UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

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, Ohio 44240
(Address of principal executive offices) (Zip code)

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

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

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

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

(Check one):	☐ Large Accelerated Filer	☒ Accelerated Filer	☐ Emerging Growth Company
	☐ Non-Accelerated Filer (Do not check if a smaller reporting company)	☐ Smaller Reporting Company	

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

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

There were 24,203,864 Common Shares, $1.00 par value, outstanding as of November 17, 2017.

The Davey Tree Expert Company
Quarterly Report on Form 10-Q
September 30, 2017
INDEX

We," "us," "our," "Davey" and "Davey Tree," unless the context otherwise requires, means The Davey Tree Expert Company and its subsidiaries.

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

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash	$ 10,235	$ 9,006
Accounts receivable, net	171,022	146,134
Operating supplies	9,760	7,277
Other current assets	20,825	16,356
Total current assets	211,842	178,773
Property and equipment	613,396	588,650
Less accumulated depreciation	419,621	409,214
	193,775	179,436
Other assets	31,633	31,354
Identified intangible assets and goodwill, net	42,359	34,376
	$ 479,609	$ 423,939
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 38,679	$ 41,283
Accrued expenses	46,973	37,659
Other current liabilities	43,895	39,963
Total current liabilities	129,547	118,905
Long-term debt	117,020	92,290
Self-insurance accruals	48,062	39,746
Other noncurrent liabilities	17,319	20,819
	311,948	271,760
Redeemable common shares related to 401KSOP and Employee Stock Ownership Plan (ESOP); 6,747 and 7,057 shares at redemption value as of September 30, 2017 and December 31, 2016	123,478	124,201
Common shareholders' equity:*		
Common shares, $1.00 par value, per share; 48,000 shares authorized; 36,167 and 35,857 shares issued and outstanding before deducting treasury shares and which excludes 6,747 and 7,057 shares subject to redemption as of September 30, 2017 and December 31, 2016	36,167	35,857
Additional paid-in capital	53,164	41,626
Common shares subscribed, unissued	7,694	8,209
Retained earnings	148,075	133,951
Accumulated other comprehensive loss	(9,193)	(12,162)
	235,907	207,481
Less: Cost of common shares held in treasury; 18,415 shares at September 30, 2017 and 17,991 shares at December 31, 2016	189,794	176,530
Common shares subscription receivable	1,930	2,973
Total common shareholders' equity	44,183	27,978
	$ 479,609	$ 423,939

* Adjusted for two-for-one stock split

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Revenues	$ 249,588	$ 223,719	$ 687,438	$ 629,315
Costs and expenses:				
Operating	157,615	142,333	442,799	402,638
Selling	45,508	40,528	121,858	111,717
General and administrative	14,501	14,921	46,808	46,735
Depreciation and amortization	13,749	12,765	38,939	36,396
Gain on sale of assets, net	(486)	(1,870)	(2,637)	(2,379)
	230,887	208,677	647,767	595,107
Income from operations	18,701	15,042	39,671	34,208
Other income (expense):				
Interest expense	(1,278)	(1,159)	(3,607)	(3,186)
Interest income	67	62	210	190
Other, net	(1,416)	(1,066)	(3,200)	(2,821)
Income before income taxes	16,074	12,879	33,074	28,391
Income taxes	5,837	4,738	12,501	11,129
Net income	$ 10,237	$ 8,141	$ 20,573	$ 17,262
Net income per share:*				
Basic	$ .41	$ .32	$ .81	$ .66
Diluted	$ .39	$ .31	$ .77	$ .64
Weighted-average shares outstanding:*				
Basic	25,120	25,697	25,551	26,135
Diluted	26,416	26,645	26,714	27,104
Dividends declared per share*	$ .025	$ .025	$ .075	$ .075

* Adjusted for two-for-one stock split

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net income	$ 10,237	$ 8,141	$ 20,573	$ 17,262
Components of other comprehensive income/(loss), net of tax:				
Foreign currency translation adjustments	1,295	(510)	2,498	1,487
Adjustments to defined benefit pension plans:				
Reclassification to results of operations:				
Amortization of defined benefit pension items:				
Net actuarial loss	147	146	441	654
Prior service cost	10	—	30	—
Defined benefit pension plan adjustments	157	146	471	654
Other comprehensive income/(loss), net of tax	1,452	(364)	2,969	2,141
Comprehensive income	$ 11,689	$ 7,777	$ 23,542	$ 19,403

See notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	September 30, 2017	October 1, 2016
Operating activities		
Net income	$ 20,573	$ 17,262
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,939	36,396
Other	(443)	(566)
Changes in operating assets and liabilities:		
Accounts receivable	(23,135)	(20,773)
Operating liabilities	12,139	10,272
Other, net	(9,644)	(7,048)
	17,856	18,281
Net cash provided by operating activities	38,429	35,543
Investing activities		
Capital expenditures:		
Equipment	(44,727)	(47,062)
Land and building	(3,641)	(1,863)
Purchases of businesses, net of cash acquired	(7,452)	(3,797)
Other	3,372	2,833
Net cash used in investing activities	(52,448)	(49,889)
Financing activities		
Revolving credit facility proceeds, net	30,000	28,500
Purchase of common shares for treasury	(19,512)	(15,332)
Sale of common shares from treasury	11,268	9,197
Dividends	(1,898)	(1,967)
Payments of notes payable	(4,610)	(1,906)
Net cash provided by financing activities	15,248	18,492
Increase in cash	1,229	4,146
Cash, beginning of period	9,006	16,030
Cash, end of period	$ 10,235	$ 20,176
Supplemental cash flow information follows:		
Interest paid	$ 4,079	$ 3,534
Income taxes paid	7,189	4,725

See notes to condensed consolidated financial statements.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2017
(Amounts in thousands, except share data)

A. Basis of Financial Statement Preparation

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

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

Certain information and disclosures required by U.S. GAAP for complete financial statements have been omitted in accordance with the rules and regulations of the SEC. We suggest that these condensed consolidated financial statements be read in conjunction with the financial statements included in our annual report on Form 10-K/A for the year ended December 31, 2016 (the "2016 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 June 1, 2017.

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

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

Subsequent Events

Credit Facility

On October 6, 2017, the Company entered into a $250,000 Third Amended and Restated Credit Agreement (the "Credit Agreement") with a syndicate of financial institutions as lenders and issuing banks, which replaces the $175,000 credit agreement, dated as of November 7, 2013. The Credit Agreement provides for a revolving credit commitment of $250,000, which includes a letter of credit commitment of $100,000 and a swing line commitment of $25,000. Under certain circumstances, the Company may increase the revolving credit commitment amount to $325,000. The commitments will expire on October 6, 2022, or such earlier date on which the commitments shall have been terminated in accordance with the provisions of the Credit Agreement. Proceeds of borrowings under the Credit Agreement may be used for working capital, capital expenditures and other general corporate purposes.

Pension Plan

On October 12, 2017, the Company entered into an agreement to purchase a guaranteed group annuity contract from a third-party insurance company for $8,400, which unconditionally and irrevocably guarantees the full-

A. Basis of Financial Statement Preparation (continued)

payment of all annuity payments to certain participants in our Employee Retirement Pension Plan ("ERP"), with the third-party insurance company having assumed all investment risk associated with funding participant payments.

The purchase of the group annuity will serve to reduce the Company's future pension obligation under its ERP plan and will result in an actuarial settlement loss of approximately $4,000.

Recent Accounting Guidance

Accounting Standards Adopted in 2017

Accounting Standards Update 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting--In March 2016, the FASB issued ASU 2016-09, "Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," with the objective to simplify several aspects of the accounting for share-based payment transactions, including: the income tax consequences; classification of awards as either equity or liabilities; classification of certain items on the statement of cash flows; and, accounting for forfeitures. ASU 2016-09 became effective for Davey Tree on January 1, 2017 and we elected to make an accounting policy change to recognize forfeitures as they occur. The adoption impact on the consolidated condensed balance sheet was a cumulative-effect adjustment of $162, increasing opening retained earnings and decreasing additional paid-in capital.

Accounting Standards Not Yet Adopted

Accounting Standards Update 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting--In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting," which provides guidance on which changes in the terms or conditions of a share-based payment award require modification accounting under Topic 718. Modification accounting is required for changes in terms or conditions unless the fair value, vesting condition and classification of the modified award is the same as the original award. The update is effective for annual and interim periods beginning after December 15, 2017, which for Davey Tree would be January 1, 2018. Early adoption is permitted. We do not expect the adoption of ASU 2017-09 to have a material impact on our consolidated financial statements.

Accounting Standards Update 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment--In January 2017, the FASB issued ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350)," which simplifies the subsequent measurement of goodwill by eliminating Step 2 of the goodwill impairment test which required entities to fair value their assets and liabilities using procedures that would be followed in an assumed business combination to arrive at the impairment charge. Under ASU 2017-04, the goodwill impairment test is performed by comparing the fair value of the reporting unit with its carrying amount and an impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The update is effective for annual or interim periods beginning after December 15, 2019, which for Davey Tree is January 1, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The Company intends to early adopt ASU 2017-04 during the fourth quarter 2017 and does not expect the adoption to have a material effect on the Company's consolidated financial statements or related disclosures.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2017
(Amounts in thousands, except share data)

A. Basis of Financial Statement Preparation (continued)

Accounting Standards Update 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)--In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which provides guidance on how cash receipts and cash payments related to eight specific cash flow issues are presented and classified in the statement of cash flows, with the objective of reducing the existing diversity in practice. The update is effective for annual periods beginning after December 15, 2017, which for Davey Tree would be January 1, 2018. Early adoption is permitted. We do not expect the adoption of ASU 2016-15 to have a material impact on our consolidated financial statements.

Accounting Standards Update 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost--In March 2017, the FASB issued ASU 2017-07, "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which changes the presentation of net periodic benefit cost related to employer sponsored defined benefit plans and other postretirement benefits. Under ASU 2017-07, service costs will be included within the same income statement line item as other compensation costs arising from services rendered by pertinent employees during the period. The other components of net periodic benefit pension cost will be presented separately outside of income from operations. Additionally, only service costs may be capitalized in assets. ASU 2017-07 is effective for fiscal years beginning after December 15, 2017, which for Davey Tree is January 1, 2018. Management has not yet completed its assessment of the impact of the new standard on the Company's consolidated financial statements.

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

The new revenue recognition guidance provides a unified model to determine when and how revenue is recognized. The underlying principle is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration which the entity expects to receive in exchange for those goods and services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced information to be presented in the financial statements regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Subsequent to the issuance of ASU 2014-09, the FASB has provided additional implementation guidance updates related to ASU 2014-09, including:

a. ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date ('Update 2015-14')," which responded to stakeholders' requests to defer the effective date of the guidance in ASU 2014-09.

b. ASU 2016-08*,* "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ('Update 2016-08')," which clarifies the implementation guidance on principal versus agent considerations.

c. ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing ('Update 2016-10')," which clarifies multiple aspects of Topic 606.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2017
(Amounts in thousands, except share data)

A. Basis of Financial Statement Preparation (continued)

d. ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients ('Update 2016-12')," which provides clarifying guidance in a few narrow areas and adds some practical expedients to the guidance.

The effective date and the transition requirements for the Updates are the same as the effective date of Topic 606 ASU 2015-14, which becomes effective for Davey Tree beginning with the first quarter 2018 and can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is permitted. The new revenue guidance will supersede existing revenue guidance affecting our Company, and may also affect our business processes and our information technology systems.

Management has assembled an internal project team and is analyzing contracts with our customers covering the significant streams of the Company's annual revenues under the provisions of the new standard. The analysis of contracts with customers is time-consuming given the unique nature of the individual contracts with our customers and is expected to be completed in the near future. While the full impact of adopting the standard is not currently known, the Company currently has identified certain impacts related to the recognition of certain variable, incentive-based components of contracts related to the timing of revenue recognition. The Company is continuing to assess all other aspects of the standard and the identification of other accounting impacts is possible. The Company has evaluated the disclosure requirements under the standard and is in the process of implementing necessary changes to our systems, policies and the related internal controls as a result. We plan to adopt ASU 2014-09 using the modified retrospective approach effective January 1, 2018.

Accounting Standards Update 2016-02, Leases (Topic 842)--In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 establishes a comprehensive new lease accounting model. The new standard: (a) clarifies the definition of a lease; (b) requires a dual approach to lease classification similar to current lease classifications; and, (c) causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease-term of more than twelve months. The new standard is effective for interim and annual periods beginning after December 15, 2018, which for Davey Tree would be January 1, 2019. Early adoption is permitted. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. We are currently evaluating the impact of the new standard on our consolidated financial statements.

B. Seasonality of Business

Due to the seasonality of our business, our operating results for the nine months ended September 30, 2017 are not indicative of results that may be expected for any other interim period or for the year ending December 31, 2017. 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)
September 30, 2017
(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	**September 30, 2017**	**December 31, 2016**
Accounts receivable	$ 132,616	$ 128,202
Receivables under contractual arrangements	42,397	21,541
	175,013	149,743
Less allowances for doubtful accounts	3,991	3,609
Accounts receivable, net	$ 171,022	$ 146,134

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

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

Other current assets	**September 30, 2017**	**December 31, 2016**
Refundable income taxes	$ —	$ 548
Prepaid expense	20,596	14,493
Other	229	1,315
Total	$ 20,825	$ 16,356

Accrued expenses	**September 30, 2017**	**December 31, 2016**
Employee compensation	$ 20,793	$ 18,438
Accrued compensated absences	9,790	9,215
Self-insured medical claims	5,535	2,961
Income tax payable	6,021	953
Customer advances, deposits	1,147	2,997
Taxes, other than income	3,068	2,166
Other	619	929
Total	$ 46,973	$ 37,659

Other current liabilities	**September 30, 2017**	**December 31, 2016**
Current portion of:		
Long-term debt	$ 20,734	$ 16,871
Self-insurance accruals	23,161	23,092
Total	$ 43,895	$ 39,963

(Amounts in thousands, except share data)

D. Business Combinations

Our investment in businesses during the first nine months of 2017 was $10,877, including debt issued, in the form of notes payable to the sellers, of $3,099, and have been included in our residential and commercial segment. Measurement-period adjustments are not complete. The measurement period for purchase price allocations ends as soon as information of the facts and circumstances becomes available, but does not exceed one year from the acquisition date. During the nine months ended October 1, 2016, our investment in businesses was $4,170, with liabilities assumed of $98 and $575 debt issued.

In March 2017, the Company acquired all of the outstanding common stock of Arborguard Tree Specialists Inc. ("Arborguard"), a residential and commercial tree care company, and certain assets of TTS&G, LLC, a leasing company related to Arborguard, for $7,200 in cash, with liabilities assumed of $2,934 and debt issued of $2,724. Arborguard's revenue for the year ended February 28, 2017 was approximately $10,710.

The acquisition of Arborguard was accounted for under the acquisition method of accounting. The entire purchase price allocation for Arborguard is preliminary. At September 30, 2017, the fair values of the assets acquired and liabilities assumed have been preliminarily estimated and the excess consideration of $4,627 has been preliminarily recorded as goodwill pending finalization of the fair value. These preliminary estimates will be revised during the measurement period in 2017 as all pertinent information regarding finalization of the valuations for fixed assets, intangible assets, goodwill (including the amount expected to be deductible for tax purposes), tangible assets, other liabilities and deferred income tax assets and liabilities acquired are fully evaluated by the Company.

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

	Nine Months Ended September 30, 2017
Detail of acquisitions:	
Assets acquired:	
Cash	$ 326
Receivables	1,753
Prepaid expense	128
Equipment	1,904
Deposits and other	129
Finite-lived intangibles	4,566
Goodwill	5,027
Liabilities assumed	(2,956)
Debt issued for purchases of businesses	(3,099)
Cash paid	$ 7,778

The results of operations of acquired businesses have been included in the consolidated statements of operations beginning as of the effective dates of acquisition. The effect of these acquisitions on our consolidated revenues and results of operations for the period ending September 30, 2017 was not significant. Pro forma net sales and

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2017
(Amounts in thousands, except share data)

D. Business Combinations (continued)

results of operations for the acquisition had it occurred at the beginning of the nine months ended September 30, 2017 are not material and, accordingly, are not provided.

E. Identified Intangible Assets and Goodwill, Net

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

	September 30, 2017		December 31, 2016	
Identified Intangible Assets and Goodwill, Net	**Carrying Amount**	**Accumulated Amortization**	**Carrying Amount**	**Accumulated Amortization**
Amortized intangible assets:				
Customer lists/relationships	$ 21,717	$ 16,449	$ 17,822	$ 15,171
Employment-related	7,390	6,567	7,032	6,386
Tradenames	5,961	5,071	5,634	4,860
Amortized intangible assets	$ 35,068	$ 28,087	$ 30,488	$ 26,417
Less accumulated amortization	28,087		26,417	
Identified intangibles, net	6,981		4,071	
Unamortized intangible assets:				
Goodwill	35,378		30,305	
	$ 42,359		$ 34,376	

The changes in the carrying amounts of goodwill, by segment, for the nine months ended September 30, 2017 follow:

	Balance at January 1, 2017	Acquisitions	Translation and Other Adjustments	Balance at September 30, 2017
Utility	$ 3,424	$ —	$ —	$ 3,424
Residential and Commercial	26,881	5,027	46	31,954
Total	$ 30,305	$ 5,027	$ 46	$ 35,378

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2017
(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:

	September 30, 2017	December 31, 2016
Revolving credit facility		
Swing-line borrowings	$ 7,000	$ 10,000
LIBOR borrowings	90,000	57,000
	97,000	67,000
Senior unsecured notes	18,000	24,000
Term loans	20,410	16,151
Capital leases	2,573	2,343
	137,983	109,494
Less debt issuance costs	229	333
Less current portion	20,734	16,871
	$ 117,020	$ 92,290

Revolving Credit Facility --As of September 30, 2017, we had a $175,000 revolving credit facility with a group of banks, which was to expire in November 2018 and permitted borrowings, as defined, up to $175,000, including a letter of credit sublimit of $100,000 and a swing-line commitment of $15,000. Under certain circumstances, the amount available under the revolving credit facility could be increased to $210,000. The revolving credit facility contained certain affirmative and negative covenants customary for this type of facility and included financial covenant ratios with respect to a maximum leverage ratio and a maximum balance-sheet leverage ratio. As of September 30, 2017, we had unused commitments under the facility approximating $73,929, with $101,071 committed, consisting of borrowings of $97,000 and issued letters of credit of $4,071.

Borrowings outstanding bore interest, at Davey Tree's option, of either (a) a base rate or (b) LIBOR plus a margin adjustment ranging from .75% to 1.50%--with the margin adjustments in both instances based on the Company's leverage ratio at the time of borrowing. The base rate was the greater of (i) the agent bank's prime rate, (ii) LIBOR plus 1.50%, or (iii) the federal funds rate plus .50%. A commitment fee ranging from .10% to .25% was also required based on the average daily unborrowed commitment.

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

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2017
(Amounts in thousands, except share data)

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

Accounts Receivable Securitization Facility--On May 8, 2017, the Company amended its Accounts Receivable Securitization Facility (the "AR Securitization program") to extend the scheduled termination date for an additional one-year period and increase the limit of the facility from $60,000 to $100,000.

As of September 30, 2017, we had issued letters of credit of $58,150 under the terms of the AR securitization program.

Under the AR securitization program, Davey Tree transfers by selling or contributing current and future trade receivables to a wholly-owned, bankruptcy-remote financing subsidiary which pledges a perfected first priority security interest in the trade receivables--equal to the issued letters of credit as of September 30, 2017--to the bank in exchange for the bank issuing letters of credit ("LCs").

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

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

Total Commitments Related to Issued Letters of Credit--As of September 30, 2017, total commitments related to issued letters of credit were $64,221, of which $4,071 were issued under the revolving credit facility, $58,150 were issued under the AR securitization program, and $2,000 were issued under short-term lines of credit. As of December 31, 2016, total commitments related to issued letters of credit were $64,225, of which $4,071 were issued under the revolving credit facility, $58,150 were issued under the AR securitization facility, and $2,004 were issued under short-term lines of credit.

(Amounts in thousands, except share data)

G. Stock-Based Compensation

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Compensation expense, all share-based payment plans	$ 847	$ 731	$ 3,295	$ 2,055

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 $670 being recognized for the nine months ended September 30, 2017 and $547 for the nine months ended October 1, 2016.

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 $532 for the nine months ended September 30, 2017 and $426 for the nine months ended October 1, 2016.

Stock-Settled Stock Appreciation Rights--During the nine months ended September 30, 2017, the Compensation Committee awarded 152,000 stock-settled stock appreciation rights ("SSARs") to certain management employees, which vest ratably over five years. A SSAR is an award that allows the recipient to receive common shares equal to the appreciation in the fair market value of our common shares between the date the award was granted and the conversion date of the shares vested.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2017
(Amounts in thousands, except share data)

G. Stock-Based Compensation (continued)

The following table summarizes our SSARs as of September 30, 2017.

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, 2017	743,662	$ 2.75			
Granted	152,000	3.57			
Forfeited	—	—			
Vested	(411,502)	2.74			
Unvested, September 30, 2017	484,160	$ 3.01	2.5 years	$ 1,127	$ 8,521
Employee SSARs	484,160	$ 3.01	2.5 years	$ 1,127	$ 8,521

Compensation costs for SSARs are determined using a fair-value method and amortized over the requisite service period. Compensation expense for SSARs was $931 for the nine months ended September 30, 2017 and $436 for the nine months ended October 1, 2016.

Restricted Stock Units--During the nine months ended September 30, 2017, the Compensation Committee awarded 80,350 performance-based restricted stock units to certain directors and management employees. The Compensation Committee made similar awards in prior periods. The awards vest over specified periods. The following table summarizes restricted stock units as of September 30, 2017.

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, 2017	304,958	$ 13.22			
Granted	80,350	17.01			
Forfeited	—	—			
Vested	(91,022)	12.68			
Unvested, September 30, 2017	294,286	$ 14.42	2.5 years	$ 2,323	$ 5,179

Compensation cost for restricted stock awards is determined using a fair-value method and amortized on the straight-line recognition method over the requisite service period. Compensation expense on restricted stock awards totaled $1,162 for the nine months ended September 30, 2017 and $646 for the nine months ended October 1, 2016.

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

(Amounts in thousands, except share data)

G. Stock-Based Compensation (continued)

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

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

	Nine Months Ended	
	September 30, 2017	October 1, 2016
Volatility rate	10.3%	10.6%
Risk-free interest rate	2.2%	1.8%
Expected dividend yield	.7%	.7%
Expected life of awards (years)	8.9	9.5

General Stock Option Information--The following table summarizes activity under the stock option plans for the nine months ended September 30, 2017.

Stock Options	Number of Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, January 1, 2017	1,599,296	$ 12.49		
Granted	148,500	17.60		
Exercised	(87,507)	10.59		
Forfeited	(81,074)	13.34		
Outstanding, September 30, 2017	1,579,215	$ 13.03	6.4 years	$ 7,217
Exercisable, September 30, 2017	851,215	$ 11.22	5.1 years	$ 5,422

As of September 30, 2017, there was approximately $1,707 of unrecognized compensation cost related to stock options outstanding. The cost is expected to be recognized over a weighted-average period of 2.7 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, SSARs, restricted stock units or purchases under the Employee Stock Purchase Plan.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2017
(Amounts in thousands, except share data)

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Components of pension expense (income)				
Service costs--increase in benefit obligation earned	$ 132	$ 90	$ 397	$ 280
Interest cost on projected benefit obligation	263	309	790	936
Expected return on plan assets	(169)	(276)	(508)	(829)
Settlement loss	—	—	—	453
Amortization of net actuarial loss	237	235	712	715
Amortization of prior service cost	17	—	48	—
Net pension expense of defined benefit pension plans	$ 480	$ 358	$ 1,439	$ 1,555

I. Income Taxes

Our income tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate and, if our estimated annual tax rate changes, we make a cumulative adjustment. The effective tax rate for the nine months ended September 30, 2017 is estimated to approximate 37.8%. Our effective tax rate for the nine months ended October 1, 2016 was estimated at 39.2%.

At December 31, 2016, we had unrecognized tax benefits of $2,532, of which $2,053 would affect our effective rate if recognized, and accrued interest expense related to unrecognized benefits of $107. At September 30, 2017, there were no significant changes in the unrecognized tax benefits, including the amount that would affect our effective rate if recognized, or the accrued interest expense related to the unrecognized benefits. 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.

The Company is routinely under audit by federal, state, local and Canadian authorities in the area of income tax. These audits include questioning the timing and the amount of income and deductions and the allocation of income and deductions among various tax jurisdictions. During the fourth quarter 2013, the U.S. Internal Revenue Service completed its audit of the Company's U.S. income tax returns for 2010 and 2011 and, during 2010, Canada Revenue Agency completed its audit of the Company's Canadian operations for 2006, 2007 and 2008. With the exception of U.S. state jurisdictions, the Company is no longer subject to examination by tax authorities for the years through 2013. As of September 30, 2017, 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)
September 30, 2017
(Amounts in thousands, except share data)

J. Accumulated Other Comprehensive Income (Loss)

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

The following summarizes the components of other comprehensive income (loss) accumulated in shareholders' equity for the nine months ended September 30, 2017 and nine months ended October 1, 2016:

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2017	$ (5,500)	$ (6,662)	$ (12,162)
Other comprehensive income (loss) before reclassifications			
Unrealized gains	$ 2,498	$ —	$ 2,498
Amounts reclassified from accumulated other comprehensive income (loss)	—	760	760
Tax effect	—	(289)	(289)
Net of tax amount	2,498	471	2,969
Balance at September 30, 2017	$ (3,002)	$ (6,191)	$ (9,193)

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2016	$ (6,244)	$ (7,150)	$ (13,394)
Other comprehensive income (loss) before reclassifications			
Unrealized gains	$ 1,487	$ —	$ 1,487
Amounts reclassified from accumulated other comprehensive income (loss)	—	1,064	1,064
Tax effect	—	(410)	(410)
Net of tax amount	1,487	654	2,141
Balance at October 1, 2016	$ (4,757)	$ (6,496)	$ (11,253)

The change in defined benefit pension plans of $760 for the nine months ended September 30, 2017 and the $1,064 for the nine months ended October 1, 2016 is included in net periodic pension expense and is classified in the condensed statement of operations as costs and expenses, general and administrative.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2017
(Amounts in thousands, except share data)

K. Per Share Amounts and Common and Redeemable Shares Outstanding

We calculate our basic earnings per share by dividing net income or net loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated in a similar manner, but include the effect of dilutive securities. To the extent these securities are antidilutive, they are excluded from the calculation of earnings per share. The per share amounts were computed as follows (adjusted for the two-for-one stock split of our common shares effective June 1, 2017):

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Income available to common shareholders:				
Net income	$ 10,237	$ 8,141	$ 20,573	$ 17,262
Weighted-average shares:				
Basic:				
Outstanding	24,925	25,486	24,965	25,502
Partially-paid share subscriptions	195	211	586	633
Basic weighted-average shares	25,120	25,697	25,551	26,135
Diluted:				
Basic from above	25,120	25,697	25,551	26,135
Incremental shares from assumed:				
Exercise of stock subscription purchase rights	158	135	148	136
Exercise of stock options and awards	1,138	813	1,015	833
Diluted weighted-average shares	26,416	26,645	26,714	27,104
Net income per share:				
Basic	$ .41	$ .32	$ .81	$ .66
Diluted	$ .39	$ .31	$ .77	$ .64

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2017
(Amounts in thousands, except share data)

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

Common and Redeemable Shares Outstanding--A summary of the activity of the common and redeemable shares outstanding for the nine months ended September 30, 2017 follows:

	Common Shares Net of Treasury Shares	Redeemable Shares	Total
Shares outstanding at January 1, 2017	17,866,236	7,056,904	24,923,140
Shares purchased	(486,877)	(592,914)	(1,079,791)
Shares sold	184,669	283,427	468,096
Stock subscription offering -- cash purchases	69,227	—	69,227
Options and awards exercised	118,370	—	118,370
Shares outstanding at September 30, 2017	17,751,625	6,747,417	24,499,042

On September 30, 2017, we had 24,499,042 common and redeemable shares outstanding, employee options exercisable to purchase 851,215 common shares, partially-paid subscriptions for 781,088 common shares and purchase rights outstanding for 315,057 common shares.

Common Stock Split--On May 10, 2017, our Board of Directors declared a two-for-one stock split of our common shares, paid as a stock dividend to shareholders of record as of June 1, 2017. The par value of each common share remains at $1.00.

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

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

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

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2017
(Amounts in thousands, except share data)

L. Operations by Business Segment

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

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

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

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

Measurement of Segment Profit and Loss and Segment Assets--We evaluate performance and allocate resources based primarily on operating income and also actively manage business unit operating assets. Segment information, including reconciling adjustments, is presented consistent with the basis described in our 2016 Annual Report.

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2017
(Amounts in thousands, except share data)

L. Operations by Business Segment (continued)

Segment information reconciled to consolidated external reporting information follows:

	Utility	Residential and Commercial	All Other	Reconciling Adjustments		Consolidated
Three Months Ended September 30, 2017						
Revenues	$ 124,540	$ 124,678	$ 370	$ —		$ 249,588
Income (loss) from operations	6,854	14,616	(838)	(1,931)	(a)	18,701
Interest expense				(1,278)		(1,278)
Interest income				67		67
Other income (expense), net				(1,416)		(1,416)
Income before income taxes						$ 16,074
Segment assets, total	$ 180,031	$ 206,946	$ —	$ 92,632	(b)	$ 479,609
Three Months Ended October 1, 2016						
Revenues	$ 110,700	$ 112,211	$ 808	$ —		$ 223,719
Income (loss) from operations	4,337	12,156	(1,012)	(439)	(a)	15,042
Interest expense				(1,159)		(1,159)
Interest income				62		62
Other income (expense), net				(1,066)		(1,066)
Income before income taxes						$ 12,879
Segment assets, total	$ 169,796	$ 177,275	$ —	$ 96,814	(b)	$ 443,885
Nine Months Ended September 30, 2017						
Revenues	$ 349,921	$ 335,564	$ 1,953	$ —		$ 687,438
Income (loss) from operations	13,782	34,871	(4,725)	(4,257)	(a)	39,671
Interest expense				(3,607)		(3,607)
Interest income				210		210
Other income (expense), net				(3,200)		(3,200)
Income before income taxes						$ 33,074
Segment assets, total	$ 180,031	$ 206,946	$ —	$ 92,632	(b)	$ 479,609
Nine Months Ended October 1, 2016						
Revenues	$ 316,013	$ 311,490	$ 1,812	$ —		$ 629,315
Income (loss) from operations	11,398	31,946	(5,098)	(4,038)	(a)	34,208
Interest expense				(3,186)		(3,186)
Interest income				190		190
Other income (expense), net				(2,821)		(2,821)
Income before income taxes						$ 28,391
Segment assets, total	$ 169,796	$ 177,275	$ —	$ 96,814	(b)	$ 443,885

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

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

The Davey Tree Expert Company
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2017
(Amounts in thousands, except share data)

M. Fair Value Measurements and Financial Instruments

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

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

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

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

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

Our assets and liabilities measured at fair value on a recurring basis at September 30, 2017 were as follows:

		Fair Value Measurements at September 30, 2017 Using:		
Assets and Liabilities Recorded at Fair Value on a Recurring Basis	**Total Carrying Value at September 30, 2017**	**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	$ 17,794	$ 17,794	$ —	$ —
Liabilities:				
Deferred compensation	$ 2,105	$ —	$ 2,105	$ —

(Amounts in thousands, except share data)

M. Fair Value Measurements and Financial Instruments (continued)

Our assets and liabilities measured at fair value on a recurring basis at December 31, 2016 were as follows:

Assets and Liabilities Recorded at Fair Value on a Recurring Basis	Total Carrying Value at December 31, 2016	Fair Value Measurements at December 31, 2016 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	$ 15,492	$ 15,492	$ —	$ —
Liabilities:				
Deferred compensation	$ 1,837	$ —	$ 1,837	$ —

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

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

	September 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Revolving credit facility, noncurrent	$ 97,000	$ 97,000	$ 67,000	$ 67,000
Senior unsecured notes	12,000	12,387	18,000	18,509
Term loans, noncurrent	8,258	10,353	7,623	9,854
Total	$ 117,258	$ 119,740	$ 92,623	$ 95,363

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.

N. Contingencies

We are party to a number of lawsuits, threatened lawsuits and other claims arising out of the normal course of business. Management is of the opinion that liabilities which may result are adequately covered by insurance, or reflected in the self-insurance accruals, and would not be material in relation to the financial position or results of operations.

O. The Davey 401KSOP and Employee Stock Ownership Plan

On March 15, 1979, the Company consummated a plan, which transferred control of the Company to its employees. As a part of this plan, the Company initially sold 120,000 common shares (presently, 23,040,000 common shares adjusted for stock splits) to its Employee Stock Ownership Trust ("ESOT") for $2,700. The Employee Stock Ownership Plan ("ESOP"), in conjunction with the related ESOT, provided for the grant to certain employees of ownership rights in, but not possession of, the common shares held by the trustee of the ESOT. Annual allocations of shares have been made to individual accounts established for the benefit of the participants.

Defined Contribution and Savings Plans--Most employees are eligible to participate in The Davey 401KSOP and ESOP Plan. Effective January 1, 1997, the plan commenced operations and retained the existing ESOP participant accounts and incorporated a deferred savings plan (a "401(k) plan") feature. Participants in the 401(k) plan are allowed to make before-tax contributions, within Internal Revenue Service established limits, through payroll deductions. Effective January 1, 2009 we match, in either cash or our common shares, 100% of the first one percent and 50% of the next three percent of each participant's before-tax contribution, limited to the first four percent of the employee's compensation deferred each year. All nonbargaining domestic employees who attained age 21 and completed one year of service are eligible to participate.

Our common shares are not listed or traded on an established public trading market, and market prices are, therefore, not available. Semiannually, an independent stock valuation firm determines the fair market value of our common shares based upon our performance and financial condition. The Davey 401KSOP and ESOP Plan includes a put option for shares of the Company's common stock distributed from the plan. Shares are distributed from the Davey 401KSOP and ESOP Plan to former participants of the plan, their beneficiaries, donees or heirs (each, a "participant"). Since our common stock is not currently traded on an established securities market, if the owners of distributed shares desire to sell their shares, the Company is required to purchase the shares at fair value for two 60-day periods after distribution of the shares from the Davey 401KSOP and ESOP. The fair value of distributed shares subject to the put option totaled $2,020 and $1,148 as of September 30, 2017 and December 31, 2016, respectively. The fair value of the shares held in the Davey 401KSOP and ESOP totaled $121,458 and $123,053 as of September 30, 2017 and December 31, 2016, 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 $123,478 and $124,201 as of September 30, 2017 and December 31, 2016, respectively. Changes in the fair value of the 401KSOP and ESOP Plan related shares are reflected in retained earnings while net share activity associated with 401KSOP and ESOP Plan related shares are first reflected in additional paid-in capital and then retained earnings if additional paid-in capital is insufficient.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***
(Amounts in thousands, except share data)

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

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

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

RESULTS OF OPERATIONS

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

	Three Months Ended			**Nine Months Ended**		
	September 30, 2017	**October 1, 2016**	**Percentage Change**	**September 30, 2017**	**October 1, 2016**	**Percentage Change**
Revenues	100.0%	100.0%	—%	100.0%	100.0%	—%
Costs and expenses:						
Operating	63.2	63.6	(.4)	64.4	64.0	.4
Selling	18.2	18.1	.1	17.7	17.8	(.1)
General and administrative	5.8	6.7	(.9)	6.8	7.4	(.6)
Depreciation and amortization	5.5	5.8	(.3)	5.7	5.8	(.1)
Gain on sale of assets, net	(.2)	(.8)	.6	(.4)	(.4)	—
Income from operations	7.5	6.7	.8	5.8	5.4	.4
Other income (expense):						
Interest expense	(.5)	(.5)	—	(.5)	(.5)	—
Interest income	—	—	—	—	—	—
Other, net	(.6)	(.5)	(.1)	(.5)	(.4)	(.1)
Income before income taxes	6.4	5.7	.7	4.8	4.5	.3
Income taxes	2.3	2.1	.2	1.8	1.8	—
Net income	4.1%	3.6%	.5%	3.0%	2.7%	.3%

Third Quarter—Three Months Ended September 30, 2017 Compared to Three Months Ended October 1, 2016

Our results of operations for the three months ended September 30, 2017 compared to the three months ended October 1, 2016 follows:

	Three Months Ended			
	September 30, 2017	October 1, 2016	Change	Percentage Change
Revenues	$ 249,588	$ 223,719	$ 25,869	11.6%
Costs and expenses:				
Operating	157,615	142,333	15,282	10.7
Selling	45,508	40,528	4,980	12.3
General and administrative	14,501	14,921	(420)	(2.8)
Depreciation and amortization	13,749	12,765	984	7.7
Gain on sale of assets, net	(486)	(1,870)	1,384	(74.0)
	230,887	208,677	22,210	10.6
Income from operations	18,701	15,042	3,659	24.3
Other income (expense):				
Interest expense	(1,278)	(1,159)	(119)	10.3
Interest income	67	62	5	8.1
Other, net	(1,416)	(1,066)	(350)	32.8
Income before income taxes	16,074	12,879	3,195	24.8
Income taxes	5,837	4,738	1,099	23.2
Net income	$ 10,237	$ 8,141	$ 2,096	25.7%

nm--not meaningful

Revenues--Revenues of $249,588 increased $25,869 compared with $223,719 in the third quarter 2016. Utility increased $13,840 or 12.5% compared with the third quarter 2016. The increase is attributable to increased storm-related services primarily related to Hurricane Irma in the Southeast United States. Residential and Commercial increased $12,467 or 11.1% compared with the third quarter 2016. Increases in storm-related services primarily related to Hurricane Irma in the Southeast United States, tree surgery, spraying and pest management were partially offset by a decrease in mowing and landscape materials. Total revenues of $249,588 include a reduction of production incentive revenue, recognized under the completed-performance method, of $35 during the third quarter 2017 compared with a reduction of $56 during the third quarter 2016.

Operating Expenses--Operating expenses of $157,615 increased $15,282 compared with the third quarter 2016 but, as a percentage of revenues, decreased .4% to 63.2%. Utility increased $8,369 or 10.0% compared with the third quarter 2016 but, as a percentage of revenues, decreased 1.6% to 73.9%. Increases in labor expenses, fuel expense, subcontractor expense, mileage, crew sustenance and insurance expense were partially offset by decreases in equipment maintenance expense. Residential and Commercial increased $6,603 or 11.4% compared with the third quarter 2016 and, as a percentage of revenues, increased .1% to 51.6%. Increases in labor expense, subcontractor expense, material, insurance, fuel, and equipment expense were the largest contributors to the increase.

Fuel costs of $7,148 increased $913, or 14.6%, from the $6,235 incurred in the third quarter 2016 and impacted operating expenses within all segments. The $913 increase included price increases approximating $386 and usage increases approximating $527.

Selling Expenses--Selling expenses of $45,508 increased $4,980 compared with the third quarter 2016 and as a percentage of revenues increased .1% to 18.2%. Utility increased $2,588 or 23.7% over the third quarter 2016 and as a percentage of revenues increased 1.0% to 10.9%. Increases in field management wages and incentives, taxes and communication expense were partially offset by a decrease in travel expenses. Residential and Commercial increased $2,497 or 8.2% over the third quarter 2016 but, as a percentage of revenues decreased .7% to 26.5%. Increases in field management wages and incentive expense, office support wages and benefits, and employee development expenses were partially offset by a decrease in sales and marketing expense.

General and Administrative Expenses--General and administrative expenses of $14,501 decreased $420 from $14,921 in the third quarter 2016. Decreases in insurance and travel expenses were partially offset by increases in professional services and employee development expense.

Depreciation and Amortization Expense--Depreciation and amortization expense of $13,749 increased $984 from $12,765 in the third quarter of 2016. The increase is attributable to capital expenditures necessary to support the business and purchases of businesses.

Gain on the Sale of Assets, Net--Gain on the sale of assets of $486 for the third quarter 2017 decreased $1,384 from the $1,870 gain in the third quarter 2016 due to fewer average sales prices on fewer units sold as compared to the third quarter 2016.

Interest Expense--Interest expense of $1,278 increased $119 from the $1,159 incurred in the third quarter 2016. The increase is attributable to higher interest rates and higher-average debt levels necessary to fund operations, and capital expenditures during the third quarter of 2017, as compared with the third quarter of 2016.

Other, Net--Other, net, of $1,416 increased $350 from the $1,066 incurred in the third quarter 2016 and consisted of nonoperating income and expense, including foreign currency transaction gains/losses on the intercompany account balances of our Canadian operations.

Income Taxes--Income tax expense for the third quarter 2017 was $5,837, as compared to $4,738 for the third quarter 2016. 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 three months ended September 30, 2017 is estimated to approximate 37.8%. Our annual effective tax rate for the three months ended October 1, 2016 was estimated at 39.2%.

Net Income--Net income of $10,237 for the third quarter 2017 was $2,096 more than the $8,141 experienced in the third quarter 2016.

First Nine Months—Nine Months Ended September 30, 2017 Compared to Nine Months Ended October 1, 2016

Our results of operations for the nine months ended September 30, 2017 compared to the nine months ended October 1, 2016 follows:

	Nine Months Ended			
	September 30, 2017	October 1, 2016	Change	Percentage Change
Revenues	$ 687,438	$ 629,315	$ 58,123	9.2%
Costs and expenses:				
Operating	442,799	402,638	40,161	10.0
Selling	121,858	111,717	10,141	9.1
General and administrative	46,808	46,735	73	.2
Depreciation and amortization	38,939	36,396	2,543	7.0
Gain on sale of assets, net	(2,637)	(2,379)	(258)	10.8
	647,767	595,107	52,660	8.8
Income from operations	39,671	34,208	5,463	16.0
Other income (expense):				
Interest expense	(3,607)	(3,186)	(421)	13.2
Interest income	210	190	20	10.5
Other, net	(3,200)	(2,821)	(379)	13.4
Income before income taxes	33,074	28,391	4,683	16.5
Income taxes	12,501	11,129	1,372	12.3
Net income	$ 20,573	$ 17,262	$ 3,311	19.2%

nm--not meaningful

Revenues--Revenues of $687,438 increased $58,123 compared with $629,315 in the first nine months of 2016. Utility Services increased $33,908 or 10.7% compared with the first nine months of 2016. The increase is attributable to increased storm-related services primarily related to Hurricane Irma in the Southeast United States and increased work year-over-year on existing accounts as well as new accounts. Residential and Commercial Services increased $24,074 or 7.7% from the first nine months of 2016. Increases in tree surgery, spraying, landscaping and pest management were partially offset by decreases in snow removal and mowing revenues. Total revenues of $687,438 include production incentive revenue, recognized under the completed-performance method, of $1,021 during the first nine months of 2017 compared with $1,040 during the first nine months of 2016.

Operating Expenses--Operating expenses of $442,799 increased $40,161 compared with the first nine months of 2016 and, as a percentage of revenues, increased .4% to 64.4%. Utility Services increased $26,056 or 11.0% compared with the first nine months of 2016 and, as a percentage of revenue increased .3% to 75.2%. Increases in labor expense, fuel, subcontractor expense, crew expense and insurance were partially offset by decreases in material, equipment maintenance expense and saw expense. Residential and Commercial Services increased $12,310 or 7.5% compared with the first nine months of 2016 but, as a percentage of revenue remained at 52.4%. Increases in labor expense, equipment maintenance expense, materials expense and insurance expense were partially offset by reductions in tools and parts expense.

Fuel costs of $19,471 increased $3,101, or 18.9%, from the $16,370 incurred in the first nine months of 2016 and impacted operating expenses within all segments. The $3,101 increase included price increases approximating $2,212 and usage increases approximating $889.

Selling Expenses--Selling expenses of $121,858 increased $10,141 compared with the first nine months of 2016 but, as a percentage of revenues decreased .1% to 17.7%. Utility Services increased $4,321 or 13.0% over the first nine months of 2016 and, as a percentage of revenue increased .2% to 10.7%. Increases in field management wages and incentive expense, employee development expense and communication expense were partially offset by decreases in field management travel expense and employee development expense. Residential and Commercial Services experienced an increase of $6,356 or 7.8% over the first nine months of 2016 but as a percentage of revenue remained at 26.1%. Increases in field management wages and incentive expense, communication expense and employee development expense were partially offset by decreases in computer expense and sales, promotion and marketing expenses.

General and Administrative Expenses--General and administrative expenses of $46,808 increased $73 from $46,735 in the first nine months of 2016. Increases in salary and incentive expense and professional service expense were partially offset by decreases in insurance expense.

Depreciation and Amortization Expense--Depreciation and amortization expense of $38,939 increased $2,543 from $36,396 incurred in the first nine months of 2016. The increase is attributable to higher capital expenditures necessary to support the business and purchases of businesses.

Gain on the Sale of Assets, Net--Gain on the sale of assets of $2,637 for the first nine months of 2017 increased $258 from the $2,379 gain in the first nine months of 2016 due to more units sold in the first nine months of 2017 as compared with the first nine months of 2016.

Interest Expense--Interest expense of $3,607 increased $421 from the $3,186 incurred in the first nine months of 2016. The increase is attributable to higher-average debt levels necessary to fund operations, capital expenditures and purchases of businesses during the first nine months of 2017, as compared with the first nine months of 2016.

Other, Net--Other, net, of $3,200 increased $379 from the $2,821 incurred in the first nine months of 2016 and consisted of nonoperating income and expense, including foreign currency transaction gains/losses on the intercompany account balances of our Canadian operations.

Income Taxes--Income tax expense for the first nine months of 2017 was $12,501, as compared to $11,129 for the first nine months of 2016. 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 2017 effective tax rate for the first nine months of 2017 is estimated to approximate 37.8%. Our effective tax rate for the first nine months of 2016 was 39.2%.

Net Income--Net income of $20,573 for the first nine months of 2017 was $3,311 more than the $17,262 experienced in the first nine months of 2016.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flow Summary

Our cash flows from operating, investing and financing activities for the nine months ended September 30, 2017 and October 1, 2016 follow:

	Nine Months Ended	
	September 30, 2017	**October 1, 2016**
Cash provided by (used in):		
Operating activities	$ 38,429	$ 35,543
Investing activities	(52,448)	(49,889)
Financing activities	15,248	18,492
Increase in cash	$ 1,229	$ 4,146

Cash Provided By Operating Activities--Cash provided by operating activities was $38,429 for the first nine months of 2017, or $2,886 more than the $35,543 provided in the first nine months of 2016. The $2,886 increase in operating cash flow was primarily attributable to an increase of $2,543 in depreciation and amortization, a $3,311 increase in net income, and a $729 decrease in cash provided by operating assets and liabilities, excluding accounts receivable, partially offset by $2,362 more cash used by accounts receivable.

Overall, accounts receivable increased $23,135 during the first nine months of 2017, as compared to the increase of $20,773 during the first nine months of 2016. 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 2017 increased five days to 62 days, as compared to the end of the first nine months of 2016. The DSO at October 1, 2016 was 57 days.

Operating liabilities increased $12,139 in the first nine months of 2017, or $1,867 more than the $10,272 increase in the first nine months of 2016. Accounts payable and accrued expenses increased $3,754 during the first nine months of 2017 as compared with a decrease of $46 for the first nine months of 2016. Increases in trade payables, self insurance accruals, income taxes payable and employee compensation accruals were partially offset by decreases in advance payments from customers. Self-insurance accruals increased $8,385 in the first nine months of 2017, which was $1,933 less than the increase of $10,318 experienced in the first nine months of 2016. The increase occurred within our workers' compensation, general liability and vehicle liability classifications and resulted primarily from an overall increase in deductible amounts under commercial insurance and the self-insured risk retention.

The change in operating assets and liabilities other, net, increased $9,644 for the first nine months of 2017 as compared with an increase of $7,048 for the first nine months of 2016, with the $2,596 net change related primarily to increases in operating supplies, prepaid expenses and a decrease in pension and post-retirement benefits.

Cash Used In Investing Activities--Cash used in investing activities for the first nine months of 2017 was $52,448, or $2,559 more than the $49,889 used during the first nine months of 2016. An increase in the purchase of businesses and capital expenditures for equipment, land and buildings was partially offset by an increase in proceeds from sale of assets.

Cash Provided By Financing Activities--Cash provided by financing activities of $15,248 decreased $3,244 during the first nine months of 2017 as compared with $18,492 of cash provided during the first nine months of 2016. During the first nine months of 2017, our revolving credit facility provided $30,000 in cash as compared with $28,500 provided during the first nine months of 2016. We use the credit facility primarily for capital expenditures and payments of notes payable related to acquisitions. Payments of notes payable used $4,610 during the first nine months of 2017, an increase of $2,704 when compared to the $1,906 used in the first nine months of 2016. Treasury share transactions (purchases and sales) used $8,244 for the first nine months of 2017, $2,109 more than the $6,135 used in the first nine months of 2016, and included $1,043 of cash received from our common share subscriptions. Dividends paid of $1,898 during the first nine months of 2017 decreased $69 as compared with $1,967 paid in the first nine months of 2016.

The Company currently repurchases common shares at the shareholders' request in accordance with the terms of the Davey 401KSOP and ESOP Plan and also repurchases common shares from time to time at the Company's discretion. The amount of common shares offered to the Company for repurchase by the holders of shares distributed from the Davey 401KSOP and ESOP Plan is not within the control of the Company, but is at the discretion of the shareholders. The Company expects to continue to repurchase its common shares, as offered by its shareholders from time to time, at their then current fair value. However, other than for repurchases pursuant to the put option under The Davey 401KSOP and ESOP Plan, as described in Note O, such purchases are not required, and the Company retains the right to discontinue them at any time. Repurchases of redeemable common shares from the Davey 401KSOP and ESOP approximated $8,778 and $3,808 for the nine months ended September 30, 2017 and October 1, 2016, respectively. Share repurchases, other than redeemable common shares, approximated $10,734 and $11,524 during the nine months ended September 30, 2017 and October 1, 2016, respectively.

Revolving Credit Facility--As of September 30, 2017, we had a $175,000 revolving credit facility with a group of banks, which was to expire in November 2018 and permitted borrowings, as defined, up to $175,000, including a letter of credit sublimit of $100,000 and a swing-line commitment of $15,000. Under certain circumstances, the amount available under the revolving credit facility could be increased to $210,000. The revolving credit facility contained certain affirmative and negative covenants customary for this type of facility and included financial covenant ratios with respect to a maximum leverage ratio and a maximum balance-sheet leverage ratio.

As of September 30, 2017, we had unused commitments under the facility approximating $73,929, with $101,071 committed, consisting of borrowings of $97,000 and issued letters of credit of $4,071.

Borrowings outstanding bore interest, at Davey Tree's option, of either (a) a base rate or (b) LIBOR plus a margin adjustment ranging from .75% to 1.50%--with the margin adjustments in both instances based on the Company's leverage ratio at the time of borrowing. The base rate was the greater of (i) the agent bank's prime rate, (ii) LIBOR plus 1.50%, or (iii) the federal funds rate plus .50%. A commitment fee ranging from .10% to .25% was also required based on the average daily unborrowed commitment.

On October 6, 2017, we entered into a $250,000 Third Amended and Restated Credit Agreement (the "Credit Agreement") with a syndicate of financial institutions as lenders and issuing banks, which replaces the $175,000 credit agreement, dated as of November 7, 2013. The Credit Agreement provides for a revolving credit commitment of $250,000, which includes a letter of credit commitment of $100,000 and a swing line commitment of $25,000. Under certain circumstances, we may increase the revolving credit commitment amount to $325,000. The commitments will expire on October 6, 2022, or such earlier date on which the commitments shall have been terminated in accordance with the provisions of the Credit Agreement. Proceeds of borrowings under the Credit Agreement may be used for working capital, capital expenditures and other general corporate purposes.

Borrowings under the Credit Agreement bear interest at a rate per annum equal to, at our election, (a) LIBOR plus a margin of .875% to 1.50% that is adjusted based on the Company's leverage ratio at the time of such borrowings or (b) the base rate. Fees payable by the Company under the Credit Agreement include a letter of credit fee (the margin applicable to LIBOR borrowings), a letter of credit fronting fee with respect to each letter of credit (.10%) and commitment fees on the average daily unused portion of the total revolving credit commitment (a range of .10% to .225%, based on the Company's leverage ratio).

The Credit Agreement contains customary events of default and restrictive covenants (subject to negotiated exceptions and baskets), including restrictions on liens, indebtedness, investments and loans, acquisitions and mergers, sales of assets, and payments of dividends and stock repurchases. In addition, during the term of the Credit Agreement, the Company is required to maintain a maximum leverage ratio (not to exceed 3.00 to 1.00, with exceptions in case of material acquisitions) and a maximum interest coverage ratio (less than 3.00 to 1.00), in each case subject to certain further restrictions as described in the Credit Agreement.

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

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

Accounts Receivable Securitization Facility--On May 8, 2017, the Company amended its accounts receivable securitization facility to extend the scheduled termination date for an additional one-year period and increase the limit of the facility from $60,000 to $100,000.

As of September 30, 2017, we had issued letters of credit of $58,150 under the terms of the AR securitization program.

Under the AR securitization program, Davey Tree transfers by selling or contributing current and future trade receivables to a wholly-owned, bankruptcy-remote financing subsidiary which pledges a perfected first priority security interest in the trade receivables--equal to the issued letters of credit as of September 30, 2017--to the bank in exchange for the bank issuing letters of credit ("LCs").

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

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

Contractual Obligations Summary and Commercial Commitments

The following summarizes our long-term contractual obligations, as of September 30, 2017, to make future payments for the periods indicated:

Description	Total	Three Months Ending December 31, 2017	Year Ending December 31, 2018	2019	2020	2021	Thereafter
Revolving credit facility	$ 97,000	$ —	$ 97,000	$ —	$ —	$ —	$ —
Senior unsecured notes	18,000	—	6,000	6,000	6,000	—	—
Term loans	20,410	14,039	1,141	895	4,335	—	—
Capital lease obligations	2,573	685	694	664	520	10	—
Operating lease obligations	14,360	1,592	4,559	3,380	2,398	1,165	1,266
Self-insurance accruals	71,223	13,686	18,162	12,570	7,828	4,256	14,721
Purchase obligations	11,313	11,313	—	—	—	—	—
Other liabilities	17,319	1,343	1,343	1,385	1,965	2,351	8,932
	$252,198	$ 42,658	$128,899	$ 24,894	$ 23,046	$ 7,782	$ 24,919

The self-insurance accruals in the summary above reflect the total of the undiscounted amount accrued, for which amounts estimated to be due each year may differ from actual payments required to fund claims. Purchase obligations in the summary above represent open purchase-order amounts that we anticipate will become payable for goods and services that we have negotiated for delivery as of September 30, 2017. Other liabilities include estimates of future expected funding requirements related to retirement plans and other sundry items. Because their future cash outflows are uncertain, accrued income tax liabilities for uncertain tax positions, as of September 30, 2017, have not been included in the summary above. Noncurrent deferred taxes and payments related to defined benefit pension plans are also not included in the summary.

As of September 30, 2017, total commitments related to issued letters of credit were $64,221, of which $4,071 were issued under the revolving credit facility, $58,150 were issued under the AR securitization program, and $2,000 were issued under short-term lines of credit. As of December 31, 2016, total commitments related to issued letters of credit were $64,225, of which $4,071 were issued under the revolving credit facility, $58,150 were issued under the AR securitization facility, and $2,004 were issued under short-term lines of credit.

Also, as is common in our industry, we have performance obligations that are supported by surety bonds, which expire during 2017 through 2023. We intend to renew the surety bonds where appropriate and as necessary.

Capital Resources

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

Business seasonality traditionally results in higher revenues during the second and third quarters as compared with the first and fourth quarters of the year, while our methods of accounting for fixed costs, such as depreciation and amortization expense, rent and interest expense, are not significantly impacted by business seasonality. Capital resources during these periods are equally affected. We satisfy seasonal working capital needs and other financing requirements with the revolving credit facility and other short-term lines of credit. We are continually reviewing our existing sources of financing and evaluating alternatives. At September 30, 2017, we had working capital of $82,295, and short-term lines of credit approximating $7,204 and $73,929 available under our revolving credit facility.

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

Recent Accounting Guidance

Accounting Standards Adopted in 2017

Accounting Standards Update 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting--In March 2016, the FASB issued ASU 2016-09, "Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," with the objective to simplify several aspects of the accounting for share-based payment transactions, including: the income tax consequences; classification of awards as either equity or liabilities; classification of certain items on the statement of cash flows; and, accounting for forfeitures. ASU 2016-09 became effective for Davey Tree on January 1, 2017 and we elected to make an accounting policy change to recognize forfeitures as they occur. The adoption impact on the consolidated condensed balance sheet was a cumulative-effect adjustment of $162, increasing opening retained earnings and decreasing additional paid-in capital.

Accounting Standards Not Yet Adopted

Accounting Standards Update 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting--In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting," which provides guidance on which changes in the terms or conditions of a share-based payment award require modification accounting under Topic 718. Modification accounting is required for changes in terms or conditions unless the fair value, vesting condition and classification of the modified award is the same as the original award. The update is effective for annual and interim periods beginning after December 15, 2017, which for Davey Tree would be January 1, 2018. Early adoption is permitted. We do not expect the adoption of ASU 2017-09 to have a material impact on our consolidated financial statements.

Accounting Standards Update 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment--In January 2017, the FASB issued ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350)," which simplifies the subsequent measurement of goodwill by eliminating Step 2 of the goodwill impairment test which required entities to fair value their assets and liabilities using procedures that would be followed in an assumed business combination to arrive at the impairment charge. Under ASU 2017-04, the goodwill impairment test is performed by comparing the fair value of the reporting unit with its carrying amount and an impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The update is effective for annual or interim periods beginning after December 15, 2019, which for Davey Tree is January 1, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The Company intends to early adopt ASU 2017-04 during the fourth quarter 2017 and does not expect the adoption to have a material effect on the Company's consolidated financial statements or related disclosures.

Accounting Standards Update 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)--In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which provides guidance on how cash receipts and cash payments related to eight specific cash flow issues are presented and classified in the statement of cash flows, with the objective of reducing the existing diversity in practice. The update is effective for annual periods beginning after December 15, 2017, which for Davey Tree would be January 1, 2018. Early adoption is permitted. We do not expect the adoption of ASU 2016-15 to have a material impact on our consolidated financial statements.

Accounting Standards Update 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost--In March 2017, the FASB issued ASU 2017-07, "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which changes the presentation of net periodic benefit cost related to employer sponsored defined benefit plans and other postretirement benefits. Under

ASU 2017-07, service costs will be included within the same income statement line item as other compensation costs arising from services rendered by pertinent employees during the period. The other components of net periodic benefit pension cost will be presented separately outside of income from operations. Additionally, only service costs may be capitalized in assets. ASU 2017-07 is effective for fiscal years beginning after December 15, 2017, which for Davey Tree is January 1, 2018. Management has not yet completed its assessment of the impact of the new standard on the Company's consolidated financial statements.

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

The new revenue recognition guidance provides a unified model to determine when and how revenue is recognized. The underlying principle is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration which the entity expects to receive in exchange for those goods and services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced information to be presented in the financial statements regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Subsequent to the issuance of ASU 2014-09, the FASB has provided additional implementation guidance updates related to ASU 2014-09, including:

a. ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date ('Update 2015-14')," which responded to stakeholders' requests to defer the effective date of the guidance in ASU 2014-09.

b. ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ('Update 2016-08')," which clarifies the implementation guidance on principal versus agent considerations.

c. ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing ('Update 2016-10')," which clarifies multiple aspects of Topic 606.

d. ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients ('Update 2016-12')," which provides clarifying guidance in a few narrow areas and adds some practical expedients to the guidance.

The effective date and the transition requirements for the Updates are the same as the effective date of Topic 606 ASU 2015-14, which becomes effective for Davey Tree beginning with the first quarter 2018 and can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is permitted. The new revenue guidance will supersede existing revenue guidance affecting our Company, and may also affect our business processes and our information technology systems.

Management has assembled an internal project team and is analyzing contracts with our customers covering the significant streams of the Company's annual revenues under the provisions of the new standard. The analysis of contracts with customers is time-consuming given the unique nature of the individual contracts with our customers and is expected to be completed in the near future. While the full impact of adopting the standard is not currently known, the Company currently has identified certain impacts related to the recognition of certain variable, incentive-based components of contracts related to the timing of revenue recognition. The Company is continuing to assess all other aspects of the standard and the identification of other accounting impacts is possible. The Company has evaluated the disclosure requirements under the standard and is in the process of implementing necessary changes to our systems, policies and the related internal controls as a result. We plan to adopt ASU 2014-09 using the modified retrospective approach effective January 1, 2018.

Accounting Standards Update 2016-02, Leases (Topic 842)--In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 establishes a comprehensive new lease accounting model. The new standard: (a) clarifies the definition of a lease; (b) requires a dual approach to lease classification similar to current lease classifications; and, (c) causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease-term of more than twelve months. The new standard is effective for interim and annual periods beginning after December 15, 2018, which for Davey Tree would be January 1, 2019. Early adoption is permitted. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. We are currently evaluating the impact of the new standard on our consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

As discussed in our annual report on Form 10-K/A for the year ended December 31, 2016, we believe that our policies related to revenue recognition, the allowance for doubtful accounts and self-insurance accruals are our "critical accounting policies and estimates"--those most important to the financial presentations and those that require the most difficult, subjective or complex judgments.

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- Our business, other than tree services to utility customers, is highly seasonal and weather dependent.
- Various economic factors may adversely impact our customers' spending and pricing for our services, and impede our collection of accounts receivable.

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

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

The factors described above, as well as other factors that may adversely impact our actual results, are discussed in "Part II - Item 1A. Risk Factors." of this quarterly report on Form 10-Q and in our annual report on Form 10-K/A for the year ended December 31, 2016 in “Part I - Item 1A. Risk Factors.”

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

During the quarter ended September 30, 2017, there have been no material changes in the market risk previously presented in our annual report on Form 10-K for the year ended December 31, 2016.

Item 4. ***Controls and Procedures.***

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation 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, due to the material weakness described below, the design and operation of our disclosure controls and procedures were not effective at the reasonable assurance level as of the end of the period covered by this Form 10-Q in ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based upon our initial evaluation, our management concluded that our internal control over financial reporting was effective as of July 1, 2017. Subsequent to filing previously issued quarterly reports on Form 10-Q, including April 1, 2017 and July 1, 2017 financial statements, an error was discovered related to the classification of shares of the Company's common stock held by the Davey 401KSOP and ESOP Plan which were historically classified as permanent equity rather than temporary equity in the mezzanine section of the balance sheet. This error resulted in a material misstatement of the financial statements and required restatement of the financial statements included in the Company's Form 10-K for the year ended December 31, 2016 as well as the financial statements included in the Company's Form 10-Q's for the quarters ended April 1, 2017 and July 1, 2017. This error, which was not detected timely by management, was the result of inadequate design, as well as insufficient operating effectiveness, of the control pertaining to the Company's review of redemption provisions and associated fair value and classification of the common shares held by the Davey 401KSOP and ESOP (the Plan) as well as shares distributed from the Plan, which remain subject to redemption. The deficiency is considered to be indicative of a material weakness in our internal control over financial reporting. The material weakness continued to exist as of September 30, 2017.

(b) Changes in Internal Control over Financial Reporting

We have begun to enhance our controls and procedures in an effort to remediate the material weakness discussed above, including improving the precision of our review controls relating to the redemption provisions and associated fair value and classification of our common shares related to the Plan. We expect to fully remediate the above mentioned material weakness before the end of the fiscal year ending December 31, 2017. There were no changes in our internal control over financial reporting during the fourth quarter 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We continue to evaluate the effectiveness of our disclosure controls and procedures and our internal control over financial reporting on an ongoing basis and take action as appropriate.

The Davey Tree Expert Company

Part II. Other Information

Items 1, 3, 4 and 5 are not applicable.

Item 1A. *Risk Factors.*

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

Our business is highly seasonal and weather dependent.

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

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

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

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

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

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

We derive approximately 51% of our total annual revenues from our Utility segment, including approximately 12% of our total annual revenues from Pacific Gas & Electric Company. Significant adverse developments in the utility industry generally, or specifically for our major utility customers, could result in pressure to reduce costs by utility industry service providers (such as us), delays in payments of our accounts receivable, or increases in uncollectible accounts receivable, among other things. As a result, such developments could have an adverse effect on our results of operations.

Our quarterly results may fluctuate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The costs of employee health care insurance have been increasing in recent years due to rising health care costs, legislative changes, and general economic conditions. We cannot predict what other health care programs and regulations will ultimately be implemented at the federal or state level or the effect of any future legislation or regulations on our business, results of operations and cash flows. In addition, we cannot predict when and if Congress will repeal and/or replace certain health care programs and regulations at the federal level and the impact that such changes would have on our business. A continued increase in health care costs or additional costs incurred as a result of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 or other future health care reform laws imposed by Congress or state legislatures could have a negative impact on our financial position, results of operations and cash flows.

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

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

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

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

We are subject to intense competition.

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

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

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

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

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

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

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

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

We may be adversely affected if our reputation is damaged.

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

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

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

We may be unable to attract and retain skilled management.

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

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

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

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

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

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

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

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

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

We have identified a material weakness in our internal control over financial reporting that resulted in the restatement of certain of our financial statements.

We are restating our consolidated financial statements for the fiscal year ended December 31, 2016 and for the first and second quarterly periods of 2017 to correct an accounting error in the method historically used by the

Company to classify shares of the Company's common stock held by The Davey 401KSOP and ESOP Plan on the Company's consolidated balance sheet. For a discussion of this error and the related adjustment, see Note B to the Consolidated Financial Statements of the Company included in this report. In connection with this restatement, we have identified a material weakness in our internal controls over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the material weakness, management has concluded that we did not maintain effective internal control over financial reporting or effective disclosure controls and procedures as of December 31, 2016. The material weakness continued to exist as of April 1, 2017, July 1, 2017 and September 30, 2017.

As further described in Part I, Item 4 "Controls and Procedures," we have undertaken steps to remediate our internal control over financial reporting. If we are unable to successfully remediate our existing or any future material weaknesses in our internal control over financial reporting, the accuracy and timing of our financial reporting may be adversely affected, our liquidity, access to capital and perceptions of our creditworthiness may be adversely affected, we may be unable to maintain compliance with securities law and debt instruments regarding the timely filing of periodic reports, we may be subject to regulatory investigations and penalties, we may suffer defaults under our debt instruments, and the valuation of our shares may be impacted.

As a result of the restatement and the remediation of our ineffective disclosure controls and procedures and material weakness in our internal control over financial reporting, we have become subject to additional costs and risks, including costs for accounting and legal fees. In addition, the attention of our management team has been diverted by these efforts. We could also be subject to regulatory, shareholder or other actions in connection with the restatement, which would, regardless of the outcome, consume management's time and attention and may result in additional legal, accounting and other costs. In addition, the restatement and related matters could impair our reputation and could cause our customers, lenders, employees, shareholders, insurers, vendors, and other counterparties to lose confidence in us. Each of these occurrences could have an adverse effect on our business, results of operations, and financial condition.

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 2017. The numbers in the following table have been adjusted for a two-for-one stock split, effected in the form of a 100% stock dividend paid on June 15, 2017 to shareholders of record at the close of business on June 1, 2017.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
Fiscal 2017				
January 1 to January 28	610	$ 16.95	n/a	n/a
January 29 to February 25	548	16.95	n/a	n/a
February 26 to April 1	117,878	17.60	n/a	n/a
Total First Quarter	119,036	17.59		
April 2 to April 29	270,158	17.60	n/a	n/a
April 30 to May 27	434,290	17.60	—	200,000
May 28 to July 1	118,551	17.60	—	200,000
Total Second Quarter	822,999	17.60		
July 2 to July 29	550	17.60	—	200,000
July 30 to August 26	72,969	18.30	—	200,000
August 27 to September 30	64,237	18.30	—	200,000
Total Third Quarter	137,756	18.30		
Total Year-to-Date	1,079,791	$ 17.69		

n/a--Not applicable. There are no publicly announced plans or programs to purchase common shares.

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

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

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

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

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

On May 17, 2017, in accordance with the amendments to the Articles approved by the Company's shareholders at the Annual Meeting, the Company's Board of Directors authorized the Company to repurchase up to 100,000 common shares (200,000 common shares on a post-split basis). 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 form time ot time without prior notice. The repurchase program does not have an expiration date.

Item 6. ***Exhibits.***

See Exhibit Index page below.

Exhibit Index

Exhibit No.	Description	
10.1 *	Agreement, dated as of July 22, 2017, between the Company and Karl J. Warnke.	Filed Herewith
10.2	Third 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 October 6, 2017 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 12, 2017).	
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed Herewith
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed Herewith
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished Herewith
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished Herewith
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets (unaudited), (ii) the Condensed Consolidated Statements of Operations (unaudited), (iii) the Condensed Consolidated Statements of Comprehensive Income (unaudited), (iv) the Condensed Consolidated Statements of Cash Flows (unaudited), and (v) Notes to Condensed Consolidated Financial Statements (unaudited).	Filed Herewith

* Management contract or compensatory plan or arrangement.

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 21, 2017 By: /s/ Joseph R. Paul

Joseph R. Paul
Executive Vice President, Chief Financial Officer and Secretary
(Principal Financial Officer)

Date: November 21, 2017 By: /s/ Thea R. Sears

Thea R. Sears
Vice President and Controller
(Principal Accounting Officer)

AGREEMENT

This agreement, effective as of July 22, 2017, is entered into as of this 6th day of September, 2017 by and between The Davey Tree Expert Company, an Ohio corporation (the "Company"), and Karl J. Warnke, non-executive Chairman of the Board and retired Chief Executive Officer of the Company ("Warnke").

Warnke retired from active employment with the Company, and was succeeded as CEO by Pat Covey, as of July 21st, 2017. The Company and Warnke intend that Warnke will remain in his current capacity of non-executive Chairman of the Board during the remainder of his current term as a director, concluding with the 2018 Annual Meeting of Shareholders, currently anticipated to be held in May 2018 (the "2018 Annual Meeting). The purpose of this Agreement is to set forth the Company's and Warnke's mutual understanding as to certain matters pertaining to his service as non-executive Chairman of the Board.

In consideration of the mutual covenants and agreements set forth herein, the Company and Warnke hereby agree as follows:

1. *Non-Executive Chairman, Agreed Service Period*. During the Agreed Service Period (as hereinafter defined), Warnke will continue as a member of the Board of Directors of the Company and will continue to hold the position of non-executive Chairman of the Board. For the purposes of this Agreement the term of Warnke's service as non-executive Chairman of the Board under this Agreement commenced with the effectiveness of his retirement as CEO on July 21, 2017 and, unless extended as provided in Section 2 below, will continue through the conclusion of the 2018 Annual Meeting (the "Agreed Service Period").

2. *Extension of Service.*

2.1 Warnke presently intends to stand for re-election to the Board for a three-year term commencing with the election of directors at the 2018 Annual Meeting. Warnke will promptly consult with the Company if, subsequent to the date of this Agreement, his intention in this regard changes.

2.2 Unless Warnke advises the Company to the contrary as provided in Section 2.1, management of the Company will recommend to the Corporate Governance Committee of the Board and to the Board that Warnke be nominated for re-election to the Board for a three-year term commencing with the election of directors at the 2018 Annual Meeting.

2.3 Subject to his re-election as a director by the shareholders of the Company at the 2018 Annual Meeting, management of the Company will recommend to the Board that Warnke be re--appointed non-executive Chairman of the Board for an additional one-year term, commencing with the organizational meeting of the Board held in conjunction with the 2018 Annual Meeting and continuing through the conclusion of the 2019 Annual Meeting of Shareholders, currently anticipated to be held in May 2019 (the "2019 Annual Meeting"). If the Board so re-appoints Warnke, the Agreed Service Period will thereafter continue through the conclusion of the 2019 Annual Meeting.

2.4 Subject to his re-election as director and re-appointment as non-executive Chairman as provided above in this Section 2, it is understood and agreed that Warnke will retire as non-executive Chairman of the Board effective at the 2019 Annual Meeting but will continue thereafter to serve as a director of the Company for the remainder of the three-year term that will have commenced with his re-election as a director at the 2018 Annual Meeting.

3. *Duties and Responsibilities During the Agreed Service Period.* During the Agreed Service Period, Warnke will continue to act as non-executive Chairman of the Board and, in addition to the duties and responsibilities applicable to all members of the Board of Directors, will:

3.1 Preside at all meetings of the Board of Directors, at all executive sessions of the Board of Directors, but excluding the Annual Meeting of Shareholders.

3.2 Develop the agenda for and moderate executive sessions of the Board.

3.3 Coordinate the development and preparation of the agenda for Board meetings with the Chief Executive Officer and Chief Financial Officer and cooperate in effecting the timely distribution of the agendas.

3.4 Ensure the quality, quantity, and timeliness of the flow of information between management and the Board and, where appropriate, request the inclusion of certain items in the materials circulated to the Board.

3.5 Assist the Governance Chair with agenda items and committee priorities as a member of the Governance Committee

3.6 Along with the Governance Committee, lead the process of sourcing and interviewing potential Board candidates and Board succession strategy.

3.7 Schedule bi-weekly meetings (or more frequently as requested) with Pat Covey.

3.8 Oversee the Board's activities and, consistent with the committees' respective charters, assign tasks to Board committees.

3.9 Facilitate a candid and full deliberation of all key matters that come before the Board.

3.10 Facilitate briefings of the CEO on issues arising out of Board executive sessions, either by the full board or by the non-executive Chairman.

3.11 Review governance practices of the board, the performance of the Board and the performance of the members of the Board.

3.12 Perform such other duties, not inconsistent with the foregoing, as may be specifically assigned to him by the Board or the Chief Executive Officer during the Agreed Service Period.

4. *Other Services.* During the period commencing with the date hereof and concluding May 31, 2018, Warnke will also perform the following services (the "Other Services"):

4.1 Chair 2017 Standing Rock Annual Board Meeting.

4.2 Chair 2017 Surgery Company Annual Board Meeting, The Care of Trees Annual Board Meeting, Wolf Tree Annual Board Meeting, and Wetland Studies and Solutions Annual Board Meeting.

4.3 Participate in and facilitate the 50l(c)(3) due diligence/feasibility study for the "Davey Science and Learning Foundation."

4.4 Pursue, in cooperation with management of the Company, site development/land use of the Davey East Campus property.

4.5 Provide content, edit and complete Green Leaves II

4.6 Continue service as Chair for the Canada Annual Meeting in second quarter of 2018.

4.7 Complete transitional CEO-function information that may require further explanation (i.e. goal setting, compensation, MICP, Corporate Communications, etc.), with the understanding that the CEO will execute all processes and make all final decisions. These transition items should be completed by December 31, 2017.

5. *Expected Time Commitment.* Warnke's performance of the Other Services will involve a variable time commitment through May 30, 2018. Warnke's manner and times of performance of the Other Services will be within his discretion and will not be dictated by the Company, but Warnke will devote sufficient time and attention to the Other Services so as to ensure their performance in an appropriate and timely manner and will participate in specific meetings or engagements within the scope of the Other Services at the agreed times and places. Additional, unanticipated time or expenses for Warnke's services provided to the Company will require the advance approval of the CEO or CFO and, if so approved, will be compensated upon submitting a written request to the Compensation Committee.

6. *Compensation.*

6.1 Consistent with the recommendations in the "Pay Governance" report dated July 21, 2017, page 2, under the heading "Warnke, Nonexecutive COB", as full compensation for his services to the Company as non-executive Chairman of the Board and under this Agreement, the Company will pay to Warnke, as an independent contractor, during the Agreed Service Period:

6.1.1 A one-time fee of $25,000 for "transition-related services" (this includes $7,500 for the normal Chairman of the Board fee reimbursement).

6.1.2 In accordance with the Company's director compensation program as from time to time in effect, the Company's regular pay for Board service (e.g. Board retainer, meeting fees, RSU's).

6.2 The compensation provided for in Section 6.1 above will be paid and computed as follows:

6.2.1 The one-time fee of $25,000 provided for in Section 6.1.1 above shall be paid within thirty (30) days of the date hereof.

6.2.2 Any other Board retainer fees to be paid in cash will, for the term ending with the 2018 Annual Meeting, be annualized and prorated over 10 months. Board and committee. The prorated Board retainer fees, any meeting fees paid in cash for the term ending with the 2018 Annual Meeting, and any Board retainer and other meeting fees paid in cash for any applicable term after the 2018 Annual Meeting, will be paid at the times and in the manner provided for in the Company's director compensation program as from time to time in effect.

6.2.3 Board RSU's awarded for the term ending with the 2018 Annual Meeting will be annualized and prorated over 10 months and valued in accordance with the Company's director compensation program as from time to time in effect. Board RSU's awarded for any applicable term after the 2018 Annual Meeting will be awarded and valued in accordance with the Company's director compensation program as from time to time in effect.

6.3 Fifty percent (50%) of the number of Stock Appreciation Rights previously awarded to Warnke as CEO as of January 1, 2017 shall be deemed to have vested as of July 21, 2017 and shall be exercisable by Warnke in accordance with their other terms at any time before October 21, 2017, and the terms under which such SARs were originally awarded to Warnke pursuant to the Compensation Committee Rules under the Company's 2014 Omnibus Stock Plan (the "Rules"), 50% (fifty percent) are hereby amended accordingly.

6.4 With respect to the Performance Restricted Stock Units ("PRSUs") previously awarded to Warnke as CEO as of January 1, 2017, Warnke's final award reflecting the determination of the Company's "return on average invested capital" for 2017 in accordance with the terms of Warnke's 2017 award shall be determined on the basis of a target award of 1700 PRSUs, and the terms under which such PRSUs were originally awarded to Warnke pursuant to the Rules are hereby amended accordingly.

6.5 Warnke's final award for fiscal-year 2017 under the Company's Management Incentive Compensation Plan (the "MICP") shall be calculated with reference to a target MICP award amount of $290,913, and the terms under which Warnke's award were originally determined pursuant to the MICP are hereby amended accordingly. His discretionary annual bonus for 2017 (payable in 2018) shall be $55,000 (calculated at 50% of Warnke's actual discretionary bonus for 2016, paid in 2017).

7. *Support Services.* During the Agreed Service Period, the Company will provide to Warnke, at no cost to him, office, telephone, computer, and secretarial services to the extent appropriate to enable him to perform his services as non-executive Chairman of the Board and the Other Services.

8. *Expenses.* The Company will reimburse Warnke for all reasonable expenses incurred in the performance of his services to the Company as non-executive Chairman of the Board and the Other Services under this Agreement, subject to the same requirements for appropriate approval and documentation as is applicable generally to other non-employee members of the Board of Directors.

9. *Indemnification.* The Company will indemnify Warnke with respect to his services as non-executive Chairman of the Board under this Agreement to the fullest extent permitted under Ohio law and the Company's Code of Regulations.

10. *Status.* Warnke's status vis-a-vis the Company under this Agreement is that of an independent contractor and he is neither an employee nor agent of the Company.

11. *Termination of Agreed Service Period.*

11.1 *At Expiration of Term.* Warnke's tenure as non-executive Chairman of the Board under this Agreement will terminate at the conclusion of the Agreed Service Period.

11.2 *Removal and Effect of Removal.* Warnke's tenure as non-executive Chairman of the Board under this Agreement will be terminated if he is removed from his position as a director of the Company before the expiration of his then-current term due to gross negligence or willful misconduct in the performance of his duties as a director. Upon any such removal, the Company will be relieved of its obligation to pay any further fees to Warnke pursuant to Section 6.

11.3 *Effect of Death or Disability.* If Warnke dies or becomes disabled at any time before the conclusion of the Agreed Service Period and, at the time of his death or the onset of his disability, he retained the position of non-executive Chairman of the Board, the Company will continue to pay to Warnke or to his estate (or, if Warnke so directs by notice to the Company before his death or disability, to a beneficiary designated by Warnke) all of the payments contemplated by Section 6.

12. *Assignment and Binding Effect.* The obligations of the parties under this Agreement may not be assigned or transferred except upon the written consent of both parties hereto. This Agreement will be binding upon and inure to the benefit of Warnke (or his estate or beneficiary, as provided in Section 11.3 above) and the Company and their permitted assigns.

13. *Entire Agreement.* This Agreement embodies the entire agreement and understanding between the parties hereto and, except as provided herein, supersedes all prior understanding, whether written or oral, with respect to the subject matter hereof.

14. *Governing Law.* The provisions of this Agreement will be governed by and construed in accordance with the laws of the State of Ohio applicable to contracts made in and to be performed exclusively within that State, notwithstanding any conflict of law provision to the contrary.

15. *Counterparts.* This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but each of which together will constitute but one and the same instrument.

In witness whereof, the parties have executed this Agreement effective as of the date first written above.

THE DAVEY TREE EXPERT COMPANY

By: /s/ J. Dawson Cunningham	By: /s/ Karl J. Warnke
Chairman, Compensation Committee	***Karl J. Warnke***

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 21, 2017

/s/ Patrick M. Covey

Patrick M. Covey

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 21, 2017

/s/ Joseph R. Paul

Joseph R. Paul

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

(1.) The Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2017 (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 21, 2017

/s/ Patrick M. Covey
Patrick M. Covey
President and Chief Executive Officer

Exhibit 32.2

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

Certification of Chief Financial Officer

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

(1.) The Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2017 (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 21, 2017

/s/ Joseph R. Paul

Joseph R. Paul

Executive Vice President, Chief Financial Officer and Secretary