Risk Factors Comparison 2024-02-28 to 2023-03-01 Form: 10-K

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In addition to the other information contained in this Annual Report on Form 10- K and the exhibits hereto, you should carefully consider the following risk factors in evaluating our business. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The selected risks described below, however, are not the only risks we face. Additional risks and uncertainties, not currently known to us or those we currently view to be immaterial may also materially and adversely affect our business, financial condition or results of operations. The risk factors generally have been separated into three groups: risks related to our business, risks related to our common stock and risks related to our significant indebtedness. The materialization of any risks and uncertainties set forth below or identified in " Cautionary Statement Concerning Forward- Looking Statements " contained in this report and our other filings with the SEC or those that are presently unforeseen could result in significant adverse effects on our financial condition and results of operations. See " Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations " in Part II of this Annual Report on Form 10- K and " Cautionary Statement Concerning Forward- Looking Statements " above. Risks Related to Our Business Changing macro- economic conditions, including inflation, global supply chain challenges and **rising interest rates** ~~the persistence of the COVID- 19 pandemic~~ , especially as they may affect existing home sales ~~, interest rates~~ or consumer sentiment or unemployment, may adversely impact our business, financial position, results of operations and cash flows. Our results of operations are dependent upon consumer spending. Changes in general economic conditions and consumer confidence, particularly in our largest markets — California, Florida and Texas — could adversely affect the demand for our services. Consumer spending and confidence tend to decline during times of declining economic conditions. ~~A worsening of~~ **Unfavorable changes in** ~~macroeconomic~~ ----- **economic** ~~indicators~~ **conditions, which are typically beyond our control** , including **without limitation, as a result of** weak home sales, higher home foreclosures, inflation ~~and higher~~ **, slowing growth, rising** interest rates **, recession, changes in the political climate, war (including, but not limited to, the conflict between Russia and Ukraine and in the Middle East), supply chain or labor market disruptions, banking or financial market disruptions** , declining consumer confidence ~~or~~ **,** rising unemployment rates **, epidemic disease or other adverse changes** , could adversely affect consumer spending levels, reduce demand for our services and adversely impact our business, financial position, results of operations and cash flows. With respect to interest rates, in particular, the Federal Reserve ~~took several steps during 2020 and 2021 to protect the economy from the impact of COVID- 19, including reducing interest rates to new historic lows. However, in 2022, in light of increasing inflation, the Federal Reserve~~ increased interest rates ~~seven~~ **eleven** times ~~, which~~ **in 2022 and 2023 in response to increasing inflation. The rise in interest rates** has caused buyer apprehension and affordability concerns, resulting in a decrease in home sales in 2022 and **2023 and has** negatively ~~impacting~~ **impacted** our real estate channel. ~~The~~ **Although the** Federal Reserve has indicated that it **may lower** ~~expects continued increases in~~ interest rates in ~~2023~~ **2024** ~~and~~ **, the trajectory of current rates remains uncertain. To the extent interest rates remain** elevated **, such elevated interest** rates ~~in 2024. Any such additional increases~~ could **continue to** negatively affect mortgage rates and ~~continue to~~ negatively impact the real estate channel. ~~Increases in parts, appliance and home system prices and other operating costs could adversely impact our business, financial position, results of operations and cash flows. Our financial performance may be adversely affected by increases in the level of our operating expenses, such as refrigerants, appliances, equipment, parts, raw materials, wages and salaries, employee benefits, healthcare, contractor costs, self- insurance costs and other insurance premiums, as well as various regulatory compliance costs, all of which may be subject to inflationary and other pressures. For example, from 2021 through 2022, we experienced a rapid increase in the cost of parts, appliance and home system costs due to inflation, which, in turn, increased our contract claims costs. Such increase in operating expenses, including contract claims costs, could have a material adverse impact on our business, financial position, results of operations and cash flows. Prices for raw materials, such as steel and fuel, are subject to market volatility. We cannot predict the extent to which we may experience future increases in costs of refrigerants, appliances, equipment, parts, raw materials, wages and salaries, employee benefits, healthcare, contractor costs, self- insurance costs and other insurance premiums, or of various regulatory compliance costs and other operating costs. To the extent such costs increase, we may be prevented, in whole or in part, from passing these cost increases through to our existing and prospective customers, which could have a material adverse impact on our business, financial position, results of operations and cash flows. Our industry is highly competitive. Competition could reduce demand for our services and adversely affect our reputation, business, financial position, results of operations and cash flows. We operate in a highly competitive industry. Changes in the sources and intensity of competition in the industry in which we operate may impact the demand for our services and may also result in additional pricing pressure. Heightened industry competition could adversely affect our business operations by impacting our contractor selection and purchasing power for parts, appliances and home systems. Regional and local competitors operating in a limited geographic area may have lower labor, employee benefits and overhead costs than us. The principal measures of competition in our business include customer service, brand awareness and reputation, fairness of contract terms, including contract price and coverage scope, contractor network and quality and speed of service. We may be unable to compete successfully against current or future competitors, and the competitive pressures that we face may result in reduced demand for our services, reduced pricing and other adverse impacts to our reputation, business, financial position, results of operations and cash flows.~~ We may not successfully implement our business strategies, including achieving our growth objectives. We may not be able to fully implement our business strategies or realize, in whole or in part within the expected time frames, the anticipated benefits of various new business, growth or other initiatives.

Our business strategies and initiatives, including increasing our home **warranty** ~~service plan~~ penetration, delivering superior customer experience, growing our supplier network of independent contractors, continuing digital innovation, leveraging dynamic pricing, providing customers access to our high- quality, ~~pre-~~ qualified network of contractors for on- demand home services ~~, developing a world- class data platform~~ and pursuing selective acquisitions, are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, our financial performance is affected by changes in the services and products we offer to customers. We may incur significant costs to implement our strategies, service and product offerings, which may not succeed in increasing revenue, growing our customer base or growing profitability **. For example, in 2023, our business underwent significant transformation as we undertook rebranding initiatives in connection with the launch of our Frontdoor app. We cannot provide any assurance that these rebranding initiatives will be effective** . An unsuccessful execution of strategies, including the rollout of new, or the adjustment of any existing, services or products or sales and marketing plans, could cause us to reevaluate or change our business strategies and could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows. We will incur certain costs or may offer certain discounts to achieve efficiency improvements and growth in our business, and we may not meet anticipated implementation timetables or stay within budgeted costs or plans. As these efficiency improvement and growth initiatives are implemented, we may not fully achieve expected cost savings and efficiency improvements or growth rates, or these initiatives could adversely impact customer retention or our operations. Also, our business strategies may change in light of our ability to implement new business initiatives, competitive pressures, economic uncertainties or developments or other factors. Marketing efforts to increase sales through our real estate and direct- to- consumer channels may not be successful or cost- effective. Attracting consumers, professional contractor firms and real estate brokers to our brands and businesses involves considerable expenditures for marketing. We have made, and expect to continue to make, significant expenditures on branding, app and website design, marketing partnerships, search engine marketing, content marketing, social media, direct mail, broadcast, television, radio, print advertisements and telemarketing. These efforts may not be successful or cost- effective. Historically, we have had to increase marketing expenditures over time to attract and retain customers and professional contractors and sustain growth. With respect to our online marketing efforts, rapid and frequent changes in the pricing and operating dynamics of search engines, as well as changing policies and guidelines applicable to keyword advertising (which may unilaterally be updated by search engines without advance notice), could adversely affect our paid search engine marketing efforts and free search engine traffic. Such changes could adversely affect paid listings (both their placement and pricing), as well as the ranking of our brands and businesses within paid and organic search results, any or all of which could increase our marketing expenditures (particularly if free traffic is replaced with paid traffic). In addition, evolving consumer behavior can affect the availability of profitable marketing opportunities. For example, as traditional television viewership declines and media is increasingly consumed through various digital means, the reach of traditional advertising channels is contracting, and the number of digital advertising channels is expanding. To continue to reach and engage with customers and professional contractors and grow in this environment, we will need to identify and devote more of our overall marketing expenditures to newer digital advertising channels (such as social media, online video and other digital platforms), as well as target customers, professional contractors and real estate brokers via these channels. Generally, the opportunities in (and the sophistication of) newer advertising channels are undeveloped and unproven relative to traditional channels, which could make it difficult for us to assess returns on our marketing investment in newer channels. Additionally, as we increasingly depend on newer digital channels for traffic, these efforts will involve challenges and risks similar to those we face in connection with our search engine marketing efforts. We also enter into various third- party affiliate agreements in an effort to drive traffic to our various brands and businesses. These arrangements are generally more cost- effective than traditional marketing efforts. If we are unable to renew existing and enter into new arrangements of this nature, our sales and marketing as a percentage of revenue could increase. With respect to our marketing efforts, we may also include certain discounts or other promotional rates in order to attract and retain customers. These efforts may require increasing amounts or be offered at increasing frequency over time. Certain factors including the nature and type of our services offered, potential and existing customers **’** perception of the value of our services, and other macroeconomic factors like general economic conditions and consumer sentiment may impact our efforts. These efforts may not be successful or cost- effective over time. We cannot provide any assurance that we will be able to continue to appropriately manage our marketing efforts in response to any or all of the events and trends discussed above, and the failure to do so could adversely affect our reputation, business, financial position, results of operations and cash flow. ~~and cash flows~~ .Among others,the number of real estate transactions in which our services are purchased could also decrease in the following situations:· when mortgage interest rates are high or rise,as they did in 2022 ~~and 2023~~ ;· when the availability of credit,including commercial and residential mortgage funding,is limited;· when real estate values are declining;or · conversely,when demand for existing homes exceeds supply.Consumer demand for services purchased through our first- year DTC channel can fluctuate and,as such,is subject to changes in macro- economic conditions,including interest rates and inflation,as well as consumer sentiment about the value of home ~~warranties~~ **service plans** and our reputation as a home ~~warranty~~ **service plan** provider.Consumer demand may also be significantly influenced by the success of marketing and promotions by us or by our competitors.If we are unsuccessful in attracting consumers to our home ~~warranties,~~ **service plans** we could experience a material adverse impact to our business,financial position,results of operations and cash flows.We depend on our ~~renewal~~ **renewals** channel for a ~~substantial~~ **significant** percentage of our sales.Our third and largest sales channel is our ~~renewal~~ **renewals** channel.Sales in this channel are dependent upon the flow of sales from our first- year real estate and DTC channels,as well as our customers’ perceptions of the value of our home ~~warranties~~ **service plans** ,and accordingly,their willingness to renew their plans.Any decrease in sales from period to period in our real estate and DTC channels may have a negative impact on future growth opportunities in our ~~renewal~~ **renewals** channel.Whether existing customers choose to renew their home ~~warranties~~ **service plans** is driven by both external factors such as macroeconomic conditions our reputation and actions of our competitors,as well as internal factors such as their experience with our home ~~warranties~~ **service plans** ,including whether they have used their home ~~warranties~~ **service plans** and their satisfaction with any services we provided,and how they perceive the value of our home ~~warranties~~ **service plans** in light of the cost of a renewal ~~.Our~~ Our future success depends on our ability to attract, retain and maintain our network of third- party contractors and vendors and their performance. Our ability to conduct our operations is in part impacted by reliance on a network of third- party contractors. Our future success and financial performance depend substantially on our ability to attract and retain qualified third- party contractors **, and their availability,** and ensure third- party contractor compliance with our policies, standards and performance expectations. However, these third-party contractors are independent parties that we do not control, and who own, operate and oversee the daily operations of their individual businesses. If third- party contractors do not successfully operate their businesses in a manner consistent with required laws, standards and regulations, we could be subject to claims from regulators or legal claims for the actions or omissions of such third- party contractors. In addition, our relationship with our third- party contractors could become strained (including resulting in litigation) as we impose new standards or assert more rigorous enforcement practices of our existing standards and performance expectations. When a contractor relationship is terminated, there is a risk that we may not be able to enter into a similar agreement with an alternate contractor in a timely manner or on favorable terms. We could incur costs to transition to other contractors, and these costs could materially adversely affect our results of operations and cash flows. We could also fail to provide service to our customers if we lose contractors that we cannot replace in a timely manner, which could lead to customer complaints and possible claims and litigation. In addition, our third- party contractors interact directly with our customers, and if our third- party contractors do not provide satisfactory services, our retention rate, reputation and business may be adversely affected. In addition, these potential impacts may be enhanced upon termination of a relationship with a preferred contractor, as approximately ~~82~~ **83** percent of our service requests were completed by our preferred contractor network in ~~2022~~ **2023** . We are also dependent on vendors for parts, appliances and home systems and the ability to rely on the pricing for such goods in the contracts we negotiate with these vendors. In recent years, **global supply chain challenges, including as a result of** the COVID- 19 pandemic **, have** ~~' s impact on the global supply chain has~~ led to industry- wide price increases for parts and equipment as well as availability challenges across our trades as demand has outpaced production. If we cannot obtain the parts, appliances or home systems from vendors within our existing stable of vendors to satisfy consumer claims in a timely manner, we may be forced to obtain parts, appliances and home systems from other vendors or through our third- party contractors at higher costs, which could have a material adverse impact on our business, financial position, results of operations and cash flows. In addition, if we cannot obtain appliance parts to satisfy consumer claims in a timely manner, we may be forced to obtain replacement appliances or systems at a higher cost compared to the cost of appliance parts. ~~We depend on~~ **Increases in parts, appliance and home system prices and other operating costs could adversely impact** our ~~first~~ **business, financial position, results of operations and cash flows. Our financial performance may be adversely affected by increases in the level of our operating expenses, such as refrigerants, appliances, equipment, parts, raw materials, wages and salaries, employee benefits, healthcare, contractor costs, self** - **insurance costs and other insurance premiums, as well as various regulatory compliance costs, all of which may be subject to inflationary and other pressures. For example, in recent** ~~year~~ **years , we' ve experienced** ~~real estate and direct- to- consumer acquisition channels for~~ a ~~significant percentage~~ **rapid increase in the cost** of **parts, appliance** ~~our sales. A significant percentage of our sales are generated through our first-year real estate customer~~ and ~~direct-~~ **home system costs due** to ~~- consumer acquisition channels~~ **inflation and global supply chain challenges** , which ~~also feed our renewals channel. In our real estate channel~~ , **in turn** ~~our strategic relationships with top real estate brokers and agents are important to our business because they provide marketing and information services that are useful to our real estate customer acquisition channel. These brokers and agents are independent parties that we do not control~~ , **increased** ~~and we cannot guarantee that our strategic partnership arrangements with them will continue at current levels or~~ **our** ~~at all~~ **contract claims costs** . ~~An inability to maintain these relationships~~ **Such increase in operating expenses, including contract claims costs,** could have a material adverse ~~effect~~ **impact** on our business, financial position, results of operations and cash flows. ~~Demand~~ **Prices** for **raw materials** ~~our services is affected by existing home sales~~ , **such** as ~~our services~~ **steel and fuel,** are **subject to market volatility** ~~frequently purchased in connection with real estate transactions~~ . ~~As a result,~~ **We cannot predict the extent to which we may experience future increases** in ~~periods when home~~ **costs of refrigerants, appliances, equipment, parts, raw materials, wages and** ~~sales~~ **salaries , employee benefits, healthcare, contractor costs, self-insurance costs and other insurance premiums, or of various regulatory compliance costs and other operating costs. In recent years, we have adjusted our pricing strategies in response to these rising costs. To the extent our pricing strategies** are **ineffective** ~~fast- moving, declining or of low inventory levels~~ , demand for our services may **suffer. Moreover, to the extent such costs continue to increase, we may** be **prevented** ~~adversely impacted. In addition~~ , ~~changes~~ in **whole** ~~the real estate market could also affect the demand for~~ - **or in part, from passing these cost increases through** ~~our services if a reduced amount of home buyers elect not~~ to ~~purchase~~ our ~~services~~ **existing and prospective customers** , which could have a material adverse impact on our business, financial position, results of operations and cash flows . Among others, the number of...... light of the cost of a renewal . We may not be able to attract and retain qualified key employees, which could adversely impact us and our business and inhibit our ability to operate and grow successfully. The execution of our business strategy and our financial performance will depend in significant part on our executive management team and other key technology personnel, home services experts and other key personnel. Our future success will depend in large part on our success in attracting new talent; utilizing current, experienced senior leadership; and smoothly transitioning responsibilities to and implementing the goals and objectives of our management team. Any inability to attract or retain qualified key executives in a timely manner, or retain or recruit other key personnel, could have a material adverse impact on our business, financial position, results of operations and cash flows. We are dependent on labor availability in our customer service operations. Our ability to conduct our operations is in part affected by our ability to scale our labor force, including on a seasonal basis in our customer service operations, which may be adversely affected by a number of factors. While we employ both domestic and overseas third- party customer service resources to help fulfill our service and other obligations, the effectiveness of such resources may be adversely affected by the availability of labor in such markets and the continuing viability of contract relations with such third parties. In the event of a labor shortage affecting our own customer service personnel or our third- party service providers, we could experience difficulty in responding to customer inquiries in a timely fashion or delivering our services in a high- quality or timely manner and could be forced to increase wages to attract and retain employees, which would result in higher operating costs and reduced profitability. Long call and service wait times by customers during peak operating times could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows. Our business process outsourcing initiatives increase our reliance on third- party vendors and may expose our business to harm upon the termination or disruption of our third- party vendor relationships. Our strategy to increase profitability, in part, by reducing our costs of operations includes the implementation of certain business process outsourcing initiatives, including offshore outsourcing of certain aspects of our customer service operations, some of which are located near regions that have previously been affected by Acts of God, such as earthquakes and typhoons, and outsourcing of certain technology development initiatives. Any disruption, termination or substandard performance of these outsourced services, including possible breaches by third- party vendors of their agreements with us, could delay or limit our ability to successfully implement our business strategies and adversely affect our brands, reputation, customer relationships, financial position, results of operations and cash flows. Also, to the extent a third- party vendor relationship is terminated, there is a risk of disputes or litigation and that we may not be able to enter into a similar agreement with an alternate provider in a timely manner or on terms that are acceptable to us or at all. Even if we find an alternate provider, or choose to insource such services, there are significant risks associated with any transitioning activities. In addition, to the extent we decide to terminate outsourcing services and insource such services, there is a risk that we may not have the capabilities to perform these services internally, resulting in a disruption to our business, which could adversely impact our reputation, businesses, financial position, results of operations and cash flows. We could incur costs, including personnel and equipment costs, to insource previously outsourced services like these, and these costs could adversely affect our results of operations and cash flows. Furthermore, offshore outsourcing of certain aspects of our customer service operations may induce negative public reaction. Offshore outsourcing is a politically sensitive topic in the United States. For example, there are concerns in the United States about a perceived association between outsourcing providers and the loss of jobs in the United States. In response to such concerns, federal legislative measures have been proposed in the past, such as limiting income tax credits for companies that offshore American jobs. In addition, there is ongoing publicity about some negative experiences that companies have had with outsourcing, such as theft and misappropriation of sensitive client data. Such negative perceptions that may be associated with using an offshore provider could adversely impact our reputation, businesses, financial position, results of operations and cash flows. We depend on a limited number of third- party components suppliers. Our reputation, business, financial position, results of operations and cash flows may be harmed if these parties do not perform their obligations, if they suffer interruptions to their own operations, if alternative component sources are unavailable, or if there is an increase in the costs of these components. We are dependent on a limited number of suppliers for various key components used in the services and products we offer to customers, and the cost, quality and availability of these components are essential to our services. In particular, we have ~~seven~~ **six** national suppliers of parts, appliances and home systems that each account for more than five percent of our supplier spend. We are subject to the risk of shortages, increased costs and long lead times in the supply of these components and other materials, and the risk that our suppliers discontinue or modify, or increase the price of, the components used. If the supply of these components were to be delayed or constrained, or if one or more of our main suppliers were to go out of business, alternative sources or suppliers may not be available on acceptable terms or at all. Further, if there were a shortage of supply, the cost of these components may increase and harm our ability to provide our services on a cost- effective basis. In connection with any supply shortages in the future, reliable and cost- effective replacement sources may not be available on short notice or at all, and this may force us to increase prices and face a corresponding decrease in demand for our services. In the event that any of our suppliers were to discontinue production of our key product components, developing alternate sources of supply for these components would be time consuming, difficult and costly. This would harm our ability to market our services in order to meet market demand and could materially and adversely affect our reputation, business, financial position, results of operations and cash flows. We have limited control over these parties on which our business depends. If any of these parties fails to perform its obligations on schedule, or breaches or ends its relationship with us, we may be unable to satisfy demand for our services. Delays, product shortages and other problems could impair our distribution and brand image and make it difficult for us to attract new customers. If we experience significantly increased demand, or if we need to replace an existing supplier, we may be unable to supplement or replace such supply capacity on terms that are acceptable to us or at all, which may undermine our ability to deliver our services to customers in a timely and cost- efficient manner. Accordingly, a loss or interruption in the service of any key party could adversely impact our reputation, business, financial position, results of operations and cash flows. Disruptions or failures in our technology systems could create liability for us or limit our ability to effectively monitor, operate and control our operations and adversely impact our reputation, business, financial position, results of operations and cash flows. Our technology systems facilitate our ability to monitor, operate and control our operations and offer our products and services to customers. Modifications to our technology systems could cause disruption to our operations or cause challenges with respect to compliance with laws, regulations or other applicable standards. As the development and implementation of our technology systems (including our operating systems) continues to evolve, we may elect to modify, replace or abandon certain technology initiatives, which could result in write- downs. Any disruption in our technology systems, including capacity limitations, instabilities, or failure to operate as expected, could, depending on the magnitude of the problem, adversely impact our business, brands, reputation, customer relationships, financial position, results of operations and cash flows, including by limiting our capacity to monitor, operate and control our operations effectively. Failures of our technology systems could also lead to violations of privacy laws, regulations, trade guidelines or practices related to our customers and associates. If our disaster recovery plans do not work as anticipated, or if the third- party vendors to which we have outsourced certain technology, customer service or other services fail to fulfill their obligations, our operations may be adversely affected, and any of these circumstances could adversely affect our reputation, business, financial position, results of operations and cash flows. If we fail to protect the security of personal information about our customers, associates or third parties, we could be subject to interruption of our business operations, private litigation, reputational damage and costly penalties. We rely on, among other things, commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential information of customers, associates and third parties, such as payment cards and personal information. The systems currently used for transmission and approval of payment card transactions, and the technology utilized in payment cards themselves, all of which can put payment card data at risk, are central to meeting standards set by the payment card industry (" PCI "). We continue to evaluate and modify these systems and protocols for PCI compliance purposes, and such PCI standards may change from time to time. At our customers' request, we also use our proprietary Streem technology to capture key information about our customers' appliances, HVAC and other home systems and may, ~~though~~ **through** these video chat sessions **,** capture additional information related to our customer or their home. Activities by third parties, or our utilization of advances in computer and software capabilities and other technology, new tools and discoveries, as well as other events or developments may facilitate or result in a compromise or breach of these systems. Any compromises, breaches or errors in applications related to these systems or failures to comply with standards set by the PCI could cause damage to our reputation and interruptions in our operations, including customers' ability to pay for services and products by credit card or their willingness to purchase our services and products and could result in a violation of applicable laws, regulations, orders, industry standards or agreements and subject us to costs, penalties and liabilities. We are subject to risks caused by data breaches and operational disruptions, particularly through **third- party criminal activity including" ransomware" or other malware,** cyber- attack or cyber- intrusion, including by computer hackers, foreign governments and cyber terrorists. **These risks include potential damage and disruption from traditional cyber criminals, malicious code (such as viruses and worms), employee theft, misuse, social engineering, denial- of- service attacks, as well as sophisticated nation- state and nation- state- supported actors, including advanced persistent threat intrusions.** Any cyber or similar attack **or unauthorized access to our software or systems that** we experience could damage our technology systems and infrastructures, **lead to the loss, compromise or corruption of data,** prevent us from providing our services, erode our reputation and those of our various brands, lead to the termination of advantageous contracts, result in inaccurate reporting of financial information, result in the disclosure of confidential consumer and professional contractor information **, result in erroneous payments to malicious actors** , expose us to significant liabilities for the violation of data privacy laws, result in the disclosure of confidential and sensitive business information or intellectual property, result in claims or litigation against us and / or otherwise be costly to mitigate or remedy. The frequency of data breaches of companies and governments has increased in recent years as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. The occurrence of any of these events could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows. In addition, although we have insurance to mitigate some of these risks, such policies may not cover the particular cyber or similar attack experienced and, even if the risk is covered, such insurance coverage may not be adequate to compensate for related losses. The impact of cybersecurity events experienced by third parties with whom we do business (or upon whom we otherwise rely in connection with our day- to- day operations) could have similar effects on us. Moreover, even cyber or similar attacks that do not directly affect us or third parties with whom we do business may result in a loss of consumer confidence in online and / or technology- reliant businesses generally, which could make consumers and professional contractors less likely to use or continue to use our services. The occurrence of any of these events could adversely affect our business, financial position, results of operations and cash flows. Data protection legislation is also becoming increasingly common in the United States at both the federal and state level. For example, the State of California enacted the California Consumer Privacy Act of 2018 (the " CCPA "), which became effective on January 1, 2020. The CCPA requires companies that process information of California residents to make disclosures to consumers about their data collection, use and sharing practices, allows consumers to opt out of certain data sharing with third parties and provides a new cause of action for data breaches. Additionally, the California Privacy Rights Act (the " CPRA "), which became effective January 1, 2023, revised and significantly expanded the scope of the CCPA. The CPRA also creates a new California data protection agency authorized to implement and enforce the CCPA and the CPRA, which could result in increased privacy and information security enforcement. ~~Other~~ **Additional** U. S. states have **passed their own comprehensive consumer** ~~considered and / or enacted similar~~ privacy laws, ~~including Colorado~~ **some of which went into effect in 2023 or will go into effect in 2024** , ~~Connecticut, Utah~~ and ~~Virginia~~ **other states are considering doing so** . Additionally, the Federal Trade Commission and many state attorneys general are interpreting federal and state consumer protection laws to impose standards for the online collection, use, dissemination and security of data. The burdens imposed by the CCPA, CPRA and other similar laws that may be enacted at the federal and state level may require us to further modify our data processing practices and policies and to incur substantial expenditures in order to comply. Our business is subject to evolving corporate...... are uncertain and difficult to predict. Laws and government regulations applicable to our business and lawsuits, enforcement actions and other claims by third parties or governmental authorities could increase our legal and regulatory expenses and impact our business, financial position, results of operations and cash flows. Our business is subject to significant federal, state and local laws and regulations. These laws and regulations include but are not limited to laws relating to consumer protection, unfair and / or deceptive trading practices, service contracts, home **warranties, home** service plans ~~, home warranties~~ , real estate settlement, wage and hour requirements, state contractor laws, the employment of immigrants, labor relations, licensing, building code requirements, workers' safety, environmental, privacy and data protection, securities, insurance coverages, sales tax collection and remittance, healthcare reforms, employee benefits, marketing (including, without limitation, telemarketing) and advertising. In addition, we are regulated by the Consumer Financial Protection Bureau and in certain states by the applicable state insurance regulatory authority or other state regulatory bodies, such as the Virginia Department of Agriculture and the Texas Department of Licensing and Regulation. Failure to comply with such laws and regulations may have a material adverse impact on our business, financial position, results of operations and cash flows. Additionally, while we do not consider ourselves to be an insurance company, the IRS or state agencies could deem us to be taxed as such, which could adversely impact the timing of our tax payments. We are also subject to various federal, state and local laws and regulations designed to protect consumers, including laws governing **deceptive trade practices,** consumer privacy and fraud, the collection and use of consumer data, telemarketing and other forms of solicitation. From time to time, we have received and we expect that we may continue to receive inquiries or investigative demands from regulatory bodies, including the Consumer Financial Protection Bureau and state attorneys general and other state agencies. The telemarketing rules adopted by the Federal Communications Commission pursuant to the Federal Telephone Consumer Protection Act and the Federal Telemarketing Sales Rule issued by the Federal Trade Commission govern our telephone sales practices. In addition, some states and local governing bodies have adopted laws and regulations targeted at direct telephone sales, i. e., " do- not- call " regulations. The implementation of these marketing regulations requires us to rely more extensively on other marketing methods and channels and may have a material adverse impact on our business, financial position, results of operations and cash flows. Various federal, state and local governing bodies may propose additional legislation and regulation that may be detrimental to our business or may substantially increase our operating costs, including: increases in the minimum wage; environmental regulations related to climate change, equipment efficiency standards, certain refrigerant production and use and other environmental matters; healthcare coverage; " do- not- call " or other marketing regulations; or regulations implemented in response to business practices in our industry. It is difficult to predict the future impact of the broad and expanding legislative and regulatory requirements affecting our business, and changes to such requirements may adversely affect our business, financial position, results of operations and cash flows. In addition, if we were to fail to comply with any applicable law or regulation, we could be subject to substantial fines or damages, be involved in lawsuits, enforcement actions and other claims by third parties or governmental authorities, suffer harm to our reputation, suffer the loss of licenses or incur penalties that may affect how our business is operated, any of which, in turn, could have a material adverse impact on our business, financial position, results of operations and cash flows. Our business is subject to evolving corporate governance and public disclosure regulations and expectations,including with respect to environmental,social and governance matters,that could expose us to numerous risks.We are subject to changing rules and regulations promulgated by a number of governmental and self- regulatory organizations,including the SEC,NASDAQ and FASB.These rules and regulations continue to evolve in scope and complexity and many new requirements have been created in response to laws enacted by Congress,making compliance more difficult and uncertain.In addition,increasingly regulators,customers,investors,employees and other stakeholders are focusing on environmental,social and governance (" ESG ") matters and related disclosures,including expanding mandatory and voluntary reporting,diligence and disclosure on topics such as human capital,climate ~~Changes~~ - **change , labor and risk oversight. If we are unable** to ~~to~~ adequately address such ESG matters or we or contractors fail to comply with all related laws,regulations and policies,it could negatively impact our reputation and our business results.Evolving ESG rules,regulations and stakeholder expectations have resulted in,and are likely to continue to result in,increased general and administrative expenses and increased management time and attention spent complying with or meeting such regulations and expectations. ~~For example,developing~~ **Developing** and acting on initiatives within the scope of ESG,and collecting,measuring and reporting ESG related information and metrics can be costly,difficult and time consuming and is subject to evolving reporting standards,including the SEC' s ~~recently~~ proposed climate- related reporting requirements ~~.We may also communicate certain initiatives~~ **,the new California climate disclosure rules,** and **similar proposals by other** U. S. ~~tariff and import / export regulations~~ - **regulatory bodies. We** may ~~increase~~ **also communicate certain initiatives and goals, regarding environmental matters, diversity, responsible sourcing and social investments and other ESG related matters, in our SEC filings or in other public disclosures. These initiatives and goals within the scope of ESG could be difficult and expensive to implement, the technologies needed to implement** ~~the~~ **them may not be** ~~costs~~ - **cost- effective** ~~of parts, appliances~~ and ~~home systems and~~ **may not advance at a sufficient pace** , ~~in turn~~ **and we could be criticized for the accuracy** , ~~,~~ adequacy or completeness of the disclosure.Further,statements about our ESG related initiatives and goals,and progress against those goals,may be based on standards for measuring progress that are still developing,internal controls and processes that continue to evolve,and assumptions that are subject to change in the future.If our ESG- related data,processes and reporting are incomplete,inaccurate or criticized,or if we fail to achieve progress with respect to our goals within the scope of ESG on a timely basis,or at all,our reputation,business,financial performance and growth could **be** adversely ~~impact our business. Tariff policies are under continuous review and subject to change. For example, rising costs due to blanket tariffs on imported steel and aluminum could increase the costs of parts associated with our repair and replacement of home systems and appliances, which could have a material adverse effect on our business, financial position, results of operations and cash flows. Moreover, new tariffs and changes to U. S. trade policy could prompt retaliation from~~ affected ~~countries, potentially triggering the imposition of tariffs on U. S. goods. Such a " trade war " could lead to general economic downturn or could materially and adversely affect the demand for our services, thus negatively impacting our business, financial position, results of operations and cash flows~~ . Physical impacts of climate change, which may increase the frequency and intensity of adverse weather conditions and natural disasters, seasonality and the increased focus by investors and other stakeholders on sustainability issues, can affect the demand for our services, our ability to operate and our results of operations and cash flows. The demand for our services, and our results of operations, are affected by weather conditions and seasonality, which may be exacerbated by the potential impacts of climate change, known and unknown. Seasonality causes our results of operations to vary considerably from quarter to quarter. Accordingly, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year. Extreme temperatures, typically in the winter and summer months, can lead to an increase in service requests related to home systems, particularly HVAC systems, resulting in higher ~~claim frequency and~~ costs and lower profitability, while mild temperatures in the winter or summer months can lead to lower home systems claim frequency **, resulting in lower costs and higher profitability** . For example, ~~unfavorable weather trends in the fourth quarter of 2022 as compared to the fourth quarter of 2021 negatively impacted contract claims costs, while~~ favorable weather trends in ~~the first quarter of 2022~~ **2023** as compared to ~~the first quarter of 2021~~ **2022 resulted in a lower number of service requests per customer, which** favorably impacted contract claims costs. While weather variations as described above may affect our business, major weather events and other similar Acts of God, or natural disasters such as typhoons, hurricanes, tornadoes **, wildfires** or earthquakes, typically do not increase our obligations to provide service. Generally, repairs associated with such isolated events are addressed by homeowners' and other forms of insurance as opposed to the home **warranties** ~~service plans~~ that we offer. Nevertheless, such weather events could affect our facilities, or those of our major suppliers or business process outsource providers, which could affect our costs, our ability to meet supply requirements, our ability to provide services and our ability to access our data and other records. Extreme or unpredictable weather conditions could materially adversely impact our business, financial position, results of operations and cash flows. New climate change- related regulations or interpretations of existing laws may result in enhanced disclosure obligations, which could negatively affect us and materially increase our regulatory burden. Increased regulations generally increase our costs, and we could continue to experience higher costs if new laws require us to spend more time, hire additional personnel or buy new technology to comply effectively. New regulations or guidance relating to climate change, as well as the perspectives of shareholders, employees and other stakeholders regarding these standards, may affect our business activities and increase disclosure requirements, which may increase costs. **Changes to U. S. tariff and import / export regulations may increase the costs of parts, appliances and home systems and, in turn, adversely impact our business. Tariff policies are under continuous review and subject to change. For example, rising costs due to blanket tariffs on imported steel and aluminum could increase the costs of parts associated with our repair and replacement of home systems and appliances, which could have a material adverse effect on our business, financial position, results of operations and cash flows. Moreover, new tariffs and changes to U. S. trade policy could prompt retaliation from affected countries, potentially triggering the imposition of tariffs on U. S. goods. Such a " trade war " could lead to general economic downturn or could materially and adversely affect the demand for our services, thus negatively impacting our business, financial position, results of operations and cash flows.** We may not be able to adequately protect our intellectual property and other proprietary rights that are material to our business. Our ability to compete effectively depends in part on our rights to proprietary information, service marks, trademarks, trade names, patents and other intellectual property rights we own or license, particularly our brand names, Frontdoor ~~,~~ **and** American Home Shield ~~, HSA, OneGuard, Landmark, ProConnect and Streem~~ , as well as the patents related to our Streem technology platform. We have not sought to register or protect every one of our marks in the United States. If we are unable to protect our proprietary information and intellectual property rights, including brand names and patents, it could cause a material adverse effect on our reputation, business, financial position, results of operations and cash flows. Litigation may be necessary to enforce our intellectual property rights and protect our proprietary information, or to defend against claims by third parties that our products, services or activities infringe their intellectual property rights. Future acquisitions or other strategic transactions could negatively affect our reputation, business, financial position, results of operations and cash flows. Our business strategy includes the pursuit of opportunistic strategic transactions, which could involve acquisitions or dispositions of businesses or assets. For example, in 2019, we acquired Streem to enable home service professionals to more efficiently interact with customers and complete repairs, and, in 2020, we acquired a business to expand on- demand home services via their intellectual capital and know- how, technology platform capabilities and geographic presence. Any future strategic transaction could involve integration or implementation challenges, business disruption or other risks, or change our business profile significantly. Any inability on our part to consolidate and manage growth from acquired businesses or successfully implement other strategic transactions could have an adverse impact on our reputation, business, financial position, results of operations and cash flows. Any acquisition that we make may not provide us with the benefits that were anticipated when entering into such acquisition. The process of integrating an acquired business may create unforeseen difficulties and expenses, including: the diversion of resources needed to integrate new businesses, technologies, products, personnel or systems; the inability to retain employees, customers and suppliers; the assumption of actual or contingent liabilities; failure to effectively and timely adopt and adhere to internal control processes and other policies; write- offs or impairment charges relating to goodwill and other intangible assets; unanticipated liabilities; distraction of senior management from other strategic priorities; and potential expense associated with litigation with sellers of such businesses. Any future disposition transactions could also impact our business and may subject us to various risks, including failure to obtain appropriate value for the disposed businesses and post- closing claims. We may be required to recognize impairment charges. We have significant amounts of goodwill and intangible assets, such as trade names. In accordance with applicable accounting standards, goodwill and indefinite- lived intangible assets are not amortized and are subject to assessment for impairment **on an** ~~by applying a fair- value- based test annually~~ -- **annual basis** , or more frequently if **circumstances** ~~there are indicators~~ **indicate** ~~of~~ **a potential** impairment, including: ? significant adverse changes in the business climate, including economic or financial conditions; ? significant adverse changes in expected operating results; ? adverse actions or assessments by regulators; ? unanticipated competition; ? loss of key personnel; and ? a current expectation that it is more likely than not that a reporting unit or intangible asset will be sold or otherwise disposed of. Based upon ~~future~~ economic and financial market conditions, the operating performance of our reporting units and other factors, including those listed above, we **have incurred, and** may **in the future** incur **,** impairment charges ~~in the future. For example, in connection with the preparation of our condensed consolidated financial statements for the third quarter of 2022, we determined that indicators of a potential goodwill and intangible assets impairment were present for our Streem reporting unit.~~

~~In performing the discounted cash flow analysis, we determined that the carrying amount of the Streem reporting unit exceeded its fair value. An impairment charge of $ 14 million was recognized during the third quarter of 2022, which comprised the remaining net carrying amount of Streem' s goodwill of $ 9 million and intangibles of $ 5 million~~ . It is possible that such future impairments, if required, could be material. Any future impairment charges that we are required to record could have a material adverse impact on our results of operations. See " Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates " in Part II of this Annual Report on Form 10- K for additional information. Third- party use of our trademarks as keywords in Internet search engine advertising programs may direct potential customers to competitors' websites, which could harm our reputation and cause us to lose sales. Competitors and other third parties purchase our trademarks and confusingly similar terms as keywords in Internet search engine advertising programs in order to divert potential customers to their websites. Preventing such unauthorized use is inherently difficult. If we are unable to protect our trademarks from such unauthorized use and curtail the use of confusingly similar terms, competitors and other third parties may drive potential online customers away from our websites to competing and unauthorized websites, which could harm our reputation and cause us to lose sales. The use of social media by us and other parties could result in damage to our reputation or otherwise adversely affect us. We increasingly utilize social media to communicate with current and potential customers, contractors, real estate brokers and employees, as well as other individuals interested in us. Information delivered by us, or by third parties about us, via social media can be easily accessed and rapidly disseminated, and any such information that is not deemed appropriate by the public could result in reputational harm, decreased customer loyalty or other issues that could diminish the value of our brand or result in significant liability. Our operations outside the United States are subject to special risks that could adversely affect us. We derive substantially all of our revenue from customers in the United States; however, certain aspects of our customer service operations and other services are conducted outside the United States by business process outsource providers in Colombia, Ghana, Guyana, Mexico, the Philippines and Trinidad and Tobago, and we have **a** ~~established an engineering and~~ technology ~~campus~~ **collaboration center** in India. Accordingly, developments in those parts of the world generally have a more significant effect on our operations than developments in other places. Our operations outside the United States are also subject to special risks, including: fluctuations in currency values and foreign-currency exchange rates, which may affect our net income and the carrying amount of our assets outside the United States; exchange control regulations; changes in local political or economic conditions; other potentially detrimental domestic and foreign governmental practice or policies affecting U. S. companies operating abroad; difficulties in staffing and managing international political instability, operations; and operational and compliance challenges resulting from distance, language and cultural differences. Acts of God, war, terror acts and epidemic disease, such as COVID- 19, may impair our ability to operate or the ability of our business process outsource providers to operate, in particular countries or regions. Risks Related to Our Common Stock We do not intend to pay cash dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock. We currently intend to use our future earnings to develop our business and for working capital needs and general corporate purposes, to fund our growth, to repay debt, and to repurchase shares of our common stock. As a result, we did not pay cash dividends in ~~2022~~ **2023** , and we do not expect to pay any cash dividend for the foreseeable future. All decisions regarding the payment of dividends will be made by our board of directors from time to time in accordance with applicable law. There can be no assurance that we will have sufficient surplus under Delaware law to be able to pay any dividends at any time in the future. An insufficient surplus may result from extraordinary cash expenses, actual expenses exceeding contemplated costs, funding of capital expenditures or increases in reserves. If we do not pay dividends, the price of the shares of our common stock must appreciate for you to receive a gain on your investment. This appreciation may not occur. Further, you may have to sell some or all of your shares of our common stock to generate cash flow from your investment. Provisions in our certificate of incorporation and bylaws and of applicable law may prevent or delay an acquisition of our company, which could decrease the trading price of our common stock. Our restated certificate of incorporation and amended and restated bylaws, and Delaware law, contain provisions that are intended to deter coercive takeover practices and inadequate takeover bids by encouraging prospective acquirors to negotiate with our board of directors. These provisions include rules regarding how stockholders may present proposals or nominate directors for election at stockholder meetings and the right of our board of directors to issue preferred stock without stockholder approval. Delaware law also imposes some restrictions on mergers and other business combinations between any holder of 15 percent or more of our outstanding common stock and us. We believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal. These provisions are not intended to make us immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our board of directors determines is not in the best interests of our company and our stockholders. These and other provisions of our restated certificate of incorporation, amended and restated bylaws and the Delaware General Corporation Law, as amended (the " DGCL "), could have the effect of delaying, deferring or preventing a proxy contest, tender offer, merger or other change in control. In addition, because we are regulated by state regulators in certain states, we are subject to certain state statutes that generally require any person or entity desiring to acquire direct or indirect control of certain of our subsidiaries obtain prior approval from the applicable regulator. Control is generally presumed to exist under these state laws with the acquisition of 10 percent or more of our outstanding voting securities of either the subsidiary or its controlling parent. Applicable state laws and regulations could delay or impede a change of control. Our certificate of incorporation designates the state courts of the State of Delaware, or, if no state court located in the State of Delaware has jurisdiction, the federal court for the District of Delaware, as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could discourage lawsuits against us and our directors and officers. Our restated certificate of incorporation provides that, unless the board of directors otherwise determines, the state courts of the State of Delaware, or, if no state court located in the State of Delaware has jurisdiction, the federal court for the District of Delaware, will be the sole and exclusive forum for any derivative action or proceeding brought on behalf of our company, any action asserting a claim of breach of a fiduciary duty owed by any director or officer to our company or our stockholders, creditors or other constituents, any action asserting a claim against us or any director or officer arising pursuant to any provision of the DGCL or our amended and restated certificate of incorporation or restated bylaws, or any action asserting a claim against us or any director or officer governed by the internal affairs doctrine. This exclusive forum provision may limit the ability of our stockholders to bring a claim in a judicial forum that such stockholders find favorable for disputes with us or our directors or officers, which may discourage such lawsuits against us and our directors and officers. Alternatively, if a court outside of the State of Delaware were to find this exclusive forum provision inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings described above, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial position, results of operations and cash flows. Risks Related to Our Indebtedness We have significant indebtedness and may incur additional substantial indebtedness, which could adversely affect our financial health and our ability to obtain financing in the future, react to changes in our business and satisfy our obligations. As of December 31, ~~2022~~ **2023** , we had approximately $ ~~609~~ **593** million of total consolidated long- term indebtedness, including the current portion of long- term debt, outstanding. As of December 31, ~~2022~~ **2023** , there were $ 2 million of letters of credit outstanding under our $ 250 million Revolving Credit Facility, and the available borrowing capacity under the Revolving Credit Facility was $ 248 million. In addition, we are able to incur additional indebtedness in the future, subject to the limitations contained in the agreements governing our indebtedness. Our significant indebtedness could have important consequences to you. Because of our significant indebtedness: ⍰ our ability to engage in large acquisitions without raising additional equity or obtaining additional debt financing is limited; ⍰ our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes and our ability to satisfy our obligations with respect to our indebtedness may be impaired in the future; ⍰ a large portion of our cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for other purposes; ⍰ we are exposed to the risk of increased interest rates because a portion of our borrowings are or will be at variable rates of interest; ⍰ it may be more difficult for us to satisfy our obligations to our creditors, resulting in possible defaults on, and acceleration of, such indebtedness; ⍰ we may be more vulnerable to general adverse economic and industry conditions; ⍰ we may be at a competitive disadvantage compared to our competitors with proportionately less indebtedness or with comparable indebtedness on more favorable terms and, as a result, they may be better positioned to withstand economic downturns; ⍰ our ability to refinance indebtedness may be limited, or the associated costs may increase; ⍰ our flexibility to adjust to changing market conditions and ability to withstand competitive pressures could be limited; and ⍰ we may be prevented from carrying out capital spending and restructurings that are necessary or important to our growth strategy and efforts to improve operating margins of our business. Increases in interest rates would increase the cost of servicing our indebtedness and could reduce our profitability. A significant portion of our outstanding indebtedness, including indebtedness incurred under the Credit Facilities, bears interest at variable rates. As a result, increases in interest rates would increase the cost of servicing our indebtedness and could materially reduce our profitability and cash flows. As of December 31, ~~2022~~ **2023** , each one percentage point change in interest rates would result in an approximately $ ~~3~~ **2** million change in the annual interest expense on the Term Loan Facilities after considering the impact of the effective interest rate swap. Assuming all revolving loans were fully drawn as of December 31, ~~2022~~ **2023** , each one percentage point change in interest rates would result in an approximately $ 3 million change in annual interest expense on the Revolving Credit Facility. The impact of increases in interest rates could be more significant for us than it would be for some other companies because of our significant indebtedness. As of December 31, ~~2022~~ **2023** , our variable rate indebtedness used the ~~LIBOR~~ **SOFR** as a benchmark for establishing the interest rate. ~~On March 5~~ **LIBOR was previously the benchmark rate used for our variable rate indebtedness. LIBOR had been the subject of national** , ~~2021~~ **international and regulatory guidance and proposals for reform** , **which culminated with** the United Kingdom' s Financial Conduct Authority ~~(the " FCA ")~~ , which ~~regulates~~ **regulated** LIBOR, ~~announced that all~~ **ceasing publication of U. S. dollar** LIBOR **rates as** ~~settings will either cease to be provided or no longer be representative (i) immediately after December 31, 2021, in the case~~ of ~~the one- week and two- month US dollar settings, and (ii) immediately after~~ June 30, 2023 ~~, in the case of all remaining US dollar settings~~ . **The** ~~Additionally, the~~ Federal Reserve ~~Board~~ , **in conjunction with** ~~Federal Deposit Insurance Corporation, Office of the Comptroller of Currency, and other~~ - - **the** ~~interagency regulatory bodies have advised~~ **Alternative Reference Rates Committee, a steering committee comprised of large** U. S. ~~banks to stop entering into new USD LIBOR based contracts by December 31, 2021. Further, on March 15, 2022, the Consolidated Appropriations Act of 2022, which includes the Adjustable Interest Rate (LIBOR) Act, was signed into law in the U. S. This legislation establishes a uniform benchmark replacement process for~~ financial **institutions** ~~contracts maturing after June 30~~ , ~~2023 that do not contain clearly defined or practicable fallback provisions. The legislation also creates a safe harbor that shields lenders from litigation if they choose to utilize a replacement rate recommended by the Federal Reserve. Pursuant to final rules adopted by the Federal Reserve Board in December 2022, the Federal Reserve has~~ identified ~~benchmark rates based on the Secured Overnight Financing Rate ("~~ SOFR ~~")~~ , **an** ~~a new~~ index calculated by short- term repurchase agreements **,** backed by **U. S.** Treasury securities, ~~to replace~~ **as its preferred alternative rate for** LIBOR ~~in certain financial contracts after June 30, 2023. There are significant differences between LIBOR and SOFR, such as LIBOR being an unsecured lending rate while SOFR is a secured lending rate, and SOFR is an overnight rate while LIBOR reflects term rates at different maturities. We cannot predict the effect of the decision not to sustain LIBOR or the planned transition to SOFR as LIBOR' s replacement~~ . In connection with the ~~planned~~ phase- out of LIBOR, we ~~expect to amend~~ **amended** our Credit Facilities **in March 2023** to replace LIBOR with SOFR as the benchmark rate under the Credit Agreement. At this time, it is not possible to predict the full effect that the ~~anticipated~~ discontinuance of LIBOR, or the establishment of alternative reference rates such as

SOFR, will have on us or our borrowing costs. SOFR is a relatively new reference rate and its composition and characteristics are not the same as LIBOR. Given the limited history of SOFR and potential volatility as compared to other benchmark or market rates, the future performance of SOFR cannot be predicted based on historical performance. The consequences of the transition from LIBOR to SOFR could include an increase in the cost of our variable rate indebtedness. A lowering or withdrawal of the credit ratings, outlook or watch assigned to our debt securities by rating agencies may increase our future borrowing costs and reduce our access to capital. Our indebtedness currently has a non- investment grade rating, and any rating, outlook or watch assigned could be lowered or withdrawn entirely by a rating agency if, in that rating agency' s judgment, current or future circumstances relating to the basis of the rating, outlook or watch, such as adverse changes to our business, so warrant. Any future lowering of our credit ratings, outlook or watch likely would make it more difficult or more expensive for us to obtain additional debt financing. The agreements and instruments governing our indebtedness contain restrictions and limitations that could significantly impact our ability to operate our business. The Credit Agreement contains covenants that, among other things, restrict our ability to: ? incur additional indebtedness (including guarantees of other indebtedness); ? create liens; ? redeem stock or make other restricted payments, including investments and, in the case of the Revolving Credit Facility, make acquisitions; ? prepay, repurchase or amend the terms of certain outstanding indebtedness; ? enter into certain types of transactions with affiliates; ? transfer or sell assets; ? merge, consolidate or sell all or substantially all of our assets; and ? enter into agreements restricting dividends or other distributions by our subsidiaries. The restrictions in the Credit Agreement and the instruments governing our other indebtedness may prevent us from taking actions that we believe would be in the best interest of our business and may make it difficult for us to execute our business strategy successfully or effectively compete with companies that are not similarly restricted. We may also incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility. We may be unable to refinance our indebtedness, at maturity or otherwise, on terms acceptable to us or at all. Our ability to comply with the covenants and restrictions contained in the Credit Agreement and the instruments governing our other indebtedness may be affected by economic, financial and industry conditions beyond our control including credit or capital market disruptions. The breach of any of these covenants or restrictions could result in a default that would permit the applicable lenders to declare all amounts outstanding thereunder to be due and payable, together with accrued and unpaid interest. If we are unable to repay indebtedness, lenders having secured obligations, such as the lenders under the Credit Facilities, could proceed against the collateral securing the indebtedness. In any such case, we may be unable to borrow under the Credit Facilities and may not be able to repay the amounts due under such facilities or our other outstanding indebtedness. This could have serious consequences for our financial position, results of operations and cash flows and could cause us to become bankrupt or insolvent. Our ability to generate the significant amount of cash needed to pay interest and principal on our indebtedness and our ability to refinance all or a portion of our indebtedness or obtain additional financing depends on many factors beyond our control. We are a holding company, and substantially all of our assets are held by, and our operations are conducted through, our subsidiaries. We depend on our subsidiaries to distribute funds to us so that we may pay obligations and expenses, including satisfying obligations with respect to indebtedness. Our ability to make scheduled payments on, or refinance our obligations under, our indebtedness depends on the financial and operating performance of our subsidiaries and their ability to make distributions and dividends to us, which, in turn, depends on their operating results, cash requirements, financial position and general business conditions and any legal and regulatory restrictions on the payment of dividends to which they may be subject, many of which may be beyond our control. There are **regulatory** ~~third- party~~ restrictions on the ability of certain of our subsidiaries to transfer funds to us ~~. These restrictions are related to regulatory requirements~~ . The payments of ordinary and extraordinary dividends by certain of our subsidiaries (through which we conduct our business) are subject to significant regulatory restrictions under the laws and regulations of the states in which they operate. Among other things, such laws and regulations require certain subsidiaries to maintain minimum capital and net worth requirements and may limit the amount of ordinary and extraordinary dividends and other payments that these subsidiaries can pay to us. As of December 31, ~~2022~~ **2023** , the total net assets subject to these **regulatory** ~~third- party~~ restrictions was $ ~~145~~ **157** million. We expect that such limitations will be in effect for the foreseeable future. ~~In Texas, we are relieved of the obligation to post 75 percent of our otherwise required reserves because we operate a captive insurer approved by Texas regulators in order to satisfy such obligations.~~ None of our subsidiaries are obligated to make funds available to us through the payment of dividends. If we cannot receive sufficient distributions from our subsidiaries, we may not be able to meet our obligations to fund general corporate expenses or service our debt obligations. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal and interest on our indebtedness. If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek to obtain additional equity capital or restructure our indebtedness. In the future, our cash flow and capital resources may not be sufficient for payments of interest on and principal of our indebtedness, and such alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. If we cannot make scheduled payments on our indebtedness, we will be in default, the lenders under the Credit Facilities could terminate their commitments to loan money, the secured lenders could foreclose against the assets securing their borrowings, and we could be forced into bankruptcy or liquidation. Despite our indebtedness levels, we and our subsidiaries may be able to incur substantially more indebtedness. This could further exacerbate the risks associated with our significant indebtedness. We and our subsidiaries may be able to incur substantial additional indebtedness in the future. The Credit Facilities permit additional borrowings beyond the committed amounts under certain circumstances. If new indebtedness is added to our current indebtedness levels, the related risks we face would increase, and we may not be able to meet all of our debt obligations. We utilize derivative financial instruments to reduce our exposure to market risks from changes in interest rates on our variable- rate indebtedness and are exposed to risks related to counterparty credit worthiness or non- performance of these instruments. We are exposed to the impact of interest rate changes and manage this exposure through the use of variable- rate and fixed- rate debt and by utilizing an interest rate swap. On October 24, 2018, we entered into an interest rate swap ~~agreement~~ **contract** effective October 31, 2018 that expires on August 16, 2025. The notional amount of the agreement ~~was~~ **is** $ 350 million. We entered into this interest rate swap ~~agreement~~ **contract** in the normal course of business to manage interest rate risks, with a policy of matching positions. The effect of derivative financial instrument transactions under the agreements could have a material impact on our financial statements. There can be no guarantee that our hedging strategy will be effective, and we may experience credit- related losses in some circumstances.