect of exchange rate changes on cash	40	(17)
Increase in cash	$ 16,856	$ 14,058

Cash Provided By Operating Activities--Cash provided by operating activities was $57,401 for the first nine months of 2021, a $42,027 decrease when compared to the first nine months of 2020. The $42,027 decrease in operating cash flow was primarily attributable to the change of $37,860 related to accounts payable and accrued expenses, and the change of $5,936 related to prepaid expenses, partially offset by a change of $4,533 related to accounts receivable.

Overall, accounts receivable increased $30,268 during the first nine months of 2021, as compared to an increase of $34,801 during the first nine 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 nine months of 2021 decreased by two days to 70 days, compared to 72 days at the end of the first nine months of 2020.

Accounts payable and accrued expenses decreased $9,471 in the first nine months of 2021, a change of $37,860 compared to the $28,389 increase in the first nine months of 2020. The change was primarily related to the timing of estimated income tax payments and employer payroll taxes payable deferred in 2020 as a result of the Coronavirus Aid, Relief, and Economic Security Act. Self-insurance accruals increased $13,041 in the first nine months of 2021, which was $1,645 less than the increase of $14,686 experienced in the first nine months of 2020. The increase was attributable to increased exposures within our workers compensation, general liability and vehicle liability lines of coverage.

Prepaid expenses increased $13,442 in the first nine months of 2021, a change of $5,936 compared to the $7,506 increase in the first nine months of 2020. The increase was primarily attributable to an increase in prepaid insurance premiums.

As we cannot predict the duration or scope of the COVID-19 pandemic and its impact on our customers and suppliers (or workforce), any 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 nine months of 2021 was $59,777, a $18,163 increase when compared to the first nine months of 2020. The increase was primarily the result of increases in purchases of businesses, equipment and land and buildings.

Cash Provided by (Used In) Financing Activities--Cash provided by financing activities was $19,192 during the first nine months of 2021, a change of $62,931 as compared with the $43,739 used during the first nine months of 2020. During the first nine months of 2021, our revolving credit facility, net provided $33,478 in cash as compared with $32,000 used during the first nine months of 2020. We use the credit facility primarily for capital expenditures, redemptions of shares and payments of notes payable related to acquisitions. Notes payable increased $10,081 during the first nine months of 2021, an increase of $7,796 when compared to the $2,285 increase in the first nine months of 2020. Treasury share transactions (purchases and sales) used $19,552 for the first nine months of 2021, $8,761 more than the $10,791 used in the first nine months of 2020. Dividends paid of $2,127 during the first nine months of 2021 increased $419 as compared with $1,708 paid in the first nine months of 2020, in part due to the increase in dividend paid per share implemented during the second quarter of 2021.

The Company currently repurchases common shares at shareholders' requests in accordance with the terms of the Davey 401KSOP and ESOP Plan and also repurchases common shares from time to time at the Company's discretion. The amount of common shares offered to the Company for repurchase by the holders of shares distributed from the Davey 401KSOP and ESOP Plan is not within the control of the Company, but is at the discretion of the shareholders. The Company expects to continue to repurchase its common shares, as offered by its shareholders from time to time, at their then current fair value. However, other than for repurchases pursuant to the put option under the Davey 401KSOP and ESOP Plan, as described in Note P, such purchases are not required, and the Company retains the right to discontinue them at any time. Repurchases of redeemable common shares at shareholders' request approximated $6,860 and $5,280 during the nine months ended October 2, 2021 and September 26, 2020, respectively. Share repurchases, other than redeemable common shares, approximated $29,647 and $22,209 during the nine months ended October 2, 2021 and September 26, 2020, respectively.

Contractual Obligations Summary and Commercial Commitments

As of October 2, 2021, total commitments related to issued letters of credit were $88,363, of which $2,878 were issued under the revolving credit facility, $83,355 were issued under the AR Securitization program, and $2,131 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 evaluate alternatives. At October 2, 2021, we had working capital of $145,735, short-term lines of credit approximating $9,052 and $287,931 available under our revolving credit facility, which was amended and restated in August 2021 and now permits up to $325,000 in borrowings. In addition, in September 2021, we amended the Note Purchase and Shelf Agreement, which among other things, increased the total facility limit by $50,000, to $150,000.

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 continued impact of the COVID-19 pandemic and the responses thereto 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, which events may worsen or increase due to the effects of climate change, 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 and Exchange Commission's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended October 2, 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.

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 described in the 2020 Form 10-K during the nine months ended October 2, 2021, except as set forth below. Disclosure of risks should not be interpreted to imply that the risks have not already materialized.

The proposed new regulation regarding mandatory COVID-19 vaccination of employees could impact our workforce and have a material adverse effect on our business and results of operations.

On September 9, 2021, President Biden announced a proposed new rule that would require all employers with at least 100 employees to ensure that their employees are fully vaccinated or require unvaccinated workers to get a negative test at least once a week. The U.S. Department of Labor’s Occupational Safety and Health Administration ("OSHA") is drafting an emergency regulation to carry out this mandate, which may take effect in the near future. As a company with more than 100 employees, it is anticipated that we would be subject to the OSHA regulation concerning COVID-19 vaccination. At this time, it is not possible to predict with certainty the exact impact that the proposed new regulation will have on us or on our workforce. The proposed new regulation, when implemented, in addition to customer-imposed mandates that have or could be required, could result in increased costs, labor disruptions or employee attrition. If we lose employees, it may be difficult in the current competitive labor market to find replacement employees, and this could have an adverse effect on future revenues and costs, which could be material. In addition, additional uncertainty could be caused by competing and potentially conflicting laws and regulations, such as the recent executive order issued by the governor of Texas prohibiting vaccine mandates. Accordingly, the proposed new OSHA regulation, when implemented, could have a material adverse effect on our business and results of operations.

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

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Fiscal 2021				
January 1 to January 30	3,162	$ 12.45	—	1,381,920
January 31 to February 27	340	12.45	—	1,381,920
February 28 to April 3	246,842	15.00	—	1,381,920
Total First Quarter	250,344	14.96	—	
April 4 to May 1	519,438	15.00	—	1,381,920
May 2 to May 29	544,434	15.00	—	1,381,920
May 30 to July 3	505,996	15.00	353,874	1,028,046
Total Second Quarter	1,569,868	15.00	353,874	
July 4 to July 31	—	16.40	—	1,028,046
August 1 to August 28	242,088	16.40	—	1,028,046
August 29 to October 2	321,708	16.40	131,418	3,896,628
Total Third Quarter	563,796	16.40	131,418	
Total Year-to-Date	2,384,008	$ 15.33	485,292	

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 400,000 common shares, which authorization was increased by an additional 2,000,000 common shares in May 2018 and increased further by an additional 3,000,000 common shares in September 2021. Of the 5,400,000 total shares authorized, 3,896,628 remained available under the program, as of October 2, 2021. Share repurchases may be made from time to time and the timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors. The Company is not obligated to purchase any shares, and repurchases may be commenced, suspended or discontinued from time to time without prior notice. The repurchase program does not have an expiration date.

Item 6. ***Exhibits.***

See the Exhibit Index below.

Exhibit Index

Exhibit No.	Description	
3.1	2017 Amended Articles of Incorporation of the Davey Tree Expert Company (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2017).	
3.2	Certificate of Amendment to the 2017 Amended Articles of Incorporation, dated as of September 20, 2021 (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 21, 2021).	
3.3	2017 Amended and Restated Regulations of the Davey Tree Expert Company (Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2017).	
10.1	Fourth Amended and Restated Credit Agreement among The Davey Tree Expert Company, as borrower, various lending institutions party thereto, as banks, KeyBank National Association, as lead arranger, syndication agent and administrative agent, and PNC Bank, National Association and Wells Fargo Bank, N.A., as co-documentation agents, dated as of August 18, 2021 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 23, 2021).	
10.2	First Amendment to Note Purchase and Private Shelf Agreement by and among PGIM, Inc., each of the Purchasers thereto, and The Davey Tree Expert Company dated September 20, 2021 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 21, 2021).	
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed Herewith
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed Herewith
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished Herewith
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished Herewith
99.1*	The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (incorporated herein by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).	
99.2*	First Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (incorporated herein by reference to Exhibit 99.2 to the Company's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).	

Exhibit No.	Description	
99.3*	Second Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (incorporated herein by reference to Exhibit 99.3 to the Company's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).	
99.4*	Third Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (incorporated herein by reference to Exhibit 99.4 to the Company's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).	
99.5*	Fourth Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (incorporated herein by reference to Exhibit 99.5 to the Company's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).	
99.6*	Fifth Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (incorporated herein by reference to Exhibit 99.6 to the Company's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).	
99.7*	Sixth Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (incorporated herein by reference to Exhibit 99.7 to the Company's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).	
99.8*	Seventh Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (incorporated herein by reference to Exhibit 99.8 to the Company's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).	
99.9*	Eighth Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (incorporated herein by reference to Exhibit 99.9 to the Company's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021).	
99.10*	Ninth Amendment to The Davey 401KSOP and ESOP (January 1, 2015 Restatement) (incorporated herein by reference to Exhibit 99.10 to the Company's Registration Statement on Form S-8 (File No. 333-259875) filed with the Securities and Exchange Commission on September 29, 2021	
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended October 2, 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

* Management contracts or compensatory plans or arrangements.

Signatures

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

THE DAVEY TREE EXPERT COMPANY

Date: November 3, 2021	By:	/s/ Joseph R. Paul
		Joseph R. Paul Executive Vice President, Chief Financial Officer and Assistant Secretary (Principal Financial Officer)
Date: November 3, 2021	By:	/s/ Thea R. Sears
		Thea R. Sears Vice President and Controller (Principal Accounting Officer)

Exhibit 31.1

Certification

Certification of Chief Executive Officer

I, Patrick M. Covey, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 3, 2021 /s/ Patrick M. Covey

Patrick M. Covey
Chairman, President and Chief Executive Officer

Exhibit 31.2

Certification

Certification of Chief Financial Officer

I, Joseph R. Paul, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 3, 2021 /s/ Joseph R. Paul

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

Exhibit 32.1

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

Certification of Chief Executive Officer

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

1. The Quarterly Report on Form 10-Q of the Company for the period ended October 2, 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: November 3, 2021

/s/ Patrick M. Covey

Patrick M. Covey
Chairman, President and Chief Executive Officer

Exhibit 32.2

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

Certification of Chief Financial Officer

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

1. The Quarterly Report on Form 10-Q of the Company for the period ended October 2, 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: November 3, 2021 /s/ Joseph R. Paul

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