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Remarks by Donald E. Graham
Chairman of the Board and Chief Executive Officer

I want to talk to you, and through you to our shareholders, about the present and future of The Washington Post Company. Inevitably, I'll be repeating a bit of what I said just 12 weeks ago at Shareholders Day, but I'll try to emphasize what's new.

We get written about as a combination of a newspaper company and an education company. Our most profitable business, though, is Cable ONE. And since the Founding Fathers considerately scheduled a Presidential election next year, our most profitable business in 2012 may well be Post–Newsweek Stations (our excellent group of six televisions stations, four thoughtfully located in swing states).

But the future of the Company has greatly to do with the rebuilding of Kaplan, and especially of our higher education business. (I will footnote that I am greatly encouraged by progress at rebuilding Kaplan Test Prep under John Polstein.)

Now, this being The Washington Post Company, I will start with one eternal verity. I don't run Kaplan – in our highly decentralized Company, Andy Rosen runs Kaplan, as Katharine Weymouth runs the Post, Alan Frank runs Post–Newsweek Stations and Tom Might runs Cable ONE.

But Andy Rosen knows a great deal about education, and you'll find his insights about the future of higher education illuminating. He has written an excellent short book called *Change.edu: Rebooting for the new talent economy.*

Andy's argument is:

1) America's private colleges are great. Andy is a Duke grad, and his daughter is enrolled at a traditional university. But, collectively, these universities are not expanding, and below the elite level they are working to improve their prestige and their U.S. News rankings largely by improving student housing, food and recreation rather than by focusing on education.

   This is not a minor point; the business model for most private college today is: move up in the U.S. News rankings. Many of these colleges are excellent, but because they are not growing, they won't solve our nation's higher education crisis.

2) America's community colleges are great. But their graduation rates have always been low, and in the face of contracting state budgets, they aren't always available to students. Even if students can enroll, they often can't enroll in the courses and programs they need.

3) For-profit universities have a great opportunity. But to succeed they must focus on learning outcomes. Kaplan is unusual in measuring academic progress, and we can prove how much students actually learn. We must focus on that and constantly improve the student experience and the outcomes.

I'll digress briefly and talk about the regulatory controversies of the last two years. Kaplan will, of course, live with the outcome of the gainful employment debate. But that outcome is unfortunate. The U.S. Department of Education focused on punishing "bad actors," not on encouraging good instruction or on reducing prices.

I thought the Department's initial efforts were wildly misguided and said so as loudly as I could, wherever I could. I don't think my own arguments had any effect at all. But in response to more than 90,000 comments on the proposed regulations, the Department agreed to soften its provisions somewhat, while leaving the basic framework of the proposed regulations unchanged. The train was slowed down, but it stayed on the same set of tracks.

To end the digression and return to Andy's book: one other lesson is that once great educational names are established, they last – Harvard and Yale are older than Dupont, the oldest large U.S. corporation I can think of. (Kaplan in no sense aspires to be Harvard or Yale any more than The Washington Post Company aspires to be Dupont.) The universities with the best reputations 15 years ago all have very strong reputations today.

I regard it as certain that excellent and enduring private-sector universities will be built in the next 20 years. As Andy says, they'll be known for their educational solutions – for being a great place to learn criminal justice or nursing – not for their leafy quads. We want Kaplan to be one of them.

We have one competitive weapon almost no other universities have deployed as we do: the Kaplan Commitment, which provides first-time Kaplan students with a four or five-week risk-free period at the start of a student's career. Students enroll, and they may withdraw for any reason at any time during the trial period without incurring any tuition obligation or any debt whatsoever. We also can tell them based on their early academic results if they are unlikely to succeed and dismiss them.

The numbers on this are quite interesting: as of the end of the third quarter, 14,000 students had been dismissed or had withdrawn during their trial period; an estimated $47 million in revenue had been foregone.

As to the quality of our programs, I would humbly point out: a university that offers the Kaplan Commitment has to have a very strong belief in itself. There are excellent universities in New York. Try asking if you can enroll in one of them and get your money back.

A subtext to the for-profit education debate has been a question: can a public, profit-seeking corporation be a suitable home for an educational institution?
Our answer is: a certain kind of company most certainly can. Because of our long-term outlook and our lack of focus on quarterly results, Andy and his team have plenty of running room in seeking to build a high-quality private sector university where students will learn and enjoy the experience. The students will profit, and so will the Company.

Speaking of long-term projects, let us turn to the digital distribution of news. The WaPo Labs team has a small hit on its hands. Washington Post Social Reader has now gone through 5 million downloads.

Two things are interesting about this. First, Social Reader made its debut on September 22 – 10 weeks ago. Second, 80% of our readers are 18 to 34. At last, a news app we have produced is reaching younger readers – millions of them.

That was unexpected; even more unexpected to us was our huge readership in India, then in the U.K. and now in the Philippines. What does this mean in the long run? We don't know. What does it mean for Washington Post Company revenues in 2012? Almost surely nothing. I have told Vijay Ravindran he is not to think about monetizing Social Reader for right now.

Perhaps over-influenced by attending so many Facebook board meetings, our priorities are to build a very large market share.

But we believe when we start monetizing Social Reader we'll be selling something advertisers want to buy: an audience of 18 to 34-year-olds.

Social Reader is a step; it isn't the answer to anything. But it has proven two things to me. One is that the most popular news sites of the future will have a social component – you'll be able to see what your friends are reading.

Second: I am happy that we have a team capable of creating such a product – in a relatively short time. Chief digital officer Vijay Ravindran and every single person on the Labs team deserve credit for building something with massive appeal to readers.

There will be a lot of Social Readers from other companies soon. We'll see how we stand up to the competition.

Social Reader isn't the only innovation going on around our newspapers. With a variety of new products and new people, washingtonpost.com has set records, according to our own internal numbers, in page views, unique visitors and visits. Looking at the last five months in comScore, we grew unique visitors by 10%, page views by 14% and average minutes per visit increased by almost four minutes.

Also, we've seen in our internal tracking a 49% increase in visits to our mobile sites year over year through November, and a 240% increase in visits to our full site via mobile devices.

Under publisher Katharine Weymouth, Marcus Brauchli and Raju Narisetti on the news side, and Steve Hills on the business side, there's a team devoted to keeping up quality and keeping down cost – both essential to our future.

Finally, a short disquisition on our cable business. Most of it is straight from Tom Might.

For more than a decade, Cable ONE ran its unique collection of second-tier systems with appropriately different strategies than other MSOs, but with surprisingly different results. Over the years 2002 to 2009, compared to the larger cable providers Comcast, Time Warner, Cablevision and Charter, we had:

- the lowest revenue per sub – about 22% lower than average;
- the lowest capex per sub – about 28% lower than average;
- we also had the lowest operating expense per sub; and
- we believe we had the highest cash flow margin.

We also had the highest customer satisfaction of this group, according to JD Power, 2010.

Meanwhile, the cable business changed from a video-focused business to a package of three near-commodities: video, voice and data. Cable ONE adjusted its strategy:

- we have not raised rates for 2½ years;
- we offered a $75 triple play ($105 after the first year), including DOCSIS 3 Internet at 50 MG speed (we think the lowest-priced bundle in the country);

- we've relentlessly kept trimming costs;
- but our margins transitioned from above to below average, by our choice.

The first four quarters after our $75 bundle saw PSU growth that was three times the industry average. The revenue offset the discounts; we like that tradeoff for the long haul.

We declined in the third quarter for four reasons:

- we're in several states where unemployment is rising;
- AT&T U-Verse has overbuilt our small Mississippi systems (using taxpayer funds, by the way);
- satellite providers started local-into-local in the Gulf Coast, where 15% of our subs are located; and
- Cable ONE is the cable provider in Joplin, Mo., and you all know what happened there.

Meanwhile, TV networks have been incredibly aggressive in retrans, and cable networks in rate hikes. Cable ONE will be forced into a small rate increase in 2012.

Some conclusions you've heard from others in the industry: our future lies primarily in our Internet service and perhaps commercial services. That's why we've made DOCSIS 3 at 50 MG our primary Internet offering at $50 or less. We offer that service only with data plans: unlimited at lower speeds (80% of customers opt for the higher speed).

I look for Cable ONE, with its unique management, to have another prosperous decade.

Obviously, there's a lot more than this going on at the company – a lot of innovation at the Post and some excellent management at our TV stations, among other things. I haven't touched on our balance sheet, which I like to talk about, or about our overfunded pension plan. But I'll take questions on any aspect of our Company's business from any of you now.

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Q&A clarification:

Kaplan's Concord Law School was discussed during the question and answer session. To clarify, Concord Law School is a part of Kaplan University (KU), which is accredited by the Higher Learning Commission (HLC). Separately, Concord Law School is also accredited by the Accrediting Commission of the Distance Educational and Training Council and registered with the California Committee of Bar Examiners. Also, Concord Law students are eligible to apply for Title IV student aid.