Risk Factors Comparison 2024-01-19 to 2023-01-20 Form: 10-K

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

Although we have operated through a number of varying economic cycles, there are several risks that could affect our ability to conduct our business, which we discuss below. If any of these risks materialize, they could, among other things, (a) materially and adversely impact our results of operations and consolidated financial statements; and (b) cause our results to differ materially from the forward- looking and other statements we make in our SEC filings; in our news releases and other public reports and communications, including those we post on or make available through our websites or other electronic channels; or orally through our personnel and representatives. These risks, and other factors outside of our control, could also create or increase volatility in our common stock' s market price **. The order in which we discuss the risks below should not be taken as any indication of their relative importance, likelihood or impact** . Consumer Demand Risks. The following could negatively affect consumer demand for our products, thereby unfavorably impacting our net orders, homes delivered, average selling prices, revenues and / or profitability: • Soft or negative economic or housing market conditions. Adverse conditions in our served markets or nationally could be caused or worsened by factors outside of our control, including slow or negative economic growth, ~~and~~ sustained elevated mortgage loan interest rates ~~, which predominated during much of 2022~~ and ~~substantially tempered demand~~ **inflation, and various other macroeconomic** as ~~discussed below under Item 7 – Management~~ **well as geopolitical concerns, such as military conflicts in Ukraine and the Middle East, the 2024 U. S. presidential and other elections and the federal government** ' s **functional stability** ~~Discussion and Analysis of Financial Condition and Results of Operations in this report~~ . Among other impacts, a severe or sustained economic contraction may trigger a rise in home ~~purchase~~ **sales** contract cancellations, which we and the homebuilding industry experienced in our 2022 ~~third~~ **second half** and ~~fourth quarters and which we anticipate will continue into~~ 2023 **first quarter** , resulting in significantly lower net orders as compared to corresponding year- earlier periods. In addition, these conditions, along with heightened competition from other homebuilders and sellers **and landlords** of ~~resale~~ **existing** homes, as discussed below, may lead us to reduce our home selling prices or offer other concessions to attract or retain buyers, which we did **selectively** in **2023 (particularly, mortgage- related concessions such as interest rate buydown** ~~our~~ - **or** ~~2022 second half~~ **lock programs),** and expect to continue doing in ~~2023~~ **2024** to varying degrees, negatively affecting our revenues and margins. An extended downturn in the U. S. housing market could result in an oversupply of new home and resale inventory and greater foreclosure activity, which would further impair our ability to sell homes at the same volume, prices and margins as in prior periods. • Reduced employment levels and job and wage growth. While employment has mostly grown since mid- 2020, it may rise more slowly or decline in ~~2023~~ **2024** ~~, especially if inflation and interest rates remain elevated and other national and global macroeconomic conditions, including fallout from the ongoing military conflict in Ukraine that began in February 2022, continue to stress the U. S. economy~~ . If it does, our core first-time and first move- up homebuyer segments could be particularly affected, impacting us more severely than homebuilders targeting a different buyer demographic. • Lower population growth, household formations or other unfavorable demographic changes. These may be driven by, among other things, birth rate changes, economic factors or U. S. immigration policies. • Diminished consumer confidence, whether generally or as to purchasing a home. Consumers may be reluctant to purchase a home compared to housing alternatives (such as renting apartments or homes, or remaining in their existing home) due to location or lifestyle preferences, affordability and home selling price perceptions (particularly in markets that experienced rapid home price appreciation), employment instability or otherwise. Consumers may also decide not to search for a new home, or cancel their home ~~purchase~~ **sales** contracts with us, due to economic or personal financial uncertainty. **The** ~~We saw this during the 2022 second half, as U. S. housing demand weakened significantly compared to the year- ago period and much of the 2022 first half due primarily to a~~ combination of sharply higher mortgage interest rates since early 2022, several years of rising housing prices, volatility across financial markets, elevated inflation and various other macroeconomic and geopolitical concerns ~~weighing~~ **have weighed** on consumer budgets and confidence. ~~These~~ **In addition, homeowners who purchased their home with a relatively low mortgage interest rate, as was generally the case from mid- 2020 to mid- 2022, may be reluctant to move given the sharp rate increases in 2022 and 2023. With** housing affordability **at** ~~and~~ - **an all- time low** ~~other pressures negatively impacted homebuyer sentiment, resulting~~ in **July 2023** ~~many prospective buyers pausing their homebuying decisions~~ , **these conditions** ~~including deciding not to complete home purchase contracts, and~~ are expected to ~~continue~~ **remain** , and possibly worsen, in ~~2023~~ **2024** . • Tightened availability or affordability of mortgage loans and homeowner insurance coverage. Most of our buyers need a mortgage loan to purchase their home. Their ability to obtain a mortgage loan is largely subject to prevailing interest rates, lenders' credit standards and appraisals, and the availability of government- supported programs, such as those from the Federal Housing Administration, the Veterans Administration, Federal National Mortgage Association (also known as Fannie Mae) and the Federal Home Loan Mortgage Corporation (also known as Freddie Mac). If mortgage loan interest rates further increase, which they did ~~to a significant degree~~ in 2022 ~~with~~ **and 2023, reflecting** the U. S. Federal Reserve' s focus on moderating inflation **and investors' concerns about the federal government' s debt level** , credit standards are tightened, appraisals for our homes are lowered or mortgage loan programs are curtailed, potential buyers of our homes may not be able to obtain necessary mortgage financing to be able to purchase a home from us. **During 2022 and 2023,** ~~Insurance~~ **insurance** companies **exited** ~~are increasingly drawing back from issuing~~ , ~~or are measurably raising premiums for~~ - **or** ~~,~~ **significantly reduced** homeowner insurance policies **,** in areas that have experienced, or are thought to be at risk of experiencing, significant wildfires, hurricanes, flooding or other natural disasters, such as in ~~the states of~~ California and Florida. If potential homebuyers are unable to obtain affordable homeowner insurance coverage, they may **not**

be able to or decide not to pursue purchasing a home or may cancel a home ~~purchase~~ **sales** contract with us. • Poor lender performance. We depend on third- party lenders, including GR Alliance Ventures, LLC (" GR Alliance ~~,~~ " **),** ~~f / k /~~ a ~~Stearns Ventures~~ **subsidiary of Guaranteed Rate** , ~~LLC),~~ **Inc. and** our third- party partner in KBHS, to provide mortgage loans to our homebuyers, unlike homebuilders with a wholly- owned mortgage lender. These lenders may be unable or unwilling to complete, timely or at all, the loan originations they start for our homebuyers. Poorly performing lenders can significantly delay home closings, disrupting our production schedules and delivery forecasts, or cause home ~~purchase~~ **sales** contract cancellations. If GR Alliance or KBHS perform poorly and our customers use another lender, the income from and value of our KBHS equity interest would decline. • Adverse tax law changes. If federal or state laws are changed to eliminate or reduce the income tax benefits associated with homeownership, such as personal tax deductions for mortgage loan interest costs and real estate taxes, the after- tax cost of homeownership could measurably increase and diminish consumer interest in buying a home, as could increases in personal income tax rates. **At the same time, favorable tax law changes will not necessarily increase demand or allow for higher selling prices for homes generally or for the homes we sell.** • Competition. We face significant competition for customers from other homebuilders, sellers of resale homes and other housing industry participants, including **single- family and other** rental- housing operators. This competitive environment may, among other things, cause us to reduce our home selling prices or offer other concessions to attract or retain buyers. ~~The weakening~~ **While the historically low level of resale home inventory reduced the competition from sellers of resale homes in 2023, we can provide no assurance that this favorable factor will continue to the same degree, or at all, in 2024. In addition, volatility** in buyer demand ~~we experienced~~ in ~~the~~ 2022 ~~second half, as discussed below under Item 7 – Management' s Discussion~~ and **2023** ~~Analysis of Financial Condition and Results of Operations in this report, significantly~~ increased competitive pressures for our business ~~during the period~~ and is expected to continue into ~~2023~~ **the next fiscal year** . • Seasonality. As discussed above under Item 1 – Business in this report, we historically have experienced fluctuations in our quarterly operating results with measurably more homes delivered and revenues generated in our third and fourth fiscal quarters. However, as was the case in **recent years** ~~2021 and 2020~~ , this pattern may not continue in the future at all or to the same degree as in the past. • Inflation. ~~We~~ **Since 2021** , ~~along with~~ **product and labor costs and general inflation in** the **economy** ~~homebuilding industry,~~ have ~~been adversely affected by~~ **increased and remained elevated compared to** the **prior decade. In turn, we experienced** rising ~~inflation in the U. S. economy throughout 2022, which, among other things, increased our~~ land and construction costs, particularly **for** ~~the costs of~~ building materials and construction service providers' rates, warranty repair costs, and compensation and benefit expenses to attract and retain talent ~~, and is~~ **. These trends are** expected to continue to ~~do so~~ **an extent** in ~~2023~~ **2024 , though they may worsen compared to prior years** . Inflation **has also tempered consumer demand for homes, disrupted credit and lending markets and** may ~~also~~ increase our financing costs, as borrowings **, if any,** under our unsecured revolving credit facility with various banks (" Credit Facility ") and our senior unsecured term loan with the lenders party thereto (" Term Loan ") typically accrue interest at a variable rate based on short- term Secured Overnight Financing Rate (" SOFR ") ~~, which can float higher with inflation. In addition, higher mortgage loan interest rates can affect the affordability of mortgage financing to prospective homebuyers~~ . While we attempt to pass on increases in our costs through increased selling prices, including for design options and upgrades, market forces **and buyer affordability constraints** ~~, such as the housing market slowdown as we experienced in the 2022 second half,~~ can limit our ability to do so. If we are unable to raise ~~sales~~ **selling** prices enough to compensate for higher costs, or **our borrowing costs** ~~if mortgage loan interest rates continue to~~ increase significantly, our revenues, housing gross profit margin and net income could be adversely affected. Supply Risks. The following could negatively affect our ability to increase our owned and controlled lot inventory, community count, operational scale and market share, and to grow our business, if at all: • Lack of available land. Securing sufficient developable land that meets our investment return standards is critical for us to meet our strategic goals and profitably expand our business' scale. Land availability depends on several factors, including geographical / topographical / governmental constraints, sellers' business relationships and reputation within the residential real estate community, and competition from other parties, some of which can bid more for land. ~~Though~~ **Reflecting the housing market slowdown in the 2022 second half and 2023 first quarter, we and other homebuilders reduced land acquisition spending during the period. With market conditions having improved since the 2023 first quarter,** we and other homebuilders have **increased** ~~pivoted since the 2022 third quarter to reduce~~ land ~~acquisition~~ **investments, pressuring availability and pricing. Whether we increase, decrease or maintain our current pace of land** ~~spending~~ --- **spend** ~~, as discussed above~~ , we expect to continue to face competition for desirable land in our served markets in ~~2023~~ **2024** and beyond, **limiting** ~~pressuring its availability and~~ our ability to profitably develop communities and sell homes on such land. • Supply chain and construction services shortages. Our business relies on a network of suppliers and trade partners to source materials and services to build homes. However, our industry and the U. S. economy have experienced since mid- 2020 labor shortages, supply chain constraints and rising and volatile raw material prices and availability, particularly related to building materials and appliances, such as with paint, garage doors, insulation, electrical materials, cabinets, HVAC equipment and water heaters, as well as delays with respect to state and municipal construction permitting, inspections and utility processes. Such constraints, cost pressures and delays have increased our costs, reduced our revenues in particular reporting periods, and in some instances, led to home ~~purchase~~ **sales** contract cancellations or lower customer satisfaction, and ~~we expect~~ these trends ~~to~~ **could** continue into ~~2023~~ **2024** . In an effort to manage our **construction** cycle times and deliver homes to our homebuyers, we, among other things, expanded our supplier base and added new construction service providers; worked with our national suppliers to get products and materials, or available temporary or permanent substitutes, delivered, including communicating in real- time with them; ordered items in advance of starting homes; implemented construction process workarounds; simplified our design ~~option~~ **options** and ~~upgrade~~ **upgrades** ~~SKUs~~ ; paced lot releases to align with our production capacity; and balanced pace, price and construction starts to enhance margins. **Although** ~~However,~~ we ~~had measurable~~ **achieved a meaningful sequential improvement in our construction cycle times in 2023, they remain extended relative to our historical average, and we**

continue to experience delays in **opening communities and** delivering homes **. We** ~~in 2022 because of the above- described issues, and~~ believe these challenging conditions **may** ~~will generally~~ persist **to a certain degree** into ~~2023~~ and potentially throughout **2024** ~~the year~~, as discussed below under " Outlook. " We may also face increased ~~future~~ home warranty and construction defect claims associated with replacing or servicing substitute products or materials used in some instances to address supply shortages in certain served markets or communities. • Insufficient financial resources. Our business needs considerable cash to, among other things, acquire and develop land, build homes and provide customer service. We expect to meet our needs with existing cash, future operational cash flow, our Credit Facility and unsecured letter of credit facility with certain financial institutions (" LOC Facility "), or outside sources, including loans that are specifically obtained for, or secured by, particular communities or other inventory assets, which we refer to as **"** project financing. **"** However, outside financing may be unavailable, costly and / or considerably dilute stockholders. For instance: ◦ Tight **or volatile** capital or financial market conditions may hinder our ability to obtain external financing or performance bonds, or use or expand our Credit Facility and LOC Facility, on favorable terms or at all. Also, if a rating agency downgrades our credit rating or outlook, external financing may be difficult and costly for us to obtain. ◦ Noncompliance with our Credit Facility, Term Loan and senior notes covenants may restrict our ability to borrow; accelerate repayment of our debt, which may not be feasible for us; or cause our lenders to impose significant fees or cease lending to us. ◦ As described in Note 15 – Notes Payable in the Notes to Consolidated Financial Statements in this report, if a change of control or fundamental change occurs before our senior notes mature, we may need to offer to purchase certain of them. This may require us to refinance or restructure our debt, which we may be unable to do ~~at all or~~ on favorable terms **or at all** . ◦ Our debt and **ratio of** debt ~~-~~ to ~~-~~ capital levels could require us to dedicate substantial cash flow to debt service; inhibit our ability to respond to business changes or adjust our debt maturity schedule; curb execution on our current strategies; and / or make us more vulnerable in a downturn than our less- leveraged competitors. The Term Loan will mature on August 25, 2026 ~~,~~ or earlier under certain circumstances. The Credit Facility will mature on February 18, 2027. Our next senior note maturity is our $ 300. 0 million in aggregate principal amount of 6. 875 % senior notes due June 15, 2027 (" 6. 875 % Senior Notes due 2027 ") **. ◦ We may not have access to financial resources if there is a failure of the banks or other financial institutions where we have placed cash and cash equivalent deposits or the banks or other financial institutions, or any substitute or additional banks or financial institutions, participating in our Credit Facility or LOC Facility. Under our Credit Facility, non- defaulting lenders are not obligated to cover or acquire a defaulting lender' s respective commitment to fund loans or to issue letters of credit, and may not issue additional letters of credit if we do not enter into arrangements to address the risk with respect to the defaulting lender (which may include cash collateral). If the non- defaulting lenders are unable or unwilling to cover or acquire a defaulting lender' s respective commitment, potentially due to other demands they face under other credit instruments to which they are party, or because of regulatory restrictions, among other factors, we may not be able to access the Credit Facility' s full borrowing or letter of credit capacity to support our business needs. Similarly, if the applicable lender fails to meet its commitment to provide payment guarantees for us under the LOC Facility, we may not be able to access its full issuance capacity to carry out important operational processes. In addition, if a party to the warehouse line of credit and master repurchase agreements KBHS uses to fund mortgage originations fails, or is unable or unwilling to fulfill their obligations, KBHS may be limited in its ability, or unable, to provide mortgage loans to our homebuyers, which may prevent them from closing on their home at the time expected or at all. Also, if there is a failure of the lender of the revolving line of credit to one of our unconsolidated joint ventures for it to finance its land acquisition, development and construction activities, the unconsolidated joint venture may be delayed or unable to complete the project** . • Decreased land inventory value. Our land inventory' s value depends on market conditions, including our estimates of applicable future demand and revenue generation. If conditions deteriorate during the typically significant amount of time between our acquiring ownership / control of land and delivering homes on that land; if we cannot sell land held for sale at its estimated fair value; or if we make strategic changes, we may need to record inventory- related charges ~~as we did in 2022~~. We may also record charges if we decide to sell land at a loss or activate or sell land held for future development. In addition, our business could be negatively affected if our net orders, homes delivered or backlog- to- homes delivered conversion rate fall; if often- volatile building materials prices or construction services costs increase, which has been the trend over the past few years ~~and was particularly the case with lumber in 2022 and 2021~~; or if our community openings are delayed due to, among other things, prolonged development from supply chain disruptions, construction services shortages or otherwise, our strategic adjustments, or protracted government approvals or utility service activations from staff or resource cuts or reallocations for public safety priorities (e. g., earthquakes, wildfires, flooding, hurricanes or other natural disasters). • Trade disputes and defective materials. The federal government has imposed, and may in the future impose, new or increased import tariffs or sanctions, and other countries have implemented retaliatory measures, raising the cost and reducing the supply of several home construction items. For example, the U. S., European Union and other countries have imposed wide- ranging sanctions on Russian business sectors, financial organizations, individuals and raw materials due to the military conflict in Ukraine that, in combination with restrictions caused by the hostilities, contributed to higher costs and shortages of building materials. **Military conflicts and other attacks in the Middle East region, including in or near shipping channels, may have a similar impact on the cost and availability of raw or finished building materials and components.** In addition, shortages or rising prices of building materials may ensue from manufacturing defects, resulting in recalls of materials. If such disputes continue or recalls occur, our costs and supply chain disruptions, as described above, could increase further. • Poor contractor availability and performance. Independent contractors perform essentially all of our land development and home construction work. Though we schedule and oversee such activities at our community sites, we have no control over our independent contractors' availability or work methods. If qualified contractors are not available (due to general shortages in a tight labor market, ~~as was the case throughout 2022 and is anticipated into 2023,~~ competition from other builders or otherwise), or do not timely perform, we may incur production delays and other inefficiencies, or higher costs for substitute services. Also, if our trade partners' work or materials quality does not meet our standards, we could face more home warranty and construction defect claims, and they or their insurers may not be able to cover the associated repair costs. • Potential expansion of employment- related obligations. Governmental agencies or others might assert that we should be subjected to California law and associated regulations that, in certain circumstances, impose responsibility upon direct contractors for certain wages and benefits that subcontractors of the direct contractor have failed to pay to their employees. It might also be alleged that California law and regulations impose other liabilities upon us with respect to the employees of our trade partners. Further efforts in California or elsewhere **, including a recent National Labor Relations Board proposal for determining joint- employer status under the National Labor Relations Act,** to impose such external labor- related obligations on us could create substantial exposure for us in situations beyond our control. Strategy Risks. Our strategies, and any related initiatives or actions, and any changes thereto, may not be successful in achieving our goals or generate any growth, earnings or returns, particularly in the highly volatile business environment of the past few years and as ~~expected~~ **may occur** in ~~2023~~ **2024** , due to ~~the extended supply chain disruptions, building materials and construction services shortages and delays in municipal construction permitting, inspection and utility processes that marked 2022 and 2021;~~ significant inflation, interest rate and financial market volatility **, or political** or social distress ~~; or the meaningful slowdown in housing market activity during the 2022 second half~~ . We may not achieve positive operational or financial results, or results equal to or better than we did in any prior period or in comparison to other homebuilders. We may also incur higher costs, or experience sourcing or supply chain disruptions that result in extended times to build our homes, as compared to other homebuilders due to our commitment to sustainability, as discussed above under " Environmental, Social and Governance. " **However, we expect there could be an unfavorable reputational impact if we do not maintain our sustainability programs, including if we decide not to construct homes that are designed to be ENERGY STAR certified or are otherwise as energy efficient as those we currently build; fail to achieve ENERGY STAR certification or any other voluntarily elected or mandatory energy-efficiency standard for our homes, which has occurred in a few instances in recent years; or if we fail to meet our sustainability objectives, including our GHG emissions- related goals.** Among other strategic risks, our business is presently concentrated in California, Florida, Nevada and Texas. Poor conditions in any of those markets could have a measurable negative impact on our results, and the impact could be larger for us than for other less- concentrated homebuilders. ~~In addition, we may not be successful in generating positive results from our 2021 expansion into the Boise, Idaho market and re- entry into the Charlotte, North Carolina market, or if we choose to enter into any other new markets, based on our relative inexperience with the local homebuilding and economic environment and the need to make a significant investment to achieve effective scale and profitable returns, which we may not be able to accomplish.~~ Adverse conditions in California would have particular significance to our business. We generate the highest proportion of our revenues from and make significant inventory investments in our California operations. However, we may be constrained or delayed in entitling land and selling and delivering homes in California, and incur higher development or construction costs, from water conservation or wildfire protection measures (including precautionary and event- induced electricity blackouts, temporary or extended local or regional evacuations, development moratoriums in high- risk areas, and community resiliency design requirements) that are intended to address severe drought and climate conditions that have arisen in recent years. In addition, as large- scale wildfires and flooding due to such conditions in California, as well as hurricanes, heavy rains and other climate change- driven natural disasters in other of our served markets, become more frequent and intense, as discussed below under " Climate Risk, " we may experience greater disruption to our land development and homebuilding activities, delaying orders and home deliveries, among other impacts. Also, California' s highly regulated and litigious business environment has made the state an increasingly difficult place for us to operate. This includes implementing regulations under the state' s Global Warming Solutions Act of 2006 (AB32) intended to lower GHG emissions. For instance, we have and will continue to incur higher construction costs because of a state law requirement that effectively requires that all ~~new~~ **newly - built** homes ~~permitted to build in 2020 and beyond~~ have solar power systems, and we may be unable to offset (through customer leases) or cover such costs through selling price increases due to competition and consumer affordability concerns. **In** ~~Also, in~~ 2022, the California Air Resources Board adopted a plan to eliminate installing natural gas appliances in new homes built in 2026 and beyond. **In addition** ~~While this plan has not been formalized into law or state building codes~~ , the state' s energy commission issued new energy efficiency standards ~~effective January 1, 2023~~ requiring all new residences to be electric- ready for heating, cooling, cooking, clothes drying and water heating systems ~~, and certain local jurisdictions have passed ordinances effectively mandating electrification in new homes by as early as 2023~~ . ~~In addition,~~ California and certain of its local governments ~~are considering or~~ have implemented restrictions on or disincentives ~~with respect to the creation or~~ **for** ~~size of~~ new suburban and exurban residential communities ~~, in part due to regulatory assessments of the vehicle miles traveled to reach them~~ , generally in favor of higher- density, urban developments that can be attractive to some buyers, but in many cases are on smaller parcels with higher building costs and more complicated entitlement requirements and may be subject to affordable housing mandates, prevailing wage requirements, greater local opposition and / or additional site remediation work. ~~Depending on their scope, these~~ **These** efforts have and could further significantly increase our land acquisition and development costs and, along with competition from other homebuilders and investors for available developable land, limit our California operations' growth, while making new homes less affordable to potential buyers in the state, including as a result of its public utilities commission' s ~~December 2022~~ decision to significantly reduce net metering payments to homeowners for the rooftop solar power they export to the grid from systems installed ~~on or after April 14, 2023. Partially offsetting these trends, California' s governor and certain legislators have taken positions to promote new housing construction, including the adoption of SB 8, which extends into 2030 the provisions of the Housing Crisis Act of 2019 (SB 330) intended to expedite the approval process for housing development in order to address the housing shortage in California~~ . Climate Risk. GHG emissions are driving global climate change that is expected to have various impacts on our operations, ranging from more frequent extreme weather events to extensive governmental policy developments and shifts in consumer preferences, which have the potential individually or collectively to significantly disrupt our business as well as negatively affect our suppliers, independent contractors and customers. Experiencing or addressing the various physical, regulatory and adaptation / transition risks from climate change may significantly reduce our revenues and profitability, or cause us to generate losses. For instance, incorporating greater resource efficiency into our home designs, whether to comply with upgraded building codes or recommended practices given a region' s particular exposure to climate conditions, or undertaken to satisfy demand from increasingly environmentally conscious customers or to meet our own sustainability goals, often raises our costs to construct homes. In evaluating whether to implement voluntary improvements, we also consider that choosing not to enhance our homes' resource efficiency can make them less attractive to municipalities, and increase the vulnerability of residents in our communities to rising energy and water expenses and use restrictions. We weigh the impact of the costs associated with offering more resource- efficient products against our priorities of generating higher returns and delivering homes that are affordable to our core first- time and first move- up buyers. We also consider whether our buyers may face higher costs for, or may be unable to obtain, fire, flood or other hazard insurance coverage in certain areas due to local environmental conditions or historical events. In balancing these objectives, we may determine we need to absorb most or all the additional operating costs that come with making our homes more efficient and / or from operating in areas with more extensive regulatory requirements, such as California, or certain climates. While our years of experience in sustainable homebuilding, as discussed above under " Environmental Practices, " and ability to leverage economies of scale may give us an advantage over other homebuilders in managing these absorbed costs, they may be substantial for us. Beyond the commercial pressures implicated by climate change concerns, our operations in any of our served markets may face potential adverse physical effects. For example, California, our largest market, has historically experienced, and is projected to continue to experience, climate- related events at an increasing frequency including drought, water scarcity, heat waves, wildfires and resultant air quality impacts and power shutoffs associated with wildfire prevention. In addition, **based on** ~~hurricanes in Florida and~~ - **an** ~~conditions negatively impacting~~ **Arizona state order in June 2023, new housing subdivisions will not be permitted in some parts of Phoenix unless developers, like us, secure water supplies** ~~the~~ **other** ~~U. S. shipping and railway transportation corridors contributed to the supply chain disruptions that~~ **than local groundwater** ~~have significantly affected our business, as discussed above under " Strategy Risks~~ . ~~"~~ While we have health and safety protocols in place for our construction sites and take steps to safeguard our administrative functions, including our IT resources, as described below under " Information Technology and Information Security Risks, " we can provide no assurance that we or our suppliers or trade partners can successfully operate in areas experiencing a significant weather event or natural disaster, and we or they may be more impacted and take longer, and with higher costs, to resume operations in an affected location than other homebuilders or businesses, depending on the nature of the event or other circumstances. As discussed above under " Strategy Risks, " and below under " Legal and Compliance Risks, " international, federal, state and local authorities and legislative bodies have issued, implemented or proposed regulations, penalties, standards or guidance intended to restrict, moderate or promote activities consistent with resource conservation, GHG emission reduction, environmental protection or other climate- related objectives. Compliance with those directed at or otherwise affecting our business or our suppliers' (or their suppliers') operations, products or services, could increase our costs, such as with California' s requirement that all new homes have solar power systems and agency **requirements for** ~~plans to require~~ all- electric readiness and **plans to** potentially eliminate natural gas appliances in new homes built in the state by 2026; delay or complicate home construction, for example, due to a need to reformulate or redesign building materials or components, or source updated or upgraded items or equipment, or specially trained or certified independent contractors, in limited or restricted supply, which has been a challenge for us in certain cases in ~~2022 and 2021~~ **the past few years** , such as with paint, garage doors, insulation, electrical materials, cabinets, HVAC equipment and water heaters that have been out of stock and delayed home construction or required us to install or use temporary or permanent substitutes due to the supply chain disruptions we have experienced; or diminish consumer interest in homes mandated to include or omit certain features, amenities or appliances, particularly if home prices increase as a result. Adapting to or transitioning from the use of certain items or methods in home construction, or adjusting the products we offer to our buyers, whether due to climate- related governmental rules affecting home construction or our supply chain, market dynamics or consumer preferences, can negatively affect our costs and profitability, production operations in affected markets and customer satisfaction during the transition period, which could be prolonged. For instance, in certain local markets in California where natural gas use is banned in new homes, we have faced some disruptions in reorienting our purchase order, independent contractor engagement, design studio and home construction processes to accommodate the restriction and, longer term, have implemented certain architectural design changes for all- electric homes. To the extent other jurisdictions or the state adopt such bans and as we implement the state' s all- electric readiness requirements, as discussed above, we will face similar issues. Though practically available technology and resources allow us only to make certain estimates, and not definitive measurements, of the effectiveness and overall impact of our longstanding and broad- based environmental sustainability initiatives described above under " Environmental Practices, " we feel these initiatives and their evolution over time represent how we can best address climate change risks in the context of our business, industry and the wider, and rapidly changing, economic, social and political environment. However, climate change is an intrinsically complex global phenomenon with inherent residual risks across its physical, regulatory and adaptation / transition dimensions that cannot be mitigated given their wide- ranging, (sometimes unexpectedly) interdependent and largely unpredictable potential scope, nature, timing or duration. Therefore, though we have not as of the date of this report identified or experienced any particular material impact, whether singular or in combination, to our consolidated financial statements from climate change or the associated regulatory, physical, transition and other risks discussed above, we cannot provide any assurance that we have or can successfully prepare for, or are or will be able to reduce or manage any of them to the extent they may arise. **Further** ~~For instance~~ , ~~the SEC~~ **we expect that** ~~has~~ - **as** ~~proposed~~ **concerns about climate change and other environmental issues continue to increase, homebuilders will be required to comply with new and** extensive **laws and**

regulations, including recently enacted climate disclosure laws in California as well as any climate- related disclosure rules **ultimately adopted by the SEC** , **each of** which **we anticipate will result in additional** ~~, if adopted, would likely impose~~ significant compliance costs ~~on us~~ . In ~~addition~~ **October 2023** , ~~we~~ **California enacted the Climate Corporate Data Accountability Act (SB- 253), which mandates the disclosure of GHG emissions, including Scope 1, Scope 2 and Scope 3 emissions; and the Climate- Related Financial Risk Act (SB- 261), which mandates the disclosure of climate- related financial risks, and measures adopted to reduce and adapt to such risks. Both California laws require initial disclosures in 2026. California also enacted a third climate- disclosure law that requires entities that operate in the state and make net zero emissions claims, carbon- neutral claims or significant GHG reduction claims to disclose, starting in 2024, information about those claims and the purchase or use of voluntary carbon offsets used to achieve those claims. We** may **also** experience substantial negative impacts to our business if an unexpectedly severe weather event or natural disaster damages our operations or those of our suppliers or independent contractors in our primary markets, such as in California, Florida, Nevada and Texas, or from the unintended consequences of regulatory changes that directly or indirectly impose substantial restrictions on our activities or adaptation requirements **. Such severe weather events can delay home construction, increase construction costs, reduce the availability of building materials, and damage roads and / or cause transportation delays that stress our supply chain and negatively impact the demand for new homes in affected areas, as well as slow down or otherwise impair the ability of utilities and local government agencies to provide approvals and service to new communities. Further, if our insurance does not fully cover our costs and other losses from such events, our earnings, liquidity, or capital resources could be adversely impacted** . Warranty Risks. Our homebuilding business is subject to warranty and construction defect claims. Though we have insurance coverage to partially reduce our exposure, it is limited and costly, in part due to a shrinking provider market, and we have high self- insured retentions that are expected to increase. We self- insure some of our risk through a wholly- owned insurance subsidiary. Due to our dependence on the performance of independent suppliers and contractors to provide products and materials and carry out our homebuilding activities, and the associated risks described above under " **Inflation, " "** Supply chain and construction services shortages " and " Poor contractor availability and performance, " as well as inherent uncertainties, including obtaining recoveries from responsible parties and / or their or our insurers, our recorded warranty and other liabilities may be inadequate to address future claims, which, among other things, could require us to record charges to increase such liabilities. We may also record charges to reflect our then- current claims experience, including the actual costs incurred. Home warranty and other construction defect issues may also generate negative publicity, including on social media and the ~~Internet~~ **internet** , that detracts from our reputation and efforts to sell homes. ~~Deferred~~ Tax **- Related** ~~Asset Recovery and Tax Position~~ Risks **. Our future income tax rates and expense can fluctuate or be adversely affected due to legislative and regulatory changes; government or court interpretations of new or existing tax laws and regulations; changes in available tax credits; adjustments to estimated taxes in finalizing our tax returns and / or due to new regulatory guidance, as occurred in our 2023 fourth quarter; changes in non- deductible expenses, particularly those associated with compensation; tax benefits related to stock- based compensation; the realization of our deferred tax assets; and the resolution of tax audits with federal or state tax authorities based on, among other things, tax positions we have taken. In prior years, we have recognized federal tax credits from our building energy- efficient new homes. In some periods, these tax credits were not available because Congress had not renewed the program. The 2022 Inflation Reduction Act (" IRA ") extended this federal tax credit under Internal Revenue Code Section 45L (" Section 45L ") to 2032. At the same time, the legislation newly tied qualifying for the Section 45L tax credit on and after January 1, 2023 to new homes achieving ENERGY STAR certification. In late September 2023, the Internal Revenue Service (" IRS ") issued guidance setting a higher qualifying ENERGY STAR version for single- family homes built in California than for any other state. Under this guidance, significantly fewer of our homes built in California in 2023 satisfy the Section 45L qualifications. Our income tax expense for the 2023 fourth quarter reflected the cumulative impact of the September 2023 guidance. Subject to future guidance, regulation or legislation, we may not be able to realize Section 45L tax credits for our homes, even if they attain ENERGY STAR certification, at the same level as in prior years or we may incur additional costs to build homes that can qualify. Further, should the Section 45L tax credit be reduced or repealed, or if the qualification standards are revised, or we adjust how we build our homes, such that even fewer of our homes qualify for the Section 45L or other energy efficiency- related tax credits, our income tax rate and expense would likely increase, which would reduce our net income and cash flow and may have a material adverse impact on our consolidated financial statements** . Our realization of our deferred tax assets depends on our generating sufficient future taxable income, which may not occur. Also, our deferred tax assets' value can increase or decrease with: (a) changes in the federal corporate income tax rate; (b) our undergoing a " change of ownership " under federal tax rules, which would significantly reduce and possibly eliminate their value; and (c) adjustments in statutory or taxing authority treatment of such assets. We have filed our tax returns based on certain positions we believe are appropriate, and we may owe additional taxes if taxing authorities disagree with those positions. Human Capital Risks. Our directors, officers and employees are important resources. If we cannot attract, retain and develop talent at reasonable pay and benefits levels, ~~which has become more challenging with the persistent elevated inflation experienced in 2022,~~ or, alternatively, if we need to implement personnel or compensation reductions, our performance, profitability and ability to achieve our strategic goals could be significantly impaired. In addition, in many of our served markets, we need to have personnel with certain professional licenses, including building contractor and real estate brokerage licenses. Our home selling and construction activities may be severely disrupted or delayed if we do not have sufficient licensed individuals in our workforce. Information Technology and Information Security Risks. We use IT resources to carry out important operational activities and maintain our business records. Third parties provide and maintain many of our IT resources, including disaster recovery and business continuity services intended to safeguard access to and use of our IT resources during a general or local network outage, under agreements with evolving security and service level standards. Our senior IT executives also periodically update the audit and compliance committee of our board of directors on our cybersecurity practices and risks, most recently in ~~October~~ **January** ~~2022~~ **2024** . A reporting process has been established, and periodically tested and refined with the assistance of outside experts, to escalate notice within our organization of and coordinate ~~and deploy~~ our response to IT security events. Depending on the severity of an event, our incident reporting process includes informing as early as practicable our senior corporate management and members of our board of directors. Our systems have faced a variety of phishing, denial- of- service and other attacks and occasional theft of encrypted employee laptops. ~~We~~ **To help counter the growing volume and sophistication of cyberattacks, including the potential of fraudulently inducing our employees, customers, trade partners and other third parties to disclose information or unknowingly provide access to systems or data, as well as state and other actors using artificial intelligence technology, we** have **implemented** administrative, physical and multi- layered technical controls and processes ~~in place~~ to **help** address and mitigate cybersecurity risks and ~~help~~ protect our IT resources, including employee education and awareness training, as well as third- party assessments. Our technical defense layers are designed to provide multiple, ~~redundant~~ **overlapping** measures to protect against exploitation of a vulnerability that may arise or if a security control fails. ~~We~~ **For these defenses, we** rely on **a combination of** artificial intelligence, machine learning computer network monitoring, malware and antivirus resources, firewall and intrusion detection systems, vendor cloud service defenses, ~~Internet~~ **internet** address and content filtering monitoring software that secures against known malicious websites and potential data exfiltration, and a variety of cyber intelligence threat monitoring sources that provide ongoing updates, all provided from third parties that we believe **, but cannot guarantee,** are capable of performing the protective service for which we have engaged them. We conduct periodic incident response tabletop exercises, with third- party support and reviews, and have established communication channels with KBHS security personnel and key partners regarding their breach and incident response processes. In addition, we perform an annual cybersecurity risk assessment ~~based on the National Institute of Standards and Technology framework~~ to identify potential areas of focus. We also depend on our service providers, GR Alliance and other mortgage lenders with whom we share some personal identifying and confidential information to secure our information and the homebuyer information they collect from us. Our IT security costs, including cybersecurity insurance, are significant and will likely rise in tandem with the sophistication and frequency of system attacks. However, our, GR Alliance' s and our service providers' measures may be inadequate and possibly have operational or security vulnerabilities that could go undetected for some period of time. If our IT resources are compromised by an intentional attack, natural or man- made disaster, electricity blackout, IT failure or systems misconfiguration, service provider error, mismanaged user access protocols, personnel action, or otherwise, we may be severely limited in conducting our business and achieving our strategic goals for an extended period, experience internal control failures or lose access to operational assets or funds. A substantial disruption, or security breach suffered by GR Alliance / KBHS or a service provider, **particularly our cloud service provider which hosts many of our IT resources,** could damage our reputation and result in the loss of customers or revenues, in sensitive personal information being publicly disclosed or misused and / or legal proceedings against us. We may incur significant expenses to resolve such issues. While, to date, we have not had a significant cybersecurity breach or attack that had a material impact on our business or ~~results of operations~~ **consolidated financial statements** , there can be no assurance our efforts to maintain the security and integrity of these systems will be effective or that attempted security breaches, cyber- attack, data theft or disruptions would not occur in the future, be successful or damaging **. Beyond our service providers, we depend on independent third parties to handle certain processes required to complete land purchases and home closings, including title insurers and escrow / settlement companies. In November and December 2023, two national title insurance and escrow / settlement companies experienced cybersecurity incidents that substantially impaired their ability to provide those services, resulting in delays in our and others' land purchase and home closing transactions. Should these third parties, as well as independent mortgage lenders and other firms involved in real property transactions, experience their own cybersecurity incidents or IT resource failures that disrupt or prevent their performance of necessary real estate transaction services, our ability to close on land transactions or our customers' ability to close on their homes, as well as our production schedules and delivery forecasts, may be significantly disrupted and have a material impact on our operations or consolidated financial statements, including by causing home sales contract cancellations** . We have invested significant resources over the past few years to develop and implement a new enterprise resource planning (" ERP ") system designed to improve the efficiency of our internal operational and administrative activities. **While all** ~~There are inherent risks in undertaking this type~~ of **our operations** ~~broad- based IT project and we~~ have **transitioned to** ~~experienced complications and delays during~~ the ~~implementation process. We~~ **new ERP system as of November 30, 2023, we** expect **to** ~~these will~~ continue **to enhance** ~~as we progress~~ and expand the scope of the system ~~in 2023~~ and **may** ~~that we will~~ incur appreciable additional costs in doing so ~~. In addition, the testing and use of the new system during this rollout could increase our exposure to the security risks and consequences discussed in the foregoing paragraph~~ . Legal and Compliance Risks. As discussed above under Item 1 – Business in this report, our operations are subject to myriad legal and regulatory requirements, which can delay our operational activities, raise our costs and / or prohibit or restrict homebuilding in some areas. ~~For example, certain of our Texas operations are subject to rules mandating enhanced flood management practices stemming from recent large hurricanes and rainstorms.~~ These requirements often provide broad discretion to government authorities, and they could be interpreted or revised in ways unfavorable to us. The costs to comply, or associated with any noncompliance, are, or can be, significant and variable from period to period. With respect to environmental laws, in addition to the risks and potential operational costs discussed above, we have been, and we may in the future be, involved in federal, state and local air and water quality agency investigations or proceedings for potential noncompliance with their rules, including rules governing discharges of materials into the air and waterways; stormwater discharges from community sites; and wetlands and listed species habitat protection. We could incur penalties and / or be restricted from developing or building at certain community locations during or as a result of such agencies' investigations or findings. Additionally, we are involved in legal, arbitral or regulatory proceedings or investigations incidental to our business, the outcome or settlement of which could result in material claims, losses, monetary damage awards, penalties, or other direct or indirect payments recorded against our earnings, or injunctions, consent decrees or other voluntary or involuntary restrictions or adjustments to our business operations or practices. Any adverse results could be beyond our expectations, insurance coverages and / or accruals at particular points in time. Unfavorable outcomes, as well as unfavorable investor, analyst or news reports related to our industry, company, personnel, governance or operations, may also generate negative publicity, including on social media and the ~~Internet~~ **internet** , damaging our reputation and resulting in the loss of customers or revenues **. We may also face similar reputational impacts if our sustainability initiatives or objectives and / or our social or governance practices do not meet the standards set by investors or third- party rating services. Additionally, low third- party ratings could result in our common stock being excluded from certain indexes or not being recommended for or selected by investors with certain mandates or priorities** . To reduce the risks and expected significant costs of defending intra- corporate proceedings in multiple venues and to help ensure that such matters are considered within a well- established body of law, our By- Laws provide that, subject to certain exceptions, Delaware state courts are the exclusive forum for specified internal corporate affairs actions **and** ~~. In addition, our board of directors recently amended our By- Laws to provide that~~ federal courts are the exclusive forum for any action asserting a claim arising under the Securities Act of 1933, as amended ~~, as discussed below in Item 9B – Other Information in this report~~ . These provisions may limit a stockholder' s ability to bring a claim in their favored forum. At the same time, if a court were to allow for an alternative forum, or we waive the provision' s application, for a particular matter, we may incur additional costs associated with resolving an otherwise relevant action in another jurisdiction (s). The European Union and state governments, notably California and Nevada, have enacted or enhanced data privacy regulations, and other governments are considering establishing similar or stronger protections. These regulations impose certain obligations for securing, and potentially removing, specified personal information in our systems, and for apprising individuals of the information we have collected about them. We have incurred costs in an effort to address these data privacy risks and requirements, and our costs may increase significantly as risks become increasingly complex or if new or changing requirements are enacted, and based on how individuals exercise their rights. ~~For example, in November 2020, California voters approved Proposition 24 (Consumer Personal Information Law and Agency Initiative), which will increase data privacy requirements for our business when its provisions take effect in 2023.~~ Despite our efforts, any noncompliance could result in our incurring substantial penalties and reputational damage. KBHS' operations are heavily regulated. If GR Alliance, which oversees KBHS' operations, or KBHS is found to have violated regulations, or mortgage investors demand KBHS repurchase mortgage loans it has sold to them, or cover their losses, for claimed contract breaches, KBHS could face significant liabilities, which, if they exceed its reserves, could result in our recognizing losses on our KBHS equity interest. Our financial results may be materially affected by the adoption of new or amended financial accounting standards, and regulatory or outside auditor guidance or interpretations. In addition, to the extent we expand our disclosures on our sustainability initiatives in line with certain private reporting frameworks and investor requests, or the proposed SEC rules mentioned above, if adopted, our failure to report accurately or achieve progress on our metrics on a timely basis, or at all, could adversely affect our reputation, business, financial performance and growth. ~~Pandemic Risks. An epidemic, pandemic or similar serious public health issue, and the measures undertaken by governmental authorities to address it, could significantly disrupt or prevent us from operating our business in the ordinary course for an extended period, and thereby, and / or along with any associated economic and / or social instability or distress, have a material adverse impact on our consolidated financial statements. We experienced significant impacts to our business during 2020, beginning in mid- March, due to the outbreak of COVID- 19 and the related COVID- 19 control responses by international, federal, state and local public health and governmental authorities, including quarantines, " stay- at- home " orders and similar mandates. Although we gradually resumed nearly all of our operations with the relaxing of the early COVID- 19 control responses beginning late in our 2020 second quarter, we can provide no assurance as to whether any future public health efforts for COVID- 19 will be intensified to such an extent, particularly in response to any resurgence in infections, whether due to the spread of any variants of the virus or otherwise, combined with the seasonal flu and / or other viruses, that we will not be able to conduct any business operations in certain of our served markets or at all for an indefinite period. Should the adverse public health measures described above (or others that are currently unknown) occur, whether individually or collectively, we could experience decreases in our net orders, homes delivered, average selling prices, revenues and profitability, as we did during our 2020 second quarter, and such impacts could be material to our consolidated financial statements. Among other things, this could result in our recognizing charges in future periods, which may be material, for inventory impairments or land option contract abandonments, or both, related to our inventory assets, and along with an increase in cancellations of home purchase contracts, if there are prolonged government restrictions on our business and our customers, and / or an extended economic recession, we could be unable to produce revenues and cash flows sufficient to conduct our business; meet the terms of our covenants and other requirements under the Credit Facility, the Term Loan, our senior notes and the related indenture, and / or mortgages and land contracts due to land sellers and other loans; service our outstanding debt; or pay any dividends to our stockholders. Such a circumstance could, among other things, exhaust our available liquidity (and ability to access liquidity sources) and / or trigger an acceleration to pay a significant portion or all of our then- outstanding debt obligations, which we may be unable to do.~~ Other Risks. The risk factors described above are not our only salient risks. Political events, war, terrorism, weather or other natural / environmental disasters, and other risks that are currently unknown or **are currently or may initially be** seen as immaterial, could also have a material adverse impact on our business, consolidated financial statements and / or common stock' s market price.