**Risk Factors Comparison 2023-11-17 to 2022-11-18 Form: 10-K**

**Legend:** **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

Discussion of our business and operations included in this annual report on Form 10- K should be read together with the risk factors set forth below. They describe various risks and uncertainties we are or may become subject to, many of which are difficult to predict or beyond our control. Although the risks are organized and described separately, many of the risks are interrelated. These risks and uncertainties, together with other factors described elsewhere in this report, have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. Risks Related to our Business **Operations Our** ~~and our Industry The~~ homebuilding, ~~lot~~ **rental and land** development **operations** ~~and rental housing industries~~ are cyclical and affected by changes in economic, real estate or other conditions that could adversely affect our business ~~or~~ **and** financial results. ~~The~~ **Our** homebuilding, ~~lot~~ **rental and land** development **operations** ~~and rental housing industries~~ are cyclical and are significantly affected by changes in general and local economic and real estate conditions, such as: • employment levels; • consumer confidence and spending; • housing demand; • availability of financing for homebuyers; • availability of financing for companies that purchase our rental properties; • interest rates; • inflation; • availability and prices of new homes and existing homes for sale and availability and market values of rental properties; and • demographic trends. Adverse changes in these general and local economic conditions or deterioration in the broader economy may negatively impact our business and financial results and increase the risk for asset impairments and write- offs. Changes in these economic conditions may affect some of our regions or markets more than others. If adverse conditions affect our larger markets, they could have a proportionately greater impact on us than on some other companies. The federal government' s fiscal policies and the Federal Reserve' s monetary policies may negatively impact the financial markets and consumer confidence and could hurt the U. S. economy and the housing and rental markets and in turn, could adversely affect the operating results of our businesses. **In** ~~During fiscal 2022, in~~ response to increased inflation, the Federal Reserve **has** raised interest rates significantly ~~and~~ **, which** has ~~signaled it expects additional future interest rate increases. As a result~~ **resulted** ~~,~~ **in higher** mortgage interest rates **. The** ~~increased~~ - **increase** ~~significantly, and we began to see a moderation in housing demand. Increases~~ in mortgage interest rates **has** ~~reduce~~ **reduced** the affordability of our homes and ~~can~~ **has required us to use pricing adjustments and incentives to adapt to current market conditions. Prolonged periods of elevated mortgage interest rates or further increases in mortgage interest rates could** have an adverse impact on our business ~~or~~ **and** financial results. Deployments of U. S. military personnel to foreign regions, terrorist attacks, other acts of violence or threats to national security and any corresponding response by the United States or others, domestic or international instability or social or political unrest may cause an economic slowdown in the markets where we operate, which could adversely affect our business. If we experience any of the foregoing, potential customers may be less willing or able to buy our homes or our rental properties. Additionally, cancellations of home sales contracts in backlog may increase if homebuyers do not honor their contracts due to any of the factors discussed above. Our pricing and product strategies may also be limited by market conditions. We may be unable to change the **pricing or** mix of our home or rental offerings, reduce the costs of the homes or properties we build, offer more affordable homes or rental properties or satisfactorily address changing market conditions in other ways without adversely affecting our profits and returns. Our financial services business is closely related to our homebuilding business, as it originates mortgage loans principally to purchasers of the homes we build. A decrease in the demand for our homes because of the foregoing matters will also adversely affect the financial results of this segment of our business. An increase in the default rate on the mortgages we originate may adversely affect our ability to sell the mortgages or the pricing we receive upon the sale of mortgages or may increase our recourse obligations for previous originations. We may be responsible for losses associated with mortgage loans originated and sold to third- party purchasers in the event of errors or omissions relating to certain representations and warranties that the loans sold meet certain requirements, including representations as to underwriting standards, the type of collateral, the existence of primary mortgage insurance, and the validity of certain borrower representations in the connection with the loan, and we may be required to repurchase certain of those mortgage loans or provide indemnification. Repurchased mortgage loans and / or the settlement of claims associated with such loans could adversely affect our business ~~or~~ **and** financial results. We establish reserves for estimated losses and future repurchase obligations for mortgage loans we have sold; however, actual future obligations related to these mortgages could differ significantly from our current estimated amounts. Additionally, we may retain mortgage servicing rights on our originations. As servicer for these loans, we may incur losses by having to advance payments to the mortgage- backed securities (MBS) bondholders to the extent there are insufficient collections to satisfy the required principal and interest remittances of the underlying MBS. ~~Constriction of~~ **Adverse developments affecting** the ~~credit and public~~ capital markets **and financial institutions** could limit our ability to access capital ~~and~~ **,** increase our ~~costs~~ - **cost** of capital **and impact our liquidity and capital resources** . During past economic and housing downturns, the credit markets constricted and reduced some sources of liquidity that were previously available to us. Consequently, we relied principally on our cash on hand to meet our working capital needs and repay outstanding indebtedness during those times. **Adverse developments affecting** ~~There likely will be periods in~~ the ~~future when~~ **capital markets and** financial **institutions,** ~~market upheaval will increase our~~ - **or concerns** ~~cost of capital~~ or **rumors about such events, may** limit our ability to access the public debt markets or obtain bank financing **or may increase our cost of capital. The failure of a bank or other adverse conditions impacting financial institutions where we have cash balances could adversely impact our liquidity and capital resources** . Our homebuilding operations utilize a $ 2. 19 billion senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to $ 3. 0 billion, subject to certain conditions and availability of additional bank commitments. Our homebuilding revolving credit facility also provides for the issuance of letters of credit with a sublimit equal to 100 % of the total revolving credit commitments. The maturity date of the facility is October 28, 2027. Our homebuilding revolving credit facility and our homebuilding senior notes are guaranteed by D. R. Horton, Inc.' s significant wholly- owned homebuilding subsidiaries. Forestar has a $ 410 million senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to $ 600 million, subject to certain conditions and availability of additional bank commitments. The Forestar revolving credit facility also provides for the issuance of letters of credit with a sublimit equal to the greater of $ 100 million and 50 % of the total revolving credit commitments. The maturity date of the facility is October 28, 2026. The Forestar revolving credit facility is guaranteed by Forestar' s wholly- owned subsidiaries that are not immaterial subsidiaries or have not been designated as unrestricted subsidiaries. The Forestar revolving credit facility is not guaranteed by D. R. Horton, Inc. or any of the subsidiaries that guarantee the debt of our homebuilding, **rental or** financial services ~~or~~ **operations. Our** rental ~~operations.~~ **subsidiary,** DRH Rental **,** has a $ 1. 025 billion senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to $ ~~1~~ **2** . ~~25~~ **0** billion, subject to certain conditions and availability of additional bank commitments. Availability under the rental revolving credit facility is subject to a borrowing base calculation based on the book value of DRH Rental' s real estate assets and unrestricted cash ~~. At September 30, 2022, the borrowing base limited the available capacity under the facility to $ 811. 9 million~~ . The rental revolving credit facility also provides for the issuance of letters of credit with a sublimit equal to the greater of $ 100 million and 50 % of the total revolving credit commitments. The maturity date of the facility is ~~March 4~~ **October 10** , ~~2026~~ **2027** . The rental revolving credit facility is guaranteed by DRH Rental' s wholly- owned subsidiaries that are not immaterial subsidiaries or have not been designated as unrestricted subsidiaries. The rental revolving credit facility is not guaranteed by D. R. Horton, Inc. or any of the subsidiaries that guarantee the debt of our homebuilding, Forestar or financial services operations. Our mortgage subsidiary **, DHI Mortgage,** utilizes a $ ~~1~~ **2** . ~~6~~ **0** billion **committed** mortgage repurchase facility to finance the majority of the loans it originates ~~. The capacity of the facility automatically increases during certain higher volume periods and can be further increased through additional commitments. The total capacity of the facility at September 30, 2022 was $ 2. 2 billion, and its maturity date is February 17, 2023~~ . Adverse changes in market conditions could make the renewal of ~~these~~ **this** ~~facilities~~ **facility** more difficult or could result in an increase in the cost of ~~these~~ **this** ~~facilities~~ **facility** or a decrease in the committed amounts. Such changes affecting our mortgage repurchase facility may also make it more difficult or costly to sell the mortgages that we originate. The **maturity date of the committed** mortgage repurchase facility is **February 16, 2024. DHI Mortgage also utilizes an uncommitted mortgage repurchase facility, which had a capacity of $ 300 million at September 30, 2023. The mortgage repurchase facilities are** not guaranteed by D. R. Horton, Inc. or any of the subsidiaries that guarantee the debt of our homebuilding, **rental or** Forestar ~~or rental~~ operations. We regularly assess our projected capital requirements to fund growth in our business, repay debt obligations, pay dividends, repurchase our common stock and support other general corporate and operational needs, and we regularly evaluate our opportunities to raise additional capital. D. R. Horton has an automatically effective universal shelf registration statement filed with the SEC in July 2021, registering debt and equity securities that may be issued from time to time in amounts to be determined. Forestar also has an effective shelf registration statement filed with the SEC in October 2021, registering $ 750 million of equity securities, of which $ 300 million was reserved for sales under its at- the- market equity offering program that became effective in November 2021. At September 30, ~~2022~~ **2023** , $ 748. 2 million remained available for issuance under Forestar' s shelf registration statement, of which $ 298. 2 million was reserved for sales under its at- the- market equity offering program. As market conditions permit, we may issue new debt or equity securities through the capital markets or obtain additional bank financing to fund our projected capital requirements or provide additional liquidity. We believe that our existing cash resources, together with the homebuilding, **rental and** Forestar ~~and rental~~ revolving credit facilities, mortgage repurchase ~~facility~~ **facilities** and ability to access the capital markets or obtain additional financing will provide sufficient liquidity to fund our near- term working capital needs and debt obligations. Adverse changes in economic, homebuilding or capital market conditions could negatively affect our business, liquidity and financial results, restrict our ability to obtain additional capital or increase our costs of capital. Reductions in the availability of mortgage financing provided by government agencies, changes in government financing programs, a decrease in our ability to sell mortgage loans on attractive terms or an increase in mortgage interest rates could decrease our buyers' ability to obtain financing and adversely affect our business ~~or~~ **and** financial results. The mortgage loans originated by our financial services operations are primarily eligible for sale to Fannie Mae, Freddie Mac or Ginnie Mae and are typically sold to third- party purchasers. The secondary market for mortgage loans continues to primarily desire securities backed by Fannie Mae, Freddie Mac or Ginnie Mae, and we believe the liquidity these agencies provide to the mortgage industry is important to the housing market. Any significant change regarding the long- term structure and viability of Fannie Mae and Freddie Mac could result in adjustments to the size of their loan portfolios and to guidelines for their loan products. Additionally, a reduction in the availability of financing provided by these institutions could adversely affect interest rates, mortgage availability and sales of new homes and mortgage loans. During fiscal ~~2022~~ **2023** , approximately ~~62~~ **64** % of our mortgage loans were sold directly to Fannie Mae, Freddie Mac or into securities backed by Ginnie Mae, and ~~30~~ **34** % were sold to one other major financial entity. On an ongoing basis, we seek to establish loan purchase arrangements with additional financial entities. If we are unable to sell mortgage loans to purchasers on attractive terms, our ability to originate and sell mortgage loans at competitive prices could be limited, which would negatively affect our profitability. The FHA insures mortgage loans that generally have lower credit requirements and is an important source for financing the sale of our homes. Changes, restrictions or significant premium increases in FHA programs in the future may negatively affect the availability or affordability of FHA financing, which could adversely affect our ability to sell homes. Some of our customers may qualify for 100 % financing through programs offered by the VA and the USDA and certain other housing finance agencies. These programs are subject to changes in regulations, lending standards and government funding levels. There can be no assurances that these programs or other programs will continue to be available in our homebuilding markets or that they will be as attractive to our customers as the programs currently offered, which could negatively affect our sales. Mortgage interest rates have increased significantly during fiscal 2022 **and 2023** , and market conditions and government actions could cause mortgage rates to rise even further in the future. When interest rates increase, the cost of owning a home increases, which reduces the number of potential homebuyers who can obtain mortgage financing and can result in a decline in the demand for our homes. The risks associated with our land, lot and rental inventory could adversely affect our business ~~or~~ **and** financial results. Inventory risks are substantial for our homebuilding, **rental and** Forestar ~~and rental~~ businesses. There are risks inherent in controlling, owning and developing land. If housing demand declines, we may not be able to sell homes or rental properties profitably in some of our communities, and we may not be able to fully recover the costs of some of the land and lots we own. Also, the values of our owned undeveloped land, lots and inventories may fluctuate significantly due to changes in market conditions. As a result, our deposits for lots controlled through purchase contracts may be put at risk, we may have to sell homes, rental properties or land for a lower profit margin or record inventory impairment charges on our land and lots. A significant deterioration in economic or homebuilding industry conditions may result in substantial inventory impairment charges. We cannot make any assurances that our growth strategies, acquisitions ~~or~~ **,** investments **or other strategic initiatives** will be successful or will not expose us to additional risks or other negative consequences. In recent years, we have primarily grown our business by increasing our investments in land, lot and home inventories in our existing homebuilding markets. We have also expanded through investments in new product offerings, new geographic markets and the growth of our rental property operations. Investments in land, lots, home inventories and rental properties can expose us to risks of economic loss and asset impairments if housing conditions weaken or if we are unsuccessful in implementing our growth strategies. We have acquired the ~~homebuilding~~ operations of several ~~homebuilding~~ companies in recent years, and ~~in May 2022,~~ we ~~acquired Vidler Water Resources, Inc. (Vidler) for a total purchase price of $ 290. 5 million. The assets acquired through the Vidler transaction consisted primarily of water rights and other water- related assets. We~~ may make strategic acquisitions of or investments in other companies, operations or assets in the future. Such acquisitions and investments may have risks similar to those related to land, lots and home inventories, but they may also expose us to additional risks or other negative consequences. These transactions **, or our other strategic initiatives,** may not advance our business strategy, provide a satisfactory return on our investment or provide other benefits we anticipate. Also, the integration of these transactions may not be successful and may require significant time and resources, which may divert management' s attention from other operations. Acquisitions and investments could also raise new compliance- related obligations or expose us to material liabilities not discovered in the due diligence process that may lead to litigation. If these transactions under- perform our expectations or are unsuccessful, we may incur significant expenses or write- offs of inventory, other assets or intangible assets such as goodwill. Acquisitions and investments can result in dilution to existing stockholders if we issue our common stock as consideration and can increase our debt levels or reduce our liquidity if we purchase them with cash. The magnitude, timing and nature of any future acquisitions or investments will depend on a number of factors, including our ability to identify suitable additional markets or acquisition candidates, the negotiation of acceptable terms, our financial position and general economic and business conditions. We also may seek to divest an investment or a business and may have difficulty selling such investment or business on acceptable terms in a timely manner. Our business and financial results could be adversely affected by significant inflation, higher interest rates or deflation. **During the past two years, the economy has experienced significant inflationary pressures.** Inflation can adversely affect us by increasing costs of land, materials ~~and~~ **,** labor **and our cost of capital** . In ~~addition, significant~~ **an effort to lower the current rate of** inflation ~~is often accompanied by higher~~ **, the Federal Reserve has raised** interest rates **significantly** , which ~~have a negative impact on housing affordability. During fiscal 2022, we began to see a moderation in housing demand as~~ **has** ~~inflationary pressures and~~ **resulted in higher** mortgage interest rates **. The** ~~increased~~ - **increase** ~~. In~~ **in mortgage interest rates has reduced the affordability of our homes** ~~an~~ **and** ~~inflationary environment, depending on industry~~ **has required us to use pricing adjustments** and ~~other economic~~ **incentives to adapt to current market** conditions, ~~we~~ **which lowered our homebuilding gross margin in fiscal 2023 compared to fiscal 2022. If inflation and mortgage interest rates remain high or continue to increase, housing affordability** may be **further impacted** ~~precluded from raising home prices enough to keep up with the rate of inflation~~ , which could reduce our profit margins ~~. Moreover, in an~~ **and** ~~inflationary environment, our cost of capital, labor and materials can increase and the purchasing power of our cash resources can decline, which can~~ have an adverse impact on our business ~~or~~ **and** financial results. Alternatively, a significant period of deflation could cause a decrease in overall spending and borrowing levels. This could lead to deterioration in economic conditions, including an increase in the rate of unemployment. Deflation could also cause the value of our inventories to decline or reduce the value of existing homes below the related mortgage loan balance, which could potentially increase the supply of existing homes. These or other factors related to deflation could have a negative impact on our business ~~or~~ **and** financial results. Supply shortages and other risks related to acquiring land, building materials and skilled labor **and obtaining regulatory approvals** could increase our costs and delay deliveries. The homebuilding and lot development industries have from time to time experienced significant difficulties that can affect the cost or timing of construction, including: • difficulty in acquiring land suitable for residential building at affordable prices in locations where our potential customers want to live **; • delays in receiving the necessary approvals from municipalities or other government agencies** ; • shortages of qualified subcontractors; • reliance on local subcontractors, manufacturers, distributors and land developers who may be inadequately capitalized; • shortages of materials; and • significant increases in the cost of materials, particularly increases in the price of lumber, drywall and cement, which are significant components of home construction costs. During ~~fiscal 2021 and 2022~~ **the last few years** , we ~~have~~ experienced multiple disruptions in our supply chain, which ~~have~~ resulted in shortages of certain building materials and tightness in the labor market. This ~~has~~ caused our construction cycle to lengthen and costs of building materials to increase. ~~If~~ **We began to see improvements in our construction cycle time in fiscal 2023 and expect our cycle times to return to normalized levels**

**during fiscal 2024; however, if** shortages and cost increases in building materials and tightness in the labor market **increase, our construction cycle** ~~persist for a prolonged period of~~ time **and** ~~, our~~ profit margins could be adversely impacted ~~if we are unable to offset cost increases by increasing the selling price of our homes~~ . In addition, tariffs, duties and / or trade restrictions imposed or increased on imported materials and goods that are used in connection with the construction and delivery of our homes, including steel, aluminum and lumber, may raise our costs for these items or for the products made with them. These factors may cause construction delays or cause us to incur more costs building our homes. Public health issues such as a major epidemic or pandemic could adversely affect our business ~~or~~ **and** financial results. The U. S. and other countries have experienced, and may experience in the future, outbreaks of contagious diseases that affect public health and public perception of health risk. ~~The ongoing~~ **In the event of a resurgence of** COVID- 19 ~~pandemic continues to~~ **or a widespread, prolonged, actual or perceived outbreak of any contagious disease, our operations could be negatively impacted. Such events have had, and could in the future have, an effect on our operations, including a reduction in customer traffic, a disruption in our supply chain, tightness in the labor market or other factors, all of which could reduce demand for our homes. These or other repercussions of a public health crisis that** affect the global economy **could have** ~~. The effects of the pandemic contributed to disrupting our supply chain, which has resulted in shortages of certain building materials and~~ - **an adverse** ~~tightness in the labor market. There is uncertainty regarding the extent to which and how long COVID- 19 and its variant strains will continue to impact the global economy and our supply chain, and the effect of the pandemic on our operational and financial performance will depend on future developments, including its~~ impact on our ~~customers, trade partners and employees, all of which are highly uncertain and cannot be predicted. If COVID- 19 and its variant strains continue to have a negative impact on economic conditions, our~~ results of operations and financial condition ~~could be adversely impacted~~ . Our business and financial results could be adversely affected by weather conditions and natural disasters. Physical risks, including weather conditions and natural disasters, such as hurricanes, tornadoes, earthquakes, volcanic activity, droughts, floods, hailstorms, heavy or prolonged precipitation, wildfires and others, can harm our business. Additionally, the physical impacts of climate change may cause these occurrences to increase in frequency, severity and duration. Any such events can temporarily delay our development work, home construction and home closings, unfavorably affect the cost or availability of materials or labor, damage homes under construction, lead to changing consumer preferences and / or negatively impact demand for new homes in affected areas. We have experienced temporary delays in production and short- term impacts on our sales and closings activity from weather events in recent years. However, there have been no material lasting impacts on our business from these events or material permanent operational challenges resulting from these events, but they could adversely affect our business in the future. The climates and geology of many of the states in which we operate, including California, Florida, Texas and other coastal areas where we have some of our larger operations and which have experienced recent natural disasters, present increased risks of adverse weather or natural disasters. Homebuilding is subject to home warranty and construction defect claims in the ordinary course of business that can be significant. We are subject to home warranty and construction defect claims arising in the ordinary course of our homebuilding business. We rely on subcontractors to perform the actual construction of our homes, and in many cases, to select and obtain construction materials. Despite our detailed specifications and monitoring of the construction process, our subcontractors occasionally do not meet adequate quality standards in the construction of our homes. When we find these issues, we repair them in accordance with our warranty obligations. We spend significant resources to repair items in homes we have sold to fulfill the warranties we issued to our homebuyers. Additionally, we are subject to construction defect claims which can be costly to defend and resolve in the legal system. Warranty and construction defect matters can also result in negative publicity ~~in the media and on the internet,~~ which can damage our reputation and adversely affect our ability to sell homes. Based on the large number of homes we have sold over the years, our potential liabilities related to warranty and construction defect claims are significant. Consequently, we have generally maintained product liability insurance each year, and we seek to obtain indemnities and certificates of insurance from subcontractors covering claims related to their workmanship and materials. We establish warranty and other reserves for the homes we sell based on historical experience in our markets and our judgment of the qualitative risks associated with the types of homes built. Because of the uncertainties inherent to these matters, we cannot provide assurance that our insurance coverage, our subcontractor arrangements and our reserves will be adequate to address all of our future warranty and construction defect claims. Contractual indemnities can be difficult to enforce, we may be responsible for applicable self- insured retentions and some types of claims may not be covered by insurance or may exceed applicable coverage limits. Additionally, the coverage offered by and the availability of product liability insurance for construction defects is limited and costly. We have responded to increases in insurance costs and coverage limitations by self- insuring our risk ~~for certain~~ **in recent** years and by increasing our self- insured retentions and claim reserves. There can be no assurance that coverage will not be further restricted or become more costly. If costs to resolve our future warranty and construction defect claims exceed our estimates, our financial results and liquidity could be adversely affected. A health and safety incident relating to our operations could be costly in terms of potential liability and reputational damage. Building and land development sites are inherently dangerous, and operating in this industry poses certain inherent health and safety risks. Due to health and safety regulatory requirements and the number of homes we construct, health and safety performance is critical to the success of our business. Any failure in health and safety performance may result in penalties for non- compliance with relevant regulatory requirements, and a failure that results in a major or significant health and safety incident is likely to be costly and could expose us to liability that could be costly. Such an incident could generate significant negative publicity and have a corresponding impact on our reputation, our relationships with relevant regulatory agencies or governmental authorities, and our ability to attract customers and employees, which in turn could have a material adverse effect on our financial results and liquidity. We are required to obtain performance bonds, the unavailability of which could adversely affect our results of operations and cash flows. We often are required to provide surety bonds to secure our performance or obligations under construction contracts, development agreements and other arrangements. At September 30, ~~2022~~ **2023** , we had $ **3.** 2 ~~. 8~~ billion of outstanding surety bonds. Our ability to obtain surety bonds primarily depends upon our credit rating, financial condition, past performance and other factors, including the capacity of the surety market and the underwriting practices of surety bond issuers. The ability to obtain surety bonds also can be impacted by the willingness of insurance companies to issue performance bonds for construction and development activities. If we are unable to obtain surety bonds when required, our results of operations and cash flows could be adversely affected. Increases in the costs of owning a home could prevent potential customers from buying our homes and adversely affect our business ~~or~~ **and** financial results. Significant expenses of owning a home, including mortgage loan interest and state and local income and property taxes, have historically been deductible expenses for an individual' s federal income taxes, subject to various limitations. The Tax Cuts and Jobs Act, which became effective January 1, 2018, established new limits on these federal tax deductions. Further changes in income tax laws by the federal or state government to eliminate or substantially reduce income tax benefits associated with homeownership could adversely affect demand for and sales prices of new homes. In addition, increases in property tax rates by local governmental authorities, as experienced in some areas in response to reduced federal and state funding, could adversely affect the amount of financing our potential customers could obtain or their desire to purchase new homes. Further, existing and prospective regulatory and societal **initiatives** ~~responses to climate change~~ intended to reduce potential climate change impacts may increase the upfront costs of purchasing a home, costs to maintain the home and its systems, energy and utility costs and the cost to obtain homeowner and various hazard and flood insurance, or limit homeowners' ability to obtain these insurance policies altogether. Although these items have had no material effect on our business, they could adversely affect our business in the future. **Information technology failures, data security breaches, and the failure to satisfy privacy and data protection laws and regulations could harm our business. We use information technology and other computer resources to carry out important operational and marketing activities and to maintain our business records. These information technology systems are dependent upon global communications providers, web browsers, third- party software and data storage providers and other aspects of the Internet infrastructure that have experienced security breaches, cyber- attacks, ransomware attacks, significant systems failures and service outages in the past. Additionally, phishing attacks, whereby perpetrators attempt to fraudulently induce employees, customers, vendors or other users of a company' s systems to disclose sensitive information to gain access to its data, have become more prevalent in recent years. The use of remote work environments and virtual platforms may increase our risk of cyber- attack or data security breaches. Further, geopolitical tensions or conflicts may create a heightened risk of cyber- attacks or other data security breaches. Our normal business activities involve collecting and storing information specific to our homebuyers, renters, employees, vendors and suppliers and maintaining operational and financial information related to our business, both in an office setting and remote locations as needed. A material breach in the security of our information technology systems or other data security controls could include the theft or release of this information. The unintended or unauthorized disclosure of personal identifying and confidential information as a result of a security breach by any means could lead to litigation or other proceedings against us by the affected individuals or business partners, or by regulators. The outcome of such proceedings, which could include penalties or fines, could have a significant negative impact on our business. We may also be required to incur significant costs to protect against damages caused by information technology failures, security breaches, and the failure to satisfy privacy and data protection laws and regulations in the future as legal requirements continue to increase. The European Union and other international regulators, as well as state governments, have enacted or enhanced data privacy regulations, such as the California Privacy Rights Act, and other governments are considering establishing similar or stronger protections. These regulations impose certain obligations for handling specified personal information in our systems, including notifying individuals regarding information we have collected from them. We have incurred costs in an effort to comply with these requirements, but our costs may increase significantly if new requirements are enacted and based on how individuals exercise their rights. Any noncompliance could result in substantial penalties, reputational damage or litigation. We routinely utilize information technology security experts to assist us in our evaluations of the effectiveness of the security of our information technology systems, and we regularly enhance our security measures, which include multiple redundant safeguards, to protect our systems and data. We use various encryption, tokenization and authentication technologies to mitigate cybersecurity risks and have increased our monitoring capabilities to enhance early detection and rapid response to potential cyber threats. However, because the techniques used to obtain unauthorized access, disable or degrade systems change frequently and increasingly leverage sophisticated technologies such as artificial intelligence, they often are not recognized until launched against a target. As such, we may be unable to anticipate these techniques, to implement adequate preventative measures or to identify and investigate cybersecurity incidents. Although past cybersecurity incidents have not had a material effect on our business or operations to date, in the future a data security breach, a significant and extended disruption in the functioning of our information technology systems or a breach of any of our data security controls could disrupt our business operations, damage our reputation and cause us to lose customers. We cannot provide assurances that a security breach, cyber- attack, data theft or other significant systems or security failures will not occur in the future, and such occurrences could have a material and adverse effect on our consolidated results of operations or financial position.** Governmental regulations and environmental matters could increase the cost and limit the availability of our land development and homebuilding projects and adversely affect our business ~~or~~ **and** financial results. We are subject to extensive and complex regulations that affect land development and home construction, including zoning, density restrictions, building design and building standards. These regulations often provide broad discretion to the administering governmental authorities as to the conditions we must meet prior to development or construction being approved, if approved at all. We are subject to determinations by these authorities as to the adequacy of water or sewage facilities, roads or other local services. New housing developments may also be subject to various assessments for schools, parks, streets and other public improvements. In addition,

**government authorities** in many markets ~~government authorities~~ have implemented no growth or growth control initiatives. Any of these may limit, delay or increase the costs of development or home construction. We are also subject to a significant number and variety of local, state and federal laws and regulations concerning protection of health, safety, labor standards and the environment. The impact of environmental laws varies depending upon the prior uses of the building site or adjoining properties and may be greater in areas with less supply where undeveloped land or desirable alternatives are less available. These matters may result in delays, may cause us to incur substantial compliance, remediation, mitigation and other costs, and can prohibit or severely restrict development and homebuilding activity in environmentally sensitive regions or areas. Government agencies also routinely initiate audits, reviews or investigations of our business practices to ensure compliance with these laws and regulations, which can cause us to incur costs or create other disruptions in our business that can be significant. ~~Recently~~ **In recent years** , ~~there has been growing concern from~~ advocacy groups, government agencies and the general public ~~over~~ **have expressed growing concerns regarding** the effects of climate change on the environment. Transition risks, such as government restrictions, standards or regulations intended to reduce greenhouse gas emissions and potential climate change impacts, are emerging and may increase in the future in the form of restrictions or additional requirements on land development and home construction in certain areas. Such restrictions and requirements could increase our operating and compliance costs or require additional technology and capital investment, which could adversely affect our results of operations. This is a particular concern in the western United States, where some of the most extensive and stringent environmental laws and residential building construction standards in the country have been enacted, and where we have business operations. We believe we are in compliance in all material respects with existing climate- related government restrictions, standards and regulations applicable to our business, and such compliance has not had a material impact on our business. However, given the rapidly changing nature of environmental laws and matters that may arise that are not currently known, we cannot predict our future exposure concerning such matters, and our future costs to achieve compliance or remedy potential violations could be significant. Additionally, actual or perceived ESG and other sustainability matters and our response to these matters could harm our business. Increasing governmental and societal attention to ESG matters, including expanding mandatory and voluntary reporting, diligence ~~,~~ and disclosure on topics such as climate change **(as currently proposed by the SEC)** , human capital, labor **, cybersecurity** and risk oversight, could expand the nature, scope, and complexity of matters that we are required to control, assess and report. These factors may alter the environment in which we do business and may increase the ongoing costs of compliance and adversely impact our results of operations and cash flows. If we are unable to adequately address such ESG matters or fail to comply with all laws, regulations, policies and related interpretations, it could negatively impact our reputation and our business results. The subcontractors we rely on to perform the actual construction of our homes are also subject to a significant number of local, state and federal laws and regulations, including laws involving matters that are not within our control. If the subcontractors who construct our homes fail to comply with all applicable laws, we can suffer reputational damage, and may be exposed to possible liability. We are also subject to an extensive number of laws and regulations because our common stock and debt securities and the common stock of our Forestar subsidiary are publicly traded in the capital markets. These regulations govern our communications with our shareholders and the capital markets, our financial statement disclosures and our legal processes, and they also impact the work required to be performed by our independent registered public accounting firm and our legal counsel. Changes in these laws and regulations, including the subsequent implementation of rules by the administering government authorities, may require us to incur additional compliance costs, and such costs may be significant. Governmental regulation of our financial services operations could adversely affect our business ~~or~~ **and** financial results. Our financial services operations are subject to extensive state and federal laws and regulations, which are administered by numerous agencies, including but not limited to the Consumer Financial Protection Bureau, Federal Housing Finance Agency, U. S. Department of Housing and Urban Development, FHA, VA, USDA, Fannie Mae, Freddie Mac and Ginnie Mae. These laws and regulations include many compliance requirements, including but not limited to licensing, consumer disclosures, fair lending and real estate settlement procedures. As a result, our operations are subject to regular, extensive examinations by the applicable agencies. Additional future regulations or changing rule interpretations and examinations by regulatory agencies may result in more stringent compliance standards and could adversely affect the results of our operations. We operate in competitive industries, and competitive conditions could adversely affect our business ~~or~~ **and** financial results. **We operate in the residential** ~~The homebuilding, lot development and rental~~ housing ~~industries~~ **industry** ~~are~~ **, which is** highly competitive. We compete not only for homebuyers and renters, but also for desirable properties, raw materials, skilled labor and financing. We compete with local, regional and national **homebuilding and rental** companies ~~in these industries,~~ and also with existing home sales ~~, foreclosures~~ and rental properties. ~~The~~ **These** competitive conditions ~~in these industries~~ can negatively affect our sales volumes, selling prices, leased occupancy levels, rental rates and incentive levels, reduce our profit margins, and cause the value of our inventory or other assets to be impaired. Competition can also affect our ability to acquire suitable land, raw materials and skilled labor at acceptable prices or terms, or cause delays in land development or in construction. The competitors to our financial services businesses include other mortgage lenders and title companies, including national, regional and local mortgage banks and other financial institutions. Some of these competitors are subject to fewer governmental regulations and have greater access to capital than we do, may operate with different lending criteria and / or may offer a broader or more attractive array of financing and other products and services to potential customers. Our businesses compete with other companies across all industries to attract and retain highly skilled and experienced employees, managers and executives. ~~Competition for the services of these individuals increases as business conditions improve in the homebuilding, lot development, financial services and rental housing industries and in the general economy.~~ If we are unable to attract and retain key employees, managers or executives, our business could be adversely affected. Risks Related to our Indebtedness We have significant amounts of debt and may incur additional debt, which could affect our financial health and our ability to raise additional capital to fund our operations or potential acquisitions. As of September 30, ~~2022~~ **2023** , our consolidated debt was $ ~~6~~ **5** . 1 billion, which consisted of $ 2. ~~9~~ **3** billion related to our homebuilding segment, $ ~~706~~ **1. 7 billion related to our financial services segment, $ 695** million related to our Forestar segment ~~,~~ **and** $ ~~800~~ **400** million related to our rental ~~segment and $ 1. 6 billion related to our financial services~~ segment. The indentures governing our homebuilding senior notes do not restrict the incurrence of future unsecured debt by us or our homebuilding subsidiaries or the incurrence of secured or unsecured debt by our non- guarantor subsidiaries, and the agreement governing our homebuilding revolving credit facility allows us to incur a substantial amount of future unsecured debt. Also, the indentures governing our homebuilding senior notes and the agreement governing our homebuilding revolving credit facility impose restrictions on our ability and on that of the guarantors under our homebuilding senior notes and our homebuilding revolving credit facility to incur debt secured by certain assets, but still permit us and our homebuilding subsidiaries to incur significant amounts of additional secured debt **. The rental revolving credit facility imposes restrictions on the ability of DRH Rental and its restricted subsidiaries to incur secured and unsecured debt, but still permits DRH Rental and its restricted subsidiaries to incur a substantial amount of future secured and unsecured debt, and does not restrict the incurrence of future secured and unsecured debt by DRH Rental' s unrestricted subsidiaries**. The Forestar revolving credit facility and the indentures governing Forestar' s senior notes impose restrictions on the ability of Forestar and its restricted subsidiaries to incur secured and unsecured debt, but still permit Forestar and its restricted subsidiaries to incur a substantial amount of future secured and unsecured debt, and do not restrict the incurrence of future secured and unsecured debt by Forestar' s unrestricted subsidiaries. The **mortgage repurchase** ~~rental revolving credit facility~~ **facilities** ~~imposes~~ - **impose** restrictions on the ability of ~~DRH Rental~~ **DHI Mortgage** and its restricted subsidiaries to incur secured and unsecured debt, but still ~~permits~~ - **permit** ~~DRH Rental~~ **DHI Mortgage** and its restricted subsidiaries to incur a substantial amount of future secured and unsecured debt, and **do** ~~does not restrict the incurrence of future secured and unsecured debt by DRH Rental' s unrestricted subsidiaries. The mortgage repurchase facility imposes restrictions on the ability of DHI Mortgage and its restricted subsidiaries to incur secured and unsecured debt, but still permits DHI Mortgage and its restricted subsidiaries to incur a substantial amount of future secured and unsecured debt, and does~~ not restrict the incurrence of future secured and unsecured debt by DHI Mortgage' s unrestricted subsidiaries. The amount and the maturities of our debt and the debt of our subsidiaries could have important consequences. For example, possible consequences for our homebuilding, **rental,** Forestar ~~,~~ **and** financial services ~~and rental~~ operations each with respect to their individual debt obligations, could: • require the dedication of a substantial portion of cash flow from operations to payment of debt and reduce the ability to use cash flow for other operating or investing purposes; • limit the flexibility to adjust to changes in business or economic conditions; and • limit the ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements or other requirements. Servicing our debt requires a significant amount of cash, and we or our subsidiaries may not have sufficient cash flow from our respective businesses to pay our substantial debt. Our ability and that of our subsidiaries to meet our respective debt service obligations will depend, in part, upon our and our subsidiaries' future financial performance. Future results are subject to the risks and uncertainties described in this report. Our revenues and earnings vary with the level of general economic activity in the markets we serve. Our businesses are also affected by financial, political, business and other factors, many of which are beyond our control. The factors that affect our ability to generate cash can also affect our ability to raise additional funds for these purposes through the sale of debt or equity, the refinancing of debt or the sale of assets. Changes in prevailing interest rates may affect the cost of our debt service obligations, because borrowings under the homebuilding, **rental and** Forestar ~~and rental~~ revolving credit facilities and mortgage repurchase ~~facility~~ **facilities** bear interest at floating rates. The instruments governing our and our subsidiaries' indebtedness impose certain restrictions on our and our subsidiaries' business, and the ability of us and our subsidiaries to comply with related covenants, restrictions or limitations could adversely affect our and our subsidiaries' financial condition or operating flexibility. The restrictions imposed by our and certain of our subsidiaries' indebtedness could limit our or our subsidiaries' ability to plan for or react to market or economic conditions or meet capital needs or otherwise restrict our activities or business plans and adversely affect our or our subsidiaries' ability to finance our operations, acquisitions, investments or strategic alliances or other capital needs or to engage in other business activities that would be in our interest. The agreements governing our indebtedness contain restrictions on our and our guarantor subsidiaries' ability to, among other things, engage in sale and leaseback transactions with respect to certain assets, incur secured debt, create liens, pay dividends and make other distributions on or redeem or repurchase equity securities, sell certain assets and engage in mergers, consolidations or sales of all or substantially all of our assets. The applicable instruments governing each of ~~Forestar~~ **DRH Rental** ' s indebtedness and **Forestar** ~~DRH Rental~~ ' s indebtedness contain restrictions on the ability of ~~Forestar and~~ DRH Rental **and Forestar** , as applicable, and certain of their respective subsidiaries to, among other things, incur additional indebtedness, create liens, pay dividends and make other distributions on or redeem or repurchase equity securities, sell certain assets, enter into affiliate transactions and engage in mergers, consolidations or sales of all or substantially all of ~~Forestar~~ **DRH Rental** ' s or **Forestar** ~~DRH Rental~~ ' s assets, as applicable. In addition, the agreements governing certain of our and our subsidiaries' debt instruments contain the following financial covenants: Homebuilding revolving credit facility. Our homebuilding revolving credit facility contains financial covenants requiring the maintenance of a maximum allowable leverage ratio and a borrowing base restriction if our leverage ratio exceeds a certain level. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under the revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity. **Rental and** Forestar ~~and rental~~ revolving credit facilities. The **rental and** Forestar ~~and rental~~ revolving credit facilities each contain financial covenants requiring the maintenance by ~~Forestar or~~ DRH Rental **or Forestar** , as applicable, of a minimum level of tangible net worth, a minimum level of liquidity, a maximum allowable leverage ratio and a borrowing base restriction based on the book value of ~~Forestar~~ **DRH Rental** ' s or **Forestar** ~~DRH Rental~~ ' s real estate assets and unrestricted cash. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under the applicable revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity. Mortgage repurchase ~~facility~~ **facilities** and other restrictions. The mortgage repurchase ~~facility~~ **facilities** for our mortgage subsidiary ~~requires~~ **require** the maintenance of a minimum level of tangible net worth, a maximum allowable ~~leverage~~ **indebtedness to tangible net worth** ratio and a minimum level of liquidity by our mortgage subsidiary. A failure to comply with these requirements could allow the lending banks to terminate the availability of funds to our mortgage subsidiary or cause any outstanding borrowings to become due and payable prior to maturity. Any difficulty experienced in complying with these covenants could make the renewal of the ~~facility~~ **facilities** more difficult or costly. In addition, although our financial services business is conducted through subsidiaries that are not restricted by the indentures governing our and Forestar' s senior notes or the agreements governing the homebuilding, **rental and** Forestar ~~and rental~~ revolving credit facilities, the ability of our financial services subsidiaries to distribute funds to our homebuilding operations would be restricted in the event such distribution would cause an event of default under the mortgage repurchase facility or if an event of default had occurred under this facility. Moreover, our right to receive assets from our financial services subsidiaries upon their liquidation or recapitalization is subject to the prior claims of the creditors of these subsidiaries. Any claims we may have to funds from our financial services subsidiaries would be subordinate to subsidiary indebtedness to the extent of any security for such indebtedness and to any indebtedness otherwise recognized as senior to our claims. Our access to capital and our ability to obtain additional financing could be affected by any downgrade of our debt ratings. Our homebuilding senior unsecured debt is currently rated investment grade by all three major rating agencies; however, there can be no assurance that we will be able to maintain these ratings. Any lowering of our debt ratings could make accessing the public capital markets or obtaining additional credit from banks more difficult and / or more expensive. Any lowering of Forestar' s debt ratings could also make Forestar' s ability to access the public capital markets or obtain additional credit from banks more difficult and / or more expensive. The instruments governing our indebtedness contain change of control provisions which could affect the timing of repayment. Change of control purchase options under our homebuilding senior notes and change of control default under our homebuilding revolving credit facility. Upon the occurrence of both a change of control and a ratings downgrade event, each as defined in the indentures governing our homebuilding senior notes, we will be required to offer to repurchase such notes at 101 % of their principal amount, together with all accrued and unpaid interest, if any. Moreover, a change of control (as defined in our homebuilding revolving credit facility) would constitute an event of default under our homebuilding revolving credit facility, which could result in the acceleration of the repayment of any borrowings outstanding under the facility, a requirement to cash collateralize all letters of credit outstanding thereunder and the termination of the commitments thereunder. If repayment of more than $ 50 million outstanding under our homebuilding revolving credit facility were accelerated and such acceleration were not rescinded or such indebtedness were not satisfied, in either case within 30 days, an event of default would result under the indentures governing our homebuilding senior notes, entitling the trustee for the notes or holders of at least 25 % in principal amount of the relevant series of notes then outstanding to declare all such notes to be due and payable immediately. If purchase offers were required under the indentures for our homebuilding senior notes, repayment of the borrowings under our homebuilding revolving credit facility were required, or if the senior notes were accelerated, we can give no assurance that we would have sufficient funds to pay the required amounts. Change of control purchase option under Forestar' s notes and change of control default under the Forestar revolving credit facility. Upon the occurrence of a change of control triggering event (as defined in the indentures governing Forestar' s notes), Forestar will be required to offer to repurchase Forestar' s notes at 101 % of their principal amount, together with all accrued and unpaid interest, if any. A change of control (as defined in the Forestar revolving credit facility) with respect to Forestar would constitute an event of default under the Forestar revolving credit facility, which could result in the acceleration of the repayment of any borrowings outstanding under the Forestar revolving credit facility, a requirement to cash collateralize all letters of credit outstanding thereunder and the termination of the commitments thereunder. If the maturity of the Forestar revolving credit facility and / or other indebtedness of Forestar and its restricted subsidiaries together having an aggregate principal amount outstanding of $ 40 million or more is accelerated, an event of default would result under the indentures governing the Forestar notes, entitling the trustee for the Forestar notes or holders of at least 25 % in aggregate principal amount of the then outstanding Forestar notes to declare all such Forestar notes to be due and payable immediately. If purchase offers were required under the indentures for Forestar' s notes, repayment of the borrowings under Forestar' s revolving credit facility were required, or if Forestar' s notes were accelerated, we can give no assurance that Forestar would have sufficient funds to pay the required amounts. Change of control default under the rental revolving credit facility. A change of control (as defined in the rental revolving credit facility agreement) with respect to DRH Rental would constitute an event of default under the rental revolving credit facility, which could result in the acceleration of the repayment of any borrowings outstanding under the rental revolving credit facility, a requirement to cash collateralize all letters of credit outstanding thereunder and the termination of the commitments thereunder. If repayment of the borrowings under the rental revolving credit facility were required, we can give no assurance that DRH Rental would have sufficient funds to pay the required amounts. Change of control default under mortgage repurchase ~~facility~~ **facilities** . A change of control (as defined in the mortgage repurchase facility **agreements** ) with respect to DHI Mortgage would constitute an event of default under the mortgage repurchase ~~facility~~ **facilities** , which could result in the acceleration of the repurchase of any loans outstanding under the ~~facility~~ **facilities** and an increase in the repurchase price of such loans. If repayments of the loans under DHI Mortgage' s mortgage repurchase ~~facility~~ **facilities** were required, we can give no assurance that DHI Mortgage would have sufficient funds to pay the required amounts. General Risk Factors Damage to our corporate reputation or brands from negative publicity could adversely affect our business, financial results and / or stock price. Adverse publicity related to our company, industry, personnel, operations or business performance may cause damage to our corporate reputation or brands and may generate negative sentiment, potentially affecting the performance of our business or our stock price, regardless of its accuracy or inaccuracy. Our reputation could be adversely affected by actual or perceived failures or concerns related to ethics, compliance, product quality and safety, environmental matters, privacy, diversity and inclusion, human rights, compensation and benefits and corporate governance, among other things. Negative publicity can be disseminated rapidly through digital platforms, including social

media, websites, blogs and newsletters. Customers and other interested parties value readily available information and often act on such information without further investigation and without regard to its accuracy. The harm may be immediate without affording us an opportunity for redress or correction, and our success in preserving our brand image depends on our ability to recognize, respond to and effectively manage negative publicity in a rapidly changing environment. Adverse publicity or unfavorable commentary from any source could damage our reputation, reduce the demand for our homes or negatively impact the morale and performance of our employees, which could adversely affect our business. Our business could be adversely affected by the loss of key personnel. We rely on our key personnel to effectively operate and manage our businesses. Specifically, our success depends heavily on the performance of our homebuilding division and region presidents and their management teams, our rental housing management team, our financial services management team, our corporate office management teams, our Forestar management team and our executive officers. These key personnel have significant experience and skills ~~in the homebuilding, lot development, financial services and rental housing industries,~~ as well as leadership and management abilities that are vital to our success. Our ability to attract and retain our key personnel may be impacted by matters involving reputation, culture, diversity and inclusion, compensation and benefits and our management of executive succession. We seek to retain our key personnel ~~and~~ **,** to have succession **and transition** plans in place to address the potential loss of key personnel **, and to manage personnel transitions due to retirements, promotions, transfers and other circumstances** . However, if our retention ~~and~~ **,** succession ~~planning~~ **and transition implementation** efforts are unsuccessful ~~or if we fail to attract suitable replacements~~ , the loss of key personnel could adversely affect our business. Our business could be negatively impacted as a result of actions by activist stockholders or others. We may be subject to actions or proposals from activist stockholders or others that may not align with our business strategies or the interests of our other stockholders. Responding to such actions could be costly and time- consuming, disrupt our business and operations and / or divert the attention of our Board of Directors and senior management from the pursuit of our business strategies. Activist stockholders may create perceived uncertainties as to the future direction of our business or strategy, including with respect to our ESG efforts, which may be exploited by our competitors and may make it more difficult to attract and retain qualified personnel, potential homebuyers and business partners and may affect our relationships with current homebuyers, subcontractors, investors and other third parties. In addition, actions of activist stockholders may cause periods of fluctuation in our stock price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.
~~Information technology failures, data security breaches, and the failure to satisfy privacy and data protection laws and regulations could harm our business. We use information technology and other computer resources to carry out important operational and marketing activities and to maintain our business records. These information technology systems are dependent upon global communications providers, web browsers, third- party software and data storage providers and other aspects of the Internet infrastructure that have experienced security breaches, cyber- attacks, ransomware attacks, significant systems failures and service outages in the past. Additionally, phishing attacks, whereby perpetrators attempt to fraudulently induce employees, customers, vendors or other users of a company' s systems to disclose sensitive information to gain access to its data, have become more prevalent in recent years. The use of remote work environments and virtual platforms may increase our risk of cyber- attack or data security breaches. Further, geopolitical tensions or conflicts, such as the ongoing conflict between Russia and Ukraine, may create a heightened risk of cyber- attacks or other data security breaches. Our normal business activities involve collecting and storing information specific to our homebuyers, renters, employees, vendors and suppliers and maintaining operational and financial information related to our business, both in an office setting and remote locations as needed. A material breach in the security of our information technology systems or other data security controls could include the theft or release of this information. The unintended or unauthorized disclosure of personal identifying and confidential information as a result of a security breach by any means could lead to litigation or other proceedings against us by the affected individuals or business partners, or by regulators. The outcome of such proceedings, which could include penalties or fines, could have a significant negative impact on our business. We may also be required to incur significant costs to protect against damages caused by information technology failures, security breaches, and the failure to satisfy privacy and data protection laws and regulations in the future as legal requirements continue to increase. The European Union and other international regulators, as well as state governments, have enacted or enhanced data privacy regulations, such as the California Consumer Privacy Act (and its successor the California Privacy Rights Act which will go into effect on January 1, 2023), and other governments are considering establishing similar or stronger protections. These regulations impose certain obligations for handling specified personal information in our systems, including notifying individuals regarding information we have collected from them. We have incurred costs in an effort to comply with these requirements, but our costs may increase significantly if new requirements are enacted and based on how individuals exercise their rights. Any noncompliance could result in substantial penalties, reputational damage or litigation. We provide employee awareness training about cybersecurity threats. We routinely utilize information technology security experts to assist us in our evaluations of the effectiveness of the security of our information technology systems, and we regularly enhance our security measures to protect our systems and data. We use various encryption, tokenization and authentication technologies to mitigate cybersecurity risks and have increased our monitoring capabilities to enhance early detection and rapid response to potential cyber threats. However, because the techniques used to obtain unauthorized access, disable or degrade systems change frequently and are increasing in sophistication, they often are not recognized until launched against a target. As such, we may be unable to anticipate these techniques, to implement adequate preventative measures or to identify and investigate cybersecurity incidents. Although past cybersecurity incidents have not had a material effect on our business or operations to date, in the future a data security breach, a significant and extended disruption in the functioning of our information technology systems or a breach of any of our data security controls could disrupt our business operations, damage our reputation and cause us to lose customers. We cannot provide assurances that a security breach, cyber- attack, data theft or other significant systems or security failures will not occur~~

~~in the future, and such occurrences could have a material and adverse effect on our consolidated results of operations or financial position.~~