GRAHAM HOLDINGS

2016 ANNUAL REPORT

KAPLAN

GRAHAM MEDIA GROUP

SOCIAL CODE

DEKKO

JOYCE

FORNEY

GRAHAM HEALTHCARE GROUP

Slate

PANOPLY

FP

CyberVista

REVENUE BY PRINCIPAL OPERATIONS

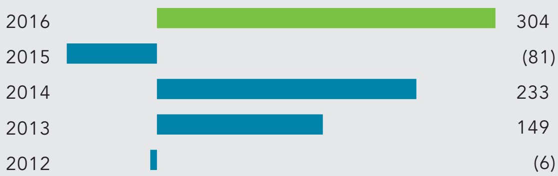
- EDUCATION 64%
- BROADCASTING 17%
- OTHER BUSINESSES 19%

FINANCIAL HIGHLIGHTS

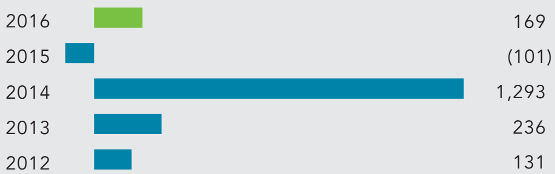
(in thousands, except per share amounts)	2016	2015	Change
Operating revenues	**$2,481,890**	$2,586,114	(4%)
Income (loss) from operations	**$ 303,534**	$ (80,825)	—
Net income (loss) attributable to common shares	**$ 168,590**	$ (101,286)	—
Diluted earnings (loss) per common share from continuing operations	**$ 29.80**	$ (25.23)	—
Diluted earnings (loss) per common share	**$ 29.80**	$ (17.87)	—
Dividends per common share	**$ 4.84**	$ 9.10	(47%)
Common stockholders' equity per share	**$ 439.88**	$ 429.15	3%
Diluted average number of common shares outstanding	**5,589**	5,818	(4%)

OPERATING REVENUES
($ in millions)

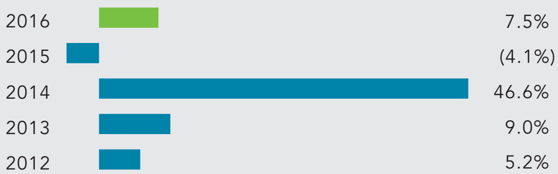
INCOME (LOSS) FROM OPERATIONS
($ in millions)



NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHARES
($ in millions)

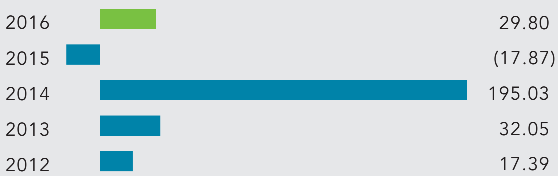


RETURN ON AVERAGE COMMON STOCKHOLDERS' EQUITY*



DILUTED EARNINGS (LOSS) PER COMMON SHARE FROM CONTINUING OPERATIONS ($)

DILUTED EARNINGS (LOSS) PER COMMON SHARE
($)



**Computed on a comparable basis, excluding the impact of the adjustment for pensions and other postretirement plans on average common stockholders' equity.*

TO OUR SHAREHOLDERS

We are pleased to report that Graham Holdings had a better year in 2016 than in 2015. There was no single action that drove most of our progress. A combination of continued focus on cost reductions and operating margin improvements, moderate investments in organic growth initiatives, acquisitions in line with our investment philosophy and divestment of non-core businesses and assets all made meaningful contributions to our results this year.

More specifically, Kaplan and Graham Media Group, our two major operating units, each reported improved results, and our Other Businesses showed positive trends on both the top and bottom lines.

Operating income for the Company rose to $304 million in 2016, up from an operating loss of $81 million in 2015. To be fair to 2015, however, I should note that a non-cash impairment charge at our Higher Education business of just under $260 million greatly diminished last year's reported results. Adjusting for that charge diminishes the scale of 2016's improvement; but, nonetheless, adjusted operating income (non-GAAP) increased by $127 million.[1]

Revenue for 2016 continued its multi-year downward progression, declining by just under 4%, from $2.586 billion to $2.482 billion. Revenue declines at Kaplan, most significantly at Kaplan University, were somewhat offset by improvements at other businesses.

Total adjusted operating expenses (non-GAAP) declined in 2016 by 9%[1] led by the reset cost structures at the Kaplan and Graham Holdings corporate offices. Much of the major restructuring has been completed, and we continue to look for ways to spend our dollars more efficiently. I don't think costs will be reduced again as substantially as they were in late 2015 and early 2016, but we are committed to remaining as lean at the corporate level as we can and focusing our expenses on those that are necessary for the Company. Our margin of safety as a company will increase with an improved operating margin. Below, I once again include a graphic that tracks our adjusted operating income margin (non-GAAP) of 10.7%[1] in 2016 and improvements or declines as compared to recent years.

[1]ADJUSTED OPERATING INCOME MARGIN (NON-GAAP)

(in thousands)	2016	2015	2014	2013
Operating Revenues	$2,481,890	$2,586,114	$2,737,032	$2,600,602
Operating Expenses	2,178,356	2,666,939	2,504,312	2,451,168
Less: Impairment of Goodwill and Other Long-lived Assets	(1,603)	(259,700)	(17,302)	(3,250)
Less: Amortization of Intangible Assets	(26,671)	(19,017)	(18,187)	(11,919)
Add: Net Pension Credit	67,097	60,557	64,780	20,727
Adjusted Operating Expenses* (non-GAAP)	$2,217,179	$2,448,779	$2,533,603	$2,456,726
Adjusted Operating Income** (non-GAAP)	$ 264,711	$ 137,335	$ 203,429	$ 143,876
Adjusted Operating Income Margin*** (non-GAAP)	10.7%	5.3%	7.4%	5.5%

**Adjusted Operating Expenses (non-GAAP) is calculated as Operating Expenses excluding impairment of goodwill and other long-lived assets, amortization of intangible assets and net pension credit.*

***Adjusted Operating Income (non-GAAP) is calculated as Operating Revenues, less Adjusted Operating Expenses (non-GAAP).*

****Adjusted Operating Income Margin (non-GAAP) is calculated as Adjusted Operating Income (non-GAAP) divided by Operating Revenues.*

Graham Media Group delivered again in 2016. Boosted by both the Olympics and political advertising, GMG delivered its largest ever operating income year.

While in 2016 we were able to increase operating income in the face of revenue declines, we know this is most unusual and ruefully acknowledge we have not found some new business formula buried in the depths of a "Graham & Dodd" book. In order to achieve the long-term operating income growth we believe possible, we need to return to top-line growth; more on that later in this letter.

So what decisions did we make in 2016?

In 2016, we continued the portfolio shift that was enabled, and in many ways necessitated, by the Cable ONE spin-off in 2015. Here is a brief list of what we did:

- We agreed to acquire two broadcast television stations within Graham Media Group. The deal was completed in January 2017.
- We closed on our acquisition of Mander Portman Woodward (MPW), a set of sixth-form schools in the U.K. We have been very pleased with the first year of operations at MPW. In conjunction with the acquisition, we took out £75 million in debt at what we believe are favorable terms.
- Dekko acquired Electri-Cable Assemblies as a tuck-in to its business, which further strengthens its power and data business.
- We merged our two healthcare businesses to achieve greater scale and operating efficiency.
- We sold Colloquy, a unit of Kaplan that offered online learning solutions to colleges and universities, as it did not meet our financial objectives.
- We sold our long-held waterfront real estate located in Alexandria, VA.
- We opportunistically repurchased shares of our stock throughout the year. Outstanding shares in the Company went down by about 4% at a cost of $109 million.

Graham Media Group delivered again in 2016. Boosted by both the Olympics and political advertising, GMG delivered its largest ever operating income year. The stations, in most cases, managed to add to their leads in terms of local rankings. Our investment in increased news programming over the past several years has created unique content and brand attachment that allowed many of our stations to navigate the trend away from linear television better than most.

Perhaps most impressively, WKMG, our CBS affiliate in Orlando led by Jeff Hoffman, wins the award for most improved. Jeff grew our rankings in nearly every time slot as compared to prior years, all while providing tremendous coverage of the Pulse nightclub shooting and Hurricane Matthew. Jeff's performance fits right in with the rest of our station managers at Graham Media Group. Whether it be an all-time high in broadcast cash flow at WJXT, or becoming the leader in key time slots at KPRC, or having a market leading share by a tremendous margin like that at KSAT, or deftly navigating a challenging market like WDIV, each one of our stations performed optimally and made us proud.

In May, we announced we were buying WCWJ in Jacksonville and WSLS in Roanoke from Nexstar and Media General in conjunction with their merger.

If you told me on January 1, 2016, that we would sign an agreement to acquire two broadcast TV stations five months later, I would not have believed you. The circumstances that led to our ownership of WCWJ and WSLS are unlikely to occur again, and, indeed, I still pinch myself they happened at all. My view that the long-term future of broadcast TV is a cloudy crystal ball remains unchanged. However, when you can own two stations in the market and strengthen your affiliation with NBC, while doing so at a decent price for shareholders, you make the deal. Our overfunded retirement plan helped us, as we assumed some of the pension liabilities of the seller.

Kaplan had a year of mixed results, but the overall picture was an improvement from the previous year. Operating income increased from 2015 largely due to reduced restructuring charges and lower overhead. Operating results at several Kaplan units were substantially hurt by the strength of the U.S. dollar; that, combined with continued headwinds at Kaplan University, led to a mixed year of operating results overall. The strength of the U.S. dollar and other geopolitical events led our English-language business to suffer its worst year under Graham Holdings ownership. A reduced cost structure implemented in late 2016 should allow us to reap the benefits of improved results if the operating environment for that industry stabilizes or improves, as we believe it will.

Of Kaplan's larger businesses, one of the biggest economic engines for Kaplan is now the Kaplan Professional Education business, or KPE, led by Andy Temte. KPE provides best-in-class training and preparation for corporate clients in areas such as the Series 7 and CFA exams. As a shareholder, you should get to know this business. As long as corporations need to provide ongoing training, certification, continuing education and professional development for their employees, Kaplan Professional will be a key partner. It is important to understand that this is a cyclical business, and the results may be uneven from year to year. In economic cycles where hiring is dampened, less training is usually needed. While others may fret when the inevitable down cycles occur, we view them as opportunities to go shopping to build out our product offerings, while not paying peak market prices.

My belief is that under Andy Rosen, Kaplan's results will improve more years than not. His efforts from years ago provided the Company with new platforms on which to build and proved to be a godsend when Kaplan University encountered turbulence. Had Andy not invested in our Professional Education and Kaplan International businesses, the Kaplan story would be much different today.

How does Kaplan grow revenue going forward? Our ability to recruit high quality students from dozens of countries is a key advantage, the envy of our competitors and the strongest moat in Kaplan's business. Kaplan will focus on strengthening this moat and finding new business opportunities that can leverage it further. MPW was one such example in 2016 — our ability to recruit international students into MPW should make it a much better business — and our hope is that it will not be the last. How we tap into this ability over the coming years could likely determine the future performance of Kaplan and be the best place for Kaplan to find attractive investment returns.

By nature, I hesitate to offer predictions, but when they are near certainties, I think it is in the best interest of shareholders that I do: It will be close to

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impossible for 2017 to be a repeat of 2016, and we will almost certainly report a decline in operating income for 2017. With no Olympics revenue, minimal political advertising and a very favorable network compensation agreement with NBC ending in 2016, Graham Media Group will report lower results. Emily Barr and her team will navigate these waters well; but, when GMG's expected declines are combined with the continued headwinds at Kaplan University, it will be extraordinarily difficult for the other businesses to fill the gap. However, we do expect our non-GMG and KU businesses to grow in 2017 and become more meaningful contributors to the operating income pie than in years past.

Where does value come from moving forward?

I believe the job of the management team at Graham Holdings falls into three buckets: 1) how well we run our existing businesses; 2) our skill in investing the cash they generate; and 3) our ability to create organic growth. I thought it would be useful to take a tour of our thoughts on each of these subjects in the second portion of this letter.

How do we run our existing businesses?

Our effectiveness at running our existing businesses is largely tied to the quality of the managers in charge. Our decentralized operating structure puts a premium on having first-class leaders at the helm of our businesses. We've been lucky to have Emily Barr and Andy Rosen involved in the Company for years. They embody the culture and spirit of Graham Holdings and understand that there is greater gratification in two dollars tomorrow than a dollar today. In the same vein, we have cultivated a number of talented up and coming managers to rise to the level of executive leadership. One such leader is Laura O'Shaughnessy. While I may be somewhat biased (I am writing about my wife), Laura has become a star leader at SocialCode and has a real opportunity to build a strong long-term business for GHC. She has consistently focused on high-quality offerings for SocialCode's clients, while keeping the costs of the business in check. We are lucky to have the set of leaders that we do.

We want our larger businesses to maintain an operating margin of at least 10%. The reason for this is simple: It is our belief that anything less than 10% does not provide the margin of safety to be able to reinvest in the business when it is logical to do so, or to withstand the inevitable bumps in the road, whether they be macroeconomic, regulatory or otherwise. Graham Holdings as a whole has been working hard to achieve this goal, while also working with our operating companies to achieve and exceed the 10% target.

How do we reinvest cash generated?

There are four things we consider doing with our capital: invest in existing businesses, acquire new businesses, repurchase shares and pay dividends. In 2016, we did all four of these things, although I suspect this may not be true every year.

Our preference is to allocate capital into our existing businesses. We know the management, understand the businesses and think our best returns will be found here because of those two things. When we look outside of our existing businesses, we have a very high set of criteria to compensate for the inherent unknown associated with businesses we don't already own:

- Well-run, profitable businesses in fields we can understand
- Strong management with a dedication to continuing to run the business
- Businesses we believe have at least 10 years of stable or growing earnings ahead of them
- Reinvestment opportunities that are readily apparent within the business

If these look familiar to you that is because they are the same criteria I shared with you in the 2015 letter and are the criteria I have used since I joined the business in 2014. We think they have served us well and will continue to do so.

How do we think about organic growth?

One fundamental belief we have is that cash is cash. Whether a dollar is used in an acquisition, as capital investment, or to develop a new business idea, our bank account is debited that dollar. Our treasury balance seems not to care if an investment is classified as M&A, CapEx or a reduction in operating income; and, neither do we. We believe our cash outlays should be measured solely on the basis of the potential for attractive returns, and we should pay little attention to accounting classification when making investment decisions. The fallacy that all cash is not created equal often leads to a preference for acquisition because the fear of being misunderstood on organic investments is so great. This simply is not the case at Graham Holdings.

We think at times there are attractive business opportunities — both within existing businesses and, occasionally, when evaluating an entirely new business. Several examples of these exist within our companies. At Kaplan, our Pathways business started organically and needed the ability to stomach several years of development costs. Through nearly a decade of results, the return on invested capital of this business looks very good with much runway ahead of it. SocialCode was a new business started entirely from scratch in 2010 and now has the potential to become a meaningful contributor to overall company value and has reduced its capital needs as it has begun to achieve scale. More recently, we've started two new businesses for which we are optimistic: Panoply, an on-demand audio company that is quickly becoming one of the leaders in the nascent podcasting industry; and, CyberVista, a cybersecurity training and workforce development company. Not all of these bets will work out, and it takes strong organizational discipline to ensure that new initiatives do not become new entitlement programs. Our commitment to you is that we will maintain constant vigilance in assessing the progress of new business initiatives. Even so, we will undoubtedly determine some of these efforts are ill fated. When that happens, we will stop the initiative, study to learn where we went wrong and look at the increased operating income due to the discontinued operational investment as the silver lining.

> ***We believe our cash outlays should be measured solely on the basis of the potential for attractive returns, and we should pay little attention to accounting classification when making investment decisions.***

We continue to believe we have a unique platform that combines a long-term viewpoint and patient deployment of capital with a focus on growing intrinsic value per share for you, our partner.

If most years could be like 2016, I would take them in a heartbeat; but, I wouldn't take everything about last year. Gerry Rosberg, our longtime Senior Vice President of Strategy and Planning, retired from the Company in July. Gerry joined The Washington Post Company in 1996 and was responsible for an untold number of good decisions in the Company's history, including our Classified Ventures investment and many of our Kaplan acquisitions that proved to be critical in growing the Company. The best part about Gerry is not his deal-making abilities, even though that was a core part of his job description; rather, Gerry made everyone around him better. He led by example, took self-sacrifice to an absurd level and looked to pass credit to others, even when he was most deserving.

Hal Jones, Senior Vice President and Chief Financial Officer, also announced that he will retire in early 2017 after 28 years of service. For those who know Hal, you know he is defined by conservative accounting positions, strong ethical commitment and little hesitation in speaking his mind. He took over as CFO just prior to the financial crisis, staring down the barrel of $400 million in debt due in February 2009. (Keen observers may note the market ultimately bottomed in March 2009.) Hal navigated those waters with the same calm steady hand you've seen through the past nine years.

Simply put, Gerry and Hal are two of the best examples of the culture and spirit that drove The Washington Post Company and what now drives Graham Holdings Company. They helped shape the culture and environment of the modern-day GHC, and we were lucky to have them for so long.

Hal will be succeeded by Wallace Cooney. Wally has served as the Chief Accounting Officer of the Company for the past nine years and previously served as the Controller. The depth and breadth of his experience will serve our Company well, and I am thrilled to have him at my side in his new role. Gerry will be succeeded by Jake Maas, a seasoned executive who joined GHC in 2015. Jake hit the ground running since he arrived and has been involved in every transaction as part of the senior leadership team.

We continue to believe we have a unique platform that combines a long-term viewpoint and patient deployment of capital with a focus on growing intrinsic value per share for you, our partner. We are fortunate to have great leaders at our businesses to help drive our results day in and day out. Management takes its role as stewards of your capital with the utmost seriousness, and it permeates our thinking daily. We think our formula will provide elevated returns to you over time. We look forward to continuing to partner with you and thank you for the confidence you have placed in us.

Timothy J. O'Shaughnessy
President and Chief Executive Officer

February 24, 2017

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED December 31, 2016

Commission file number 1-6714

Graham Holdings Company

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**53-0182885** (I.R.S. Employer Identification No.)
1300 North 17th Street, Arlington, Virginia (Address of principal executive offices)	**22209** (Zip Code)

Registrant's Telephone Number, Including Area Code: (703) 345-6300

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class B Common Stock, par value $1.00 per share	**New York Stock Exchange**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐

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

Aggregate market value of the registrant's common equity held by non-affiliates on June 30, 2016, based on the closing price for the Company's Class B Common Stock on the New York Stock Exchange on such date: approximately $2,200,000,000.

Shares of common stock outstanding at February 17, 2017:

Class A Common Stock – 964,001 shares
Class B Common Stock – 4,627,585 shares

Documents partially incorporated by reference:

Definitive Proxy Statement for the registrant's 2017 Annual Meeting of Stockholders (incorporated in Part III to the extent provided in Items 10, 11, 12, 13 and 14 hereof).

GRAHAM HOLDINGS COMPANY 2016 FORM 10-K

PART I

Item 1. Business.

Graham Holdings Company (the Company) is primarily a diversified education and media company. The Company's Kaplan subsidiary provides a wide variety of educational services, both domestically and outside the United States. The Company's media operations comprise the ownership and operation of television broadcasting (through the ownership and operation of seven television broadcast stations), plus Slate and Foreign Policy magazines. The Company also owns home health and hospice providers, three industrial companies and Social Code LLC, a marketing solutions provider.

Financial information concerning the principal segments of the Company's business for the past three fiscal years is contained in Note 19 to the Company's Consolidated Financial Statements appearing elsewhere in this Annual Report on Form 10-K. Revenues for each segment are shown in Note 19 gross of intersegment sales. Consolidated revenues are reported net of intersegment sales, which did not exceed 0.1% of consolidated operating revenues.

The Company's operations in geographic areas outside the U.S. consist primarily of Kaplan's non-U.S. operations. During the fiscal years 2016, 2015 and 2014, these operations accounted for approximately 25%, 26% and 26%, respectively, of the Company's consolidated revenues, and the identifiable assets attributable to non-U.S. operations represented approximately 20% and 18% of the Company's consolidated assets at December 31, 2016 and 2015, respectively.

EDUCATION

Kaplan, Inc., a subsidiary of the Company, provides an extensive range of education and related services worldwide for students and professionals. Kaplan conducts its operations through three segments: Kaplan Higher Education, Kaplan Test Preparation and Kaplan International. In addition, the results of the Kaplan Corporate segment include investment activities, identifying and investing in high-growth-potential education technology companies.

The following table presents revenues for each of Kaplan's segments:

	Year Ended December 31		
(in thousands)	**2016**	**2015**	**2014**
Kaplan Higher Education	**$ 617,047**	$ 849,625	$1,010,058
Kaplan Test Preparation	**286,556**	301,607	304,662
Kaplan International	**696,362**	770,273	840,915
Kaplan Corporate and Intersegment Eliminations	**(1,504)**	6,016	4,782
Total Kaplan Revenue	**$1,598,461**	$1,927,521	$2,160,417

Kaplan Higher Education

Kaplan Higher Education (KHE) currently consists of Kaplan University. Kaplan University provides a wide array of certificate, diploma and degree programs designed to meet the needs of students seeking to advance their education and career goals.

In 2015 Kaplan sold substantially all of the assets of its KHE Campuses business, which consisted of 38 nationally accredited ground campuses and certain related assets. Kaplan's Bauder College campus in Atlanta and Mount Washington College in New Hampshire were not part of this sale, however Kaplan ceased enrollment in its Bauder College campus and Mount Washington College campus in 2014 and 2015, respectively, and each school completed the teach-out of its students and closed during 2016. In 2016, Kaplan's U.S.-based KHE division consisted primarily of Kaplan University.

Kaplan University. Kaplan University specializes in online education, is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC), a regional accreditor approved by the U.S. Secretary of Education, and holds other programmatic accreditations. Most of Kaplan University's programs are offered online, while some are offered in a traditional classroom format at 15 locations in Iowa, Indiana, Maine, Maryland, Missouri, Nebraska and Wisconsin. Kaplan University also includes Concord Law School, a fully online law school. At year-end 2016, Kaplan University had approximately 32,000 students enrolled.

Also residing within Kaplan University is the School of Professional and Continuing Education (PACE). PACE offers a wide range of education solutions to assist professionals in advancing their careers by obtaining professional licenses, designations and certifications. This includes solutions for insurance, securities, mortgage and appraisal licensing exams and for advanced designations, such as CFA® and CPA exams. PACE serves approximately 3,700 business-to-business clients, including 125 Fortune 500 companies. In 2016, over 460,000 students used PACE's exam preparation offerings.

Program Offerings and Enrollment

Kaplan University offers certificate and degree programs in a variety of subject areas. Among them are the following:

Certificate	Associate's	Bachelor's	Master's
• Arts and Sciences	• Arts and Sciences	• Arts and Sciences	• Arts and Sciences
• Criminal Justice~	• Business/Management	• Business/Management	• Business/Management
• Education Studies*	• Criminal Justice	• Criminal Justice	• Criminal Justice
• Health Sciences	• Fire Safety and Emergency Management	• Fire Safety and Emergency Management	• Health Sciences
• Information Systems and Technology*+	• Health Sciences	• Health Sciences	• Education Studies
• Legal and Paralegal Studies+	• Information Systems and Technology	• Information Systems and Technology	• Information Systems and Technology
• Nursing~+	• Legal and Paralegal Studies	• Legal and Paralegal Studies	• Legal and Paralegal Studies
	• Nursing	• Nursing	• Nursing
	• Public Administration	• Political Science and Public and Environmental Policy	• Public and Environmental Policy

~ certificate/diploma
* graduate certificate
+ post-baccalaureate certificate

Kaplan University's higher education enrollments by certificate and degree programs are set forth below:

	At December 31		
	2016	**2015**	**2014**
Certificate	**7.7%**	4.4%	2.3%
Associate's	**18.1%**	25.0%	29.6%
Bachelor's	**50.9%**	48.4%	44.3%
Master's	**23.3%**	22.2%	23.8%
Total	**100.0%**	100.0%	100.0%

Financial Aid Programs and Regulatory Environment

Funds provided under the U.S. Federal student financial aid programs that have been created under Title IV of the U.S. Federal Higher Education Act of 1965, as amended (Higher Education Act), historically have been responsible for a majority of KHE revenues. During 2016, funds received under Title IV programs accounted for approximately $437 million, or approximately 71%, of total KHE revenues, and 27% of Kaplan, Inc. revenues. The Company estimates that funds received from students borrowing under third-party private loan programs comprised less than 1% of KHE revenues. Direct student payments, funds received under various state and federal agency grant programs and corporate reimbursement under tuition assistance programs accounted for most of the remaining 2016 KHE revenues. The significant role of Title IV funding in the operations of KHE is expected to continue.

Title IV programs encompass various forms of student loans and non-repayable grants. In some cases, the U.S. Federal government subsidizes a portion of the student interest expense of Title IV loans. Subsidized loans and grants are only available to students who can demonstrate financial need. During 2016, approximately 87% of the $437 million of Title IV funds received by KHE came from student loans, and approximately 13% of such funds came from grants.

Title IV Eligibility and Compliance With Title IV Program Requirements. To maintain eligibility to participate in Title IV programs, a school must comply with extensive statutory and regulatory requirements relating to its financial aid management, educational programs, financial strength, administrative capability, compensation practices, facilities, recruiting practices, representations made to current and prospective students, and various other matters. In addition, the school must be licensed, or otherwise legally authorized, to offer postsecondary educational programs by the appropriate governmental body in the state or states in which it is physically located or is otherwise subject to state authorization requirements, be accredited by an accrediting agency recognized by the U.S. Department of Education (ED) and be certified to participate in the Title IV programs by the ED. Schools are required periodically to apply for renewal of their authorization, accreditation or certification with the applicable state governmental bodies, accrediting agencies and the ED. In accordance with ED regulations, our campuses are grouped into a main campus and additional campus locations. Kaplan University is assigned its own identification number, known as an OPEID number, for the purpose of determining compliance with certain Title IV requirements. No assurance can be given that Kaplan University or its individual programs will maintain their Title IV eligibility, accreditation and state authorization in the future or that the ED might not successfully assert that Kaplan University has previously failed to comply with Title IV requirements.

The ED may place a school on provisional certification status under certain circumstances, including, but not limited to, failure to satisfy certain standards of financial responsibility or administrative capability, or upon a change in ownership resulting in a change of control. Provisional certification status carries fewer due process protections than full certification. As a result, the ED may withdraw an institution's provisional certification more easily than if it is fully certified. In addition, the ED may subject an institution on provisional certification status to greater scrutiny in some instances, for example, when it applies for approval to add a new location or program or makes another substantive program change. Provisional certification does not otherwise limit access to Title IV program funds by students attending the institution. On December 17, 2015, Kaplan University, in connection with the renewal of its U.S. Department of Education Program Participation Agreement, received notice from the ED that it had been placed on provisional certification status until September 30, 2018, in relation to an open and ongoing ED program review. The ED has not notified Kaplan University of any negative findings. However, at this time we cannot predict the outcome of the program review. During the period of provisional certification, Kaplan University must obtain prior ED approval to open a new location, add an educational program, acquire another school or make any other significant change.

In addition, if the ED finds that a school has failed to comply with Title IV requirements or improperly disbursed or retained Title IV program funds, it may take one or more of a number of actions, including fining the school, requiring the school to repay Title IV program funds, limiting or terminating the school's eligibility to participate in Title IV programs, initiating an emergency action to suspend the school's participation in the Title IV programs without prior notice or opportunity for a hearing, transferring the school to a method of Title IV payment that would adversely affect the timing of the institution's receipt of Title IV funds, requiring the submission of a letter of credit, denying or refusing to consider the school's application for renewal of its certification to participate in the Title IV programs or for approval to add a new campus or educational program and referring the matter for possible civil or criminal investigation. There can be no assurance that the ED will not take any of these or other actions in the future, whether as a result of a lawsuit, program review or otherwise. This list is not exhaustive. There may be other actions the ED may take and other legal theories under which a school could be sued as a result of alleged irregularities in the administration of student financial aid. See Item 1A. Risk Factors, including Failure to Comply With Statutory and Regulatory Requirements Could Result in Loss of Access to U.S. Federal Student Loans and Grants Under Title IV, a Requirement to Pay Fines or Monetary Liabilities or Other Sanctions.

Student Default Rates. A school may lose its eligibility to participate in Title IV programs if student defaults on the repayment of Title IV loans exceed specified rates, referred to as "cohort default rates." The ED calculates a cohort default rate for each OPEID number. If a school's cohort default rate exceeds 40% for any single year, it will lose its eligibility to participate in the Direct Loan programs for at least two fiscal years, effective 30 days after notification from the ED. If a school's cohort default rate equals or exceeds 30% for three consecutive years, it will lose its Title IV eligibility to participate in the Direct Loan and U.S. Federal Pell Grant programs effective 30 days after notification from the ED and will remain ineligible for at least two fiscal years. If a school's cohort default rate equals or exceeds 30% in two of the three most recent fiscal years for which rates have been issued by the ED, it may be placed on provisional certification by the ED and, under new regulations that take effect on July 1, 2017, may be required to submit a letter of credit to the ED.

The three-year cohort default rates for Kaplan University, the only OPEID unit that continued operations through the end of 2016, for the U.S. Federal fiscal years ending September 30, 2013, 2012 and 2011, were 12.4%, 12.9% and 20%, respectively.

Because Kaplan University receives a significantly lower level of taxpayer-funded grants and subsidies than community colleges, state schools and not-for-profit schools, Kaplan University is more dependent on tuition, and its students are more dependent on loans.

Kaplan has dedicated resources to help students who are at risk of default. Kaplan personnel contact students and provide assistance, which includes providing students with specific loan repayment information, lender contact information and debt counseling. Kaplan has also implemented a financial literacy and counseling program for current students and provides career counseling services. In addition, Kaplan implemented the Kaplan Commitment program in 2010, which provides first-time undergraduate students with a risk-free trial period. Students who withdraw or are subject to dismissal during the risk-free trial period do not incur any significant financial obligation. However, no assurances can be given that these resources or programs will enable Kaplan's schools to maintain cohort default rates below the thresholds for sanctions.

Recent Federal Rulemaking

Borrower Defense to Repayment Regulations. On November 1, 2016, the ED issued final rules, effective July 1, 2017, that expand the bases on which borrowers may obtain a discharge of their federal financial aid loans and that establish a process for the ED to commence a separate proceeding against the institution to recover the discharged amounts.

The final rules amend existing procedures and standards for borrowers seeking the discharge of certain Title IV loans first disbursed prior to July 1, 2017, based on certain acts or omissions of the institution. The final rules also expand the bases for borrowers to obtain discharges of certain Title IV loans first disbursed on or after July 1, 2017, including any substantial misrepresentations by the school or any of its representatives or individuals or entities with whom the institution has an agreement, certain breaches of contract and certain favorable judgments against the school. The final rules include procedures for borrowers to assert discharge claims as a group rather than individually and create extended and, in some cases, unlimited statutes of limitation for the submission of discharge claims. The final rules also establish procedures for the evaluation of claims, for minimal school participation in the process and for the ED to consolidate and present borrower claims during the process. If the borrower discharge claims are approved, the ED may discharge some or all of the loans and initiate a separate proceeding to recover any discharged loans from the institution.

In addition, the final rules also amend the ED's financial responsibility regulations by, among other things, imposing two sets of triggers for determining whether the ED may require the institution to furnish the ED with a letter of credit or other form of acceptable financial protection and to accept other requirements the ED might impose. The first set of triggers includes the following:

- a requirement to pay any debt or incur any liability arising from a final judgment in a judicial proceeding or from an administrative proceeding or determination, or from a settlement;
- a lawsuit that has been pending for 120 days and that was brought by a federal or state authority for financial relief on claims related to making a Direct Loan for enrollment at the institution or the provision of educational services;
- other lawsuits in which the institution's summary judgment motion was denied or not filed;
- an accrediting agency requirement to submit a teach-out plan in connection with closing one or more of the institution's locations;
- having one or more programs that could lose Title IV eligibility based on rates for next award year; and
- certain withdrawals of owner's equity from the institution.

An institution participating in Title IV programs must maintain a certain level of financial responsibility as reflected by a composite score that incorporates various financial data from annual financial statements submitted to the ED. If one of the above triggers occurs, the ED would recalculate the institution's composite score by estimating the amount of actual and potential losses resulting from the triggering event and determining whether the recalculated composite score results in the institution failing the financial responsibility standards. The rules for estimating potential losses are broad. For example, the rules generally presume that potential losses from pending lawsuits equal the amount sought in the complaint or in any final demand letter.

The second set of triggers that could result in the ED imposing a letter of credit requirement and other conditions or requirements include the following:

- the failure to comply for the most recently completed fiscal year with the 90/10 rule requiring less than 90% of an institution's receipts be derived from Title IV programs;
- an SEC warning that it may suspend trading on the institution's stock;
- the failure to file certain reports with the SEC;

- receipt of notice of noncompliance with exchange requirements;
- notice that the institution's stock is delisted;
- cohort default rates of at least 30% for the institution's two most recent rates;
- certain significant fluctuations in Title IV funding;
- certain citations for failure to comply with state agency requirements;
- failure to comply with yet-to-be-developed ED financial stress tests;
- high annual dropout rates;
- probation, show cause or similar action by an institution's accrediting agency;
- certain violations of loan agreements;
- expected or pending claims for borrower relief discharges; and
- certain other events that the ED might identify as reasonably likely to have a material adverse effect on the financial condition, business or results of operations of the institution.

If the ED deems that the institution failed the financial responsibility standards based on one or more of the aforementioned events listed in the regulations or based on the institution's failure to comply with other requirements in the financial responsibility regulations, the ED may permit the institution to continue participating in the Title IV programs under a provisional certification and would require the institution to submit a letter of credit or other form of financial protection, comply with certain student debt-to-income ratios under the ED's gainful employment rules discussed below and potentially accept other conditions or restrictions.

If the ED requires a letter of credit based on a trigger from either set of triggers, the rules require the letter of credit to equal 10% of the total amount of Title IV funds received by the institution during its most recently completed fiscal year plus any additional amount that the ED determines is necessary to fully cover any estimated losses. The ED also may place the institution on provisional certification, impose certain reporting requirements, place the institution on the heightened cash monitoring or reimbursement payment methods and impose other conditions or requirements. The ED may require the institution to maintain the letter of credit until the institution's composite score is 1.0 or greater and the triggering events have been resolved or cease to exist.

The rules also require schools not meeting a loan "repayment rate" threshold calculation to provide an ED-prepared warning to current and prospective students and to include the warning on its website and in promotional materials and advertisements. The rules also include new provisions related to arbitration and class-action lawsuits, including prohibitions regarding an institution's use of pre-dispute arbitration agreements and class-action waivers.

The regulations have a general effective date of July 1, 2017. The Company cannot predict how the ED will interpret and enforce the new borrower defense to repayment rules in the future or how these rules may impact Kaplan University's participation in the Title IV programs; however, the new rules could have a material adverse effect on Kaplan's business and results of operations, and the broad sweep of the rules may, in the future, require Kaplan to submit a letter of credit as indicated above.

Gainful Employment. Under the Higher Education Act, certain education programs, including all programs offered by Kaplan University, are required to lead to gainful employment in a recognized occupation in order to be eligible to participate in the Title IV programs. The ED has defined the phrase "gainful employment" to mean employment with earnings high enough to meet specific student debt-to-income ratios. The ED tied an education program's Title IV eligibility to whether the program meets that definition. These regulations are known as the "gainful employment" rules or "GE" rules. Under these regulations, the ED calculates two debt-to-earnings rates for each program subject to the GE regulations: an annual debt-to-earnings rate and a discretionary debt-to-earnings rate. The rates are calculated by comparing graduates' Title IV and private loan debt incurred to attend the program to their annual earnings and discretionary income as defined in the regulations. The rates for each program for each award year are calculated using income information obtained from the Social Security Administration, federal Title IV loan debt information gathered from its own records and private loan and institutional debt data provided by schools. Under the debt-to-earnings rates, a program passes the test if its annual debt-to-earnings rate does not exceed 8% or its discretionary debt-to-earnings rate does not exceed 20%. A program fails the test if its annual debt-to-earnings rate exceeds 12% and its discretionary debt to earnings rate exceeds 30%. A program is in a regulatory status called the "warning zone" if it does not pass or fail the test (i.e., either its annual debt-to-earnings rate is greater than 8%, but less than 12%, or its discretionary debt-to-earnings rate is greater than 20%, but less than 30%). If a program fails the test two times within three years, it will become ineligible to participate in the Title IV programs for a period of three years. If a program is either in the warning zone or fails the test for four consecutive years, it will also become ineligible to participate in Title IV programs for a period of three years. In addition, the regulation requires an institution to provide to current and prospective students prescribed warnings of any potential ineligibility of the program in any year for which the program could become ineligible based on the prior-year rates. Institutions with such programs also must wait to enroll prospective students into the failing program until three days after providing the warning to students. Such institutions also may be required to submit a letter of credit or other financial protection to the ED under the new borrower defense to repayment regulations that take effect on July 1, 2017.

Under the debt-to-earnings rates for Kaplan's programs that were released in January 2017 for the 2014–2015 award year, which are the first rates to be issued under the GE rules, none of Kaplan University's active programs currently accepting students failed the GE test. Kaplan University has five other programs that failed the GE test. Of these five programs, two have been discontinued, have no students and are no longer being offered, and the remaining three are still active but are not accepting new enrollments. The three active failing programs accounted for approximately $16.7 million in revenue in 2016. Kaplan University also has 16 programs in the warning zone status. Four of these programs are active and currently accepting students. These four programs accounted for approximately $71 million and $51.1 million in revenue for 2015 and for 2016, respectively. Of the remaining 12 programs in the warning zone, five have been discontinued, have no students and are no longer being offered, and seven of these programs are active but not currently accepting enrollments. The ED has stated, that it has the ability to combine, for future GE debt-to-earnings calculations, any new programs that it determines to be "substantially similar" to other current or past programs. Kaplan University started a number of new programs after the effective date of the GE rules. Kaplan believes that the new programs are not "substantially similar" under the GE rules to any other current or past programs. However, if the ED determines that these new programs are substantially similar and combines the new programs with programs that are currently in the warning zone or that failed the GE test, eligibility of the new programs to participate in Title IV programs and revenues from such programs would be materially adversely affected.

The GE rules allow for an appeal of these rates if the institution can provide alternative earnings data for each appealed program showing an improvement in the GE rates and moving the program from fail to warning zone or from warning zone to pass. Kaplan University has appealed the rates for the 16 programs in the warning zone, including the four programs that are active and currently accepting students and the remaining 12 programs that are discontinued and not accepting students. Although none of five failing programs is active and accepting students, Kaplan University has appealed their rates as well. Kaplan University cannot predict the outcome of these appeals.

The regulations also include revised requirements for public disclosure of program information and certain outcomes (including graduation, placement and repayment rates, plus other consumer information); these new disclosure requirements were scheduled to take effect on January 1, 2017, but the effectiveness of the requirements have been delayed until April 3, 2017.

In addition, the regulations include a requirement that the institution certify to the ED that each program subject to the gainful employment regulations (i) be approved by an accrediting agency recognized by the ED, (ii) have programmatic accreditation if required by a governmental entity in a state in which the school is located or otherwise required to obtain state authorization under ED's regulations and (iii) for each state in which the school is located or otherwise required to obtain state authorization under the ED's regulations, meet applicable educational prerequisites for professional licensure or certification requirements in such state(s) so that graduates qualify to take any licensure or certification exam that is needed for such graduates to practice or find employment in such state(s) in an occupation that the program prepares graduates to enter. In addition, a school will be required to certify that any new Title IV-eligible education program it establishes is not "substantially similar" (as defined in the GE regulations) to a program that is ineligible under the regulations. This "certification" requirement has had a material negative impact on Kaplan University's Concord Law School's Juris Doctor program, which accounted for less than 1% of KHE's 2016 revenue. Because it is completely online, that program does not have accreditation necessary to allow graduates to become licensed to practice law upon graduation and qualify to take the bar exam in any state other than California. Accordingly, because the ED has not provided guidance that narrows the rule as written, in 2015 Concord Law School was required to cease enrollments in multiple states. Changes in the state authorization law, discussed below, may extend the certification requirement to other states and further impact Concord and other Kaplan University programs.

Some of the data needed to compute debt-to-earnings rates and project their impact on Title IV program eligibility under the GE regulations are not accessible to the Company, including specific graduate earnings information that will be compiled by the Social Security Administration. In addition, the continuing eligibility of programs for Title IV funding may be affected by factors beyond Kaplan's control, such as changes in the actual or deemed earnings level of its graduates, changes in student borrowing levels, increases in interest rates, changes in the U.S. Federal poverty income level relevant for calculating one of the proposed debt-to-earnings rates and other factors. As a result, the ultimate outcome of future GE rates and their impact on Kaplan's operations are still uncertain. Kaplan is continuing efforts to mitigate any current and potential negative impact of the GE rules. These efforts include increasing career services support, implementing financial literacy counseling, creating program-specific tuition reductions and scholarships and revising the pricing model to implement a tuition cap for at-risk programs. Although Kaplan is taking these and other steps to address compliance with GE regulations, there is no assurance that these measures will be adequate to prevent a material number of programs from receiving debt-to-earnings rates that fail or are in the warning zone and to prevent a loss of Title IV eligibility. This has caused Kaplan to eliminate or limit enrollments in certain educational programs at some of its schools; may result in the loss of student access to Title IV programs; and has had and may continue to have a material adverse effect on KHE's revenues, operating income, and cash flows.

Incentive Compensation. Under the ED's incentive compensation rules, an institution participating in Title IV programs may not provide any commission, bonus or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any person or entity engaged in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV funds. Kaplan has taken steps to comply fully with these rules and the related guidance. Among the actions taken, Kaplan revised its compensation plans for admissions personnel and eliminated enrollment results as a component in the determination of compensation. Kaplan believes that this change in its approach to recruiting has adversely impacted, and will continue to adversely impact, its enrollment rates, operating costs, business and results of operation. Kaplan cannot predict how the ED will interpret and enforce all aspects of the revised incentive compensation rule in the future.

The 90/10 Rule. Under regulations referred to as the 90/10 rule, an institution would lose its eligibility to participate in Title IV programs for a period of at least two fiscal years if the institution derives more than 90% of its receipts from Title IV programs, as calculated on a cash basis in accordance with the Higher Education Act and applicable ED regulations, in each of two consecutive fiscal years. An institution with Title IV receipts exceeding 90% for a single fiscal year would be placed on provisional certification and may be subject to other enforcement measures, including a potential requirement to submit to the ED a letter of credit under the borrower defense to repayment regulations that take effect on July 1, 2017. Kaplan University derived less than 77% and less than 79% of its receipts from Title IV programs in 2016 and 2015, respectively.

Kaplan University is taking various measures to reduce the percentage of its receipts attributable to Title IV funds, including modifying student payment options; emphasizing direct-pay and employer-paid education programs; encouraging students to evaluate carefully the amount of their Title IV borrowing; eliminating some programs; cash-matching; and developing and offering additional non-Title IV-eligible certificate preparation, professional development and continuing education programs. Kaplan has taken steps to ensure that revenue from programs acquired by Kaplan University is eligible to be counted in that campus's 90/10 calculation. However, there can be no guarantee that the ED will not challenge the inclusion of revenue from any acquired program in Kaplan University's 90/10 calculations or will not issue an interpretation of the 90/10 rule that would exclude such revenue from the calculation. There can be no guarantee that these measures will be adequate to prevent the 90/10 ratio at Kaplan University from exceeding 90% in the future. In addition, certain legislators have proposed amendments to the Higher Education Act that would lower the threshold percentage in the 90/10 rule to 85%, treat non-Title IV federal funds as Title IV funds in the 90/10 calculation and make other refinements to the calculation. If these proposals or similar laws or regulations are adopted, they would make it more difficult for Kaplan University's institutions to comply with the 90/10 rule.

Change of Control. If an institution experiences a change of control under the standards of applicable state agencies, accrediting agencies or the ED, the institution must seek the approval of the relevant agencies. An institution that undergoes a change of control, which may include a change of control of the institution's parent corporation or other owners, must be reviewed and recertified by the ED and obtain approvals from certain state agencies and accrediting bodies, in some cases prior to the change of control. The standards pertaining to a change of control are not uniform and are subject to interpretation by the respective agencies. Certifications obtained from the ED following a change in control are granted on a provisional basis that permits the institution to continue participating in Title IV programs, but provides fewer procedural protections than full certifications. As a result, the ED may withdraw an institution's provisional certification more easily than if it is fully certified. In addition, the ED may subject an institution on provisional certification status to greater scrutiny in some instances, for example, when it applies for approval to add a new location or program or makes another substantive change.

Standards of Financial Responsibility. An institution participating in Title IV programs must maintain a certain level of financial responsibility as determined under the Higher Education Act and under ED regulations. The ED measures an institution's financial responsibility by compiling a composite score, ranging from -0.1 to 3.0, pursuant to a formula that incorporates various financial data from annual financial statements submitted to the ED. An institution with a composite score of 1.5 or higher passes the composite test. An institution with a composite score of at least 1.0 and less than 1.5 is in the zone. If an institution's composite score is in the zone and the institution complies with other financial responsibility standards, the ED typically permits the institution to continue participating in the Title IV programs under certain conditions, including imposing certain monitoring and reporting requirements, placing the institution on provisional certification and transferring the institution from the advance system of Title IV payment to a heightened cash-monitoring or reimbursement system of payment. An institution fails the composite score test with a score of less than 1.0. The ED may permit such institutions to continue participating in the Title IV programs under the aforementioned conditions and potentially other conditions, as well as a requirement to submit to the ED a letter of credit in an amount equal to at least 10% of the annual Title IV program funds received by the institution during its most recently completed fiscal year, although the ED could require a letter of credit based on a higher percentage of the institution's annual Title IV program funds. The borrower defense to repayment regulations that take effect on July 1, 2017, expand the list of circumstances that could require an institution to provide the ED with a letter of credit or other form of acceptable financial protection. Moreover, the new borrower defense to repayment regulations may increase the required minimum letter of credit amount beyond 10% of annual Title IV funds to include additional amounts that the ED determines are needed to fully cover any estimated potential losses. If an institution is unable to submit a required letter of credit or to comply with ED imposed conditions, the institution could be subject to loss of Title IV eligibility, financial penalties and other conditions or sanctions. For the 2016 fiscal year, Kaplan University expects to have a composite score of 1.8, based on its own assessment using ED methodology. However, the ED will make its own determination once it receives and reviews Kaplan University's audited financial statements for the 2016 fiscal year.

Administrative Capability. The Higher Education Act, as reauthorized, directs the ED to assess the administrative capability of each institution to participate in Title IV programs. The failure of an institution to satisfy any of the criteria used to assess administrative capability may cause the ED to determine that the institution lacks administrative capability and subject the institution to additional scrutiny, deny eligibility for Title IV programs or impose other sanctions. To meet the administrative capability standards, an institution must, among other things:

- Comply with all applicable Title IV program requirements;
- Have an adequate number of qualified personnel to administer Title IV programs;
- Have acceptable standards for measuring the satisfactory academic progress of its students;
- Have procedures in place for awarding, disbursing and safeguarding Title IV funds and for maintaining required records;
- Administer Title IV programs with adequate checks and balances in its system of internal control over financial reporting;
- Not be, and not have any principal or affiliate who is, debarred or suspended from U.S. Federal contracting or engaging in activity that is cause for debarment or suspension;
- Provide adequate financial aid counseling to its students;
- Refer to the ED's Office of the Inspector General any credible information indicating that any applicant, student, parent, employee, third-party servicer or other agent of the institution has engaged in any fraud or other illegal conduct involving Title IV programs;
- Submit in a timely way all required reports and financial statements; and
- Not otherwise appear to lack administrative capability.

Although Kaplan endeavors to comply with the administrative capability requirements, Kaplan cannot guarantee that it will continue to comply with the administrative capability requirements or that its interpretation or application of the relevant rules will be upheld by the ED or other agencies or upon judicial review.

State Authorization. Kaplan's institutions and programs are subject to state-level regulation and oversight by state licensing agencies, whose approval is necessary to allow an institution to operate and grant degrees or diplomas in the state. State laws may establish standards for instruction, qualifications of faculty, location and nature of facilities, financial policies and responsibility and other operational matters. Institutions that participate in Title IV programs must be legally authorized to operate in the state in which the institution is physically located or is otherwise subject to state authorization requirements.

Some states have sought to assert jurisdiction over online educational institutions that offer education services to residents in the state or to institutions that advertise or recruit in the state, notwithstanding the lack of a physical location in the state. State regulatory requirements for online education vary among the states, are not well developed in many states, are imprecise or unclear in some states and are subject to change. If Kaplan University is found not to be in compliance with an applicable state regulation and a state seeks to restrict one or more of Kaplan University's business activities within its boundaries, Kaplan University may not be able to recruit or enroll students in that state and may have to cease providing services in that state.

The ED regulations that became effective on July 1, 2011, expanded the requirements for an institution to be considered legally authorized in the state in which it is physically located for Title IV purposes. In some cases, the regulations required states to revise their current requirements and/or to license schools in order for institutions to be deemed legally authorized in those states and, in turn, to participate in the Title IV programs. If a state's requirements are found not to be in compliance with these ED regulations or if Kaplan University's institutions do not receive state approvals where necessary, the institutions could be deemed to lack the state authorization necessary to participate in the Title IV programs and be subject to loss of Title IV eligibility, repayment obligations and other sanctions. Due to an exemption, Kaplan University's home state of Iowa does not require Kaplan University to be registered in Iowa. However, to comply with the law, Kaplan University was granted affirmative registration in Iowa. Kaplan believes that all of Kaplan University's campuses currently meet the ED requirements to be considered legally authorized to provide the programs they offer in the states in which the campuses are located. The ED has stated that it will not publish a list of states that meet, or fail to meet, the state authorization requirements, and it is uncertain how the ED will interpret these requirements in each state.

In addition, the ED regulations that took effect on July 1, 2011, required institutions offering postsecondary education to students through distance education in a state in which the institution is not physically located, or in which it is otherwise subject to state jurisdiction as determined by the state, to meet any applicable state requirements for it to be legally offering postsecondary distance education in that state. In June 2012, the U.S. Court of Appeals for the District of Columbia vacated the regulations with respect to distance education. Between February and May 2014, the ED convened a negotiated rulemaking committee to develop proposed regulations on a variety of topics that included state authorization for programs offered through distance education or correspondence education. The ED paused the negotiated rulemaking process without publishing new regulations on this topic. On December 19, 2016, the ED issued final regulations regarding distance-education state authorization requirements that will require Kaplan University to be authorized in additional states, as well as regulations applicable to institutions with Title IV participating locations in a foreign country. The regulations are not scheduled to take effect until July 1, 2018. Specifically, the regulations will require an institution that offers postsecondary education through distance education in a state in which the institution is not physically located, or in which the state determines that the institution is otherwise subject to the state's jurisdiction, to meet the state's authorization requirements for offering postsecondary distance education in that state. The regulations also will require the institution to document that there is a state process for review and appropriate action on complaints from enrolled students in each such state. In addition, the regulations will require the institution to provide public disclosures regarding various matters, relating to its state authorization and to provide individualized disclosures to each prospective student regarding certain matters, including whether the student's program fails to meet licensure or certification prerequisites in the state in which the student resides. The regulations in certain circumstances consider an institution to have met state authorization requirements in states that participate in a state authorization reciprocity agreement that covers the institution. If Kaplan is unable to obtain the required approvals for distance-education programs by the effective date of the new regulations, then Kaplan students residing in the state for which approval was not obtained may be unable to receive Title IV funds, which could have a material adverse effect on Kaplan's business and operations. The implementation of this rule may further limit Concord's ability to enroll students in its Juris Doctor program outside of California and may materially impact Concord's revenue.

Congressional Reauthorization of Title IV Programs. All of the Title IV programs are subject to periodic legislative review and reauthorization. In addition, while Congress historically has not limited the amount of funding available for the various Title IV student loan programs, the availability of funding for the Title IV programs that provide for the payment of grants is primarily contingent upon the outcome of the annual U.S. Federal appropriations process. Congress also can make changes in the laws affecting Title IV programs in those annual appropriations bills and in other laws it enacts between Higher Education Act reauthorizations. The Higher Education Act was reauthorized through September 2014 and has continued to receive annual appropriations. The Senate Health, Education, Labor and Pensions Committee (HELP) and the House Education and the Workforce Committee have held a series of hearings on reauthorization of the Higher Education Act. Congress is expected to consider reauthorization of the Higher Education Act in 2017, but it is not known if or when Congress will make changes to that statute or to other laws affecting U.S. Federal student aid.

Whether as a result of changes in the laws and regulations governing Title IV programs, a reduction in Title IV program funding levels or a failure of schools within Kaplan University to maintain eligibility to participate in Title IV programs, a material reduction in the amount of Title IV financial assistance available to the students attending those schools could have a material adverse effect on Kaplan's business and operations. In addition, any development that has the effect of making the terms on which Title IV financial assistance is made available materially less attractive could also have a material adverse effect on Kaplan's business and operations.

Governmental Scrutiny and Enforcement. There has been increased attention by Congress on the role that for-profit educational institutions play in higher education, including their participation in Title IV programs and tuition assistance programs for military service members attending for-profit colleges. Beginning in June 2010, the HELP Committee held a series of hearings to examine the for-profit education sector and requested information from various for-profit institutions, including KHE institutions. In July 2012, the majority staff of the HELP Committee issued a final report to conclude the review. The final report included observations and recommendations for Federal policy related to increasing regulations on higher education.

Other committees of Congress have also held hearings to looking into, among other things, the standards and procedures of accrediting agencies, credit hours and program length and the portion of U.S. Federal student financial aid going to for-profit institutions. This increased activity, and other current and future activity, may result in legislation, further rulemaking and other governmental actions affecting Kaplan's participation in Title IV programs or the amount of student financial assistance for which Kaplan's students are eligible. In addition, concerns generated by congressional or other activity, or negative media reports, may adversely affect enrollment in for-profit educational institutions.

The increased scrutiny of for-profit schools also has resulted in additional enforcement actions, investigations and lawsuits by the ED, other federal agencies, state Attorneys General and state licensing agencies. These actions and allegations have attracted significant negative media coverage. Recent enforcement actions have resulted in institutions being required to post substantial letters of credit, liabilities, restrictions and sanctions and, in some cases, have led to the loss of Title IV eligibility and closure of institutions. Allegations and enforcement actions against the overall postsecondary education sector may impact general public perceptions of private-sector educational institutions, including Kaplan, in a negative manner. Negative media coverage regarding other educational institutions or regarding Kaplan directly could damage Kaplan's reputation, reduce student demand for Kaplan programs or lead to increased regulatory scrutiny and could negatively impact Kaplan's operating results.

Kaplan cannot predict the extent to which these activities could result in further investigations, legislation or rulemaking affecting its participation in Title IV programs, other governmental actions and/or actions by state agencies or legislators or by accreditors. If any laws or regulations are adopted that significantly limit Kaplan's participation in Title IV programs or the amount of student financial aid for which Kaplan's students are eligible, or any actions are taken against Kaplan that result in material liabilities, sanctions, conditions or requirements, Kaplan's results of operations and cash flows would be adversely and materially impacted.

Program Reviews, Audits and Investigations. Kaplan's schools are subject to audits or program compliance reviews by various external agencies, including the ED; its Office of the Inspector General; other federal agencies, including the Department of Defense and the Department of Veterans Affairs; and state and accrediting agencies. While program reviews may be undertaken for a variety of reasons, they are performed routinely as part of regulatory oversight of institutions that participate in Title IV or federal or state student funding programs. If the ED or another regulatory agency determines that an institution has improperly disbursed Title IV or other federal or state program funds or violated a provision of the Higher Education Act or other federal or state law or regulations, the affected institution may be required to repay funds to the ED or the appropriate federal or state agency or lender and may be assessed an administrative fine and be subject to other sanctions. Although Kaplan endeavors to comply with all U.S. Federal and state laws and regulations, Kaplan cannot guarantee that its interpretation of the relevant rules will be upheld by the ED or other agencies or upon judicial review.

On February 23, 2015, the ED began a review of Kaplan University. The review will assess Kaplan's administration of its Title IV and Higher Education Act programs and will initially focus on the 2013 to 2014 and 2014 to 2015 award years. On December 17, 2015, Kaplan University received a notice from the ED that it had been placed on provisional certification status until September 30, 2018, in connection with the open and ongoing ED program review. The ED has not notified Kaplan University of any negative findings. However, at this time, Kaplan cannot predict the outcome of this review, when it will be completed or any liability or other limitations that the ED may place on Kaplan University as a result of this review. During the period of provisional certification, Kaplan University must obtain prior ED approval to open a new location, add an educational program, acquire another school or make any other significant change.

In addition, there are four open program reviews at campuses that were part of the KHE Campuses business prior to its sale in 2015 to Education Corporation of America (ECA), including the ED's final reports on the program reviews at former KHE Hammond, IN; San Antonio, TX; Broomall, PA; and Pittsburgh, PA, locations. Kaplan retains responsibility for any financial obligation resulting from the ED program reviews at the KHE Campuses business that were open at the time of sale.

Institutional and Programmatic Accreditation. Accreditation is a process through which an institution submits itself to qualitative review by an organization of peer institutions. Pursuant to the Higher Education Act, the ED relies on accrediting agencies to determine whether the academic quality of an institution's educational programs is sufficient to qualify the institution to participate in Title IV programs. As noted previously, to remain eligible to participate in Title IV programs, a school must maintain its institutional accreditation by an accrediting agency recognized by the ED. Kaplan's schools are subject to reviews by the accrediting agencies that accredit them and their educational programs. Kaplan University's regional accreditation by the HLC was required to be reaffirmed in 2016. As part of this process, in the second quarter of 2016, HLC conducted an on-site review of Kaplan University. In August 2016, the HLC reaffirmed Kaplan University's accreditation for a ten-year term through the 2025–2026 academic year.

Programmatic accreditation is the process through which specific programs are reviewed and approved by industry-specific and program-specific accrediting entities. Although programmatic accreditation is not generally necessary for Title IV eligibility, such accreditation may be required to allow students to sit for certain licensure exams or to work in a particular profession or career or to meet other requirements. Kaplan University programs maintain a variety of programmatic accreditations that it believes are appropriate to ensure the quality of the programs or to enable students to seek necessary credentials upon graduation.

Return of Title IV Funds. ED regulations require schools participating in Title IV programs to calculate correctly and return on a timely basis unearned Title IV funds disbursed to students who withdraw from a program of study prior to completion. These funds must be returned in a timely manner, generally within 45 days of the date the school determines that the student has withdrawn. Under ED regulations, failure to make timely returns of Title IV program funds for 5% or more of students sampled in a school's annual compliance audit, or in a program review or Office of the Inspector General (OIG) audit could result in a requirement that the school post a letter of credit in an amount equal to 25% of its prior-year returns of Title IV program funds. Currently, Kaplan University is not required to post a letter of credit. If unearned funds are not properly calculated and returned in a timely manner, an institution is subject to monetary liabilities, fines or other sanctions.

Test Preparation

In 2016, Kaplan Test Preparation (KTP) included test preparation businesses in pre-college, graduate, health and bar review, as well as new businesses in new economy skills training (NEST) and in career advising. KTP also published test preparation and other books through its Kaplan Publishing business. Each of these businesses is discussed below.

Test Preparation. KTP's pre-college and graduate businesses prepare students for a broad range of college and graduate school admissions examinations, including the SAT, ACT, LSAT, GMAT, MCAT and GRE. KTP's health business prepares students for medical and nursing licensure exams, including the USMLE and NCLEX. Kaplan Bar Review offers full-service bar review in 50 states and the District of Columbia, as well as review for the multistate portion of the bar exam nationwide.

KTP delivers courses at numerous venues throughout the U.S., Canada, Puerto Rico, Mexico and London. These courses are taught at more than 70 KTP-branded locations and at numerous other locations such as hotels, high schools and universities. KTP also offers courses online, typically in a live online classroom or a self-study format. Private tutoring services are provided in person in select markets and online throughout the U.S. In addition, KTP licenses material for certain of its courses to third parties and to a Kaplan affiliate, which, during 2016, delivered courses at 58 locations in 30 countries outside the U.S. KTP also offers college admissions examination preparation courses and materials directly to high schools and school districts.

During 2016, KTP enrolled over 350,000 students in its courses, including more than 160,000 enrolled in online programs.

New Economy Skills Training. In 2015, KTP entered the NEST market in New York, California and Illinois with two offerings. KTP has since added locations in Austin, TX, San Diego, CA, and Seattle, WA. The acquisition of Dev Bootcamp established KTP as a leader in software developer bootcamps, which are programs that provide students with job-ready computer coding skills. KTP also launched Metis, which offers data science and plans to offer marketing and other NEST programs.

Publishing. Kaplan Publishing focuses on print test preparation resources sold through retail channels. At the end of 2016, Kaplan Publishing had over 350 products available in print and digital formats, including more than 150 digital products.

Kaplan International

Kaplan International (KI) operates businesses in Europe and the Asia Pacific region. Each of these businesses is discussed below.

Europe. In Europe, Kaplan International operates the following businesses, all of which are based in the U.K. and Ireland: Kaplan UK, KI Pathways, KI English, Mander Portman Woodward and a higher education institution and an online learning institution.

The Kaplan UK business in Europe through Kaplan Financial Limited is a provider of training, test preparation services and degrees for accounting and financial services professionals, including those studying for ACCA, CIMA and ICAEW qualifications. In addition, Kaplan UK provides professional training. In 2016, Kaplan UK provided courses to over 51,000 students in accountancy and financial services. Kaplan UK is headquartered in London, England, and has 22 training centers located throughout the U.K.

The KI Pathways business offers academic preparation programs especially designed for international students who wish to study in English-speaking countries. In 2016, university preparation programs were being delivered in Australia, China, Japan, Nigeria, Singapore, the U.K. and the U.S., serving more than 13,000 students in partnership with more than 40 universities.

The KI English business provides English-language training, academic preparation programs and test preparation for English proficiency exams, principally for students wishing to study and travel in English-speaking countries. KI English operates a total of 40 English-language schools, with 22 located in the U.K., Ireland, Australia, New Zealand and Canada and 18 located in the U.S. During 2016, KI English served approximately 47,000 students for in-class English-language instruction provided by Kaplan.

In January 2016, Kaplan International acquired Mander Portman Woodward (MPW), a U.K. independent sixth-form college, that prepares domestic and international students for A-level examinations that control admission to U.K. universities. MPW operates three colleges in London, Cambridge and Birmingham.

Kaplan International also operates Dublin Business School in Ireland, a higher education institution, and Kaplan Open Learning in the U.K., an online learning institution. At the end of 2016, these institutions enrolled an aggregate of approximately 5,200 students.

U.K. Immigration Regulations. Certain Kaplan International businesses serve a significant number of international students; therefore, the ability to sponsor students from outside the European Economic Area (EEA) and Switzerland to come to the U.K. is critical to these businesses. Pursuant to regulations administered by the United Kingdom Visa and Immigration Department (UKVI), the KI Pathways business and Kaplan Financial Limited are required to hold or operate Tier 4 sponsorship licenses to permit international students to come to the U.K. to study the courses they deliver. Four of the KI English schools also have Tier 4 licenses to enable them to teach international students, although, in general, students studying the English language can choose to enter the U.K. on a student visitor visa as opposed to a Tier 4 visa.

Each Tier 4 license holder is also required to ensure that it has passed the Basic Compliance Assessment (BCA) and holds Educational Oversight accreditation. Without these criteria being met, Kaplan International's U.K. schools would not be permitted to issue a Confirmation for Acceptance of Studies (CAS) to potential incoming international students, which is a prerequisite to a student obtaining a Tier 4 student visa. The revised immigration rules also require all private institutions to obtain Educational Oversight accreditation. Educational Oversight requires a current and satisfactory full inspection, audit or review by the appropriate academic standards body. Failure to comply with these new rules has the potential to adversely impact the number of international students studying through Kaplan International.

For Kaplan UK, Kaplan Financial Limited currently holds Tier 4 license status under a Kaplan master license enabling it to sponsor international students. Kaplan UK met the UKVI requirements throughout 2016.

For the fifth consecutive year, Kaplan International has retained 100% in Tier 4 Educational Oversight with high grades across all colleges. All Tier 4 license renewals have been approved again with high scores in the core measurable requirements.

KI English completed consolidation of its Tier 4 licenses in June 2016 so that only four U.K. English-language schools remain on the Kaplan Tier 4 master license. Each of these four schools also completed annual monitoring, achieving "exceeded expectations" from the Independent Schools Inspectorate (ISI). As noted above, students studying the English language can choose to enter the U.K. on a student visitor visa as opposed to a Tier 4 visa.

The MPW schools have performed consistently well with good records in their Office for Standards in Education, Children's Services and Skills (OFSTED) and ISI Educational Oversight inspections. The MPW schools each hold current Tier 4 licenses.

Changes continue to be made to U.K. immigration rules. The UKVI continues to tighten the regulations around sponsoring students from outside the EEA and Switzerland. Changes over the past three years have included the introduction of a rule that restricts to five years the time a sponsored student can spend studying at or above degree level in the U.K. The post-study work visa, which permitted postgraduate students to work in the U.K. without being sponsored, was closed to new applicants. In addition, sponsored students who do not attend an institution that qualifies as a Higher Educational Institution (HEI), which includes students attending Kaplan UK colleges, are no longer permitted to work part time while studying. In 2013, the biggest change was the introduction of a new screening process called a "Credibility Check" for potential students. This interview process can affect the number of visa refusals Kaplan International's businesses receive, which is a risk factor for loss of the relevant license. However, Kaplan International has not experienced a significant increase in visa refusals. Since the introduction of the Points-Based System in 2009, all Tier 4 students are subject to strict checks pre and post arrival, including verification that their qualifications are genuine, confirmation that the students maintain a good attendance record and that they can be contacted at all times, and verification that they have academic progression and that their visa is valid at all times while they are present in the U.K. Failure to meet these requirements obliges Kaplan International to withdraw sponsorship and report these students to the UKVI. In 2014, there were additional changes to the UKVI rules, including a significant tightening of the core measurable with respect to visa refusals. Effective November 1, 2014, no more than 10% of the students to whom a CAS is issued by a Tier 4 license sponsor can have their visa refused. Formerly, the limit was set at 20%. In 2015, the Tier 4 licenses for Kaplan Financial, KI Pathways' London College and all of KI English colleges were consolidated into one single "master" license. If this license were lost, all of these colleges would lose the ability to sponsor international students. Furthermore, students applying to another education provider after completing their studies at these colleges are now required to return home to apply for a second visa. All of KI Pathways' colleges dedicated to working with one university partner that held their own individual sponsor license before the introduction of the master license have retained their individual licenses. Academic service providers are required to have rigorous processes to verify all English-language test certificates. The introduction of revised immigration rules has negatively impacted Kaplan UK's enrollment rate in relation to students from outside the EEA and Switzerland.

No assurance can be given that each Kaplan International business in the U.K. will be able to maintain its Tier 4 BCA status and Educational Oversight accreditation. Maintenance of each of these approvals requires compliance with several core metrics that may be difficult to attain. Loss of either Tier 4 BCA status or Educational Oversight accreditation would have a material adverse effect on Kaplan Europe's operating results.

Impact of Brexit. On June 23, 2016, the U.K. held a referendum in which voters approved a proposal that the U.K. leave the European Union ("EU"), commonly referred to as "Brexit." The impact on Kaplan International from Brexit will depend, in part, on the outcome of future negotiations regarding the terms of the U.K.'s withdrawal from the EU. The timing of the negotiations and its impact on recruitment of international students is uncertain. It is possible that EU nationals' ability to enter the U.K. for long- or short-term study will change or that changes in laws affecting EU nationals could also apply to international students presently covered by the Tier 4 (KI Pathways) or student visitor visa regime (KI English). It is also unclear how international student recruitment agents and prospective international students will view the U.K. as a study destination after the EU exit negotiations and the U.K.'s eventual departure from the EU. If the U.K. exit from the EU and related perceptions of the U.K. as a study destination have a significant negative impact on Kaplan's ability to recruit international students, Kaplan's results of operations and cash flows would be adversely and materially impacted.

In addition, the U.K.'s new Prime Minister has expressed her desire to maintain rigorous immigration controls and select the "best" students for entry into the U.K. A government consultation, similar to the U.S. rulemaking process, on admitting the "brightest and best" students to U.K. universities in exchange for extra compliance and responsibilities will be undertaken early in 2017. It is possible that this consultation could result in a material reduction in the number of Tier 4 visas being issued to international students.

The U.K. Counter-Terrorism and Security Act 2015. The U.K. Counter-Terrorism and Security Act 2015 creates a statutory duty for specified public authorities to "have due regard to the need to prevent people from being drawn into terrorism" ("Prevent duty"). The aim of this government policy is to prevent people from becoming terrorists or supporting terrorism. The private Further Education sector became subject to the new Prevent duty in July 2015 and is required to implement safeguards as proposed by the Home Office Prevent guidance.

Kaplan International has successfully implemented a Prevent Policy to satisfy the requirements of its duty across KI English and KI Pathways. Following inspections in July 2016 at three KI Pathways sites, KI Pathways received the highest grading "compliant" for its inspections and received best practice ratings in a number of areas for the private Further Education sector.

Asia Pacific. In the Asia Pacific region, Kaplan operates businesses primarily in Singapore, Australia, New Zealand, Hong Kong and China.

In Singapore, Kaplan operates three business units: Kaplan Higher Education, Kaplan Financial and Kaplan Professional. During 2016, the Higher Education and Financial divisions served more than 13,000 students from Singapore and 5,000 students from other countries throughout Asia and Western Europe. Kaplan Professional provided short courses to approximately 19,000 professionals, managers, executives and businesspeople in 2016.

Kaplan Singapore's Higher Education business provides students with the opportunity to earn bachelor's and postgraduate degrees in various fields on either a part-time or full-time basis. Kaplan Singapore's students receive degrees from affiliated educational institutions in Australia and the U.K. In addition, this division offers pre-university and diploma programs.

Kaplan Singapore's Financial business provides preparatory courses for professional qualifications in accountancy and finance, such as the Association of Chartered Certified Accountants (ACCA) and the Chartered Financial Analyst (CFA). Kaplan Singapore's Professional business, which is an authorized Workforce Development Agency Continuing Education Training (CET) Centre, provides professionals with various skills training to help them rejoin the workforce, shift to new careers or catch up with changes that occur in the workplace.

In Australia, Kaplan delivers a broad range of financial services programs from certificate level through master's level together with professional development offerings through Kaplan Professional, as well as higher education programs in business, accounting, hospitality and tourism and management through Kaplan Business School. In 2016, these businesses provided courses to approximately 1,400 students through classroom programs (within Kaplan Business School) and to more than 33,000 students through online or distance-learning programs offered by Kaplan Professional.

Kaplan Australia's English-language business is part of KI English, which operates across seven locations in Australia and one location in New Zealand, teaching more than 8,000 students per year. The Kaplan Australia Pathways business is also part of KI Pathways. It consists of Murdoch Institute of Technology and the University of Adelaide College (formerly Bradford College) and offers pathways and foundational education to approximately 1,000 students wishing to enter Murdoch University in Perth and the University of Adelaide, respectively.

In Hong Kong, Kaplan operates three business units: Kaplan Financial, Kaplan Language Training and Kaplan Higher Education, serving more than 11,500 students annually.

Kaplan Hong Kong's Financial division delivers preparatory courses to approximately 9,600 students and business executives wishing to take professional qualifications in accountancy, including HKICPA, ACCA and CPA, and financial markets designations, including CFA, LE, FRM and CAIA.

Hong Kong's Language Training division offers both test preparation for overseas study and college applications, including TOEFL, IELTS, SAT and GMAT, to approximately 1,000 students.

Kaplan Hong Kong Higher Education division offers both full-time and part-time programs to approximately 1,000 students studying for degrees from leading Western universities. Students earn doctorate, master's and bachelor's degrees in Hong Kong. Kaplan also offers a proprietary pre-college diploma program through Kaplan Business and Accountancy School.

In early 2015, Kaplan sold both its ACCA training programs business and four schools that deliver university preparation programs. Kaplan continues to retain franchise arrangements with third parties in China to deliver programs.

In 2014, Kaplan Holdings Limited (Hong Kong) signed a joint venture agreement with CITIC Press Corporation. Under the terms of the agreement, the parties have now incorporated a joint venture company, Kaplan CITIC Education Co. Limited, which is 49% owned by Kaplan Holdings Limited. The joint venture company is carrying out financial training businesses in China under an intellectual property license from Kaplan, including CFA, FRM and ACCA.

Each of Kaplan's international businesses is subject to unique and often complex regulatory environments in the countries in which they operate. The degree of consistency in the application and interpretation of such regulations can vary significantly in certain jurisdictions, which can make compliance challenging. No assurance can be given that Kaplan will be able to comply with foreign regulations, and failure to do so could materially and adversely affect Kaplan's operating results.

TELEVISION BROADCASTING

Graham Media Group, Inc. (GMG), a subsidiary of the Company, owns seven television stations, located in Houston, TX; Detroit, MI; Orlando, FL; San Antonio, TX; Roanoke, VA; and Jacksonville, FL, as well as SocialNewsDesk, a provider of social-media management tools designed to connect newsrooms with their users. The following table sets forth certain information with respect to each of the Company's television stations:

Station Location and Year Commercial Operation Commenced	National Market Ranking[(a)]	Primary Network Affiliation	Expiration Date of FCC License	Expiration Date of Network Agreement	Total Commercial Stations in DMA[(b)]
KPRC, Houston, TX, 1949	8th	NBC	Aug. 1, 2022	Dec. 31, 2019	14
WDIV, Detroit, MI, 1947	13th	NBC	Oct. 1, 2021	Dec. 31, 2019	8
WKMG, Orlando, FL, 1954	18th	CBS	Feb. 1, 2021	April 6, 2019	12
KSAT, San Antonio, TX, 1957	31st	ABC	Aug. 1, 2022	Dec. 31, 2021	12
WJXT, Jacksonville, FL, 1947	47th	None	Feb. 1, 2021	—	7
WCWJ, Jacksonville, FL, 1966	47th	CW	Feb. 1, 2021	Aug. 31, 2021	7
WSLS Roanoke, VA, 1952	67th	NBC	Oct. 1 2020	Dec. 31, 2019	7

(a) Source: 2016/2017 DMA Market Rankings, Nielsen Media Research, fall 2016, based on television homes in DMA (see note (b) below).

(b) Designated Market Area (DMA) is a market designation of A.C. Nielsen that defines each television market exclusive of another, based on measured viewing patterns.

In January 2017, GMG acquired WCWJ, a CW affiliate television station in Jacksonville, FL, and WSLS, an NBC affiliate television station in Roanoke, VA. GMG operates both stations under the network affiliations in effect prior to their acquisition.

Revenue from broadcasting operations is derived primarily from the sale of advertising time to local, regional and national advertisers. In 2016, advertising revenue accounted for 70.6% of the total for GMG's operations. Advertising revenue is sensitive to a number of factors, some specific to a particular station or market and others more general in nature. These factors include a station's audience share and market ranking; seasonal fluctuations in demand for air time; annual or biannual events, such as sporting events and political elections; and broader economic trends, among others.

Regulation of Broadcasting and Related Matters

GMG's television broadcasting operations are subject to the jurisdiction of the U.S. Federal Communications Commission (FCC) under the U.S. Federal Communications Act of 1934, as amended (the Communications Act). Each GMG television station holds an FCC license that is renewable upon application for an eight-year period.

Digital Television (DTV) and Spectrum Issues. Each GMG station (and each full-power television station nationwide) now broadcasts only in digital format, which allows transmission of HDTV programming, multiple channels of standard-definition television programming (multicasting) and subchannels of programming designed for reception by mobile devices (mobile DTV). This year, parties petitioned the FCC to begin a rulemaking proceeding to allow permissive use of the standard beyond digital TV, called Next Generation TV or ATSC 3.0. GMG has filed comments voicing its support for bringing Next Generation TV to consumers as soon as possible.

Television stations may receive interference from a variety of sources, including interference from other broadcast stations that is below a threshold established by the FCC. That interference could limit viewers' ability to receive television stations' signals. The amount of interference to stations could increase in the future because of the FCC's decision to allow electronic devices, known as "white space" devices, to operate in the television frequency band on an unlicensed basis on channels not used by nearby television stations.

Congress has authorized the reallocation of spectrum for use by wireless broadband providers, including substantial amounts of spectrum currently in the television broadcast band. To implement this reallocation, Congress authorized, and the FCC conducted, an incentive auction in which broadcast television stations may relinquish spectrum in exchange for a share of the revenues obtained by auctioning the reallocated broadcast spectrum. Each stage of the auction is composed of two separate but interdependent phases: a reverse auction, which will determine the price at which participating broadcasters will voluntarily relinquish their spectrum usage rights, and a forward auction, which will determine the price companies are willing to pay for flexible use wireless licenses. On January 18, 2017, the FCC announced that the incentive auction would close in stage four because the forward auction had raised enough money to pay television stations' reverse-phase bids, fully fund the $1.75 billion broadcaster repacking fund mandated by Congress and meet certain other criteria. On February 14, 2017, the FCC announced that all remaining incentive auction bidding is scheduled to conclude by March 30, 2017.

Certain GMG stations will be required to move to new channel allotments so as to free up a nationwide block of spectrum for wireless broadband use. The FCC has adopted rules requiring this "repacking" of broadcast television stations to new channels to be completed within 39 months after the incentive auction closes, with earlier deadlines set for particular stations in order to stagger the transition to new channels. Those stations required to move to a new channel (other than stations moving channels to satisfy a successful auction bid) will be eligible to seek reimbursement for repacking-relating costs.

The repacking and incentive auction processes could have an adverse effect on GMG. For example, a repacking could result in GMG stations having smaller service areas and/or receiving more interference than they do currently. Stations moving to new channels also could incur significant expense. The legislation authorizing the incentive auction requires that stations be compensated for the expenses of moving to a new channel from spectrum auction proceeds, from a $1.75 billion reimbursement fund. The Company cannot predict what effect a repacking will have on the GMG stations' coverage or whether the GMG stations will be fully compensated for expenses that they incur in connection with a repacking.

Since January 12, 2016, the deadline for stations to submit initial applications to participate in the incentive auction, all broadcast television licensees that were eligible to participate in the auction have been subject to an FCC-imposed "quiet period," which prohibits licensees from directly or indirectly communicating with each other or with forward auction applicants regarding their own or any other licensee's auction bids or bidding strategies. This quiet period was partially lifted on February 6, 2017 enabling broadcasters who participated in the incentive auction to once again speak freely among themselves and negotiate freely to buy or sell their stations.

Carriage of Local Broadcast Signals. The Communications Act and the FCC rules allow a commercial television broadcast station, under certain circumstances, to insist on mandatory carriage of its signal on cable systems serving the station's market area (must carry). Alternatively, stations may elect, at three-year intervals, to forego must-carry rights and allow their signals to be carried by cable systems only pursuant to a "retransmission consent" agreement. Commercial television stations also may elect either mandatory carriage or retransmission consent with respect to the carriage of their signals on direct broadcast satellite (DBS) systems that choose to provide "local-into-local" service (i.e., to distribute the signals of local television stations to viewers in the local market area). Stations that elect retransmission consent may negotiate for compensation from cable or DBS systems in exchange for the right to carry their signals. Each of GMG's television stations is being carried on all of the major cable and DBS systems serving each station's respective local market pursuant to retransmission consent agreements.

Under the STELA Reauthorization Act (STELAR), enacted in December 2014, Congress directed the FCC to undertake certain rulemakings concerning retransmission consent issues. For example, the FCC adopted rules required by STELAR prohibiting same-market television broadcast stations from coordinating or jointly negotiating for retransmission consent unless such stations are under common control. The FCC had also commenced a rulemaking required by STELAR to review the FCC's "totality of the circumstances" test for good faith retransmission consent negotiations, but the FCC ultimately declined to adopt additional rules governing these negotiations. In addition, the FCC in March 2014 solicited comments on a proposal to eliminate its network non-duplication and syndicated exclusivity rules, which rules restrict the ability of cable operators, direct broadcast satellite systems and other distributors classified by the FCC as multichannel video programming distributors to import the signals of out-of-market television stations with duplicating programming during retransmission consent disputes or otherwise. The FCC has not acted on that proposal to date. If Congress or the FCC were to enact further changes to the retransmission consent and/or exclusivity rules, such changes could materially affect the GMG stations' bargaining leverage in future retransmission consent negotiations.

In addition, under STELAR, the statutory copyright license for satellite carriage of distant broadcast television signals was extended through December 31, 2019. The Company cannot predict whether this distant signal copyright will be extended again, nor can it predict whether or how Congress may otherwise change the communications or copyright regimes. The net effect that changes to these regimes would have on the Company's broadcast operations, or on the Company overall, cannot be predicted.

Ownership Limits. The Communications Act and the FCC's rules limit the number and types of media outlets in which a single person or entity may have an attributable interest. Among other restrictions, the FCC's local television ownership rule generally prohibits one company from owning two television stations in the same market unless there would remain at least eight independently owned full-power television stations in that market, and at least one of the commonly owned stations is not among the top-four ranked television stations in that market. The FCC also restricts so-called "cross-ownership" of newspapers and broadcast stations within a market. The FCC is required by statute to review these and certain other media ownership rules every four years. In an August 2016 Order concluding its most recent review, portions of which are being challenged in court and are on reconsideration before the FCC, the FCC decided to retain its existing limitations on television ownership and cross-ownership without significant changes. The Order also readopted rules making certain television Joint Sales Agreements (JSAs) attributable in calculating compliance with the ownership limits, though any such JSAs in effect as of March 31, 2014, may remain in place and be transferred to future owners of the relevant stations through September 30, 2025. The FCC also will require public disclosure of certain shared services agreements (SSAs) though these agreements will not be considered attributable. The FCC's rule changes, if upheld, could limit GMG's ability to enter into certain transactions in the future and/or require GMG to publicly disclose more information about its operations.

In addition, by statute, a single person or entity may have an attributable interest in an unlimited number of television stations nationwide, as long as the aggregate audience reach of such stations does not exceed 39% of nationwide television households and as long as the interest complies with the FCC's other ownership restrictions. In a September 2016 Order, the FCC eliminated the 50% "Ultra High Frequency (UHF) discount," under which stations broadcasting on UHF channels are credited with only half the number of households in their market for purposes of calculating compliance with the 39% cap. This Order has been challenged both in court and in a petition for reconsideration before the FCC. The FCC's Order, if upheld, could affect GMG's ability to enter into certain transactions in the future.

Programming. Six of GMG's seven stations are affiliated with one or more of the national television networks that provide a substantial amount of programming to their television station affiliates. The expiration dates of GMG's affiliation agreements are set forth at the beginning of this Television Broadcasting section. GMG's Jacksonville station, WJXT, has operated as an independent station since 2002. In addition, each of the GMG stations receives programming from syndicators and other third-party programming providers. GMG's performance depends, in part, on the quality and availability of third-party programming, and any substantial decline in the quality or availability of this programming could materially affect GMG's operations.

Public Interest Obligations. To satisfy FCC requirements, stations generally are expected to air a specified number of hours of programming intended to serve the educational and informational needs of children and to complete reports on a quarterly basis concerning children's programming. In addition, the FCC requires stations to limit the amount of advertising that appears during certain children's programs.

The FCC has other regulations and policies to ensure that broadcast licensees operate in the public interest, including rules requiring the disclosure of certain information and documents in an online public inspection file; rules requiring the closed-captioning of programming to assist television viewing by the hearing impaired; video description rules to assist television viewing by the visually impaired; rules concerning the captioning of video programming distributed via the Internet; and rules concerning the volume of commercials. Compliance with these rules imposes additional costs on the GMG stations that could affect GMG's operations.

Political Advertising. The FCC regulates the sale of advertising by GMG's stations to candidates for public office and imposes other obligations regarding the broadcast of political announcements more generally. The application of these regulations may limit the advertising revenues of GMG's television stations during the periods preceding elections.

Broadcast Indecency. The FCC's policies prohibit the broadcast of indecent and profane material during certain hours of the day, and the FCC regularly imposes monetary forfeitures when it determines that a television station has violated that policy. Broadcasters have repeatedly challenged these rules in court, arguing, among other things, that the FCC has failed to justify its indecency decisions adequately, that the FCC's policy is too subjective to guide broadcasters' programming decisions and that its enforcement approach otherwise violates the First Amendment. In June 2012, the U.S. Supreme Court held that certain fines against broadcasters for "fleeting expletives" were unconstitutional because the FCC failed to provide advance notice to broadcasters of what the FCC deemed to be indecent, but it also upheld the FCC's authority to regulate broadcast decency. The Company cannot predict how GMG's stations may be affected by the FCC's current or future interpretation and enforcement of its indecency policies.

The FCC is conducting proceedings concerning various matters in addition to those described in this section. The outcome of these proceedings and other matters described in this section could adversely affect the profitability of GMG's television broadcasting operations.

OTHER ACTIVITIES

The Slate Group

The Slate Group LLC (The Slate Group) publishes *Slate*, an online magazine. *Slate* features articles and podcasts analyzing news, politics and contemporary culture and adds new material on a daily basis. Content is supplied by the magazine's own editorial staff, as well as by independent contributors. As measured by The Slate Group, *Slate* had an average of more than 25 million unique visitors per month and averaged more than 100 million page views per month across desktop and mobile platforms in 2016. The Slate Group also owns Panoply Media, an ad-supported podcast network that creates original audio programming in partnership with leading publishers and thinkers. In addition to producing and marketing podcasts, Panoply Media also licenses a proprietary SAAS platform that provides content management services to podcasters. In 2016, Panoply Media opened a London office. The Slate Group owns an interest in E2J2 SAS, a company incorporated in France that produces two French-language news magazine websites at *slate.fr* and *slateafrique.com*. The Slate Group provides content, technology and branding support.

The FP Group

The FP Group produces *Foreign Policy* magazine and the *ForeignPolicy.com* website, which cover developments in national security, international politics, global economics and related issues. The site features blogs, unique news content and specialized channels and newsletters focusing on regions and topics of interest. The FP Group provides insight and analysis into global affairs for government, military, business, media and academic leaders. FP Events also produces a growing range of live programs, bringing together government, military, business and investment leaders to discuss important regional and topical developments and their implications.

SocialCode

Social Code LLC (SocialCode) is a marketing and insights company that manages digital advertising for leading brands. It delivers a complete technology and service solution that transforms consumer data into planning, media activation and measurement across digital media platforms like Facebook, Instagram, Twitter, Pinterest, Snapchat and YouTube.

Graham Healthcare Group

The Graham Healthcare Group (GHG) provides home health and hospice services in six states. In June 2016, the Company’s two healthcare providers, Celtic Healthcare, Inc. (Celtic) and Residential Healthcare Group (Residential), combined their business operations into one entity. Celtic is a Medicare-certified provider of home health and hospice services headquartered in Mars, PA. Through its subsidiaries, Celtic is licensed to provide home health and hospice services throughout Pennsylvania, Maryland and Illinois. These services include skilled nursing, physical therapy, occupational therapy, speech therapy, social work, nutrition, chaplain and aid services. In addition, Celtic provides virtual care services to patients throughout its service territories. Celtic derives 75.1% of its revenue from Medicare; the remaining sources of revenue are Medicaid, commercial insurance and private payers. Residential is headquartered in Troy, MI, and provides care to patients across Michigan and in the western suburbs of Chicago, IL. Services and support are offered in a variety of settings, including patients’ homes, nursing facilities and hospitals. Residential’s Home Health operation is Medicare-certified and ACHC-accredited. It has developed a number of innovative, evidence-based clinical programs to reduce avoidable hospital readmissions, particularly for chronically ill seniors. Service offerings include in-home nursing and therapy. Residential’s Hospice subsidiary is ACHC-accredited. It provides patients with a full spectrum of hospice care to maintain their personal dignity, safety and quality of life. Residential derives 92% of its revenue from Medicare; the remaining sources of revenue are Medicaid, commercial insurance and private payers.

Forney Corporation

Forney Corporation (Forney) is a global supplier of burners, igniters, dampers and controls for combustion processes in electric utility and industrial applications. Forney is headquartered in Addison, TX, and its manufacturing plant is in Monterrey, Mexico. Forney’s customers include power plants and industrial systems around the world.

Joyce/Dayton Corp.

Joyce/Dayton Corp. (Joyce/Dayton) is a leading manufacturer of screw jacks, linear actuators and related linear motion products and lifting systems in North America. Joyce/Dayton provides its lifting and positioning products to customers across a diverse range of industrial end markets, including renewable energy, metals and metalworking, oil and gas, satellite antennae and material handling sectors.

Group Dekko

Group Dekko Inc. (Dekko) is an electrical solutions company that focuses on innovative power charging and data systems, industrial and commercial indoor lighting solutions and the manufacture of electrical components and assemblies for medical equipment, transportation, industrial and appliance products. Dekko, founded in 1952, is headquartered in Garrett, IN, and operates nine facilities in four states and Mexico. Dekko acquired Electri-Cable Assemblies in September 2016.

CyberVista

The Company launched CyberVista LLC in 2015. CyberVista develops cybersecurity training and workforce development education programs.

COMPETITION

Kaplan's businesses operate in fragmented and competitive markets. Kaplan University competes with both facilities-based and other distance-learning providers of similar educational services, including not-for-profit colleges and universities and for-profit businesses. PACE competes in each of its professional lines with other companies that provide preparation for exams required for professional licenses, certifications and designations. KTP competes with a variety of regional and national test preparation businesses, with individual tutors and with in-school preparation for standardized tests. Overseas, each of Kaplan's businesses competes with other for-profit companies and, in certain instances, with government-supported schools and institutions that provide similar training and educational programs. Students choose among providers based on program offerings, convenience, quality of instruction, reputation, placement rates, student services and cost.

GMG competes for audiences and advertising revenues with television and radio stations, cable systems and video services offered by telephone companies serving the same or nearby areas; with DBS services; and, to a lesser degree, with other media, such as newspapers and magazines. Cable systems operate in substantially all of the areas served by the Company's television stations, where they compete for television viewers by importing out-of-market television signals; by distributing pay-cable, advertiser-supported and other programming that is originated for cable systems; and by offering movies and other programming on a pay-per-view basis. In addition, DBS services provide nationwide distribution of television programming, including pay-per-view programming and programming packages unique to DBS, using digital transmission technologies. The Company's television stations may also become subject to increased competition from low-power television stations, wireless cable services and satellite master antenna systems, which can carry pay-cable and similar program material.

Competition also continues to increase from established and emerging online distribution platforms. Movies and television programming increasingly are available on an on-demand basis through a variety of online platforms, which include free access on the websites of the major TV networks, ad-supported viewing on platforms such as Hulu, and subscription-based access through services such as Netflix. In addition, online-only subscription services offering live television are being launched both by traditional pay-TV competitors (such as DISH and DirecTV) and new entrants (such as Sony). Competition from these various platforms could adversely affect the viewership of the Company's television stations and/or the Company's strategic position in negotiations with pay-TV services.

The home health and hospice industries are extremely competitive and fragmented, consisting of both for-profit and non-profit companies. Celtic and Residential compete primarily with privately-owned and hospital-operated home health and hospice service providers.

EXECUTIVE OFFICERS

The executive officers of the Company, each of whom is elected annually by the Board of Directors, are as follows:

Donald E. Graham, age 71, has been Chairman of the Board of the Company since September 1993 and served as Chief Executive Officer of the Company from May 1991 until November 2015. Mr. Graham served as President of the Company from May 1991 until September 1993 and prior to that had been a Vice President of the Company for more than five years. Mr. Graham also served as Publisher of the Washington Post (the *Post)* from 1979 until September 2000 and as Chairman of the *Post* from September 2000 to February 2008.

Timothy J. O'Shaughnessy, age 35, became Chief Executive Officer in November 2015. From November 2014 until November 2015, he served as President of the Company. He was elected to the Board of Directors in November 2014. From 2007 to August 2014, Mr. O'Shaughnessy served as chief executive officer of LivingSocial, an e-commerce and marketing company that he co-founded in 2007. Mr. O'Shaughnessy is the son-in-law of Donald E. Graham, Chairman of the Company.

Hal S. Jones, age 64, became Chief Financial Officer of the Company in January 2009 and Senior Vice President–Finance of the Company in November 2008. In December 2016, the Company announced Mr. Jones' retirement effective March 31, 2017. Prior to becoming Senior Vice President–Finance, Mr. Jones had been Chief Executive Officer of Kaplan Professional, responsible for Kaplan's professional businesses in financial services, real estate, technology and engineering in the U.S. and the U.K. Mr. Jones has spent 26 years at the Company and Kaplan, serving in a variety of senior management positions with a focus on finance, auditing and accounting.

Wallace R. Cooney, age 54, became Vice President–Finance and Chief Accounting Officer of the Company in June 2008. As previously announced, Mr. Cooney will succeed Mr. Jones as Chief Financial Officer effective April 1, 2017. Mr. Cooney joined the Company in 2001 as Controller and prior to that had been with Gannett Co., Inc. and Price Waterhouse LLP.

Denise Demeter, age 56, became Vice President–Chief Human Resources Officer of the Company in September 2014. Ms. Demeter joined the Company in 1986 and has served in a variety of roles, including Vice President, Human Resources, and Senior Director, Pension & Savings Plans.

Jacob M. Maas, age 40, became Senior Vice President–Planning and Development of the Company in October 2015. Prior to joining the Company, he served as executive vice president of operations and head of corporate development at LivingSocial, an e-commerce and marketing company that he joined as chief financial officer in 2008.

Nicole M. Maddrey, age 52, became Senior Vice President, General Counsel and Secretary of the Company in April 2015. Ms. Maddrey joined the Company in 2007 as Associate General Counsel.

Andrew S. Rosen, age 56, became Executive Vice President of the Company and Chairman of Kaplan, Inc. in April 2014 and Chief Executive Officer of Kaplan, Inc. in August 2015. Mr. Rosen has spent 31 years at the Company and its affiliates. He joined the Company in 1986 as a staff attorney with the *Post* and later served as assistant counsel at Newsweek. He moved to Kaplan in 1992 and held numerous leadership positions there before being named CEO in November 2008.

EMPLOYEES

The Company and its subsidiaries employ approximately 11,300 people on a full-time basis.

Worldwide, Kaplan employs approximately 6,979 people on a full-time basis. Kaplan also employs substantial numbers of part-time employees who serve in instructional and administrative capacities. Kaplan's part-time workforce is approximately 8,922 employees. Collectively, in the U.S., U.K. and Canada, 158 Kaplan employees are represented by a union.

GMG has approximately 859 full-time employees, of whom about 108 are represented by a union. Of the six collective-bargaining agreements covering union-represented employees, two have expired and are being renegotiated. Three collective-bargaining agreements will expire in 2017.

The Slate Group, including Panoply, has approximately 171 employees, none of whom is represented by a union.

Graham Healthcare Group has approximately 1,229 full-time employees, of which Celtic has approximately 599 full-time employees and Residential has approximately 630 full-time employees, none of whom is represented by a union.

Forney has approximately 167 full-time employees, of whom 61 are represented by a union.

Joyce/Dayton has approximately 145 full-time employees, none of whom is represented by a union.

SocialCode has approximately 304 full-time employees, none of whom is represented by a union.

Dekko has approximately 1,344 full-time employees, none of whom is represented by a union.

FP Group and CyberVista each employ fewer than 100 people. Approximately 17 FP Group employees are represented by a union.

The parent Company has approximately 64 full-time employees, none of whom is represented by a union.

FORWARD-LOOKING STATEMENTS

All public statements made by the Company and its representatives that are not statements of historical fact, including certain statements in this Annual Report on Form 10-K and elsewhere in the Company's 2016 Annual Report to Stockholders, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include comments about the Company's business strategies and objectives, the prospects for growth in the Company's various business operations and the Company's future financial performance. As with any projection or forecast, forward-looking statements are subject to various risks and uncertainties, including the risks and uncertainties described in Item 1A of this Annual Report on Form 10-K, that could cause actual results or events to differ materially from those anticipated in such statements. Accordingly, undue reliance should not be placed on any forward-looking statement made by or on behalf of the Company. The Company assumes no obligation to update any forward-looking statement after the date on which such statement is made, even if new information subsequently becomes available.

AVAILABLE INFORMATION

The Company's Internet address is www.ghco.com. The Company makes available free of charge through its website its Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, definitive proxy statements on Schedule 14A and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (Exchange Act) as soon as reasonably practicable after such documents are electronically filed with the Securities and Exchange Commission (SEC). In addition, the Company's Certificate of Incorporation, its Corporate Governance Guidelines, the Charters of the Audit and Compensation Committees of the Company's Board of Directors and the codes of conduct adopted by the Company and referred to in Item 10 of this Annual Report on Form 10-K are all available on the Company's website; printed copies of such documents may be obtained by any stockholder upon written request to the Secretary, Graham Holdings Company at 1300 North 17th Street, Arlington, VA 22209. The contents of the Company's website are not incorporated by reference into this Form 10-K and shall not be deemed "filed" under the Exchange Act.

The SEC website, www.sec.gov, contains the reports, proxy statements and information statements and other information regarding issuers that file electronically with the SEC. Also, the public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

Item 1A. Risk Factors.

The Company faces a number of significant risks and uncertainties in connection with its operations. The most significant of these are described below. These risks and uncertainties may not be the only ones facing the Company. Additional risks and uncertainties not presently known, or currently deemed immaterial, may adversely affect the Company in the future. In addition to the other information included in this Annual Report on Form 10-K, investors should carefully consider the following risk factors. If any of the events or developments described below occurs, it could have a material adverse effect on the Company's business, financial condition or results of operations.

- **Failure to Comply With Statutory and Regulatory Requirements Could Result in Loss of Access to U.S. Federal Student Loans and Grants Under Title IV, a Requirement to Pay Fines or Monetary Liabilities or Other Sanctions**

To maintain Title IV eligibility, each group of schools combined into an OPEID unit must comply with the extensive statutory and regulatory requirements of the Higher Education Act and other laws and accrediting standards relating to its financial aid management, educational programs, financial strength, facilities, recruiting practices, representations made by the school and various other matters. Failure to comply with these requirements could result in the loss or limitation of the eligibility of Kaplan University to participate in Title IV programs; a requirement to pay fines or to repay Title IV program funds; a denial or refusal by the ED to consider a school's application for renewal of its certification to participate in the Title IV programs or for approval to add a new campus or educational program; a requirement to submit a letter of credit; the placement of the institution on the heightened cash-monitoring or reimbursement method of payment; the placement of the institution on provisional certification; the imposition of civil or criminal penalties; or other sanctions. On December 17, 2015, Kaplan University received notice from the ED that it had been placed on provisional certification status until September 30, 2018. During the period of provisional certification, Kaplan University must obtain prior ED approval to open a new location, add an educational program, acquire another school or make any other significant change. Provisional certification status carries fewer due process protections than full certification. As a result, the ED may withdraw an institution's provisional certification more easily than if it is fully certified. Provisional certification does not otherwise limit access to Title IV program funds by students attending the institution.

No assurance can be given that Kaplan University programs currently participating in Title IV programs will maintain their Title IV eligibility, accreditation and state authorization in the future or that the ED might not successfully assert that one or more of such programs have previously failed to comply with Title IV requirements. The loss of Title IV eligibility by Kaplan University would have a material adverse effect on Kaplan's operating results.

- **Program Reviews, Audits, Investigations and Other Reviews of KHE Schools Could Result in Findings of Failure to Comply With Statutory and Regulatory Requirements**

Kaplan University is subject to program reviews, audits, investigations and other compliance reviews conducted by various regulatory agencies and auditors, including, among others, the ED, the ED's Office of the Inspector General, accrediting bodies and state and various other federal agencies, as well as annual audits by an independent certified public accountant of each OPEID unit's compliance with Title IV statutory and regulatory requirements. These compliance reviews can result in findings of noncompliance with statutory and regulatory requirements that can, in turn, result in proceedings to impose fines, liabilities, civil or criminal penalties or other sanctions against the school, including loss or limitation of its eligibility to participate in Title IV programs or in other federal or state financial assistance programs. Certain former KHE schools are the subject of ongoing compliance reviews and lawsuits related to their compliance with statutory and regulatory requirements and may be subject to future compliance reviews or lawsuits. Although substantially all of the assets of KHE on-ground schools were sold on September 3, 2015, Kaplan retained liability for the pre-sale conduct of those schools, and there are outstanding program reviews at four of these former schools.

KHE schools have been, and may in the future be, subject to complaints and lawsuits by present or former students or employees or other people related to compliance with statutory, common law and regulatory requirements that, if successful, could result in monetary liabilities or fines or other sanctions.

- **Reductions in the Amount of Funds Available to Students, Including Under Title IV Programs, in KHE Schools, Changes in the Terms on Which Such Funds Are Made Available or Loss or Limitation of Eligibility to Receive Such Funds Could Have a Material Adverse Effect on Kaplan's Business and Operations**

During the Company's 2016 fiscal year, funds provided under the student financial aid programs created under Title IV accounted for approximately $437 million of the revenues of the schools in KHE. Any legislative, regulatory or other development that has the effect of materially reducing the amount of Title IV financial assistance or other funds available to the students of those schools would have a material adverse effect on Kaplan's business and operations. In addition, any development that has the effect of making the terms on which Title IV financial assistance or other funds are available to students of those schools materially less attractive could have a material adverse effect on Kaplan's business and operations.

- **ED Rules Regarding Borrower Defense to Repayment Could Have a Material Adverse Effect on Kaplan's Business and Operations**

On November 1, 2016, the ED issued final rules effective July 1, 2017, that expand the bases on which borrowers may obtain ED discharge of their federal financial aid loans and establish a process for the ED to commence a separate proceeding against the institution to recover the discharged amounts. The rules permit loan discharges based on substantial misrepresentations, breaches of contract, or favorable judgments against the school; in some cases, by classes of students as well as individual students. In addition, the final rules amend the ED's financial responsibility regulations by, among other things, imposing two sets of triggers for determining whether the ED may require the institution to furnish the ED with a letter of credit or other form of acceptable financial protection and to accept other requirements the ED might impose. The rules also require schools not meeting a loan "repayment rate" threshold calculation to provide an ED-prepared warning to current and prospective students and to include the warning on its website and in promotional materials and advertisements. The rules also include new provisions related to arbitration and class action lawsuits, including prohibitions regarding an institution's use of pre-dispute arbitration agreements and class action waivers. The Company cannot predict how the ED will interpret and enforce the new borrower defense to repayment rules, however, the new rules could have a material adverse effect on Kaplan's business and results of operations.

- **Regulatory Changes Could Have a Material Adverse Effect on Kaplan's Business and Operations**

The implementation of new Title IV and other regulations have required and will require Kaplan to change its practices to comply with new requirements. These changes have increased and will continue to increase its administrative costs and overall risk. Changes to its practices or Kaplan's inability to comply with the final regulations could have a material adverse effect on Kaplan's business and results of operations. Moreover, the ED or other U.S. or international regulatory bodies could implement new regulations or amend existing regulations in a manner that could have a material adverse effect on Kaplan's business and results of operations.

- **Changes to the Regulations Regarding Incentive Compensation Make It Difficult for Kaplan to Attract Students and Retain Qualified Personnel and Add Compliance Risk**

Under the incentive compensation rule, an institution participating in the Title IV programs may not provide any commission, bonus or other incentive payment to any person or entity engaged in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV funds if such payment is based directly or indirectly on success in securing enrollments or financial aid. On July 1, 2011, regulations went into effect that amended the incentive compensation rule by reducing the scope of permissible payments under the rule and expanding the scope of payments and employees subject to the rule. KHE modified some of its compensation practices as a result of the revisions to the incentive compensation rule. Due to a lack of clear guidance from the ED, there is no assurance that these modifications will in all cases be found to be in compliance with the ED's interpretation of the regulations. Additionally, these changes to compensation arrangements make it difficult to attract students and to provide adequate incentives to promote superior job performance and retain qualified personnel. The Company believes that this change in Kaplan's approach to recruiting has adversely impacted, and will continue to adversely impact, Kaplan's enrollment rates, operating costs, business and results of operations. The Company cannot predict how the ED will interpret and enforce all aspects of the revised incentive compensation rule in the future, and any changes in this regard could have a material adverse effect on Kaplan's business and results of operations.

- **ED Rules Regarding Gainful Employment Have Had and Could Continue to Have a Material Adverse Effect on Kaplan's Business and Operations**

Under the Higher Education Act, certain education programs, including all programs offered by Kaplan University, are required to lead to gainful employment in a recognized occupation in order to be eligible to participate in the Title IV programs. The ED has defined the phrase "gainful employment" to mean employment with earnings high enough to meet specific student debt-to-income ratios. The ED tied an education program's Title IV eligibility to whether the program meets that definition. These regulations are known as the "gainful employment" rules or "GE" rules. Under these regulations, the ED calculates two debt-to-earnings rates for each program subject to the GE regulations: an annual debt-to-earnings rate and a discretionary debt-to-earnings rate. Under the debt-to-earnings rates for Kaplan's programs that were released in January 2017 for the 2014 – 2015 award year, which are the first rates to be issued under the GE rules, none of Kaplan University's active programs currently accepting students failed the GE test. Kaplan University has five other programs that failed the GE test. Of these five programs, two have been discontinued, have no students and are no longer being offered, and the remaining three are still active but are not accepting new enrollments. The three active failing programs accounted for approximately $16.7 million in revenue in 2016. Kaplan University also has 16 programs in the warning zone status. Four of these programs are active and currently accepting students. These four programs accounted for approximately $71 million and $51.1 million in revenue for 2015 and for 2016, respectively. Of the remaining 12 programs in the warning zone, five have been discontinued, have no students and are no longer being offered, and seven of these programs are active but not currently accepting enrollments. The ED has stated that it has the ability to combine, for future GE debt-to-earnings calculations, any new programs that it determines to be "substantially similar" to other current or past programs. Kaplan University started a number of new programs after the effective date of the GE rules. If the ED determines that these new programs are substantially similar and combines the new programs with programs that are currently in the warning zone or that failed the GE test, eligibility of the new programs to participate in Title IV programs and revenues from such programs would be materially adversely affected.

The GE rules allow for an appeal of these rates if the institution can provide alternative earnings data for each appealed program showing an improvement in the GE rates and moving the program from fail to warning zone or from warning zone to pass. Kaplan University has appealed the rates for the 16 programs in the warning zone, including the four programs that are active and currently accepting students and the remaining 12 programs that are discontinued and not accepting students. Although none of five failing programs are active and accepting students, Kaplan University has appealed their rates as well. Kaplan University cannot predict the outcome of these appeals.

The ultimate outcome of future GE rates and their impact on Kaplan's operations can not be predicted. The GE rules have caused Kaplan to eliminate or limit enrollments in certain educational programs at some of its schools; may result in the loss of student access to Title IV programs; and has had and may continue to have a material adverse effect on KHE's revenues, operating income and cash flows.

The regulations also contain requirements related to public disclosure of program information and outcomes, reporting data to the ED, including the debt-to-earnings rates, and certification requirements. On October 9, 2015, Kaplan University received a letter from the ED indicating that it had failed to report data on a significant number of programs that were listed as active in the ED's system. The letter stated that until this issue is resolved, Kaplan University cannot start any new programs, and failure to resolve the issue could result in material administrative actions. There is no assurance that the ED will accept Kaplan's corrected data, will not find additional issues, or will not take further action against Kaplan University.

- **Congressional Examination of For-Profit Education and Other Governmental Scrutiny by the ED and Other Federal and State Regulators Could Lead to Legislation or Other Governmental Action That May Materially and Adversely Affect Kaplan's Business and Operations**

There has been increased attention by Congress on the role that for-profit educational institutions play in higher education, including their participation in Title IV programs and tuition assistance programs for military service members attending for-profit colleges. Beginning in June 2010, the HELP Committee held a series of hearings to examine the for-profit education sector and requested information from various for-profit institutions, including KHE institutions. In July 2012, the majority staff of the HELP Committee issued a final report to conclude the review. The final report included observations and recommendations for Federal policy.

Other committees of Congress have also held hearings into, among other things, the standards and procedures of accrediting agencies, credit hours and program length and the portion of U.S. Federal student financial aid going to for-profit institutions. Several legislators have requested the U.S. Government Accountability Office to review and make recommendations regarding, among other things, student recruitment practices; educational quality; student outcomes; the sufficiency of integrity safeguards against waste, fraud and abuse in Title IV programs; and the percentage of proprietary institutions' revenue coming from Title IV and other U.S. Federal funding sources. Congress is expected to consider reauthorization of the Higher Education Act in 2017, but the Company cannot predict if or when this process will be completed. This increased activity, and other current and future activity, may result in legislation, further rulemaking and other governmental actions affecting Kaplan's participation in Title IV programs or the amount of student financial assistance for which Kaplan's students are eligible. In addition, concerns generated by congressional or other activity, or negative media reports, may adversely affect enrollment in for-profit educational institutions.

The increased scrutiny of for-profit schools also has resulted in additional enforcement actions, investigations and lawsuits by the ED, other federal agencies, state Attorneys General and state licensing agencies. These actions and allegations have attracted significant negative media coverage. Recent enforcement actions have resulted in institutions being required to post substantial letters of credit, liabilities, restrictions and sanctions and, in some cases, have led to the loss of Title IV eligibility and closure of institutions. Allegations and enforcement actions against the overall postsecondary education sectors may impact general public perceptions of private-sector educational institutions, including Kaplan, in a negative manner. Negative media coverage regarding other educational institutions or regarding Kaplan directly could damage Kaplan's reputation, reduce student demand for Kaplan programs or lead to increased regulatory scrutiny and could negatively impact Kaplan's operating results.

Kaplan cannot predict the extent to which these activities could result in further investigations, legislation or rulemaking affecting its participation in Title IV programs, other governmental actions and/or actions by state agencies or legislators or by accreditors. If any laws or regulations are adopted that significantly limit Kaplan's participation in Title IV programs or the amount of student financial aid for which Kaplan's students are eligible, Kaplan's results of operations and cash flows would be adversely and materially impacted.

- **The Kaplan Commitment Is Expected to Continue to Impact Operating Results**

In the fourth quarter of 2010, KHE phased in a program called the Kaplan Commitment. Under this program, new undergraduate students of Kaplan University enroll in classes for several weeks and assess whether their educational experience meets their needs and expectations before they incur any significant financial obligation.

Students who choose to withdraw from the program during the risk-free period do not have to pay for the coursework. The Kaplan Commitment program and related initiatives have negatively impacted, and could continue to negatively impact, the future operations of KHE, including student enrollments and retention, tuition revenues, operating income and cash flow.

- **Student Loan Defaults Could Result in Loss of Eligibility to Participate in Title IV Programs**

A school may lose its eligibility to participate in Title IV programs if student defaults on the repayment of Title IV loans exceed specified rates, referred to as "cohort default rates." The ED calculates a cohort default rate for each OPEID number. Kaplan University has one OPEID number. The schools in an OPEID number whose cohort default rate exceeds 40% for any single year lose their eligibility to participate in the Direct Loan programs for at least two fiscal years, effective 30 days after notification from the ED. The schools in an OPEID number whose cohort default rate equals or exceeds 30% for three consecutive years lose their Title IV eligibility to participate in the Direct Loan and U.S. Federal Pell Grant programs effective 30 days after notification from the ED and for at least two fiscal years. The schools in an OPEID number whose cohort default rate equals or exceeds 30% in two of the three most recent fiscal years for which rates have been issued by the ED may be placed on provisional certification by the ED and could be required by the ED to submit a letter of credit under the borrower defense to repayment regulations. The loss of Title IV eligibility by Kaplan University due to cohort default rates that exceed specified rates would have a material adverse effect on Kaplan's operating results.

- **Title IV Revenues in Excess of U.S. Federally Set Percentage Could Lead to Loss of Eligibility to Participate in Title IV Programs**

Under regulations referred to as the 90/10 rule, an institution could lose its eligibility to participate in Title IV programs if it derives more than 90% of its receipts from Title IV programs, as calculated on a cash basis in accordance with the Higher Education Act and applicable ED regulations, in each of two consecutive fiscal years. Any institution with Title IV receipts exceeding 90% for a single fiscal year would be placed on provisional certification and may be subject to other enforcement measures, including a potential requirement to submit to the ED a letter of credit under the borrower defense to repayment regulations that take effect on July 1, 2017. The enactment of the U.S. Federal Ensuring Continued Access to Student Loans Act of 2008 increased student loan limits and the maximum amount of Pell Grants, which resulted in an increase in the percentage of Kaplan University's receipts from Title IV programs. These increases, and any future increases or changes in the 90/10 calculation formula or any ED interpretation of what revenue may be included in the calculation, make it more difficult for institutions to comply with the 90/10 rule.

Kaplan has taken steps to ensure that revenue from programs acquired by Kaplan University is eligible to be counted in that campus's 90/10 calculation. However, there can be no guarantee that the ED will not challenge the inclusion of revenue from any acquired program in Kaplan University's 90/10 calculations or will not issue an interpretation of the 90/10 rule that would exclude such revenue from the calculation. There can be no guarantee that these measures will be adequate to prevent the 90/10 ratio at Kaplan University from exceeding 90% in the future.

In addition, certain legislators have proposed amendments to the Higher Education Act that would lower the threshold percentage in the 90/10 rule to 85%, treat non-Title IV federal funds as Title IV funds in the 90/10 calculation and make other refinements to the calculation. If these proposals or similar laws or regulations are adopted, they would make it more difficult for Kaplan University to comply with the 90/10 rule.

The loss of Title IV eligibility by Kaplan University due to a violation of the 90/10 rule would have a material adverse effect on Kaplan's operating results.

- **Failure to Maintain Institutional Accreditation Could Lead to Loss of Ability to Participate in Title IV Programs**

Kaplan University's online university and all of its ground campuses are institutionally accredited by a regional accreditor recognized by the ED. Accreditation by an accrediting agency recognized by the ED is required for an institution to become and remain eligible to participate in Title IV programs. Kaplan University's institutional accreditor conducts reviews from time to time for a variety of reasons. Failure to resolve any concerns that may arise during such reviews could result in a loss of accreditation at the school. The loss of accreditation would, among other things, render the affected school and programs ineligible to participate in Title IV programs and would have a material adverse effect on Kaplan's business and operations.

- **Failure to Maintain Programmatic Accreditation Could Lead to Loss of Ability to Provide Certain Education Programs and Failure to Obtain Programmatic Accreditation May Lead to Declines in Enrollments in Unaccredited Programs**

Programmatic accreditation is the process through which specific programs are reviewed and approved by industry-specific and program-specific accrediting entities. Although programmatic accreditation is not generally necessary for Title IV eligibility, such accreditation may be required to allow students to sit for certain licensure exams or to work in a particular profession or career. Failure to obtain or maintain such programmatic accreditation may lead schools to discontinue programs that would not provide appropriate outcomes without that accreditation or may lead to a decline in enrollments in programs because of a perceived or real reduction in program value.

- **Failure to Maintain State Authorizations Could Cause Loss of Ability to Operate and to Participate in Title IV Programs in Some States**

Kaplan's institutions and programs are subject to state-level regulation and oversight by state licensing agencies, whose approval is necessary to allow an institution to operate and grant degrees or diplomas in the state. Institutions that participate in Title IV programs must be legally authorized to operate in the state in which the institution is physically located. The loss of such authorization would preclude the institution from offering postsecondary education and render students ineligible to participate in Title IV programs. Loss of authorization at campus locations or, in states that require it, for Kaplan University's online programs would have a material adverse effect on Kaplan University's business and operations.

Some states have sought to assert jurisdiction over online education institutions that offer education services to residents in the state or to institutions that advertise or recruit in the state, notwithstanding the lack of a physical location in the state. State regulatory requirements for online education vary among the states, are not well developed in many states, are imprecise or unclear in some states and are subject to change. If Kaplan University is found not to be in compliance with an applicable state regulation and a state seeks to restrict one or more of Kaplan University's business activities within its boundaries, Kaplan University may not be able to recruit or enroll students in that state and may have to cease providing services and recruiting in that state.

ED regulations that went into effect on July 1, 2011, expanded the requirements for an institution to be considered legally authorized in the state in which it is physically located for Title IV purposes. In some cases, the regulations require states to revise their current requirements and/or to license schools in order for institutions to be deemed legally authorized in those states and, in turn, to participate in the Title IV programs. If the states do not amend their requirements where necessary and if schools do not receive approvals where necessary that comply with these requirements, the institution could be deemed to lack the state authorization necessary to participate in the Title IV programs, which would have a material adverse effect on Kaplan's business and operations.

On December 19, 2016, the ED issued final regulations regarding distance-education state authorization requirements that would require Kaplan University to be authorized in additional states, as well as regulations applicable to institutions with Title IV participating locations in a foreign country. Specifically, the regulations will require an institution that offers postsecondary education through distance education in a state in which the institution is not physically located, or in which the state determines that the institution is otherwise subject to the state's jurisdiction, to meet the state's authorization requirements for offering postsecondary distance education in that state. The regulations also will require the institution to document that there is a state process for review and appropriate action on complaints from enrolled students in each such state. In addition, the regulations will require the institution to provide public disclosures regarding various matters relating to its state authorization and to provide individualized disclosures to each prospective student regarding certain matters, including whether the student's program does not meet licensure or certification prerequisites in the state in which the student resides. The regulations in certain circumstances consider an institution to be authorized in states that participate in a state authorization reciprocity agreement that covers the institution. The regulations are not scheduled to take effect until July 1, 2018. If Kaplan is unable to obtain the required approvals for distance-education programs by the effective date of the new regulations, then Kaplan students residing in the state for which approval was not obtained may be unable to receive Title IV funds, which could have a material adverse effect on Kaplan's business and operations. Additionally, these rules may impact Concord's ability to enroll students into its Juris Doctor program outside of California.

- **Failure to Correctly Calculate or Timely Return Title IV Funds for Students Who Withdraw Prior to Completing Programs Could Result in a Requirement to Post a Letter of Credit or Other Sanctions**

ED regulations require schools participating in Title IV programs to calculate correctly and return on a timely basis unearned Title IV funds disbursed to students who withdraw from a program of study prior to completion. These funds must be returned in a timely manner, generally within 45 days of the date the school determines that the student has withdrawn. Under ED regulations, failure to make timely returns of Title IV program funds for 5% or more of students sampled in a school's annual compliance audit, or in a program review or OIG audit, could result in a requirement that the school post a letter of credit in an amount equal to 25% of its prior-year returns of Title IV program funds. If unearned funds are not properly calculated and returned in a timely manner, an institution may be subject to monetary liabilities, fines or other sanctions by the ED that could have a material adverse effect on Kaplan's results of operations.

- **Failure to Demonstrate Financial Responsibility Could Result in a Requirement to Submit Letters of Credit to the ED, Loss of Eligibility to Participate in Title IV Programs or Other Sanctions**

An institution participating in Title IV programs must maintain a certain level of financial responsibility as determined under the Higher Education Act and under ED regulations. The ED measures an institution's financial responsibility by compiling a composite score, ranging from -0.1 to 3.0, pursuant to a formula that incorporates various financial data from annual financial statements submitted to the ED. An institution with a composite score of 1.5 or higher passes the composite test. An institution with a composite score of at least 1.0 and less than 1.5 is in the zone. If an institution's composite score is in the zone and the institution complies with other financial responsibility standards, the ED typically permits the institution to continue participating in the Title IV programs under certain conditions, including imposing certain monitoring and reporting requirements, placing the institution on provisional certification and transferring the institution from the advance system of Title IV payment to a heightened cash-monitoring or reimbursement system of payment. An institution fails the composite score test with a score of less than 1.0. The ED may permit such institutions to continue participating in the Title IV programs under the aforementioned conditions and potentially other conditions, as well as a requirement to submit to the ED a letter of credit in an amount equal to at least 10% of the annual Title IV program funds received by the institution during its most recently completed fiscal year, although the ED could require a letter of credit based on a higher percentage of the institution's annual Title IV program funds. The borrower defense to repayment regulations that take effect on July 1, 2017, expand the list of circumstances that could require an institution to provide the ED with a letter of credit or other form of acceptable financial protection. Moreover, the new borrower defense to repayment regulations may increase the required minimum letter of credit amount beyond 10% of annual Title IV funds to include additional amounts that the ED determines are needed to fully cover any estimated potential losses. If an institution is unable to submit a required letter of credit or to comply with ED imposed conditions, the institution could be subject to loss of Title IV eligibility, financial penalties and other conditions or sanctions. For the 2016 fiscal year, Kaplan University expects to have a composite score of 1.8, based on its own assessment using ED methodology. However, the ED will make its own determination once it receives and reviews Kaplan University's audited financial statements for the 2016 fiscal year.

If Kaplan University fails to meet the composite score standard or any of the other financial responsibility standards, it may be required to post a letter of credit in favor of the ED and possibly may be subject to other sanctions, including limitation or termination of its participation in Title IV programs. A requirement to post a letter of credit or the imposition of any one or more other sanctions by the ED could have a material adverse effect on Kaplan's results of operations.

- **Failure to Demonstrate Administrative Capability Could Result in Loss of Eligibility to Participate in Title IV Programs or Other Sanctions**

ED regulations specify extensive criteria that an institution must satisfy to establish that it has the required "administrative capability" to participate in Title IV programs. These criteria include, but are not limited to, requirements relating to the institution's compliance with all applicable Title IV requirements; the institution's administration of Title IV programs; the institution's compliance with certain reporting, disclosure and record-keeping obligations; and the institution's ability to maintain cohort default rates below prescribed thresholds. Failure to comply with these criteria could result in the loss or limitation of the eligibility of Kaplan University to participate in the Title IV programs, a requirement to pay fines or to repay Title IV program funds, a denial or refusal by the ED to consider a school's application for renewal of its certification to participate in the Title IV programs, civil or criminal penalties or other sanctions. Any one or more of these actions by the ED could have a material adverse effect on Kaplan's results of operations.

- **Failure to Obtain Regulatory Approval of Transactions Involving a Change of Control May Result in the Loss of the Ability to Operate Schools or to Participate in U.S. Federal Student Financial Aid Programs**

If Kaplan University experiences a change of control under the standards of applicable state agencies, accrediting agencies or the ED, it must seek the approval of the relevant agencies. An institution that undergoes a change of control, which may include a change of control of the institution's parent corporation or other owners, must be reviewed and recertified by the ED and obtain approvals from certain state agencies and accrediting bodies, in some cases prior to the change of control. The failure of Kaplan University to reestablish its state authorization, accreditation or ED certification following a change of control as defined by the applicable agency could result in a suspension of operating authority or suspension or loss of U.S. Federal student financial aid funding, which could have a material adverse effect on Kaplan University's student population and revenue.

- **Actions of Other Postsecondary Education Institutions and Related Media Coverage May Negatively Influence the Regulatory Environment and Kaplan's Reputation**

The HELP Committee hearings and various state Attorneys General's actions, along with other recent investigations and lawsuits, have included allegations against various for-profit schools of, among other things, deceptive trade practices, false claims against the U.S. and noncompliance with state and ED regulations. These allegations have attracted significant negative media coverage. Allegations against private-sector postsecondary education institutions have impacted and may continue to impact general public perceptions of private-sector educational institutions, including Kaplan, in a negative manner. Negative media coverage regarding other educational institutions or regarding Kaplan directly could damage Kaplan's reputation, reduce student demand for Kaplan programs or lead to increased regulatory scrutiny and could negatively impact Kaplan's operating results.

- **Changes in the Extent to Which Standardized Tests Are Used in the Admissions Process by Colleges or Graduate Schools Could Reduce Demand for KTP Offerings**

A substantial portion of Kaplan's revenue is generated by KTP. The source of this income is fees charged for courses that prepare students for a broad range of admissions examinations that are required for admission to colleges and graduate schools. Historically, colleges and graduate schools have required standardized tests as part of the admissions process. There has been some movement away from this historical reliance on standardized admissions tests among a small number of colleges that have adopted "test-optional" admissions policies. Any significant reduction in the use of standardized tests in the college or graduate school admissions process could have an adverse effect on Kaplan's operating results.

- **Changes in the Extent to Which Licensing and Proficiency Examinations Are Used to Qualify Individuals to Pursue Certain Careers Could Reduce Demand for Kaplan Offerings**

A substantial portion of PACE and Kaplan International's revenue comes from preparing individuals for licensing or technical proficiency examinations in various fields. Any significant relaxation or elimination of licensing or technical proficiency requirements in those fields served by PACE and Kaplan International's businesses could negatively impact Kaplan's operating results.

- **Difficulties of Managing Foreign Operations Could Negatively Affect Kaplan's Business**

Kaplan has operations and investments in a growing number of foreign countries, including Australia, Canada, China, Colombia, France, Germany, India, Ireland, Japan, Mexico, New Zealand, Nigeria, Singapore, the U.K. and Venezuela. Kaplan also conducts business in the Middle East. Operating in foreign countries presents a number of inherent risks, including the difficulties of complying with unfamiliar laws and regulations, effectively managing and staffing foreign operations, successfully navigating local customs and practices, preparing for potential political and economic instability and adapting to currency exchange rate fluctuations. Failure to effectively manage these risks could have a material adverse effect on Kaplan's operating results.

- **Changes in International Regulatory and Physical Environments Could Negatively Affect International Student Enrollments**

A substantial portion of Kaplan International's revenue comes from programs that prepare international students to study and travel in English-speaking countries, principally the U.S., the U.K., Australia and Singapore. Kaplan International's ability to enroll students in these programs is directly dependent on its ability to comply with complex regulatory environments. For example, on June 23, 2016, the U.K. held a referendum in which voters approved a proposal that the U.K. leave the EU, commonly referred to as "Brexit." As a result of the referendum, there has been a sharp decline in the value of the British pound sterling as compared to the U.S. dollar and other currencies. In the longer term, the impact on Kaplan International from Brexit will depend, in part, on the outcome of future negotiations regarding the terms of the U.K.'s withdrawal from the EU. The timing of the negotiations and its impact on recruitment of international students is uncertain. The outcome may disrupt the free movement of students and employees. It is possible that EU nationals' ability to enter the U.K. for long- or short-term study will change or that changes in laws affecting EU nationals could also apply to international students presently covered by the Tier 4 (KI Pathways) or student visitor visa regime (KI English). It is also unclear how international student recruitment agents and prospective international students will view the U.K. as a study destination after the EU exit negotiations and the U.K.'s eventual departure from the EU. If the U.K. exit from the EU and related perceptions of the U.K. as a study destination have a significant negative impact on Kaplan's ability to recruit international students, Kaplan's results of operations and cash flows would be adversely and materially impacted.

On January 27, 2017, President Trump signed an executive order barring citizens from Syria, Iraq, Iran, Yemen, Libya, Somalia, and Sudan from entering the U.S. for 90 days and also suspended the admission of all refugees for 120 days. Although the ultimate enforcement and implementation of this or any subsequent order cannot be predicted, negative perceptions regarding travel to the U.S. could have a material adverse impact on Kaplan's business.

Any significant changes to the regulatory environment, or a natural disaster or pandemic in either the students' countries of origin or the countries to which they desire to study, could negatively affect Kaplan's ability to attract and retain students, which could have a negative impact Kaplan's operating results.

- **Failure to Comply With Regulations Applicable to International Operations Could Negatively Impact Kaplan's Business**

Kaplan is subject to a wide range of regulations relating to its international operations. These include domestic laws with extra-territorial reach, such as the U.S. Foreign Corrupt Practices Act, international laws with extra-territorial reach, such as the U.K. Bribery Act, as well as the local regulatory schemes of the countries in which Kaplan operates. Compliance with these regulations requires utmost vigilance. Failure to comply can result in the imposition of significant penalties or revocation of Kaplan's authority to operate in the applicable jurisdiction, each of which could have a material adverse effect on Kaplan's operating results.

- **Changing Perceptions About the Effectiveness of Television Broadcasting in Delivering Advertising May Adversely Affect the Profitability of Television Broadcasting**

Historically, television broadcasting has been viewed as a cost-effective method of delivering various forms of advertising. There can be no guarantee that this historical perception will guide future decisions by advertisers. To the extent that advertisers shift advertising expenditures away from television to other media outlets, the profitability of the Company's television broadcasting business will suffer.

- **Increased Competition Resulting From Technological Innovations in News, Information and Video Programming Distribution Systems Could Adversely Affect the Company's Operating Results**

The continuing growth and technological expansion of Internet-based services has increased competitive pressure on the Company's media businesses. The development and deployment of new technologies have the potential to negatively and significantly affect the Company's media businesses in ways that cannot now be reliably predicted and that may have a material adverse effect on the Company's operating results.

- **Changes in the Nature and Extent of Government Regulations Could Adversely Affect the Company's Television Broadcasting Business and Other Businesses**

The Company's television broadcasting business operates in a highly regulated environment. Complying with applicable regulations has significantly increased, and may continue to increase, the costs and has reduced the revenues of the business. Changes in regulations have the potential to negatively impact the television broadcasting business, not only by increasing compliance costs and reducing revenues through restrictions on certain types of advertising, limitations on pricing flexibility or other means, but also by possibly creating more favorable regulatory environments for the providers of competing services. More generally, all of the Company's businesses could have their profitability or their competitive positions adversely affected by significant changes in applicable regulations.

- **Potential Liability for Intellectual Property Infringement Could Adversely Affect the Company's Businesses**

The Company periodically receives claims from third parties alleging that the Company's businesses infringe on the intellectual property rights of others. It is likely that the Company will continue to be subject to similar claims, particularly as they relate to its media businesses. Other parts of the Company's business could also be subject to such claims. Addressing intellectual product claims is a time-consuming and expensive endeavor, regardless of the merits of the claims. In order to resolve such a claim, the Company could determine the need to change its method of doing business, enter into a licensing agreement or incur substantial monetary liability. It is also possible that one of the Company's businesses could be enjoined from using the intellectual property at issue, causing it to significantly alter its operations. Although the Company cannot predict the impact at this time, if any such claim is successful, the outcome would likely affect the business utilizing the intellectual property at issue and could have a material adverse effect on that business's operating results or prospects.

- **Failure to Comply With Privacy Laws or Regulations Could Have an Adverse Effect on the Company's Business**

Various federal, state and international laws and regulations govern the collection, use, retention, sharing and security of consumer data. This area of the law is evolving, and interpretations of applicable laws and regulations differ. Legislative activity in the privacy area may result in new laws that are relevant to the Company's operations, for example, use of consumer data for marketing or advertising and new general data privacy regulations adopted by the European Union known as the General Data Protection Regulation (GDPR). Complying with the enhanced obligations imposed by the GDPR may result in significant costs to the Company's business and require the Company to amend certain of its business practices. Claims of failure to comply with the Company's privacy policies or applicable laws or regulations could form the basis of governmental or private-party actions against the Company and could result in significant penalties. Such claims and actions could cause damage to the Company's reputation and could have an adverse effect on the Company's business.

- **Extensive Regulation of the Health Care Industry Could Adversely Affect the Company's Health Care Businesses and Results of Operations**

The home health and hospice industries are subject to extensive federal, state and local laws, with regulations affecting matters including licensure and certification, quality of services, qualifications of personnel, confidentiality and security of medical records, relationships with physicians and other referral sources, operating policies and procedures, and billing and coding practices. These laws and regulations change frequently, and the manner in which they will be interpreted is subject to change in ways that may not be predicted. Currently, there is significant uncertainty regarding the future of the Patient Protection and Affordable Care Act of 2010, as well as other regulations affecting the home health and hospice industries. Reimbursement for services by third-party payers, including Medicare, Medicaid and private health insurance providers, continues to decline, while authorization and compliance requirements continue to add to the cost of providing those services. Managed-care organizations, hospitals, physician practices and other third-party payers continue to consolidate in response to the evolving regulatory environment, thereby enhancing their ability to influence the delivery of health care services and decreasing the number of organizations serving patients. This consolidation could adversely impact Graham Healthcare Group's businesses if they are unable to maintain their ability to participate in established networks. Changes in existing laws or regulations, in their interpretation and enforcement, and the enactment of new laws or regulations could have a material adverse effect on the Company's health care businesses' operations.

- **System Disruptions and Security Threats to the Company's Technology Infrastructure Could Have a Material Adverse Effect on Its Businesses**

Kaplan's reputation and ability to attract and retain students is highly dependent on the performance and reliability of its information technology platforms with respect to its online and campus-based education offerings. Kaplan's delivery of these programs could be negatively affected due to events beyond its control, including natural disasters and network and telecommunications failures. Any such computer system error or failure could result in a significant outage that materially disrupts Kaplan's online and on-ground operations and could have a material adverse effect on Kaplan's business.

The Company's computer networks may also be vulnerable to unauthorized access, computer hackers, computer viruses and other security threats. Despite the Company's efforts to prevent security breaches, including unauthorized access to student and patient data and personally identifiable information, its systems may still be vulnerable to these threats. A user who circumvents security measures could misappropriate proprietary information or cause disruptions or malfunctions in operations. Any of these events could have a material adverse effect on the Company's business and results of operations.

- **Failure to Successfully Assimilate Acquired Businesses Could Negatively Affect the Company's Business**

The Company's Kaplan subsidiary has historically been an active acquirer of businesses that provide educational services. Kaplan completed three acquisitions in 2016 and expects to continue to acquire businesses from time to time, as do the Company and its other subsidiaries. Acquisitions involve various inherent risks and uncertainties, including difficulties in efficiently integrating the service offerings, accounting and other administrative systems of an acquired business; the challenges of assimilating and retaining key personnel; the consequences of diverting the attention of senior management from existing operations; the possibility that an acquired business does not meet or exceed the financial projections that supported the purchase price; and the possible failure of the due diligence process to identify significant business risks or undisclosed liabilities associated with the acquired business. A failure to effectively manage growth and integrate acquired businesses could have a material adverse effect on the Company's operating results.

- **Changes in Business Conditions May Cause Goodwill and Other Intangible Assets to Become Impaired**

Goodwill generally represents the purchase price paid in excess of the fair value of net tangible and intangible assets acquired in a business combination. Goodwill is not amortized and remains on the Company's balance sheet indefinitely unless there is an impairment or a sale of a portion of the business. Goodwill is subject to an impairment test on an annual basis and when circumstances indicate that an impairment is more likely than not. Such circumstances include an adverse change in the business climate for one of the Company's businesses or a decision to dispose of a business or a significant portion of a business. The Company's businesses each face uncertainty in their business environment due to a variety of factors. The Company may experience unforeseen circumstances that adversely affect the value of the Company's goodwill or intangible assets and trigger an evaluation of the amount of the recorded goodwill and intangible assets. Future write-offs of goodwill or other intangible assets as a result of an impairment in the business could adversely affect the Company's results of operations and financial condition.

- **The Spin-Off of Cable ONE Could Result in Significant Tax Liability to the Company and its Stockholders**

In connection with the Company's spin-off of Cable ONE, it received a written opinion of counsel to the effect that the distribution of Cable ONE common stock in the spin-off (Distribution) should qualify for non-recognition of gain and loss under Section 355 of the Internal Revenue Code.

The opinion assumed that the spin-off was completed according to the terms of the transaction documents for the spin-off and relied on the facts as stated in those documents and a number of other documents. The opinion cannot be relied on if any of these assumptions or statements is incorrect, incomplete or inaccurate in any material respect. The opinion of counsel is not binding on the Internal Revenue Service or the courts, and there can be no assurance that the Internal Revenue Service or a court will not take a contrary position.

If the Distribution were determined not to qualify for non-recognition of gain and loss, the Company's stockholders could be subject to tax. In this case, each U.S. stockholder who received Cable ONE common stock in the Distribution would generally be treated as receiving a distribution in an amount equal to the fair market value of the Cable ONE common stock received in the Distribution, which would generally result in (1) a taxable dividend to the holder to the extent of the holder's pro rata share of our current and accumulated earnings and profits; (2) a reduction in the holder's tax basis (but not below zero) in the Company's common stock to the extent the amount received exceeds the holder's share of our earnings and profits; and (3) a taxable gain from the exchange of the Company's common stock to the extent the amount received exceeds the sum of the holder's share of the Company's earnings and profits and the holder's tax basis in the Company's common stock.

In addition, Section 355(e) of the Internal Revenue Code generally creates a presumption that the Distribution would be taxable to the Company, but not to the Company's stockholders, if the Company, Cable ONE or any of the Company's respective stockholders were to engage in transactions that result in a 50% or greater change by vote or value in the ownership of the Company's stock or the stock of Cable ONE during the four-year period beginning on the date that begins two years before the date of the Distribution, unless it were established that such transactions and the Distribution were not part of a plan or series of related transactions giving effect to such a change in ownership. If the Distribution were taxable to the Company due to such a 50% or greater change in ownership, the Company would recognize a gain equal to the excess of the fair market value of the Cable ONE common stock distributed to the Company's stockholders in the Distribution over the Company's tax basis in the Cable ONE common stock. Any such tax liability could be material.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The Company leases space for its corporate offices in Arlington, VA. The space consists of 33,815 square feet of office space, and the lease expires in 2024, subject to an option of the Company to extend.

Directly or through its subsidiaries, Kaplan owns a total of four properties: a 30,000-square-foot, six-story building located at 131 West 56th Street in New York City, used by KI English North America as an education center primarily for international students; a redeveloped 47,410-square-foot, four-story brick building in Lincoln, NE, used by Kaplan University; a 4,000-square-foot office condominium in Chapel Hill, NC, utilized by KTP; and a 15,000-square-foot, three-story building in Berkeley, CA, used by KTP and KIC North America.

In the U.S., Kaplan, Inc. and KHE lease corporate offices, together with a data center, call center and employee-training facilities, in two 97,000-square-foot buildings located on adjacent lots in Fort Lauderdale, FL. Both of those leases will expire in 2018. Kaplan, Inc. and KHE share corporate office space in a 22,000-square-foot office building in Alpharetta, GA, under a lease that expires in 2021. KHE leases 62,500 square feet of corporate office space in Chicago, IL, under a lease that will expire in 2022 (of which approximately 21,000 square feet have been subleased through the remainder of the term). KHE also separately leases 76,500 square feet of office space in Chicago, IL; however, the location has been entirely subleased through the remainder of the lease term. In addition, KHE separately leases two corporate offices, totaling 64,128 square feet, in La Crosse, WI, under leases that will expire in 2022; a two-story, 124,500-square-foot building in Orlando, FL, that is used as an additional support center (of which approximately 48,000 square feet have been subleased to a third party), pursuant to a lease that will expire in 2021; and 88,800 square feet of corporate office space in Plantation, FL, for a term that expires in 2021. Kaplan, Inc. and KTP have signed a sublease for 84,500 square feet in New York (expiring in May 2021). Kaplan, Inc. and KTP also separately lease 159,540 square feet in New York; however, the location has been entirely subleased to two different parties through the remainder of the lease term.

In addition, the KI English business maintains more than 50 leases in the U.S., comprising an aggregate of approximately 1.7 million square feet of instructional and dormitory space.

Overseas, Dublin Business School's facilities in Dublin, Ireland, are located in five buildings, aggregating approximately 74,000 square feet of space, that are rented under leases expiring between 2017 and 2029. Kaplan

Publishing has an office and distribution warehouse in Wokingham, Berkshire, U.K., of 27,000 square feet, under a lease expiring in 2026. Kaplan Financial's largest leaseholds are office and instructional spaces in London, U.K., of 33,000 square feet (expiring in 2033) and 50,200 square feet (comprising two leases) obtained in January 2015 and expiring in 2030; office and instructional space in Birmingham, U.K., of 23,600 square feet (expiring in 2017); office and instructional space in Manchester, U.K., of 26,900 square feet (comprising five separate leases, one lease of 11,244 square feet expiring in March 2017 and the remaining four separate leases of 15,656 square feet expiring in 2022); office and instructional space in Wales, U.K., of 34,000 square feet (notice to terminate this lease has been served, to expire in December 2016); office and instructional space in Singapore, of 162,000 square feet (comprising five separate leases, expiring between 2016 and 2021); and office and instructional space in Hong Kong, of 30,850 square feet. Palace House in London, which was previously occupied by Kaplan Law School, with 20,200 square feet of space in London, U.K. (comprising four separate leases, expiring in 2017), is now primarily occupied by the KIC Pathways business. In addition, Kaplan has entered into two separate leases in Glasgow, Scotland, for 58,000 square feet and 22,400 square feet, respectively, of dormitory space that was constructed and opened to students in 2012. These leases expire in 2032. In addition, Kaplan leases approximately 143,000 square feet of dormitory space as the main tenant of a student residential building in Nottingham, U.K. Kaplan has further entered into a lease agreement for a residential college in Bournemouth, England, which comprises approximately 175,000 square feet. In Australia, Kaplan leases one location in Melbourne, with an aggregate of approximately 23,000 square feet; four locations in Sydney, of approximately 13,000 square feet; one location in Brisbane, of 39,000 square feet; two locations in Cairns, of 7,000 square feet; and two locations in Adelaide, of 24,750 square feet. These leases expire at various times, from 2017 through 2022. The University of Adelaide College (formerly Bradford College), in Adelaide, Australia, leases one location, with an aggregate of 38,890 square feet; and Murdoch Institute of Technology is housed in one location on the Murdoch University campus, under a license agreement, of 3,750 square feet. In New Zealand, Kaplan leases one location of approximately 10,300 square feet. These leases expire in 2018 and 2021. All other Kaplan facilities in the U.S. and overseas (including administrative offices and instructional locations) occupy leased premises that are for less space than those listed above.

The offices of the Company's broadcasting operations are located in leased space in Chicago, IL. The operations of each of the Company's television stations are owned by subsidiaries of the Company, as are the related tower sites (except in Houston, Orlando and Jacksonville, where the tower sites are 50% owned).

Celtic's headquarters office is located in leased space in Mars, PA. This lease expires in 2017. In addition to its headquarters, Celtic leases 13 small office spaces in its various service territories: Carlisle, PA; Mechanicsburg, PA; Williamsport, PA; Harrisburg, PA; Kingston, PA; Milford, PA; Stroudsburg, PA; Rockville, MD; Owings Mills, MD; Shiloh, IL; Marion, IL; Mt. Carmel, IL; and Mt. Vernon, IL. Additionally, Celtic leases space for a hospice inpatient unit in Wilkes-Barre, PA. Celtic also owns a total of four properties located in Carlinville, IL; Centralia, IL; Murphysboro, IL; and Benton, IL.

Residential's Michigan headquarters offices are located in leased space in Troy, MI. Residential also leases office space in Grand Rapids, MI, and in Lansing, MI. In Illinois, Residential's main office is located in Downer's Grove, IL.

Forney has 20,000 square feet of corporate office space in Addison, TX. That lease began in April 2014 and expires in 2024. Forney's manufacturing facility is located in Monterrey, Mexico, in a building that contains 85,169 square feet of office and manufacturing space under a lease that expires in 2020. Forney also leases sales offices in Shanghai, Beijing and Singapore; the combined office space is less than 3,000 square feet, and the leases are renewable annually.

Joyce/Dayton owns three properties: its corporate headquarters in Kettering, OH, and manufacturing facilities in Portland, IN, and Clayton, OH. It also leases a manufacturing facility in West Hartford, CT.

Dekko owns seven U.S. properties: a 200,600-square-foot headquarters office and manufacturing building in Garrett, IN; a 65,950-square-foot manufacturing building in Avilla, IN; 64,500 square feet of manufacturing and warehouse space in Ardmore, AL; 61,750 square feet of warehouse space in El Paso, TX; and a 22,500-square-foot new product development center in LaOtto, IN. In addition, Dekko owns 126,000 square feet of manufacturing and office space in Juarez, Mexico. In the U.S., Group leases 46,370 square feet of manufacturing and warehouse space in North Webster, IN, under a lease that expires in 2016; a 30,000-square-foot warehouse building in Kendallville, IN, pursuant to a month-to-month lease; and a data/training facility in Kendallville, IN, under a lease expiring in 2020. Dekko also separately leases two office condominiums in Chicago, IL, and Grand Rapids, MI. Both of those leases will expire in 2018. Electri-Cable Assemblies leases 33,208 square feet of manufacturing and warehouse space in Shelton, CT, under a lease that expires in 2021 and 24,324 square feet of manufacturing and warehouse space in Shelton, CT, under a lease that expires in 2020.

The Slate Group leases office space in Brooklyn, NY, and Washington, DC.

SocialCode leases office space in Washington, DC; New York, NY; San Francisco, CA; Los Angeles, CA; and Chicago, IL.

Item 3. Legal Proceedings.

On February 6, 2008, a purported class-action lawsuit was filed in the U.S. District Court for the Central District of California by purchasers of BAR/BRI bar review courses, from July 2006 onward, alleging antitrust claims against Kaplan and West Publishing Corporation, BAR/BRI's former owner. On April 10, 2008, the court granted defendants' motion to dismiss, a decision that was reversed by the Ninth Circuit Court of Appeals on November 7, 2011. The Ninth Circuit also referred the matter to a mediator for the purpose of exploring a settlement. In the fourth quarter of 2012, the parties reached a comprehensive agreement to settle the matter. The settlement was approved by the District Court in September 2013 and will be administered following the resolution of appeals relating to attorney fees.

On or about January 17, 2008, an Assistant U.S. Attorney in the Civil Division of the U.S. Attorney's Office for the Eastern District of Pennsylvania contacted KHE's former Broomall campus and made inquiries about the Surgical Technology program, including the program's eligibility for Title IV U.S. Federal financial aid, the program's student loan defaults, licensing and accreditation. Kaplan responded to the information requests and fully cooperated with the inquiry. The ED also conducted a program review at the Broomall campus, and Kaplan likewise cooperated with the program review. On July 22, 2011, the U.S. Attorney's Office for the Eastern District of Pennsylvania announced that it had entered into a comprehensive settlement agreement with Kaplan that resolved the U.S. Attorney's inquiry, provided for the conclusion of the ED's program review and also settled a previously sealed U.S. Federal False Claims Act (False Claims Act) complaint that had been filed by a former employee of the CHI-Broomall campus. The total amount of all required payments by Broomall under the agreements was $1.6 million. Pursuant to the comprehensive settlement agreement, the U.S. Attorney inquiry has been closed, the False Claims Act complaint (*United States of America* ex rel. *David Goodstein* v. *Kaplan, Inc.* et al.) was dismissed with prejudice and the ED will issue a final program review determination. However, to date, the ED has not issued the final report. At this time, Kaplan cannot predict the contents of the pending final program review determination or the ultimate impact the proceedings may have on Kaplan.

During 2014, certain Kaplan subsidiaries were subject to two other unsealed cases filed by former employees that include, among other allegations, claims under the False Claims Act relating to eligibility for Title IV funding. The U.S. Government declined to intervene in all cases, and, as previously reported, court decisions either dismissed the cases in their entirety or narrowed the scope of their allegations. The two cases are captioned *United States of America* ex rel. *Carlos Urquilla-Diaz* et al. v. *Kaplan University* et al. (unsealed March 25, 2008) and *United States of America* ex rel. *Charles Jajdelski* v. *Kaplan Higher Education Corp.* et al. (unsealed January 6, 2009).

On August 17, 2011, the U.S. District Court for the Southern District of Florida issued a series of rulings in the Diaz case, which included three separate complaints: Diaz, Wilcox and Gillespie. The court dismissed the

Wilcox complaint in its entirety; dismissed all False Claims Act allegations in the Diaz complaint, leaving only an individual employment claim; and dismissed in part the Gillespie complaint, thereby limiting the scope and time frame of its False Claims Act allegations regarding compliance with the U.S. Federal Rehabilitation Act. On October 31, 2012, the court entered summary judgment in favor of the Company as to the sole remaining employment claim in the Diaz complaint. On July 16, 2013, the court likewise entered summary judgment in favor of the Company on all remaining claims in the Gillespie complaint. Diaz and Gillespie each appealed to the U.S. Court of Appeals for the Eleventh Judicial Circuit. Arguments on both appeals were heard on February 3, 2015. On March 11, 2015, the appellate court issued a decision affirming the lower court's dismissal of all of Gillespie's claims, however Gillespie continues to file challenges to the appellate decision. The appellate court also dismissed three of the four Diaz claims, but reversed and remanded on Diaz's claim that incentive compensation for admissions representatives was improperly based solely on enrollment counts. Kaplan filed an answer to Diaz's amended complaint on September 11, 2015. Kaplan filed a motion to dismiss Diaz's claims, and a hearing was held on December 17, 2015. On March 24, 2016, the Court denied the motion to dismiss. Discovery in the case closed in January 2017. Kaplan filed a motion for summary judgment on February 21, 2017. A trial, if needed, is scheduled for July 10, 2017.

On July 7, 2011, the U.S. District Court for the District of Nevada dismissed the Jajdelski complaint in its entirety and entered a final judgment in favor of Kaplan. On February 13, 2013, the U.S. Circuit Court for the Ninth Judicial Circuit affirmed the dismissal in part and reversed the dismissal on one allegation under the False Claims Act relating to eligibility for Title IV funding based on claims of false attendance. The surviving claim was remanded to the District Court, where Kaplan was again granted summary judgment on March 9, 2015. Plaintiff has appealed this judgment and briefing is complete. Despite the sale of the nationally accredited Kaplan Higher Education Campuses business, Kaplan retains liability for these claims.

On December 22, 2014, a former student representative filed a purported class- and collective-action lawsuit in the U.S. District Court for the Northern District of Illinois, in which she asserts claims under the Illinois Minimum Wage Law and the Fair Labor Standards Act (FLSA) (*Sharon Freeman* v. *Kaplan, Inc.*). The plaintiff alleges that she and other law students who were student representatives, on their respective law school campuses, of Kaplan's bar exam preparation business should have been classified as employees and paid minimum wage. The parties reached an agreement to settle this matter, and in June, the settlement was approved by the District Court.

On February 7, 2011, KHE received a Civil Investigative Demand from the Office of the Attorney General of the State of Illinois. The demand primarily sought information pertaining to Kaplan University's online students who are residents of Illinois. KHE has cooperated with the Illinois Attorney General and provided the requested information. Although the matter is not technically closed and KHE may receive further requests for information from the Illinois Attorney General, there has been no such further correspondence over the past five years to date. The Company cannot predict the outcome of this inquiry.

On July 20, 2011, KHE received a subpoena from the Office of the Attorney General of the State of Delaware. The demand primarily sought information pertaining to Kaplan University's online students and Kaplan Higher Education Campuses' former students who are residents of Delaware. KHE has cooperated with the Delaware Attorney General and provided the information requested in the subpoena. Although the matter is not technically closed and KHE may receive further requests for information from the Delaware Attorney General, there has been no such further correspondence over the past five years to date. The Company cannot predict the outcome of this inquiry.

On January 16, 2012, prior to Kaplan's sale of the Kidum Group in Israel, the Kidum Group received notice of a putative class-action complaint against the Kidum Group's Wall Street Institute business, alleging violations of Israeli consumer protection law in connection with certain enrollment and refund policies. Kaplan has continuing obligations to the purchaser under the terms of the agreement of sale. In January 2016, Israel's Central District Court issued a ruling allowing the case to proceed as a class action. Plaintiffs filed an amended claim on May 3, 2016, in order to comply with the court's class certification order. Kidum filed its statement of defense to the amended claim on September 15, 2016, and plaintiffs filed their reply on November 15, 2016. A pre-trial hearing was held on November 20, 2016, and discovery began in January. At this time, the Company cannot predict the outcome of this matter.

On September 30, 2016, a purported class-action lawsuit was filed against KHE and Education Corporation of America d/b/a Brightwood College, in Alameda County Superior Court, in Oakland, CA, by Donna Hillman alleging violations of California wage and hour laws as they apply to "adjunct" or part-time faculty. The complaint seeks a declaratory judgment that Kaplan violated the California Labor Code and an award of damages for allegedly unpaid wages, penalties under the California Labor Code, interest and attorney's fees. A response and general denial was filed on November 2, 2016. KHE moved to transfer the venue to Sacramento, CA. Mediation has been set for March 7, 2017. At this time, the Company cannot predict the outcome of this matter.

On March 28, 2016, a purported class-action lawsuit was filed in the U.S. District Court for the Northern District of Illinois by Erin Fries, a physical therapist formerly employed by Residential, against Residential Home Health, LLC, Residential Home Health Illinois, LLC, and David Curtis. The complaint alleges violations of the FLSA and the Illinois minimum wage law. The complaint seeks damages, attorney's fees and costs. At this time, the Company cannot predict the outcome of this matter.

The Company and its subsidiaries are also subject to complaints and administrative proceedings and are defendants in various other civil lawsuits that have arisen in the ordinary course of their businesses, including contract disputes; actions alleging negligence, libel, invasion of privacy; trademark, copyright and patent infringement; False Claims Act violations; violations of applicable wage and hour laws; and statutory or common law claims involving current and former students and employees. While it is not possible to predict the outcomes of these lawsuits, in the opinion of management, their ultimate dispositions should not have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information and Holders

The Company's Class B Common Stock is traded on the New York Stock Exchange under the symbol "GHC." The Company's Class A Common Stock is not publicly traded.

The high and low sales prices of the Company's Class B Common Stock are listed below (amounts for the first half of 2015 were revised to reflect the Cable ONE spin-off).

	2016		2015	
Quarter	**High**	**Low**	**High**	**Low**
January – March	**$532**	**$425**	$664	$505
April – June	**520**	**452**	676	575
July – September	**527**	**474**	724	565
October – December	**548**	**441**	608	469

At January 31, 2017, there were 27 holders of record of the Company's Class A Common Stock and 455 holders of record of the Company's Class B Common Stock.

Dividend Information

Both classes of the Company's Common Stock participate equally as to dividends. Total dividends paid during 2016 were $4.84. Total dividends paid during 2015 were $9.10, with three quarterly dividends paid at a rate of $2.65 per share and one dividend paid at a rate of $1.15 per share. The quarterly dividend rate was adjusted as a result of the spin-off of Cable ONE.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table and the footnote thereto set forth certain information as of December 31, 2016, concerning compensation plans of the Company under which equity securities of the Company are authorized to be issued.

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	186,996	$559.62	–
Equity compensation plans not approved by security holders	–	–	–
Total	186,996	$559.62	–

This table does not include information relating to restricted stock grants awarded under the Graham Holdings Company's Incentive Compensation Plan, which plan has been approved by the stockholders of the Company. At December 31, 2016, there were 25,325 shares of restricted stock outstanding under the 2012–2016 Award Cycle and 19,100 shares of restricted stock outstanding under the 2015–2018 Award Cycle that had been awarded to employees of the Company and its subsidiaries under that Plan. In addition, the Company has from time to time awarded special discretionary grants of restricted stock to employees of the Company and its subsidiaries. At December 31, 2016, there were a total of 22,800 shares of restricted stock outstanding under special discretionary grants approved by the Compensation Committee of the Board of Directors. At December 31, 2016, a total of 446,170 shares of restricted stock and stock options were available for future awards.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

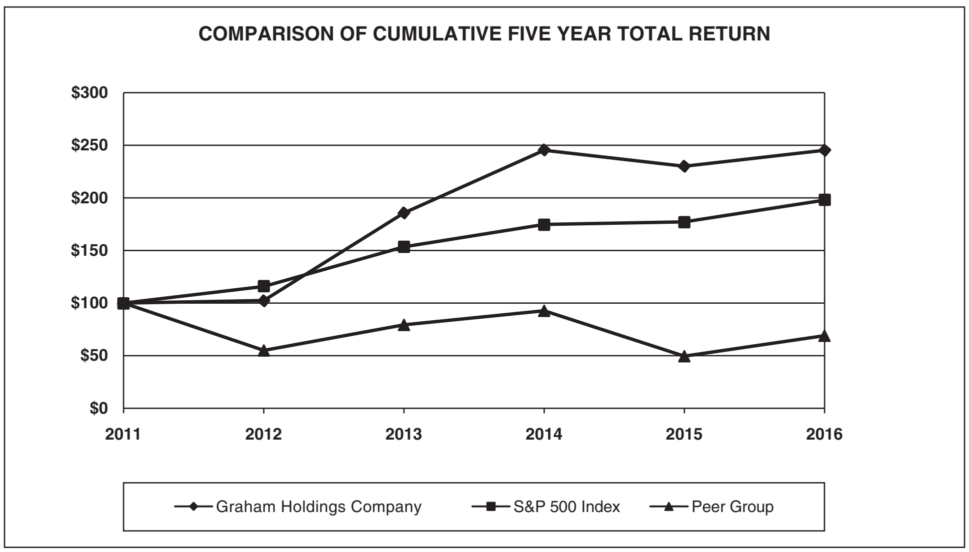
During the quarter ended December 31, 2016, the Company purchased shares of its Class B Common Stock as set forth in the following table:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan*	Maximum Number of Shares That May Yet Be Purchased Under the Plan*
2016				
October	4,021	$474.50	4,021	260,838
November	36,562	457.10	36,562	224,276
December	–	–	–	224,276
Total	40,583	$458.82	40,583	

* On May 14, 2015, the Company's Board of Directors authorized the Company to purchase, on the open market or otherwise, up to 500,000 shares of its Class B Common Stock. There is no expiration date for that authorization. All purchases made during the quarter ended December 31, 2016, were open market transactions.

Performance Graph

The following graph is a comparison of the yearly percentage change in the Company's cumulative total shareholder return with the cumulative total return of the Standard & Poor's 500 Stock Index and a custom peer group index comprised of education companies. The Standard & Poor's 500 Stock Index is comprised of 500 U.S. companies in the industrial, transportation, utilities and financial industries and is weighted by market capitalization. The custom peer group of education companies includes American Public Education Inc., Apollo Education Group Inc., Bridgepoint Education Inc., Capella Education Co., DeVry Education Group Inc., Grand Canyon Education Inc., National American University Holdings Inc. and Strayer Education Inc. The Company is using a custom peer index of education companies because the Company is a diversified education and media company. Its largest business is Kaplan, Inc., a leading global provider of educational services to individuals, schools and businesses. The graph reflects the investment of $100 on December 31, 2011, in the Company's Class B Common Stock, the Standard & Poor's 500 Stock Index and the custom peer group index of education companies. For purposes of this graph, it has been assumed that dividends were reinvested on the date paid in the case of the Company and on a quarterly basis in the case of the Standard & Poor's 500 Index and the custom peer group index of education companies.



December 31	2011	2012	2013	2014	2015	2016
Graham Holdings Company	100.00	102.29	185.79	245.53	230.17	**245.41**
S&P 500 Index	100.00	116.00	153.57	174.60	177.01	**198.18**
New Education Peer Group	100.00	55.19	79.22	92.95	49.36	**68.92**

ITT Educational Services Inc. is no longer included in the New Education Peer Group due to its removal from the NYSE in 2016.

Item 6. Selected Financial Data.

See the information for the years 2012 through 2016 contained in the table titled "Five-Year Summary of Selected Historical Financial Data," which is included in this Annual Report on Form 10-K and listed in the index to financial information on page 49 hereof (with only the information for such years to be deemed filed as part of this Annual Report on Form 10-K).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

See the information contained under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," which is included in this Annual Report on Form 10-K and listed in the index to financial information on page 49 hereof.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The Company is exposed to market risk in the normal course of its business due primarily to its ownership of marketable equity securities, which are subject to equity price risk; to its borrowing and cash-management activities, which are subject to interest rate risk; and to its non-U.S. business operations, which are subject to foreign exchange rate risk.

Equity Price Risk. The Company has common stock investments in several publicly traded companies (as discussed in Note 4 to the Company's Consolidated Financial Statements) that are subject to market price volatility. The fair value of these common stock investments totaled $424.2 million at December 31, 2016.

Interest Rate Risk. The Company's long-term debt primarily consists of $400 million principal amount of 7.25% unsecured notes due February 1, 2019 (the Notes). At December 31, 2016, the aggregate fair value of the Notes, based upon quoted market prices, was $438.7 million. An increase in the market rate of interest applicable to the Notes would not increase the Company's interest expense with respect to the Notes since the rate of interest the Company is required to pay on the Notes is fixed, but such an increase in rates would affect the fair value of the Notes. Assuming, hypothetically, that the market interest rate applicable to the Notes was 100 basis points higher than the Notes' stated interest rate of 7.25%, the fair value of the Notes at December 31, 2016, would have been approximately $392.5 million. Conversely, if the market interest rate applicable to the Notes was 100 basis points lower than the Notes' stated interest rate, the fair value of the Notes at such date would have been approximately $407.7 million.

On July 25, 2016, Kaplan borrowed £75 million under the Kaplan Credit Agreement. On the same date, Kaplan entered into an interest rate swap agreement with a total notional value of £75 million and a maturity date of July 1, 2020. The interest rate swap agreement will pay Kaplan variable interest on the £75 million notional amount at the three-month LIBOR, and Kaplan will pay the counterparties a fixed rate of 0.51%, effectively resulting in a total fixed interest rate of 2.01% on the outstanding borrowings at the current applicable margin of 1.50%. The interest rate swap agreement was entered into to convert the variable rate British pound borrowing under the Kaplan Credit Agreement into a fixed rate borrowing. The Company provided a guarantee on any borrowings under the Kaplan Credit Agreement. Based on the terms of the interest rate swap agreement and the underlying borrowing, the interest rate swap agreement was determined to be effective, and thus qualifies as a cash flow hedge. As such, changes in the fair value of the interest rate swap are recorded in other comprehensive income on the accompanying Condensed Consolidated Balance Sheets until earnings are affected by the variability of cash flows.

Foreign Exchange Rate Risk. The Company is exposed to foreign exchange rate risk primarily at its Kaplan international operations, and the primary exposure relates to the exchange rate between the U.S. dollar and the British pound and the Australian dollar. This exposure includes British pound and Australian dollar denominated intercompany loans on U.S.-based Kaplan entities with a functional currency in U.S. dollars. In 2016, the Company reported foreign currency losses of $39.9 million, largely as a result of the decline in the British pound currency in 2016; this includes a realized $16.5 million loss related to a British pound intercompany advance made in the first quarter of 2016 related to Kaplan's U.K. acquisitions that has been repaid. In the third quarter of 2016, certain intercompany loans were capitalized and other intercompany loans were designated as long-term investments. In 2015, the Company reported unrealized foreign currency losses of $15.6 million. In 2014, the Company reported unrealized foreign currency losses of $11.1 million.

If the values of the British pound and the Australian dollar relative to the U.S. dollar had been 10% lower than the values that prevailed during 2016, the Company's pre-tax income for 2016 would have been approximately $21 million lower. Conversely, if such values had been 10% higher, the Company's reported pre-tax income for 2016 would have been approximately $21 million higher.

Item 8. Financial Statements and Supplementary Data.

See the Company's Consolidated Financial Statements at December 31, 2016, and for the periods then ended, together with the report of PricewaterhouseCoopers LLP thereon and the information contained in Note 20 to said Consolidated Financial Statements titled “Summary of Quarterly Operating Results and Comprehensive Income (Unaudited),” which are included in this Annual Report on Form 10-K and listed in the index to financial information on page 49 hereof.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

An evaluation was performed by the Company’s management, with the participation of the Company’s Chief Executive Officer (the Company’s principal executive officer) and the Company’s Senior Vice President – Finance (the Company’s principal financial officer), of the effectiveness of the Company’s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), as of December 31, 2016. Based on that evaluation, the Company’s Chief Executive Officer and Senior Vice President–Finance have concluded that the Company’s disclosure controls and procedures, as designed and implemented, are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and is accumulated and communicated to management, including the Chief Executive Officer and Senior Vice President–Finance, in a manner that allows timely decisions regarding required disclosure.

Management’s Report on Internal Control Over Financial Reporting

Management’s report set forth on page 75 is incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company’s internal control over financial reporting during the quarter ended December 31, 2016, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information contained under the heading “Executive Officers” in Item 1 hereof and the information contained under the headings “Nominees for Election by Class A Shareholders,” “Nominees for Election by Class B Shareholders,” “Audit Committee” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the definitive Proxy Statement for the Company’s 2017 Annual Meeting of Stockholders is incorporated herein by reference thereto.

The Company has adopted codes of conduct that constitute “codes of ethics” as that term is defined in paragraph (b) of Item 406 of Regulation S-K and that apply to the Company’s principal executive officer, principal financial officer, principal accounting officer or controller and to any persons performing similar functions. Such codes of conduct are posted on the Company’s website, the address of which is ghco.com, and the Company intends to satisfy the disclosure requirements under Item 5.05 of Form 8-K with respect to certain amendments to, and waivers of the requirements of, the provisions of such codes of conduct applicable to the officers and persons referred to above by posting the required information on its website.

In addition to the certifications of the Company's Chief Executive Officer and Chief Financial Officer filed as exhibits to this Annual Report on Form 10-K, on May 24, 2016, the Company's Chief Executive Officer submitted to the New York Stock Exchange the annual certification regarding compliance with the NYSE's corporate governance listing standards required by Section 303A.12(a) of the NYSE Listed Company Manual.

Item 11. Executive Compensation.

The information contained under the headings "Director Compensation," "Compensation Committee Interlocks and Insider Participation," "Executive Compensation" and "Compensation Committee Report" in the definitive Proxy Statement for the Company's 2017 Annual Meeting of Stockholders is incorporated herein by reference thereto.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information contained under the heading "Stock Holdings of Certain Beneficial Owners and Management" in the definitive Proxy Statement for the Company's 2017 Annual Meeting of Stockholders is incorporated herein by reference thereto.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information contained under the headings "Transactions With Related Persons, Promoters and Certain Control Persons" and "Controlled Company" in the definitive Proxy Statement for the Company's 2017 Annual Meeting of Stockholders is incorporated herein by reference thereto.

Item 14. Principal Accounting Fees and Services.

The information contained under the heading "Audit Committee Report" in the definitive Proxy Statement for the Company's 2017 Annual Meeting of Stockholders is incorporated herein by reference thereto.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

The following documents are filed as part of this report:

1. ***Financial Statements.*** As listed in the index to financial information on page 49 hereof.
2. ***Exhibits.*** As listed in the index to exhibits on page 142 hereof.

Item 16. Form 10-K Summary.

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 24, 2017.

GRAHAM HOLDINGS COMPANY
(Registrant)

By /s/ Hal S. Jones

Hal S. Jones
Senior Vice President–Finance

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 24, 2017:

Timothy J. O'Shaughnessy	President, Chief Executive Officer (Principal Executive Officer) and Director
Hal S. Jones	Senior Vice President–Finance (Principal Financial Officer)
Wallace R. Cooney	Principal Accounting Officer
Donald E. Graham	Chairman of the Board
Lee C. Bollinger	Director
Christopher C. Davis	Director
Thomas S. Gayner	Director
Anne M. Mulcahy	Director
Ronald L. Olson	Director
Larry D. Thompson	Director
G. Richard Wagoner, Jr.	Director
Katharine Weymouth	Director

By /s/ Hal S. Jones

Hal S. Jones
Attorney-in-Fact

An original power of attorney authorizing Timothy J. O'Shaughnessy, Hal S. Jones, Wallace R. Cooney and Nicole M. Maddrey, and each of them, to sign all reports required to be filed by the Registrant pursuant to the Securities Exchange Act of 1934 on behalf of the above-named directors and officers has been filed with the Securities and Exchange Commission.

INDEX TO FINANCIAL INFORMATION

GRAHAM HOLDINGS COMPANY

All schedules have been omitted either because they are not applicable or because the required information is included in the Consolidated Financial Statements or the notes thereto referred to above.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

This analysis should be read in conjunction with the Consolidated Financial Statements and the notes thereto.

OVERVIEW

Graham Holdings Company (the Company) is a diversified education and media company whose operations include educational services; television broadcasting; online, print and local TV news; social-media advertising services; home health and hospice care; and manufacturing. Education is the largest business, and through its subsidiary Kaplan, Inc., the Company provides extensive worldwide education services for individuals, schools and businesses. The Company's second largest business is television broadcasting. Since November 2012, the Company has completed several acquisitions in home health services and manufacturing. The Company's business units are diverse and subject to different trends and risks.

The Company's education division is the largest operating division of the Company, accounting for 64% of the Company's consolidated revenues in 2016. The Company has devoted significant resources and attention to this division for many years, given its geographic and product diversity; the investment opportunities and growth prospects during this time; and challenges related to government regulation. In recent years, Kaplan has formulated and implemented restructuring plans at most of its businesses, resulting in significant costs in order to establish lower cost levels in future periods. Kaplan is organized into the following three operating segments: Kaplan Higher Education (KHE), Kaplan Test Preparation (KTP) and Kaplan International.

KHE represents 39% of total Kaplan revenues in 2016. KHE's revenue declined in 2016, largely due to the sale of the KHE Campuses business in 2015 and other school closures, and declines in average enrollments at Kaplan University. Operating income at KHE increased in 2016 due largely to reduced losses at the KHE Campuses business, lower restructuring costs of $7.2 million in 2016 compared to $12.9 million in 2015, and improved results at the domestic professional and other continuing education businesses.

KTP revenues and operating income were down in 2016. Revenues declined due to decreased enrollments. Operating results declined due to KTP's increased investment in new economy skills training programs and a change in enrollment mix.

Kaplan International reported revenue declines for 2016 due to the adverse impact of exchange rates and weakness in English-language and Pathways programs. Kaplan International operating results were down in 2016 due to declines in the English-language and Pathways programs' results and restructuring costs. Both the revenue and operating income declines were partially offset by growth from 2016 acquisitions.

Kaplan made three acquisitions in 2016, including Mander Portman Woodward, a leading provider of high-quality bespoke education to UK and international students in London, Cambridge and Birmingham; one acquisition in 2015; and three acquisitions in 2014.

The Company's television broadcasting division reported higher revenues and operating income as 2016 included significant political and Olympics-related advertising. In recent years, the television broadcasting division has consistently generated significantly higher operating income amounts and operating income margins than the education division and other businesses.

With the recent Celtic Healthcare, Residential Healthcare, Forney, Joyce/Dayton and Dekko acquisitions and growth at SocialCode, the Company has invested in new lines of business from late 2012 through 2016.

The Company generates a significant amount of cash from its businesses that is used to support its operations, pay down debt and fund capital expenditures, share repurchases, dividends, acquisitions and other investments.

RESULTS OF OPERATIONS — 2016 COMPARED TO 2015

Income from continuing operations attributable to common shares was $168.6 million ($29.80 per share) for the year ended December 31, 2016, compared to a net loss of $143.5 million ($25.23 per share) for the year ended December 31, 2015. Net loss attributable to common shares was $101.3 million ($17.87 per share) for the year ended December 31, 2015, including $42.2 million ($7.36 per share) in income from discontinued operations.

Items included in the Company's income from continuing operations for 2016 are listed below:

- an $18.0 million gain related to a bulk lump sum pension program offering (after-tax impact of $10.8 million, or $1.92 per share);
- $11.9 million in restructuring charges at the education division (after-tax impact of $7.7 million, or $1.36 per share);
- $32.2 million net non-operating gain from the sales of land and marketable equity securities (after-tax impact of $20.0 million, or $3.52 per share);
- a $22.2 million non-operating gain arising from the sale of a business and the formation of a joint venture (after-tax impact of $13.6 million, or $2.37 per share);
- $37.6 million in non-operating expenses from the write-down of cost method investments and investments in affiliates (after-tax impact of $24.1 million, or $4.27 per share);
- $39.9 million in non-operating foreign currency losses (after-tax impact of $25.5 million, or $4.51 per share);
- a net nonrecurring $8.3 million deferred tax benefit related to Kaplan's international operations ($1.47 per share); and
- a favorable $5.6 million out of period deferred tax adjustment related to the KHE goodwill impairment recorded in the third quarter of 2015 ($1.00 per share).

Items included in the Company's income from continuing operations for 2015 are listed below:

- $259.7 million goodwill and long-lived assets impairment charges at the education division and other businesses (after-tax impact of $225.2 million, or $38.96 per share);
- $45.8 million in restructuring charges at the education division, corporate office and other businesses (after-tax impact of $28.9 million, or $4.97 per share);
- $24.9 million in expense related to the modification of stock option awards in conjunction with the Cable ONE spin-off and the modification of restricted stock awards (after-tax impact of $15.3 million, or $2.64 per share);
- $12.5 million in net non-operating losses arising from the sales of five businesses and an investment, and on the formation of a joint venture (after-tax impact of $15.7 million, or $2.82 per share);
- $21.4 million gain on the sale of land (after-tax impact of $13.2 million, or $2.27 per share); and
- $15.6 million in non-operating unrealized foreign currency losses (after-tax impact of $9.7 million, or $1.67 per share).

Revenue for 2016 was $2,481.9 million, down 4% from $2,586.1 million in 2015. Revenues declined at the education division, offset by an increase at the television broadcasting division and in other businesses.

In 2016, education revenue was down by 17%, advertising revenue increased 11% and other revenue increased 51%. The revenue declines at Kaplan account for the reported education revenue. The growth in advertising revenue is due to increased television broadcasting revenue. The increase in other revenues is due primarily to the inclusion of revenues from businesses acquired in 2016 and 2015.

Operating costs and expenses for the year decreased 18% to $2,178.4 million in 2016, from $2,666.9 million in 2015. Expenses were lower at the education division due to goodwill and other long-lived assets impairment charges recorded in 2015, partially offset by increased spending on digital initiatives and network fees at the television broadcasting division in 2016, and increased expenses at other businesses as a result of businesses acquired in 2016 and 2015.

The Company reported operating income for 2016 of $303.5 million, compared with an operating loss of $80.8 million in 2015. Operating results improved at the education and television broadcasting divisions, offset by a decline in other businesses.

Division Results

Education Division. Education division revenue in 2016 totaled $1,598.5 million, down 17% from $1,927.5 million in 2015. Kaplan reported operating income of $93.6 million for 2016, compared to an operating loss of $223.5 million in 2015. Kaplan's 2015 operating results include goodwill and intangible assets impairment charges of $256.8 million. In 2016, operating results at Kaplan Higher Education (KHE) were up and costs at Kaplan corporate and other declined, partially offset by declines at Kaplan Test Preparation (KTP) and Kaplan International.

In recent years, Kaplan has formulated and implemented restructuring plans at its various businesses that have resulted in restructuring costs in 2016 and 2015, with the objective of establishing lower cost levels in future periods. Across all businesses, restructuring costs totaled $11.9 million in 2016 and $44.4 million in 2015.

A summary of Kaplan's operating results is as follows:

(in thousands)	Year Ended December 31 2016	Year Ended December 31 2015	% Change
Revenue			
Higher education	**$ 617,047**	$ 849,625	(27)
Test preparation	**286,556**	301,607	(5)
Kaplan international	**696,362**	770,273	(10)
Kaplan corporate and other	**214**	6,502	(97)
Intersegment elimination	**(1,718)**	(486)	—
	$1,598,461	$1,927,521	(17)
Operating Income (Loss)			
Higher education	**$ 66,632**	$ 55,572	20
Test preparation	**9,599**	16,798	(43)
Kaplan international	**48,398**	53,661	(10)
Kaplan corporate and other	**(23,452)**	(87,230)	73
Amortization of intangible assets	**(7,516)**	(5,523)	(36)
Impairment of goodwill and other long-lived assets	**—**	(256,830)	—
Intersegment elimination	**(29)**	96	—
	$ 93,632	$ (223,456)	—

KHE includes Kaplan's domestic postsecondary education businesses, made up of fixed-facility colleges and online postsecondary and career programs. KHE also includes the domestic professional training and other continuing education businesses.

On September 3, 2015, Kaplan completed the sale of substantially all of the remaining assets of its KHE Campuses business. In connection with these and other plans, KHE incurred $7.2 million and $12.9 million in restructuring costs in 2016 and 2015, respectively.

As a result of continued declines in student enrollments at KHE and the challenging industry operating environment, Kaplan completed an interim impairment review of KHE's remaining long-lived assets in the third quarter of 2015 that resulted in a $248.6 million goodwill impairment charge. This goodwill impairment charge followed a $6.9 million long-lived asset impairment charge that was recorded in the second quarter of 2015 in connection with the KHE Campuses business.

KHE results, excluding the impairment charge, include revenue and operating losses (including restructuring charges) related to all KHE Campuses, those sold or closed, including Mount Washington College and Bauder College, as follows:

	Year Ended December 31	
(in thousands)	**2016**	**2015**
Revenue	**$ 1,681**	$178,734
Operating loss	**$(2,438)**	$ (38,830)

In 2016, KHE revenue declined 27% due to the campus sales and closings, and declines in average enrollments at Kaplan University, offset by increased revenues at the domestic professional and other continuing education businesses. KHE operating income improved in 2016 due to reduced losses at the KHE Campuses business and lower restructuring costs, lower marketing expenditures at Kaplan University and improved results at the domestic professional and other continuing education businesses, partially offset by lower enrollment at Kaplan University.

New higher education student enrollments at Kaplan University declined 22% in 2016 due to lower demand across Kaplan University programs. Total students at Kaplan University were 32,167 at December 31, 2016, down 19% from December 31, 2015.

Kaplan University higher education student enrollments by certificate and degree programs are as follows:

	As of December 31	
	2016	**2015**
Certificate	**7.7%**	4.4%
Associate's	**18.1%**	25.0%
Bachelor's	**50.9%**	48.4%
Master's	**23.3%**	22.2%
	100.0%	100.0%

Kaplan Test Preparation (KTP) includes Kaplan's standardized test preparation and new economy skills training programs. KTP revenue declined 5% in 2016. Enrollments, excluding the new economy skills training offerings, were down 3% in 2016. In comparison to 2015, KTP operating results declined in 2016 due to investment in new economy skills training programs and lower revenues from a change in the enrollment mix to lower priced programs. Operating losses for the new economy skills training programs were $13.0 million and $8.5 million for 2016 and 2015, respectively.

Kaplan International includes English-language programs and postsecondary education and professional training businesses largely outside the United States. In the first quarter of 2016, Kaplan acquired Mander Portman Woodward, a leading provider of high-quality, bespoke education to UK and international students in London, Cambridge and Birmingham; and Osborne Books, an education publisher of learning resources for accounting qualifications in the UK.

Kaplan International revenue declined 10% in 2016, of which 6% is due to currency fluctuations. The remaining decrease is due to enrollment declines in English-language and Pathways programs. Revenue growth from the 2016 acquisitions was largely offset by revenue declines due to prior year dispositions.

Kaplan International operating income decreased 10% in 2016, due largely to the reduced English-language and Pathways results and increased restructuring costs, partially offset by operating income from newly acquired businesses. The impact of currency fluctuations on comparative operating results was insignificant for 2016. Restructuring costs at Kaplan International totaled $4.7 million and $1.3 million in 2016 and 2015, respectively.

Kaplan corporate and other represents unallocated expenses of Kaplan, Inc.'s corporate office, other minor businesses and certain shared activities. In 2015, Kaplan corporate recorded $29.4 million in restructuring costs. In 2016, Kaplan corporate expenses also declined due to the benefits from restructuring activities and a reduction in incentive compensation expense. Also, 2015 spending for the replacement of its human resources system did not recur in 2016.

In addition to the impairment charges of $255.5 million related to KHE recorded in the second and third quarters of 2015, Kaplan recorded an additional $1.4 million in noncash intangible and other long-lived assets impairment charges in the fourth quarter of 2015, related to businesses at KTP and Kaplan International.

In the first quarter of 2016, Kaplan sold Colloquy, which was part of Kaplan corporate and other, for a gain of $18.9 million that is included in other non-operating income.

In addition to the sale of the KHE Campuses business in 2015, Kaplan also sold a small business that was part of KHE, and two businesses that were part of Kaplan International. The net loss on the sale of these businesses totaled $24.9 million and is included in other non-operating expense.

Television Broadcasting Division. Revenue at the television broadcasting division increased 14% to $409.7 million, from $359.2 million in 2015; operating income for 2016 was up 22% to $200.5 million, from $164.9 million in the same period of 2015. The revenue increase is due to a $23.9 million increase in political advertising revenue, $18.5 million more in retransmission revenues, and $13.1 million in incremental summer Olympics-related advertising revenue at the Company's NBC affiliates. The increase in operating income is due to the revenue increase, offset by higher spending on digital initiatives and increased network fees.

Operating margin at the television broadcasting division was 49% in 2016 and 46% in 2015.

Competitive market position remained strong for the Company's television stations. For target demographic viewers age 25 to 54 for the key 6am, 6pm and late night newscasts, KSAT in San Antonio, WJXT in Jacksonville and KRPC in Houston ranked number one in the November 2016 ratings period; WDIV in Detroit ranked second; and WKMG in Orlando tied for second.

In May 2016, the Company announced that it had reached an agreement with Nexstar Broadcasting Group, Inc. and Media General, Inc. to acquire WCWJ, a CW affiliate television station in Jacksonville, FL and WSLS, an NBC affiliate television station in Roanoke, VA for $60 million in cash and the assumption of certain pension obligations. The Company will continue to operate both stations under their current network affiliations. This transaction was completed on January 17, 2017.

The Company's NBC affiliates in Houston and Detroit are operating under a new contract with NBC effective January 1, 2017. The new contract will result in a significant increase in network fees in 2017, compared to 2016.

Other Businesses. A summary of Other Businesses' operating results for 2016 compared to 2015 is as follows:

(in thousands)	Year Ended December 31 2016	2015	% Change
Operating Revenues			
Manufacturing	**$241,604**	$ 92,255	—
Healthcare	**146,962**	135,550	8
SocialCode	**58,851**	45,829	28
Other	**26,433**	25,883	2
	$473,850	$299,517	58
Operating Expenses			
Manufacturing	**$228,887**	$ 85,839	—
Healthcare	**144,163**	129,317	11
SocialCode	**71,258**	46,375	54
Other	**51,644**	51,653	—
	$495,952	$313,184	58
Operating Income (Loss)			
Manufacturing	**$ 12,717**	$ 6,416	98
Healthcare	**2,799**	6,233	(55)
SocialCode	**(12,407)**	(546)	—
Other	**(25,211)**	(25,770)	2
	$ (22,102)	$ (13,667)	(62)
Depreciation			
Manufacturing	**$ 7,251**	$ 1,868	—
Healthcare	**2,805**	2,836	(1)
SocialCode	**929**	402	—
Other	**1,390**	1,062	31
	$ 12,375	$ 6,168	—
Amortization of Intangible Assets and Impairment of Goodwill and Other Long-Lived Assets			
Manufacturing	**$ 12,119**	$ 6,319	92
Healthcare	**6,701**	6,875	(3)
SocialCode	**—**	—	—
Other	**1,687**	2,918	(42)
	$ 20,507	$ 16,112	27
Pension Expense			
Manufacturing	**$ 86**	$ 73	18
Healthcare	**—**	—	—
SocialCode	**541**	270	—
Other	**491**	621	(21)
	$ 1,118	$ 964	16

Manufacturing includes three businesses: Dekko, a manufacturer of electrical workspace solutions, architectural lighting and electrical components and assemblies acquired in November 2015; Joyce/Dayton Corp., a Dayton, OH-based manufacturer of screw jacks and other linear motion systems; and Forney, a global supplier of products and systems that control and monitor combustion processes in electric utility and industrial applications.

Manufacturing revenues and operating income increased in 2016 due primarily to the Dekko acquisition. Also, in September 2016, Dekko acquired Electri-Cable Assemblies (ECA), a Shelton, CT-based manufacturer of power, data and electrical solutions for the office furniture industry.

The Graham Healthcare Group (GHG) provides home health and hospice services in six states. In June 2016, the Company acquired the outstanding 20% redeemable noncontrolling interest in Residential Healthcare (Residential). Also in June 2016, Celtic Healthcare (Celtic) and Residential combined their business operations and the Company now owns 90% of the combined entity, known as GHG. The Company incurred approximately \$2.0 million in expenses in conjunction with these transactions in the second quarter of 2016. Healthcare revenues increased 8% in 2016 due primarily to patient growth for both home health and hospice. Operating results were down in 2016, largely due to the expenses incurred related to the transactions in the second quarter of 2016 and an increase in information systems and other integration costs.

In June 2016, Residential and a Michigan hospital formed a joint venture to provide home health services to West Michigan patients. Residential manages the operations of the joint venture and holds a 40% interest. The pro rata operating results of the joint venture are included in the Company's equity in earnings of affiliates. In connection with this transaction, the Company recorded a pre-tax gain of \$3.2 million in the second quarter of 2016 that is included in other non-operating income.

In January 2015, Celtic and Allegheny Health Network formed a joint venture to combine each other's home health and hospice assets in the western Pennsylvania region. Celtic manages the operations of the joint venture for a fee and holds a 40% interest. The pro rata operating results of the joint venture are included in the Company's equity in earnings of affiliates. In connection with this transaction, the Company recorded a noncash pre-tax gain of \$6.0 million in the first quarter of 2015 that is included in other non-operating income.

SocialCode is a provider of marketing solutions on social, mobile and video platforms. SocialCode revenues increased 28% in 2016, due to continued growth in digital advertising service revenues. SocialCode reported operating losses of \$12.4 million in 2016; these results include incentive accruals of \$12.8 million related to phantom equity appreciation plans. The expense amount related to these plans for 2015 was \$2.0 million. As of December 31, 2016, the accrual balance related to these plans is \$22.0 million.

Other businesses also includes Slate and Foreign Policy, which publish online and print magazines and websites; and two investment stage businesses, Panoply and CyberVista. Losses from each of these businesses in 2016 adversely affected operating results. In addition, Slate recorded a goodwill impairment charge of \$1.6 million in the fourth quarter of 2016.

In November 2015, the Company announced that Trove, a digital innovation team, would largely be integrated into SocialCode and that Trove's existing offerings would be discontinued. In connection with this action, the Company recorded a \$2.8 million goodwill impairment charge at Trove in the fourth quarter of 2015, along with \$0.5 million in severance costs.

In the second quarter of 2015, the Company sold The Root, an online magazine; the related gain on disposition is included in other non-operating expense, net.

Corporate Office. Corporate office includes the expenses of the Company's corporate office, the pension credit for the Company's traditional defined benefit plan and certain continuing obligations related to prior business dispositions. In the fourth quarter of 2016, the Company recorded an \$18.0 million gain related to a bulk lump sum pension program offering.

In the fourth quarter of 2015, the Company recorded \$6.0 million in incremental stock compensation expense due to the modification of restricted stock awards and implemented a Special Incentive Program that resulted in expense of \$0.9 million, which was funded from the assets of the Company's pension plan. In the third quarter of 2015, the Company recorded \$18.8 million in incremental stock option expense, due to stock option modifications that resulted from the Cable ONE spin-off.

Excluding the pension gain and other pension incentive expense, the total pension credit for the Company's traditional defined benefit plan was $64.1 million and $83.2 million for 2016 and 2015, respectively.

Excluding the pension credit and incremental stock compensation expense in 2015, corporate office expenses declined in 2016 due primarily to lower compensation costs.

Equity in (Losses) Earnings of Affiliates. At December 31, 2016, the Company held interests in a number of home health and hospice joint ventures, and interests in several other affiliates. The company recorded equity in losses of affiliates of $7.9 million for 2016, compared to $0.7 million in 2015. In the fourth quarter of 2016, the Company recorded an $8.4 million write-down on its investment in HomeHero, a company that managed an online senior home care marketplace.

Other Non-Operating (Expense) Income. The Company recorded total other non-operating expense, net, of $12.6 million in 2016, compared to $8.6 million in 2015.

The 2016 non-operating expense, net, included $39.9 million in foreign currency losses; $29.4 million in cost method investment write-downs; and $1.8 million in net losses on the sales of marketable securities, partially offset by a $34.1 million gain on the sale of land; an $18.9 million gain on the sale of a business; a $3.2 million gain on the Residential joint venture transaction and other items. The 2015 non-operating expense, net, included $23.3 million in losses from the sales of businesses, $15.6 million in unrealized foreign currency losses and other items, offset by a $21.4 million gain on the sale of land from Robinson Terminal, a $6.0 million gain on the formation of a Celtic joint venture and a $4.8 million increase to the gain from the 2014 sale of Classified Ventures.

Net Interest Expense. The Company incurred net interest expense of $32.3 million in 2016, compared to $30.7 million in 2015. At December 31, 2016, the Company had $491.8 million in borrowings outstanding at an average interest rate of 6.3%; at December 31, 2015, the Company had $399.8 million in borrowings outstanding at an average interest rate of 7.2%.

In July 2016, a Kaplan UK company entered into a four-year loan agreement for a £75 million borrowing. The overall effective interest rate is 2.01%, taking into account an interest rate swap agreement the Company entered into on the same date as the borrowing.

Provision for Income Taxes. The Company's effective tax rate for 2016 was 32.4%. In the third quarter of 2016, a net nonrecurring $8.3 million deferred tax benefit related to Kaplan's international operations was recorded. In the second quarter of 2016, the Company benefited from a favorable $5.6 million out of period deferred tax adjustment related to the KHE goodwill impairment recorded in the third quarter of 2015. Excluding the effect of these items, the effective tax rate in 2016 was 37.9%.

The Company recorded a tax provision on the pre-tax loss from continuing operations in 2015, as a large portion of the goodwill impairment charges and the goodwill included in the loss on the KHE Campuses sale were permanent differences not deductible for income tax purposes. Excluding the effect of these permanent differences, the effective tax rate for continuing operations in 2015 was 38.1%.

Discontinued Operations. In 2015, the Company completed the spin-off of Cable ONE as an independent, publicly traded company and the sale of a school in China that was previously part of Kaplan International.

As a result of these transactions, income from continuing operations excludes the operating results and related loss, if any, on dispositions of these businesses, which have been reclassified to discontinued operations, net of tax, in 2015.

RESULTS OF OPERATIONS — 2015 COMPARED TO 2014

Net loss attributable to common shares was $101.3 million ($17.87 per share) for the year ended December 31, 2015, compared to net income attributable to common shares of $1,293.0 million ($195.03 per share) for the year ended December 31, 2014. Net (loss) income includes $42.2 million ($7.36 per share) and $527.9 million ($79.63 per share) in income from discontinued operations for 2015 and 2014, respectively. Loss from continuing operations attributable to common shares was $143.5 million ($25.23 per share) for 2015, compared to income of $765.1 million ($115.40 per share) for 2014.

In connection with the tax-free Berkshire exchange transaction that closed on June 30, 2014, the Company acquired 1,620,190 shares of its Class B common stock, resulting in 13% fewer diluted shares outstanding in 2015 compared to 2014.

Items included in the Company's income from continuing operations for 2015 are listed below:

- $259.7 million goodwill and long-lived assets impairment charges at the education division and other businesses (after-tax impact of $225.2 million, or $38.96 per share);
- $45.8 million in restructuring charges at the education division, corporate office and other businesses (after-tax impact of $28.9 million, or $4.97 per share);
- $24.9 million in expense related to the modification of stock option awards in conjunction with the Cable ONE spin-off and the modification of restricted stock awards (after-tax impact of $15.3 million, or $2.64 per share);
- $12.5 million in net non-operating losses arising from the sales of five businesses and an investment, and on the formation of a joint venture (after-tax impact of $15.7 million, or $2.82 per share);
- $21.4 million gain on the sale of land (after-tax impact of $13.2 million, or $2.27 per share); and
- $15.6 million in non-operating unrealized foreign currency losses (after-tax impact of $9.7 million, or $1.67 per share.

Items included in the Company's income from continuing operations for 2014 are listed below:

- $31.6 million in restructuring charges and early retirement program expense and related charges at the education division and the corporate office (after-tax impact of $20.2 million, or $3.05 per share);
- $17.3 million noncash intangible and other long-lived assets impairment charges at Kaplan and other businesses (after-tax impact of $11.2 million, or $1.69 per share);
- $396.6 million gain from the sale of Classified Ventures (after-tax impact of $249.8 million, or $37.68 per share);
- $90.9 million gain from the Classified Ventures' sale of apartments.com (after-tax impact of $58.2 million, or $8.78 per share);
- $266.7 million gain from the tax-free Berkshire exchange transaction (after-tax impact of $266.7 million, or $40.23 per share);
- $127.7 million gain on the sale of the corporate headquarters building (after-tax impact of $81.8 million, or $12.34 per share); and
- $11.1 million in non-operating unrealized foreign currency losses (after-tax impact of $7.1 million, or $1.08 per share).

Revenue for 2015 was $2,586.1 million, down 6% from $2,737.0 million in 2014. Revenues declined at the education division and were down slightly at the television broadcasting division, offset by an increase in other businesses.

In 2015, education revenue was down by 11%, advertising revenue decreased 9% and other revenue increased 41%. The revenue declines at Kaplan account for the reported education revenue. The decline in advertising revenue is due to decreased television broadcasting revenue. The increase in other revenues is due primarily to the inclusion of revenues from businesses acquired in 2015 and 2014.

Operating costs and expenses for the year increased 6% to $2,666.9 million in 2015, from $2,504.3 million in 2014. Expenses were higher at the education division due to goodwill and other long-lived assets impairment charges recorded in 2015; increased spending on digital initiatives and network fees at the television broadcasting division in 2015; and increased expenses at other businesses as a result of businesses acquired in 2015 and 2014.

The Company reported an operating loss for 2015 of $80.8 million, compared with operating income of $232.7 million in 2014. Operating results were down at the education and television broadcasting divisions, offset by improvement in other businesses.

On July 1, 2015, the Company completed the spin-off of Cable ONE as an independent, publicly traded company. The transaction was structured as a tax-free spin-off of Cable ONE to the stockholders of the Company as one share of Cable ONE common stock was distributed for every share of Class A and Class B common stock of Graham Holdings outstanding on the June 15, 2015, record date. The historical operating results of the Company's cable division are included in discontinued operations, net of tax, for all periods presented.

On February 12, 2015, Kaplan entered into a Purchase and Sale Agreement to sell substantially all of the assets of its KHE Campuses business, consisting of 38 nationally accredited ground campuses, and certain related assets, in exchange for a preferred equity interest in a vocational school company. The transaction closed on September 3, 2015.

On June 30, 2014, the Company and Berkshire Hathaway Inc. completed a transaction in which Berkshire acquired a wholly owned subsidiary of the Company that included, among other things, WPLG, a Miami-based television station, 2,107 Class A Berkshire shares and 1,278 Class B Berkshire shares owned by Graham Holdings and $327.7 million in cash, in exchange for 1,620,190 shares of Graham Holdings Class B common stock owned by Berkshire Hathaway (Berkshire exchange transaction). As a result, income from continuing operations for 2014 includes a $266.7 million gain from the exchange of the Berkshire Hathaway shares, and income from discontinued operations for 2014 includes a $375.0 million gain from the WPLG exchange.

Division Results

Education Division. Education division revenue in 2015 totaled $1,927.5 million, down 11% from revenue of $2,160.4 million in 2014. Kaplan reported an operating loss of $223.5 million for 2015, compared to operating income of $65.5 million in 2014. Kaplan's 2015 operating results include goodwill and intangible assets impairment charges of $256.8 million in comparison to a $17.2 million charge in 2014. In 2015, operating results at Kaplan Higher Education and Kaplan International were down, partially offset by improved results at Kaplan Test Preparation.

In recent years, Kaplan has formulated and implemented restructuring plans at its various businesses that have resulted in significant costs in 2015 and 2014, with the objective of establishing lower cost levels in future periods. Across all businesses, restructuring costs totaled $44.4 million in 2015 and $16.8 million in 2014.

A summary of Kaplan's operating results is as follows:

(in thousands)	Year Ended December 31 2015	2014	% Change
Revenue			
Higher education	$ 849,625	$1,010,058	(16)
Test preparation	301,607	304,662	(1)
Kaplan international	770,273	840,915	(8)
Kaplan corporate and other	6,502	6,094	7
Intersegment elimination	(486)	(1,312)	—
	$1,927,521	$2,160,417	(11)
Operating Income (Loss)			
Higher education	$ 55,572	$ 83,069	(33)
Test preparation	16,798	(4,730)	—
Kaplan international	53,661	69,153	(22)
Kaplan corporate and other	(87,230)	(57,093)	(53)
Amortization of intangible assets	(5,523)	(7,738)	29
Impairment of intangible and other long-lived assets	(256,830)	(17,203)	—
Intersegment elimination	96	5	—
	$ (223,456)	$ 65,463	—

KHE includes Kaplan's domestic postsecondary education businesses, made up of fixed-facility colleges and online postsecondary and career programs. KHE also includes the domestic professional training and other continuing education businesses.

Since 2012, KHE has continued to close campuses, consolidate facilities and reduce its workforce. On September 3, 2015, Kaplan completed the sale of substantially all of the remaining assets of its KHE Campuses business. In connection with these and other plans, KHE incurred $12.9 million and $6.5 million in restructuring costs in 2015 and 2014, respectively.

As a result of continued declines in student enrollments at KHE and the challenging industry operating environment, Kaplan completed an interim impairment review of KHE's remaining long-lived assets in the third quarter of 2015 that resulted in a $248.6 million goodwill impairment charge. This goodwill impairment charge followed long-lived asset impairment charges of $6.9 million and $13.6 million that were recorded in the second quarter of 2015 and fourth quarter of 2014, respectively, in connection with the KHE Campuses business.

KHE results include revenue and operating losses (including restructuring charges) related to all KHE Campuses, those sold or closed, including Mount Washington College and Bauder College, as follows:

(in thousands)	Year Ended December 31 2015	2014
Revenue	$178,734	$299,109
Operating income (loss)	$ (38,830)	$ (28,549)

In 2015, KHE revenue declined 16% due to the campus sales and closings, and declines in average enrollments at Kaplan University, reflecting weaker market demand. The KHE operating income decline in 2015 is due to increased losses at the KHE Campuses business, the revenue declines and increased restructuring costs. In 2015, the decline was partially offset by improved results at the domestic professional training and other continuing education businesses.

New higher education student enrollments at Kaplan University declined 14% in 2015 due to lower demand across Kaplan University programs.

Total higher education students at Kaplan University at December 31, 2015, were down 6% compared to December 31, 2014. A summary of higher education student enrollments is as follows:

	As of December 31	
	2015	2014
Kaplan University	39,848	42,469

Kaplan University higher education student enrollments by certificate and degree programs are as follows:

	As of December 31	
	2015	2014
Certificate	4.4%	2.3%
Associate's	25.0%	29.6%
Bachelor's	48.4%	44.3%
Master's	22.2%	23.8%
	100.0%	100.0%

KTP includes Kaplan's standardized test preparation programs. KTP revenue declined 1% in 2015. Excluding revenues from acquired businesses, KTP revenue declined 3% in 2015. Enrollments, excluding the new economy skills training offerings, were down 12% in 2015 due primarily to declines in graduate and pre-college programs; however, unit prices were generally higher. In comparison to 2014, KTP operating results improved in 2015 due to a reduction in operating expenses and the inclusion of a $7.7 million software asset write-off in the second quarter of 2014 that did not recur in 2015.

Kaplan International includes English-language programs and postsecondary education and professional training businesses largely outside the United States. Kaplan International revenue declined 8% in 2015 due to the adverse impact of foreign exchange rates. On a constant currency basis, Kaplan International revenue remained flat in 2015 due to enrollment declines in English-language programs, partially offset by growth in Australia professional and Singapore higher education programs.

Kaplan International operating income decreased 22% in 2015 due to the declines in English-language programs' results. Restructuring costs at Kaplan International totaled $1.3 million and $0.2 million in 2015 and 2014, respectively.

Kaplan corporate represents unallocated expenses of Kaplan, Inc.'s corporate office, other minor businesses and certain shared activities. In 2015, Kaplan corporate recorded $29.4 million in restructuring costs compared to $1.4 million in 2014.

In addition to the impairment charges of $255.5 million related to KHE recorded in the second and third quarters of 2015, Kaplan recorded an additional $1.4 million in noncash intangible and other long-lived assets impairment charges in the fourth quarter of 2015, related to businesses at KTP and Kaplan International. In 2014, Kaplan recorded $17.2 million in noncash intangible and other long-lived assets impairment charges in connection with businesses at KHE, KTP and Kaplan International.

In addition to the sale of the KHE Campuses business in 2015, Kaplan also sold a small business that was part of KHE and two businesses that were part of Kaplan International. The net loss on the sale of these businesses totaled $24.9 million that is included in other non-operating expense.

Television Broadcasting Division. Revenue for the television broadcasting division decreased 1% to $359.2 million in 2015, from $363.8 million in 2014; operating income for 2015 was down 12% to $164.9 million, from $187.8 million in 2014. The decrease in revenue is due to a $27.7 million decrease in political advertising revenue and $9.5 million in incremental winter Olympics-related advertising revenue at the Company's NBC affiliates in 2014, offset by $16.1 million in increased retransmission revenues, revenues from the Super Bowl at the Company's NBC affiliates in February 2015 and an increase in advertising revenue in several key sectors. The decline in operating income is due to the revenue decline and an increase in spending on digital initiatives and increased network fees.

Operating margin at the television broadcasting division was 46% in 2015 and 52% in 2014.

Competitive market position remained strong for the Company's television stations. KSAT in San Antonio and WJXT in Jacksonville ranked number one in the November 2015 ratings period, Monday through Friday, sign-on to sign-off; KPRC finished in a three-way tie for first place; WDIV in Detroit ranked second; and WKMG in Orlando ranked third.

Other Businesses. Other businesses includes the following:

- Celtic Healthcare (Celtic) and Residential Healthcare Group, Inc. (Residential, acquired in July 2014), providers of home health and hospice services;
- Dekko, a Garrett, IN-based manufacturer of electrical workspace solutions, architectural lighting and electrical components and assemblies (acquired in November 2015); Joyce/Dayton Corp., a Dayton, OH-based manufacturer of screw jacks and other linear motion systems (acquired in May 2014); and Forney, a global supplier of products and systems that control and monitor combustion processes in electric utility and industrial applications; and
- SocialCode, a marketing solutions provider helping companies with marketing on social-media platforms; and The Slate Group and Foreign Policy Group, which publish online and print magazines and websites.

In November 2015, the Company announced that Trove, a digital innovation team, would largely be integrated into SocialCode and that Trove's existing offerings would be discontinued. In connection with this action, the Company recorded a $2.8 million goodwill impairment charge at Trove in the fourth quarter of 2015, along with $0.5 million in severance costs.

The increase in revenues for 2015 is due primarily to the inclusion of revenues from the businesses acquired in 2015 and 2014. The improvement in operating results in 2015 reflects the contribution of the acquired businesses, as well as improved results at Celtic and SocialCode.

In January 2015, Celtic and Allegheny Health Network formed a joint venture to combine each other's home health and hospice assets in the western Pennsylvania region. Celtic manages the operations of the joint venture for a fee and holds a 40% interest. The pro rata operating results of the joint venture are included in the Company's equity in earnings of affiliates. In connection with this transaction, the Company recorded a noncash pre-tax gain of $6.0 million in the first quarter of 2015 that is included in other non-operating expense. Celtic's revenues from the western Pennsylvania region that are now part of the joint venture made up 29% of total Celtic revenues in 2014.

In the second quarter of 2015, the Company sold The Root, an online magazine; the related gain on disposition is included in other non-operating expense, net.

Corporate Office. Corporate office includes the expenses of the Company's corporate office, the pension credit for the Company's traditional defined benefit plan and certain continuing obligations related to prior business dispositions. In the fourth quarter of 2015, the Company recorded $6.0 million in incremental stock compensation expense due to the modification of restricted stock awards and implemented a Special Incentive Program that resulted in expense of $0.9 million, which is being funded from the assets of the Company's pension plan. In the third quarter of 2015, the Company recorded $18.8 million in incremental stock option expense, due to stock option modifications that resulted from the Cable ONE spin-off. In the first quarter of 2014, the corporate office implemented a Separation Incentive Program that resulted in expense of $4.5 million, which was funded from the assets of the Company's pension plan. In the third quarter of 2014, the Company recorded $10.3 million in early retirement program expense and other related charges, a portion of which was funded from the assets of the Company's pension plan.

Excluding early retirement program and other pension incentive program expense, the total pension credit for the Company's traditional defined benefit plan was $83.2 million and $91.2 million for 2015 and 2014, respectively.

Excluding the $24.9 million in incremental stock compensation expense in 2015, the pension credit, early retirement program and other pension incentive program expense and other related charges in 2015 and 2014, corporate office expense declined in 2015. The decline is from lower compensation costs and 2014 costs related to certain acquisitions, the Berkshire exchange transaction and the corporate office headquarters move to Arlington, VA, partially offset by 2015 costs related to the Dekko acquisition.

Equity in (Losses) Earnings of Affiliates. At December 31, 2015, the Company held a 40% interest in a Celtic joint venture and Residential Home Health Illinois, a 42.5% interest in Residential Hospice Illinois, and interests in several other affiliates. In the second quarter of 2015, the Company acquired an approximate 20% interest in HomeHero, a company that created and manages an online senior home care marketplace. At September 30, 2014, the Company held a 16.5% interest in Classified Ventures, LLC (CV) and interests in several other affiliates. On October 1, 2014, the Company and the remaining partners in CV completed the sale of their entire stakes in CV.

The Company's equity in losses of affiliates, net, for 2015 was $0.7 million, compared to income of $100.4 million in 2014. The 2014 results include a pre-tax gain of $90.9 million from Classified Ventures' sale of apartments.com in the second quarter of 2014.

Other Non-Operating (Expense) Income. The Company recorded other non-operating expense, net, of $8.6 million in 2015, compared to income of $778.0 million in 2014.

The 2015 non-operating expense, net, included $23.3 million in losses from the sales of businesses, $15.6 million in unrealized foreign currency losses and other items, offset by a $21.4 million gain on the sale of land from Robinson Terminal, $6.0 million gain on the formation of a Celtic joint venture and a $4.8 million increase to the CV gain. The 2014 non-operating income, net, included a pre-tax gain of $396.6 million on the sale of Classified Ventures, the pre-tax gain of $266.7 million in connection with the Company's exchange of Berkshire shares, a pre-tax gain of $127.7 million on the sale of the headquarters building, $11.1 million in unrealized foreign currency losses and other items.

Net Interest Expense. The Company incurred net interest expense of $30.7 million in 2015, compared to $33.4 million in 2014. At December 31, 2015, the Company had $399.8 million in borrowings outstanding at an average interest rate of 7.2%; at December 31, 2014, the Company had $445.9 million in borrowings outstanding at an average interest rate of 7.1%.

Provision for Income Taxes. The Company recorded a tax provision on the pre-tax loss from continuing operations in 2015, as a large portion of the goodwill impairment charges and the goodwill included in the loss on the KHE Campuses sale are permanent differences not deductible for income tax purposes. Excluding the effect of these permanent differences, the effective tax rate for continuing operations in 2015 was 38.1%, compared to an effective tax rate of 29.0% in 2014. The lower effective tax rate in 2014 largely relates to the Berkshire exchange transaction. The pre-tax gain of $266.7 million related to the disposition of the Berkshire shares was not subject to income tax as the exchange qualified as a tax-free transaction.

Discontinued Operations. On July 1, 2015, the Company completed the spin-off of Cable ONE as an independent, publicly traded company.

In the third quarter of 2014, Kaplan completed the sale of three of its schools in China that were previously part of Kaplan International. An additional school was sold by Kaplan in January 2015.

In the second quarter of 2014, the Company closed on the Berkshire exchange transaction, which included the disposition of WPLG, the Company's Miami-based television station.

As a result of these transactions, income from continuing operations excludes the operating results and related net gain on dispositions of these businesses, which have been reclassified to discontinued operations, net of tax, for all periods presented.

FINANCIAL CONDITION: CAPITAL RESOURCES AND LIQUIDITY

Acquisitions and Dispositions of Businesses

Acquisitions. In May 2016, Graham Media Group entered into an agreement to acquire two television stations for $60 million in cash and the assumption of certain pension obligations. This transaction closed on January 17, 2017.

The Company completed business acquisitions totaling approximately $258.0 million in 2016; $163.3 million in 2015; and $210.2 million in 2014. The assets and liabilities of the companies acquired have been recorded at their estimated fair values at the date of acquisition.

During 2016, the Company acquired five businesses, three businesses included in its education division and two businesses in other businesses. In January 2016, Kaplan acquired a 100% interest in Mander Portman Woodward, a leading provider of high-quality, bespoke education to UK and international students in London, Cambridge and Birmingham, by purchasing all of its issued and outstanding shares. In February 2016, Kaplan acquired a 100% interest in Osborne Books, an educational publisher of learning resources for accounting qualifications in the UK, by purchasing all of its issued and outstanding shares. The primary reason for these acquisitions is based on several strategic benefits expected to be realized in the future. Both of these acquisitions are included in Kaplan International.

In September 2016, Dekko acquired a 100% interest in Electri-Cable Assemblies (ECA), a Shelton, CT-based manufacturer of power, data and electrical solutions for the office furniture industry, by purchasing all of its issued and outstanding shares. Dekko's primary reasons for the acquisition were to complement existing product offerings and provide opportunities for synergies across the businesses. This acquisition is included in other businesses.

During 2015, the Company acquired two businesses. On November 13, 2015, the Company acquired a 100% interest in Dekko, a Garrett, IN-based manufacturer of electrical solutions for applications across three business lines: workspace power solutions, architectural lighting and electrical components and assemblies, by purchasing all of the issued and outstanding shares. Dekko is included in other businesses. On December 22, 2015, Kaplan acquired a 100% interest in SmartPros, a provider of accredited professional education and training, primarily in accountancy, which is included in Higher Education.

During 2014, the Company acquired nine businesses. On April 1, 2014, Celtic Healthcare acquired a 100% interest in VNA-TIP Healthcare, a provider of home health and hospice services in Missouri and Illinois. On May 30, 2014, the Company completed its acquisition of a 100% interest in Joyce/Dayton Corp., a Dayton, OH-based manufacturer of screw jacks and other linear motion systems. On July 3, 2014, the Company completed its acquisition of an 80% interest in Residential Healthcare Group, Inc., the parent company of Residential Home Health and Residential Hospice, providers of skilled home health care and hospice services in

Michigan and Illinois. Residential Healthcare Group, Inc. has a 40% ownership interest in Residential Home Health Illinois and a 42.5% ownership interest in Residential Hospice Illinois, which are accounted for as investments in affiliates. The operating results of these businesses are included in other businesses. The Company also acquired three small businesses in its education division, one small business in its broadcasting division and two small businesses in other businesses.

Spin-Off. On July 1, 2015, the Company completed the spin-off of Cable ONE, by way of a distribution of all the issued and outstanding shares of Cable ONE common stock, on a pro rata basis, to the Company's stockholders.

Sale of Businesses. In January 2016, Kaplan completed the sale of Colloquy, which was included in Kaplan Corporate and Other.

On September 3, 2015, Kaplan completed the sale of substantially all of the assets of its KHE Campuses business, consisting of 38 nationally accredited ground campuses and certain related assets, in exchange for a preferred equity interest in a vocational school company. KHE Campuses schools that were closed or were in the process of closing were not included in the sale transaction.

In the third quarter of 2015, Kaplan sold Franklyn Scholar, which was part of Kaplan International. In the second quarter of 2015, the Company sold The Root, a component of Slate, and Kaplan sold two small businesses, Structuralia, which was part of Kaplan International, and Fire and EMS Training, which was part of Kaplan Higher Education. As a result of these sales, the Company reported net losses in other non-operating (expense) income.

In the third quarter of 2014, Kaplan completed the sale of three of its schools in China that were previously included as part of Kaplan International. In January 2015, Kaplan completed the sale of an additional school in China.

Exchanges. On June 30, 2014, the Company and Berkshire Hathaway Inc. completed a previously announced transaction in which Berkshire acquired a wholly owned subsidiary of the Company that included, among other things, WPLG, a Miami-based television station, 2,107 Class A Berkshire shares and 1,278 Class B Berkshire shares owned by Graham Holdings and $327.7 million in cash, in exchange for 1,620,190 shares of Graham Holdings Class B common stock owned by Berkshire Hathaway (Berkshire exchange transaction). As a result, income from continuing operations for the second quarter of 2014 includes a $266.7 million gain from the sale of the Berkshire Hathaway shares, and income from discontinued operations for the second quarter of 2014 includes a $375.0 million gain from the WPLG exchange.

Other. In June 2016, Residential and a Michigan hospital formed a joint venture to provide home health services to patients in western Michigan. In connection with this transaction, Residential contributed its western Michigan home health operations to the joint venture and then sold 60% of the newly formed venture to its Michigan hospital partner. Although Residential manages the operations of the joint venture, Residential holds a 40% interest in the joint venture, so the operating results of the joint venture are not consolidated, and the pro rata operating results are included in the Company's equity in earnings of affiliates.

In June 2016, the Company purchased the outstanding 20% redeemable noncontrolling interest in Residential. At that time, the Company recorded an increase to redeemable noncontrolling interest of $3.0 million, with a corresponding decrease to capital in excess of par value, to reflect the redemption value of the redeemable noncontrolling interest at $24.0 million. Following this transaction, Celtic and Residential combined their business operations to form Graham Healthcare Group (GHG). The redeemable noncontrolling interest shareholders in Celtic exchanged their 20% interest in Celtic for a 10% mandatorily redeemable noncontrolling interest in the combined entity, and the Company recorded a $4.1 million net increase to the mandatorily redeemable noncontrolling interest to reflect the estimated fair value of the mandatorily redeemable noncontrolling interest. The minority shareholders have an option to put their shares to the Company starting in 2020 and are required to put a percentage of their shares in 2022 and 2024, with the remaining shares required to be put by the minority shareholders in 2026. The redemption value is based on an EBITDA multiple, adjusted for working capital and other items, computed annually, with no limit on the amount payable. The Company now owns 90% of GHG. Because the noncontrolling interest is now mandatorily redeemable by the Company by 2026, it is reported as a noncurrent liability at December 31, 2016.

In January 2015, Celtic and Allegheny Health Network closed on the formation of a joint venture to combine each other's home health and hospice assets in the western Pennsylvania region. Although Celtic manages the operations of the joint venture, Celtic holds a 40% interest in the joint venture, so the operating results of the joint venture are not consolidated, and the pro rata operating results are included in the Company's equity in earnings of affiliates. Celtic's revenues from the western Pennsylvania region that are now part of the joint venture made up 29% of total Celtic revenues in 2014.

The Company's income from continuing operations excludes Cable ONE, the sold Kaplan China schools and WPLG, which have been reclassified to discontinued operations.

Capital Expenditures. During 2016, the Company's capital expenditures totaled $70.7 million. The Company's capital expenditures for businesses included in continuing operations for 2016, 2015 and 2014 are disclosed in Note 19 to the Consolidated Financial Statements. These amounts include assets acquired during the year, whereas the amounts reflected in the Company's Statements of Cash Flows are based on cash payments made during the relevant periods. The Company estimates that its capital expenditures will be in the range of $50 million to $60 million in 2017.

Investments in Marketable Equity Securities. At December 31, 2016, the fair value of the Company's investments in marketable equity securities was $424.2 million, which includes investments in the common stock of six publicly traded companies. At December 31, 2016, the unrealized gain related to the Company's investments totaled $154.9 million.

On June 30, 2014, the Company completed a transaction with Berkshire that included the exchange of 2,107 Class A Berkshire shares and 1,278 Class B Berkshire shares owned by the Company; a $266.7 million gain was recorded.

Common Stock Repurchases and Dividend Rate. During 2016 and 2015, the Company purchased a total of 229,498 and 46,226 shares, respectively, of its Class B common stock at a cost of approximately $108.9 million and $23.0 million, respectively. As part of the exchange transaction with Berkshire Hathaway in 2014, the Company acquired 1,620,190 shares of its Class B common stock at a cost of approximately $1,165.4 million. On May 14, 2015, the Board of Directors authorized the Company to acquire up to 500,000 shares of its Class B common stock. The Company did not announce a ceiling price or time limit for the purchases. The authorization includes 159,219 shares that remained under the previous authorization. At December 31, 2016, the Company had remaining authorization from the Board of Directors to purchase up to 224,276 shares of Class B common stock. Shares acquired as part of the exchange transaction received separate authorization by the Company's Board of Directors.

The annual dividend rate for 2017 is $5.08 per share, compared to $4.84 and $9.10 in 2016 and 2015, respectively. The annual dividend rate was adjusted in the third quarter of 2015 as a result of the spin-off of Cable ONE.

Liquidity. During 2016, the Company's cash and cash equivalents decreased by $105.3 million and the Company's borrowings increased by $92.0 million.

At December 31, 2016, the Company has $648.9 million in cash and cash equivalents, compared to $754.2 million at December 31, 2015. Restricted cash at December 31, 2016, totaled $21.9 million, compared to

$20.7 million at December 31, 2015. As of December 31, 2016 and 2015, the Company had commercial paper and money market investments of $485.1 million and $433.0 million, respectively, that are classified as cash, cash equivalents and restricted cash in the Company's Consolidated Financial Statements. At December 31, 2016, the Company has approximately $3.7 million in cash and cash equivalents in countries outside the U.S., which is not immediately available for use in operations or for distribution.

At December 31, 2016 and 2015, the Company had borrowings outstanding of $491.8 million and $399.8 million, respectively. The Company's borrowings at December 31, 2016, are mostly from $400.0 million of 7.25% unsecured notes due February 1, 2019, and £75 million in borrowings under the Kaplan Credit Agreement; the interest on $400.0 million of 7.25% unsecured notes is payable semiannually on February 1 and August 1. The Company's borrowings at December 31, 2015, were mostly from $400.0 million of 7.25% unsecured notes due February 1, 2019. The Company did not have any outstanding commercial paper borrowing or USD revolving credit borrowing as of December 31, 2016 and 2015. On March 9, 2015, the Company repaid the AUD 50 million debt. The Company retired the Series A redeemable preferred stock with a cash payment of $10.5 million in October 2015.

On June 17, 2015, the Company terminated its U.S. $450 million, AUD 50 million four-year revolving credit facility dated June 17, 2011. No borrowings were outstanding under the 2011 Credit Agreement at the time of termination. On June 29, 2015, the Company entered into a credit agreement (the Credit Agreement) providing for a U.S. $200 million five-year revolving credit facility (the Facility) with each of the lenders party thereto, Wells Fargo Bank, National Association as Administrative Agent (Wells Fargo), JPMorgan Chase Bank, N.A., as Syndication Agent, and HSBC Bank USA, National Association, as Documentation Agent (the Credit Agreement). The Company is required to pay a commitment fee on a quarterly basis, based on the Company's leverage ratio, of between 0.15% and 0.25% of the amount of the Facility. Any borrowings are made on an unsecured basis and bear interest at the Company's option, either at (a) a fluctuating interest rate equal to the highest of Wells Fargo's prime rate, 0.50 percent above the Federal funds rate or the one-month Eurodollar rate plus 1%, or (b) the Eurodollar rate for the applicable interest period as defined in the Credit Agreement, which is generally a periodic rate equal to LIBOR, in each case plus an applicable margin that depends on the Company's consolidated debt to consolidated adjusted EBITDA (as determined pursuant to the Credit Agreement, "leverage ratio"). The Company may draw on the Facility for general corporate purposes. The Facility will expire on July 1, 2020, unless the Company and the banks agree to extend the term. Any outstanding borrowings must be repaid on or prior to the final termination date. The Credit Agreement contains terms and conditions, including remedies in the event of a default by the Company, typical of facilities of this type and requires the Company to maintain a leverage ratio of not greater than 3.5 to 1.0 and a consolidated interest coverage ratio of at least 3.5 to 1.0 based upon the ratio of consolidated adjusted EBITDA to consolidated interest expense as determined pursuant to the Credit Agreement.

On July 14, 2016, Kaplan entered into a credit agreement (the Kaplan Credit Agreement) among Kaplan International Holdings Limited, as borrower, the lenders party thereto, HSBC BANK PLC as Facility Agent, and other agents party thereto. The Kaplan Credit Agreement provides for a four-year credit facility in an aggregate principal amount of £75 million. Borrowings bear interest at a rate per annum of LIBOR plus an applicable interest rate margin between 1.25% and 1.75%, in each case determined on a quarterly basis by reference to a pricing grid based upon the Company's total leverage ratio. The Kaplan Credit Agreement requires that 6.66% of the outstanding aggregate amount of the loan be repaid on the first three anniversaries of funding, with the remaining balance due on July 1, 2020. The Kaplan Credit Agreement contains terms and conditions, including remedies in the event of a default by the Company, typical of facilities of this type and requires the Company to maintain a leverage ratio of not greater than 3.5 to 1.0 and a consolidated interest coverage ratio of at least 3.5 to 1.0 based upon the ratio of consolidated adjusted EBITDA to consolidated interest expense as determined pursuant to the Kaplan Credit Agreement.

On July 25, 2016, Kaplan borrowed £75 million under the Kaplan Credit Agreement. On the same date, Kaplan entered into an interest rate swap agreement with a total notional value of £75 million and a maturity date of July 1, 2020. The interest rate swap agreement will pay Kaplan variable interest on the £75 million notional amount at the three-month LIBOR, and Kaplan will pay the counterparties a fixed rate of 0.51%, effectively resulting in a total fixed interest rate of 2.01% on the outstanding borrowings at the current applicable margin of 1.50%. The interest rate swap agreement was entered into to convert the variable rate British pound borrowing under the Kaplan Credit Agreement into a fixed rate borrowing. The Company provided a guarantee on any borrowings under the Kaplan Credit Agreement. Based on the terms of the interest rate swap agreement and the underlying borrowing, the interest rate swap agreement was determined to be effective and thus qualifies as a cash flow hedge. As such, changes in the fair value of the interest rate swap are recorded in other comprehensive income on the accompanying Condensed Consolidated Balance Sheets until earnings are affected by the variability of cash flows.

On June 24, 2015, due to the pending Cable ONE spin-off, Moody's downgraded the Company's long-term credit ratings from "Baa3" to "Ba1" and the short-term rating from "Prime-3" to "NP". On July 1, 2015, related to the Cable ONE spin-off, S&P lowered its corporate credit rating from "BBB" to "BB+" and its short-term rating from "A-2" to "B". In addition, S&P removed the ratings from Credit Watch. In the third quarter of 2015, the Company decided to no longer have the rating agencies provide a short-term rating on the Company.

The Company's current credit ratings are as follows:

	Moody's	Standard & Poor's
Long-term	Ba1	BB+

During 2016 and 2015, the Company had average borrowings outstanding of approximately $443.9 million and $428.0 million, respectively, at average annual interest rates of approximately 6.7% and 7.1%, respectively. The Company incurred net interest expense of $32.3 million and $30.7 million, respectively, during 2016 and 2015.

At December 31, 2016 and 2015, the Company had working capital of $1,052.4 million and $1,135.6 million, respectively. The Company maintains working capital levels consistent with its underlying business requirements and consistently generates cash from operations in excess of required interest or principal payments.

The Company's net cash provided by operating activities, as reported in the Company's Consolidated Statements of Cash Flows, was $261.3 million in 2016, compared to $70.7 million in 2015. The growth is largely due to significant income tax payments made in the first quarter of 2015.

In 2015, the Company received a $447.1 million net distribution from Cable ONE as a result of the spin-off.

In December 2015, the Company sold one property located along the Potomac River in Alexandria, VA, for approximately $22.9 million. A second property in Alexandria was sold in the second quarter of 2016, for approximately $30.8 million, of which $17.5 million will be received in 2019.

In July 2016, Kaplan International Holdings Limited (KIHL) entered into an agreement with University of York International Pathway College LLP (York International College) to loan York International College £25 million over the next 18 months, to construct an academic building in the UK to be used by the College. York International College is a limited liability partnership joint venture between Kaplan York Limited (a subsidiary of Kaplan International Colleges UK Limited) and a subsidiary of the University of York, that operates a pathways college. The loan will be repayable over 25 years at an interest rate of 7%, and the loan is guaranteed by the University of York. While there is no strict requirement to make annual principal and interest payments, interest will be rolled up and accrue interest at 7% if no such payments are made. The loan becomes due and payable if the partnership agreement with KIHL is terminated. In the second half of 2016, KIHL advanced approximately £11.0 million to York International College.

The Company expects to fund its estimated capital needs primarily through existing cash balances and internally generated funds and, to a lesser extent, borrowings under its revolving credit facility. In management's opinion, the Company will have ample liquidity to meet its various cash needs in 2017.

The following reflects a summary of the Company's contractual obligations as of December 31, 2016:

(in thousands)	2017	2018	2019	2020	2021	Thereafter	Total
Debt and interest	$ 36,899	$ 36,777	$423,523	$ 73,779	$ 33	$ 134	$ 571,145
Operating leases	87,626	84,525	73,899	65,592	50,416	146,857	508,915
Programming purchase commitments(1)	8,607	5,091	1,254	922	192	303	16,369
Other purchase obligations(2)	48,777	22,356	14,101	5,799	4,101	150	95,284
Long-term liabilities(3)	4,881	4,626	4,481	4,503	4,427	29,613	52,531
Total	$186,790	$153,375	$517,258	$150,595	$59,169	$177,057	$1,244,244

(1) Includes commitments for the Company's television broadcasting business that are reflected in the Company's Consolidated Financial Statements and commitments to purchase programming to be produced in future years.

(2) Includes purchase obligations related to employment agreements, capital projects and other legally binding commitments. Other purchase orders made in the ordinary course of business are excluded from the table above. Any amounts for which the Company is liable under purchase orders are reflected in the Company's Consolidated Balance Sheets as accounts payable and accrued liabilities.

(3) Primarily made up of postretirement benefit obligations other than pensions. The Company has other long-term liabilities excluded from the table above, including obligations for deferred compensation, long-term incentive plans and long-term deferred revenue.

The table above does not include the Company's commitment to loan an additional £14.0 to York International College.

Other. The Company does not have any off-balance-sheet arrangements or financing activities with special-purpose entities (SPEs).

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and judgments that affect the amounts reported in the financial statements. On an ongoing basis, the Company evaluates its estimates and assumptions. The Company bases its estimates on historical experience and other assumptions believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

An accounting policy is considered to be critical if it is important to the Company's financial condition and results and if it requires management's most difficult, subjective and complex judgments in its application. For a summary of all of the Company's significant accounting policies, see Note 2 to the Company's Consolidated Financial Statements.

Revenue Recognition, Trade Accounts Receivable and Allowance for Doubtful Accounts. Education tuition revenue is recognized ratably over the period of instruction as services are delivered to students, net of any refunds, corporate discounts, scholarships and employee tuition discounts.

At KTP and Kaplan International, estimates of average student course length are developed for each course, along with estimates for the anticipated level of student drops and refunds from test performance guarantees, and these estimates are evaluated on an ongoing basis and adjusted as necessary. As Kaplan's businesses and related course offerings have changed, including more online programs, the complexity and significance of management's estimates have increased.

KHE, through the Kaplan Commitment program, provides first-time undergraduate students with a risk-free trial period. Under the program, KHE monitors academic progress and conducts assessments to help determine whether students are likely to be successful in their chosen course of study. Students who withdraw or are subject to dismissal during the risk-free trial period do not incur any significant financial obligation. The Company does not recognize revenues related to coursework until the students complete the risk-free period and decide to continue with their studies, at which time the fees become fixed or determinable.

The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company acts as a principal or an agent in the transaction. In certain cases, the Company is considered the agent, and the Company records revenue equal to the net amount retained when the fee is earned. In these cases, costs incurred with third-party suppliers are excluded from the Company's revenue. The Company assesses whether it or the third-party supplier is the primary obligor and evaluates the terms of its customer arrangements as part of this assessment. In addition, the Company considers other key indicators such as latitude in establishing price, inventory risk, nature of services performed, discretion in supplier selection and credit risk.

Accounts receivable have been reduced by an allowance for amounts that may be uncollectible in the future. This estimated allowance is based primarily on the aging category, historical collection experience and management's evaluation of the financial condition of the customer. The Company generally considers an account past due or delinquent when a student or customer misses a scheduled payment. The Company writes off accounts receivable balances deemed uncollectible against the allowance for doubtful accounts following the passage of a certain period of time, or generally when the account is turned over for collection to an outside collection agency.

Goodwill and Other Intangible Assets. The Company has a significant amount of goodwill and indefinite-lived intangible assets that are reviewed at least annually for possible impairment.

	As of December 31	
(in millions)	**2016**	**2015**
Goodwill and indefinite-lived intangible assets	**$1,189.0**	$1,039.4
Total assets	**$4,432.7**	$4,352.8
Percentage of goodwill and indefinite-lived intangible assets to total assets	**27%**	24%

The Company performs its annual goodwill and intangible assets impairment test as of November 30. Goodwill and other intangible assets are reviewed for possible impairment between annual tests if an event occurred or circumstances changed that would more likely than not reduce the fair value of the reporting unit or other intangible assets below its carrying value.

Goodwill

The Company tests its goodwill at the reporting unit level, which is an operating segment or one level below an operating segment. The Company initially performs an assessment of qualitative factors to determine if it is necessary to perform the two-step goodwill impairment test. The Company tests goodwill for impairment using the two-step process if, based on its assessment of the qualitative factors, it determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if it decides to bypass the qualitative assessment. The first step of the goodwill impairment test compares the estimated fair value of a reporting unit with its carrying amount, including goodwill. This step is performed to identify potential impairment, which occurs when the carrying amount of the reporting unit exceeds its estimated fair value. The second step of the goodwill impairment test is only performed when there is a potential impairment and is performed to measure the amount of impairment loss at the reporting unit. During the second step, the Company allocates the estimated fair value of the reporting unit to all of the assets and liabilities of the unit (including any unrecognized intangible assets). The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The amount of the goodwill impairment is the difference between the carrying value of the reporting unit's goodwill and the implied fair value determined during the second step.

The Company had 13 reporting units as of December 31, 2016. The reporting units with significant goodwill balances as of December 31, 2016, were as follows, representing 83% of the total goodwill of the Company:

(in millions)	Goodwill
Education	
Higher education	$141.1
Test preparation	63.8
Kaplan international	555.2
Television broadcasting	168.3
Total	$928.4

As of November 30, 2016, in connection with the Company's annual impairment testing, the Company decided to perform the two-step goodwill impairment process at all of the reporting units. The Company's policy requires the performance of a quantitative impairment review of the goodwill at least once every three years. The Company used a discounted cash flow model, and, where appropriate, a market value approach was also utilized to supplement the discounted cash flow model to determine the estimated fair value of its reporting units. The Company made estimates and assumptions regarding future cash flows, discount rates, long-term growth rates and market values to determine each reporting unit's estimated fair value. The methodology used to estimate the fair value of the Company's reporting units on November 30, 2016, was consistent with the one used during the 2015 annual goodwill impairment test.

The Company made changes to certain of its assumptions utilized in the discounted cash flow models for 2016 compared with the prior year to take into account changes in the economic environment, regulations and their impact on the Company's businesses. The key assumptions used by the Company were as follows:

- Expected cash flows underlying the Company's business plans for the periods 2017 through 2021 were used. The expected cash flows took into account historical growth rates, the effect of the changed economic outlook at some of the Company's businesses, industry challenges and an estimate for the possible impact of any applicable regulations. Expected cash flows also reflected the anticipated savings from restructuring plans at certain of the education division's reporting units, and other initiatives.
- Cash flows beyond 2021 were projected to grow at a long-term growth rate, which the Company estimated between 1% and 3% for each reporting unit.
- The Company used a discount rate of 9.5% to 20.0% to risk adjust the cash flow projections in determining the estimated fair value.

The fair value of each of the reporting units exceeded its respective carrying value as of November 30, 2016.

In 2015, the Company reported a goodwill impairment charge of $248.6 million at the KHE reporting unit. The remaining goodwill balance at the KHE reporting unit as of December 31, 2016 totaled $141.1 million. The estimated fair value of the KHE reporting unit exceeded its carrying value by a margin in excess of 25%. The estimated fair value of the Company's other reporting units with significant goodwill balances exceeded their respective carrying values by a margin in excess of 25%. It is possible that impairment charges could occur in the future, given changes in market conditions and the inherent variability in projecting future operating performance.

The estimated fair value of two reporting units included in the Other Businesses category with total goodwill balances less than $70.0 million exceeded their respective carrying values by close margins. There exists a reasonable possibility that a decrease in the assumed projected cash flows or long-term growth rate, or an increase in the discount rate assumption used in the discounted cash flow models of these reporting units, could result in an impairment charge.

Indefinite-Lived Intangible Assets

The Company initially assesses qualitative factors to determine if it is more likely than not that the fair value of its indefinite-lived intangible assets is less than its carrying value. The Company compares the fair value of the indefinite-lived intangible asset with its carrying value if the qualitative factors indicate it is more likely than not that the fair value of the asset is less than its carrying value or if it decides to bypass the qualitative assessment. The Company records an impairment loss if the carrying value of the indefinite-lived intangible assets exceeds the fair value of the assets for the difference in the values. The Company uses a discounted cash flow model, and, in certain cases, a market value approach is also utilized to supplement the discounted cash flow model to determine the estimated fair value of the indefinite-lived intangible assets. The Company makes estimates and assumptions regarding future cash flows, discount rates, long-term growth rates and other market values to determine the estimated fair value of the indefinite-lived intangible assets. The Company's policy requires the performance of a quantitative impairment review of the indefinite-lived intangible assets at least once every three years.

The Company's intangible assets with an indefinite life are principally from trade names, licensure and accreditation. The fair value of each indefinite-lived intangible asset exceeded its respective carrying value as of November 30, 2016. There is always a possibility that impairment charges could occur in the future, given the inherent variability in projecting future operating performance.

Pension Costs. The Company sponsors a defined benefit pension plan for eligible employees in the U.S. Excluding curtailment gain, settlement gain and special termination benefits, the Company's net pension credit including amounts for discontinued operations was $49.1 million, $63.3 million and $69.4 million for 2016, 2015 and 2014, respectively. The Company's pension benefit obligation and related credits are actuarially determined and are impacted significantly by the Company's assumptions related to future events, including the discount rate, expected return on plan assets and rate of compensation increases. The Company evaluates these critical assumptions at least annually and, periodically, evaluates other assumptions involving demographic factors, such as retirement age, mortality and turnover, and updates them to reflect its experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors.

The Company assumed a 6.5% expected return on plan assets for year 2016, which is consistent with the expected return assumption for years 2015 and 2014. The Company's actual (loss) return on plan assets was (2.0)% in 2016, (6.2)% in 2015 and 7.4% in 2014. The 10-year and 20-year actual returns on plan assets on an annual basis were 7.5% and 9.7%, respectively.

Accumulated and projected benefit obligations are measured as the present value of future cash payments. The Company discounts those cash payments using the weighted average of market-observed yields for high-quality fixed-income securities with maturities that correspond to the payment of benefits. Lower discount rates increase present values and generally increase subsequent-year pension costs; higher discount rates decrease present values and decrease subsequent-year pension costs. The Company's discount rate at December 31, 2016, 2015 and 2014, was 4.1%, 4.3% and 4.0%, respectively, reflecting market interest rates.

Changes in key assumptions for the Company's pension plan would have had the following effects on the 2016 pension credit, excluding settlement gain and special termination benefits:

- Expected return on assets – A 1% increase or decrease to the Company's assumed expected return on plan assets would have increased or decreased the pension credit by approximately $18.7 million.
- Discount rate – A 1% decrease to the Company's assumed discount rate would have increased the pension credit by approximately $4.3 million. A 1% increase to the Company's assumed discount rate would have increased the pension credit by approximately $10.0 million.

The Company's net pension credit includes an expected return on plan assets component, calculated using the expected return on plan assets assumption applied to a market-related value of plan assets. The market-related value of plan assets is determined using a five-year average market value method, which recognizes realized and unrealized appreciation and depreciation in market values over a five-year period. The value resulting from applying this method is adjusted, if necessary, such that it cannot be less than 80% or more than 120% of the market value of plan assets as of the relevant measurement date. As a result, year-to-year increases or decreases in the market-related value of plan assets impact the return on plan assets component of pension credit for the year.

At the end of each year, differences between the actual return on plan assets and the expected return on plan assets are combined with other differences in actual versus expected experience to form a net unamortized actuarial gain or loss in accumulated other comprehensive income. Only those net actuarial gains or losses in excess of the deferred realized and unrealized appreciation and depreciation are potentially subject to amortization.

The types of items that generate actuarial gains and losses that may be subject to amortization in net periodic pension (credit) cost include the following:

- Asset returns that are more or less than the expected return on plan assets for the year;
- Actual participant demographic experience different from assumed (retirements, terminations and deaths during the year);
- Actual salary increases different from assumed; and
- Any changes in assumptions that are made to better reflect anticipated experience of the plan or to reflect current market conditions on the measurement date (discount rate, longevity increases, changes in expected participant behavior and expected return on plan assets).

Amortization of the unrecognized actuarial gain or loss is included as a component of pension credit for a year if the magnitude of the net unamortized gain or loss in accumulated other comprehensive income exceeds 10% of the greater of the benefit obligation or the market-related value of assets (10% corridor). The amortization component is equal to that excess divided by the average remaining service period of active employees expected to receive benefits under the plan. At the end of 2013, the Company had net unamortized actuarial gains in accumulated other comprehensive income potentially subject to amortization that were outside the 10% corridor that resulted in amortized gains of $28.9 million being included in the pension credit for 2014.

During 2014, there was a decrease in the discount rate offset by pension asset gains that resulted in no net unamortized actuarial gains or losses in accumulated other comprehensive income subject to amortization outside the 10% corridor, and therefore, no amortized gain or loss amounts were included in the pension credit in the first six months of 2015. As a result of the Cable ONE spin-off and KHE Campuses sale, the Company remeasured the accumulated and projected benefit obligation as of July 1, 2015 and September 3, 2015, respectively, and recorded a curtailment gain. During the first six months of 2015, there were pension asset gains and an increase in the discount rate, which resulted in net unamortized actuarial gains in accumulated other comprehensive income subject to amortization outside the corridor, and therefore, an amortized gain of $11.9 million is included in the pension credit for the last six months of 2015. During the last four months of 2015, there were significant pension asset losses that resulted in no net unamortized actuarial gains or losses in accumulated other comprehensive income subject to amortization outside the 10% corridor, and therefore, no amortized gain or loss amounts were included in the pension credit for 2016.

During 2016, there was a decrease in the discount rate and pension asset losses; however, the Company currently estimates that there will be net unamortized gains in accumulated other comprehensive income subject to amortization outside the corridor, and therefore, an amortized gain amount of $5.2 million is included in the estimated pension credit for 2017.

Overall, the Company estimates that it will record a net pension credit of approximately $59 million in 2017, which incorporates a reduction in the assumed rate of return assumption to 6.25%.

Note 14 to the Company's Consolidated Financial Statements provides additional details surrounding pension costs and related assumptions.

Income Tax Valuation Allowances. Deferred income taxes arise from temporary differences between the tax and financial statement recognition of assets and liabilities. In evaluating its ability to recover deferred tax assets within the jurisdiction from which they arise, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. These assumptions require significant judgment about forecasts of future taxable income.

As of December 31, 2016, the Company had state income tax net operating loss carryforwards of $455.6 million, which will expire at various dates from 2017 through 2035. Also at December 31, 2016, the Company had $69.3 million of non-U.S. income tax loss carryforwards, of which $60.3 million may be carried forward indefinitely; $4.8 million of losses that, if unutilized, will expire in varying amounts through 2021; and $4.2 million of losses that, if unutilized, will start to expire after 2021. At December 31, 2016, the Company has established approximately $41.3 million in valuation allowances against deferred state tax assets, net of U.S. Federal income taxes, and non-U.S. deferred tax assets, as the Company believes that it is more likely than not that the benefit from certain state and non-U.S. net operating loss carryforwards and other deferred tax assets will not be realized. The Company has established valuation allowances against state income tax benefits recognized, without considering potentially offsetting deferred tax liabilities established with respect to prepaid pension cost and goodwill. Prepaid pension cost and goodwill have not been considered a source of future taxable income for realizing deferred tax benefits recognized since these temporary differences are not likely to reverse in the foreseeable future. The valuation allowances established against state and non-U.S. income tax benefits recorded may increase or decrease within the next 12 months, based on operating results, the market value of investment holdings or business and tax planning strategies; as a result, the Company is unable to estimate the potential tax impact, given the uncertain operating and market environment. The Company will be monitoring future operating results and projected future operating results on a quarterly basis to determine whether the valuation allowances provided against state and non-U.S. deferred tax assets should be increased or decreased, as future circumstances warrant.

Recent Accounting Pronouncements. See Note 2 to the Company's Consolidated Financial Statements for a discussion of recent accounting pronouncements.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Graham Holdings Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Management has concluded that, as of December 31, 2016, the Company's internal control over financial reporting was effective based on these criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2016, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Shareholders of Graham Holdings Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, cash flows and changes in common stockholders' equity present fairly in all material respects, the financial position of Graham Holdings Company and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, the Company has changed the manner in which it presents restricted cash in the statement of cash flows in 2016.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
February 24, 2017

GRAHAM HOLDINGS COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)	Year Ended December 31 2016	2015	2014
Operating Revenues			
Education	**$1,598,347**	$1,927,405	$2,160,417
Advertising	**311,078**	279,924	308,214
Other	**572,465**	378,785	268,401
	2,481,890	2,586,114	2,737,032
Operating Costs and Expenses			
Operating	**1,180,945**	1,206,153	1,261,753
Selling, general and administrative	**904,517**	1,104,163	1,132,157
Depreciation of property, plant and equipment	**64,620**	77,906	74,913
Amortization of intangible assets	**26,671**	19,017	18,187
Impairment of goodwill and other long-lived assets	**1,603**	259,700	17,302
	2,178,356	2,666,939	2,504,312
Income (Loss) from Operations	**303,534**	(80,825)	232,720
Equity in (losses) earnings of affiliates, net	**(7,937)**	(697)	100,370
Interest income	**3,093**	1,909	2,136
Interest expense	**(35,390)**	(32,654)	(35,533)
Other (expense) income, net	**(12,642)**	(8,623)	778,010
Income (Loss) from Continuing Operations Before Income Taxes	**250,658**	(120,890)	1,077,703
Provision for Income Taxes	**81,200**	20,500	312,300
Income (Loss) from Continuing Operations	**169,458**	(141,390)	765,403
Income from Discontinued Operations, Net of Tax	**–**	42,170	527,857
Net Income (Loss)	**169,458**	(99,220)	1,293,260
Net (Income) Loss Attributable to Noncontrolling Interests	**(868)**	(1,435)	583
Net Income (Loss) Attributable to Graham Holdings Company	**168,590**	(100,655)	1,293,843
Redeemable Preferred Stock Dividends	**–**	(631)	(847)
Net Income (Loss) Attributable to Graham Holdings Company Common Stockholders	**$ 168,590**	$ (101,286)	$1,292,996
Amounts Attributable to Graham Holdings Company Common Stockholders			
Income (loss) from continuing operations	**$ 168,590**	$ (143,456)	$ 765,139
Income from discontinued operations, net of tax	**–**	42,170	527,857
Net income (loss) attributable to Graham Holdings Company common stockholders	**$ 168,590**	$ (101,286)	$1,292,996
Per Share Information Attributable to Graham Holdings Company Common Stockholders			
Basic income (loss) per common share from continuing operations	**$ 29.95**	$ (25.23)	$ 115.88
Basic income per common share from discontinued operations	**–**	7.36	79.93
Basic net income (loss) per common share	**$ 29.95**	$ (17.87)	$ 195.81
Basic average number of common shares outstanding	**5,559**	5,727	6,470
Diluted income (loss) per common share from continuing operations	**$ 29.80**	$ (25.23)	$ 115.40
Diluted income per common share from discontinued operations	**–**	7.36	79.63
Diluted net income (loss) per common share	**$ 29.80**	$ (17.87)	$ 195.03
Diluted average number of common shares outstanding	**5,589**	5,727	6,559

See accompanying Notes to Consolidated Financial Statements.

GRAHAM HOLDINGS COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Year Ended December 31 2016	2015	2014
Net Income (Loss)	**$ 169,458**	$ (99,220)	$1,293,260
Other Comprehensive Loss, Before Tax			
Foreign currency translation adjustments:			
Translation adjustments arising during the year	**(22,149)**	(18,898)	(16,061)
Adjustment for sales of businesses with foreign operations	**–**	5,501	(404)
	(22,149)	(13,397)	(16,465)
Unrealized gains on available-for-sale securities:			
Unrealized gains for the year	**55,507**	10,620	62,719
Reclassification adjustment for realization of loss (gain) on exchange, sale or write-down of available-for-sale securities included in net income	**1,879**	(4)	(265,274)
	57,386	10,616	(202,555)
Pension and other postretirement plans:			
Actuarial loss	**(133,915)**	(211,054)	(149,482)
Prior service cost	**–**	–	(1,600)
Amortization of net actuarial loss (gain) included in net income	**1,157**	(9,906)	(29,412)
Amortization of net prior service cost (credit) included in net income	**419**	275	(407)
Curtailments and settlements included in net income	**(17,993)**	51	8
Curtailments and settlements included in distribution to Cable ONE	**–**	834	–
	(150,332)	(219,800)	(180,893)
Cash flow hedge (loss) gain	**(334)**	179	867
Other Comprehensive Loss, Before Tax	**(115,429)**	(222,402)	(399,046)
Income tax benefit related to items of other comprehensive loss	**37,235**	83,602	153,032
Other Comprehensive Loss, Net of Tax	**(78,194)**	(138,800)	(246,014)
Comprehensive Income (Loss)	**91,264**	(238,020)	1,047,246
Comprehensive (income) loss attributable to noncontrolling interests	**(868)**	(1,435)	583
Total Comprehensive Income (Loss) Attributable to Graham Holdings Company	**$ 90,396**	$(239,455)	$1,047,829

See accompanying Notes to Consolidated Financial Statements.

GRAHAM HOLDINGS COMPANY
CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	As of December 31 2016	2015
Assets		
Current Assets		
Cash and cash equivalents	**$ 648,885**	$ 754,207
Restricted cash	**21,931**	20,745
Investments in marketable equity securities and other investments	**448,241**	379,445
Accounts receivable, net	**615,101**	572,435
Income taxes receivable	**41,635**	48,383
Inventories and contracts in progress	**34,818**	32,068
Other current assets	**60,735**	53,439
Total Current Assets	**1,871,346**	1,860,722
Property, Plant and Equipment, Net	**233,664**	231,123
Investments in Affiliates	**58,806**	59,229
Goodwill, Net	**1,122,954**	1,017,513
Indefinite-Lived Intangible Assets, Net	**66,026**	21,885
Amortized Intangible Assets, Net	**107,939**	107,191
Prepaid Pension Cost	**881,593**	979,970
Deferred Income Taxes	**17,246**	–
Deferred Charges and Other Assets	**73,096**	75,192
Total Assets	**$ 4,432,670**	$ 4,352,825
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 500,726**	$ 428,014
Deferred revenue	**312,107**	297,135
Current portion of long-term debt	**6,128**	–
Total Current Liabilities	**818,961**	725,149
Postretirement Benefits Other Than Pensions	**21,859**	33,947
Accrued Compensation and Related Benefits	**195,910**	203,280
Other Liabilities	**65,554**	70,678
Deferred Income Taxes	**379,092**	403,316
Mandatorily Redeemable Noncontrolling Interest	**12,584**	–
Long-Term Debt	**485,719**	399,800
Total Liabilities	**1,979,679**	1,836,170
Commitments and Contingencies (Notes 17 and 18)		
Redeemable Noncontrolling Interests	**50**	25,957
Preferred Stock, $1 par value; 977,000 shares authorized, none issued	**–**	–
Common Stockholders' Equity		
Common stock		
Class A Common stock, $1 par value; 7,000,000 shares authorized; 964,001 shares issued and outstanding	**964**	964
Class B Common stock, $1 par value; 40,000,000 shares authorized; 19,035,999 shares issued; 4,612,435 and 4,839,853 shares outstanding	**19,036**	19,036
Capital in excess of par value	**364,363**	356,887
Retained earnings	**5,588,942**	5,447,677
Accumulated other comprehensive income, net of taxes		
Cumulative foreign currency translation adjustment	**(26,998)**	(4,849)
Unrealized gain on available-for-sale securities	**92,931**	58,500
Unrealized gain on pensions and other postretirement plans	**170,830**	261,029
Cash flow hedge	**(277)**	–
Cost of 14,423,564 and 14,196,146 shares of Class B common stock held in treasury	**(3,756,850)**	(3,648,546)
Total Equity	**2,452,941**	2,490,698
Total Liabilities and Equity	**$ 4,432,670**	$ 4,352,825

See accompanying Notes to Consolidated Financial Statements.

GRAHAM HOLDINGS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Year Ended December 31 2016	2015	2014
Cash Flows from Operating Activities			
Net Income (Loss)	**$ 169,458**	$ (99,220)	$1,293,260
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and goodwill and other long-lived asset impairment	**92,894**	428,437	249,457
Net pension benefit	**(67,097)**	(65,433)	(69,406)
Early retirement and special separation benefit program expense	**–**	4,606	8,374
Stock-based compensation expense, net	**13,418**	48,033	17,577
Foreign exchange loss	**39,890**	15,564	11,129
Net (gain) loss on sales and disposition of businesses	**(22,163)**	18,095	(351,133)
Net loss (gain) on dispositions, sales or write-downs of marketable equity securities and cost method investments	**30,449**	1,378	(263,595)
Gain on sale of an equity affiliate	**–**	(4,827)	(396,553)
Equity in losses (earnings) of affiliates, net of distributions	**8,859**	1,118	(96,517)
Provision for deferred income taxes	**10,070**	4,060	49,143
Net (gain) loss on sales or write-downs of property, plant and equipment	**(32,362)**	(18,265)	(119,399)
Net gain on sale of intangible assets	**–**	–	(75,249)
Change in operating assets and liabilities:			
Accounts receivable, net	**(47,892)**	(87,165)	(96,844)
Inventories	**(2,422)**	(1,778)	(2,413)
Accounts payable and accrued liabilities	**58,147**	62,901	(39,199)
Deferred revenue	**16,552**	(51,825)	37,291
Income taxes receivable/payable	**5,115**	(174,326)	146,692
Other assets and other liabilities, net	**(12,265)**	(11,972)	8,791
Other	**605**	1,270	2,093
Net Cash Provided by Operating Activities	**261,256**	70,651	313,499
Cash Flows from Investing Activities			
Investments in certain businesses, net of cash acquired	**(245,084)**	(159,320)	(206,035)
Purchases of property, plant and equipment	**(66,612)**	(136,859)	(237,292)
Net proceeds from sales of businesses, property, plant and equipment and other assets	**69,192**	41,683	644,342
Purchases of marketable equity securities	**(48,265)**	(145,807)	(49,998)
Investments in equity affiliates and cost method investments	**(6,273)**	(25,340)	(10,283)
Investments in commercial paper	**–**	–	(249,795)
Proceeds from maturities of commercial paper	**–**	–	249,795
Net distribution from equity affiliate	**–**	–	93,481
Disbursement of loan to affiliate	**(14,244)**	–	–
Other	**–**	73	(5,200)
Net Cash (Used in) Provided by Investing Activities	**(311,286)**	(425,570)	229,015
Cash Flows from Financing Activities			
Common shares repurchased, including the Berkshire Exchange transaction	**(108,948)**	(22,979)	(327,718)
Issuance of borrowings	**98,610**	550,000	–
Cash distributed to Cable ONE in spin-off	**–**	(94,115)	–
Dividends paid	**(27,325)**	(53,721)	(68,114)
Purchase of noncontrolling interest	**(21,000)**	–	–
Repayments of borrowings	**–**	(44,815)	(1,538)
Proceeds from exercise of stock options	**1,247**	15,312	7,462
Excess tax benefit on share-based payment awards	**558**	11,828	1,901
Redemption of redeemable preferred stock	**–**	(10,510)	–
Payments of financing costs	**(648)**	(9,944)	–
Other	**14,429**	1,095	(609)
Net Cash (Used in) Provided by Financing Activities	**(43,077)**	342,151	(388,616)
Effect of Currency Exchange Rate Change	**(11,029)**	(11,164)	(8,502)
Net (Decrease) Increase in Cash and Cash Equivalents and Restricted Cash	**(104,136)**	(23,932)	145,396
Cash and Cash Equivalents and Restricted Cash at Beginning of Year	**774,952**	798,884	653,488
Cash and Cash Equivalents and Restricted Cash at End of Year	**$ 670,816**	$ 774,952	$ 798,884
Supplemental Cash Flow Information			
Cash paid during the year for:			
Income taxes	**$ 65,000**	$ 209,000	$ 188,000
Interest	**$ 30,000**	$ 33,000	$ 35,000

See accompanying Notes to Consolidated Financial Statements.

GRAHAM HOLDINGS COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS' EQUITY

(in thousands)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interest	Total Equity	Redeemable Noncontrolling Interest
As of December 31, 2013	$1,169	$18,831	$288,129	$4,782,777	$ 699,494	$(2,490,333)	$ 221	$ 3,300,288	$ 5,896
Net income for the year				1,293,260				1,293,260	
Acquisition of redeemable noncontrolling interest								–	17,108
Net income attributable to noncontrolling interests				(497)			497	–	
Net loss attributable to redeemable noncontrolling interests				1,080				1,080	(1,080)
Distribution to noncontrolling interests							(242)	(242)	
Dividends paid on common stock				(67,267)				(67,267)	
Dividends paid on redeemable preferred stock				(847)				(847)	
Repurchase of Class B common stock						(1,165,427)		(1,165,427)	
Issuance of Class B common stock, net of restricted stock award forfeitures			(3,186)			10,284		7,098	
Amortization of unearned stock compensation and stock option expense			18,291					18,291	
Other comprehensive loss, net of income taxes					(246,014)			(246,014)	
Conversion of Class A common stock to Class B common stock	(194)	194						–	
Taxes arising from employee stock plans			555					555	
Other								–	(20)
As of December 31, 2014	975	19,025	303,789	6,008,506	453,480	(3,645,476)	476	3,140,775	21,904
Net loss for the year				(99,220)				(99,220)	
Contribution of noncontrolling interest to a joint venture							(476)	(476)	
Net income attributable to redeemable noncontrolling interests				(1,435)				(1,435)	1,435
Change in redemption value of redeemable noncontrolling interests			(2,601)					(2,601)	2,601
Dividends paid on common stock				(53,090)				(53,090)	
Dividends paid on redeemable preferred stock				(631)				(631)	
Repurchase of Class B common stock						(22,979)		(22,979)	
Issuance of Class B common stock, net of restricted stock award forfeitures			(13,244)			19,909		6,665	
Amortization of unearned stock compensation and stock option expense			57,115					57,115	
Other comprehensive loss, net of income taxes					(139,658)			(139,658)	
Conversion of Class A common stock to Class B common stock	(11)	11						–	
Spin-Off of Cable ONE			7,285	(406,453)	858			(398,310)	
Taxes arising from employee stock plans			4,543					4,543	
Other								–	17
As of December 31, 2015	964	19,036	356,887	5,447,677	314,680	(3,648,546)	–	2,490,698	25,957
Net income for the year				**169,458**				**169,458**	
Net income attributable to redeemable noncontrolling interests				**(868)**				**(868)**	**868**
Change in redemption value of redeemable noncontrolling interests			**(3,026)**					**(3,026)**	**3,026**
Dividends paid on common stock				**(27,325)**				**(27,325)**	
Repurchase of Class B common stock						**(108,948)**		**(108,948)**	
Issuance of Class B common stock, net of restricted stock award forfeitures			**(697)**			**644**		**(53)**	
Amortization of unearned stock compensation and stock option expense			**14,717**					**14,717**	
Other comprehensive loss, net of income taxes					**(78,194)**			**(78,194)**	
Taxes arising from employee stock plans			**558**					**558**	
Purchase of redeemable noncontrolling interest								**–**	**(24,031)**
Exchange of redeemable noncontrolling interest			**(4,076)**					**(4,076)**	**(5,770)**
As of December 31, 2016	**$ 964**	**$19,036**	**$364,363**	**$5,588,942**	**$ 236,486**	**$(3,756,850)**	**$ –**	**$ 2,452,941**	**$ 50**

See accompanying Notes to Consolidated Financial Statements.

GRAHAM HOLDINGS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS

Graham Holdings Company (the Company), is a diversified education and media company. The Company's Kaplan subsidiary provides a wide variety of educational services, both domestically and outside the United States. The Company's media operations comprise the ownership and operation of five television broadcasting stations.

Education – Kaplan, Inc. provides an extensive range of educational services for students and professionals. Kaplan's various businesses comprise three categories: Higher Education (KHE), Test Preparation (KTP) and Kaplan International.

Media – The Company's diversified media operations comprise television broadcasting, several websites and print publications, and a marketing solutions provider.

Television broadcasting. As of December 31, 2016, the Company owned five VHF television stations located in Houston, TX; Detroit, MI; Orlando, FL; San Antonio, TX; and Jacksonville, FL. Other than the Company's Jacksonville station, WJXT, the Company's television stations are affiliated with one of the major national networks.

On January 17, 2017, Graham Media Group (GMG), a subsidiary of the Company, acquired WCWJ, the CW affiliate television station in Jacksonville, FL, and WSLS, the NBC affiliate television station in Roanoke, VA. Both stations will continue to operate under their previous network affiliations.

Other – The Company's other business operations include home health and hospice services and manufacturing.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation. The accompanying Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States and include the assets, liabilities, results of operations and cash flows of the Company and its majority-owned and controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications. Certain amounts in previously issued financial statements have been reclassified to conform with the 2016 presentation.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the amounts reported in the financial statements. Management bases its estimates and assumptions on historical experience and on various other factors that are believed to be reasonable under the circumstances. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be affected by changes in those estimates. On an ongoing basis, the Company evaluates its estimates and assumptions.

Business Combinations. The purchase price of an acquisition is allocated to the assets acquired, including intangible assets, and liabilities assumed, based on their respective fair values at the acquisition date. Acquisition-related costs are expensed as incurred. The excess of the cost of an acquired entity over the net of the amounts assigned to the assets acquired and liabilities assumed is recognized as goodwill. The net assets and results of operations of an acquired entity are included in the Company's Consolidated Financial Statements from the acquisition date.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand, short-term investments with original maturities of three months or less and investments in money market funds with weighted average maturities of three months or less.

Restricted Cash. Restricted cash represents amounts held for students that were received from U.S. Federal and state governments under various aid grant and loan programs, such as Title IV of the U.S. Federal Higher Education Act of 1965 (Higher Education Act), as amended, that the Company is required to maintain pursuant to U.S. Department of Education (ED) and other regulations. Federal regulations stipulate that the Company has a fiduciary responsibility to segregate Federal funds from all other funds to ensure the funds are only used for the benefit of eligible students. The regulations further indicate that funds received under Federal aid programs are held in trust for the intended student beneficiary and the ED, and as trustee of these funds, the Company may not use the funds for any other purpose until the funds are applied to eligible student charges, which occurs within three days of the receipt of the funds. Restricted cash also includes (i) certain funds that the Company may be required to return if a student who receives Title IV program funds withdraws from a program and (ii) funds required to be held by non-U.S. higher education institutions for prepaid tuition.

Concentration of Credit Risk. Cash and cash equivalents are maintained with several financial institutions domestically and internationally. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions with investment-grade credit ratings. The Company routinely assesses the financial strength of significant customers, and this assessment, combined with the large number and geographical diversity of its customers, limits the Company's concentration of risk with respect to trade accounts receivable.

Allowance for Doubtful Accounts. Accounts receivable have been reduced by an allowance for amounts that may be uncollectible in the future. This estimated allowance is based primarily on the aging category, historical collection experience and management's evaluation of the financial condition of the customer. The Company generally considers an account past due or delinquent when a student or customer misses a scheduled payment. The Company writes off accounts receivable balances deemed uncollectible against the allowance for doubtful accounts following the passage of a certain period of time, or generally when the account is turned over for collection to an outside collection agency.

Investments in Marketable Equity Securities. The Company's investments in marketable equity securities are classified as available-for-sale and, therefore, are recorded at fair value in the Consolidated Financial Statements, with the change in fair value during the period excluded from earnings and recorded net of income taxes as a separate component of other comprehensive income. If the fair value of a marketable equity security declines below its cost basis and the decline is considered other than temporary, the Company will record a write-down, which is included in earnings. The Company uses the average cost method to determine the basis of the securities sold or reclassified out of other comprehensive income.

Fair Value Measurements. Fair value measurements are determined based on the assumptions that a market participant would use in pricing an asset or liability based on a three-tiered hierarchy that draws a distinction between market participant assumptions based on (i) observable inputs, such as quoted prices in active markets (Level 1); (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2); and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3). Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measure. The Company's assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

For assets that are measured using quoted prices in active markets, the total fair value is the published market price per unit multiplied by the number of units held, without consideration of transaction costs. Assets and liabilities that are measured using significant other observable inputs are primarily valued by reference to quoted prices of similar assets or liabilities in active markets, adjusted for any terms specific to that asset or liability.

The Company measures certain assets – including goodwill; intangible assets; property, plant and equipment; cost and equity-method investments – at fair value on a nonrecurring basis when they are deemed to be impaired. The fair value of these assets is determined with valuation techniques using the best information available and may include quoted market prices, market comparables and discounted cash flow models.

Fair Value of Financial Instruments. The carrying amounts reported in the Company's Consolidated Financial Statements for cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, the current portion of deferred revenue and the current portion of debt approximate fair value because of the short-term nature of these financial instruments. The fair value of long-term debt is determined based on a number of observable inputs, including the current market activity of the Company's publicly traded notes, trends in investor demands and market values of comparable publicly traded debt. The fair value of the interest rate hedge is determined based on a number of observable inputs, including time to maturity and market interest rates.

Inventories and Contracts in Progress. Inventories and contracts in progress are stated at the lower of cost or net realizable values and are based on the first-in, first-out (FIFO) method. Inventory costs include direct material, direct and indirect labor, and applicable manufacturing overhead. The Company allocates manufacturing overhead based on normal production capacity and recognizes unabsorbed manufacturing costs in earnings. The provision for excess and obsolete inventory is based on management's evaluation of inventories on hand relative to historical usage, estimated future usage and technological developments.

Property, Plant and Equipment. Property, plant and equipment is recorded at cost and includes interest capitalized in connection with major long-term construction projects. Replacements and major improvements are capitalized; maintenance and repairs are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the property, plant and equipment: 3 to 20 years for machinery and equipment; 20 to 50 years for buildings. The costs of leasehold improvements are amortized over the lesser of their useful lives or the terms of the respective leases.

Evaluation of Long-Lived Assets. The recoverability of long-lived assets and finite-lived intangible assets is assessed whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. A long-lived asset is considered to not be recoverable when the undiscounted estimated future cash flows are less than the asset's recorded value. An impairment charge is measured based on estimated fair market value, determined primarily using estimated future cash flows on a discounted basis. Losses on long-lived assets to be disposed of are determined in a similar manner, but the fair market value would be reduced for estimated costs to dispose.

Goodwill and Other Intangible Assets. Goodwill is the excess of purchase price over the fair value of identified net assets of businesses acquired. The Company's intangible assets with an indefinite life are principally from trade names and trademarks, licenses and accreditation. Amortized intangible assets are primarily student and customer relationships and trade names and trademarks, with amortization periods up to 10 years.

The Company reviews goodwill and indefinite-lived intangible assets at least annually, as of November 30, for possible impairment. Goodwill and indefinite-lived intangible assets are reviewed for possible impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit or indefinite-lived intangible asset below its carrying value. The Company tests its goodwill at the reporting unit level, which is an operating segment or one level below an operating segment. The Company initially assesses qualitative factors to determine if it is necessary to perform the two-step goodwill impairment review or indefinite-lived intangible asset quantitative impairment review. The Company reviews the goodwill for impairment using the two-step process and the indefinite-lived intangible assets using the quantitative process if, based on its assessment of the qualitative factors, it determines that it is more likely than not that the fair value of a reporting unit or indefinite-lived intangible asset is less than its carrying value, or if it decides to bypass the qualitative assessment. The Company reviews the carrying value of goodwill and indefinite-lived intangible assets utilizing a discounted cash flow model, and, where appropriate, a market value approach is also utilized to supplement the discounted cash flow model. The Company makes assumptions regarding estimated future cash flows, discount rates, long-term growth rates and market values to determine the estimated fair value of each reporting unit and indefinite-lived intangible asset. If these estimates or related assumptions change in the future, the Company may be required to record impairment charges.

Investments in Affiliates. The Company uses the equity method of accounting for its investments in and earnings or losses of affiliates that it does not control, but over which it exerts significant influence. The Company considers whether the fair values of any of its equity method investments have declined below their carrying values whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If the Company considered any such decline to be other than temporary (based on various factors, including historical financial results, product development activities and the overall health of the affiliate's industry), a write-down would be recorded to estimated fair value.

Cost Method Investments. The Company uses the cost method of accounting for its minority investments in nonpublic companies where it does not have significant influence over the operations and management of the investee. Investments are recorded at the lower of cost or fair value as estimated by management. Charges recorded to write down cost method investments to their estimated fair value and gross realized gains or losses upon the sale of cost method investments are included in other (expense) income, net, in the Company's Consolidated Statements of Operations. Fair value estimates are based on a review of the investees' product development activities, historical financial results and projected discounted cash flows. The Company includes cost method investments in deferred charges and other assets in the Company's Consolidated Balance Sheets.

Revenue Recognition. Revenue is recognized when persuasive evidence of an arrangement exists, the fees are fixed or determinable, the product or service has been delivered and collectability is reasonably assured. The Company considers the terms of each arrangement to determine the appropriate accounting treatment.

Education revenues. Tuition revenue is recognized ratably over the period of instruction as services are delivered to students, net of any refunds, corporate discounts, scholarships and employee tuition discounts. At KTP and International divisions, estimates of average student course length are developed for each course, and these estimates are evaluated on an ongoing basis and adjusted as necessary. Online access revenue is recognized ratably over the period of access. Course material revenue is recognized over the same period as the tuition or online access, if related, or when the products are delivered, if not related. Other revenues, such as student support services, are recognized when the services are provided.

KHE, through the Kaplan Commitment program, provides first-time undergraduate students with a risk-free trial period. Under the program, KHE monitors academic progress and conducts assessments to help determine whether students are likely to be successful in their chosen course of study. Students who withdraw or are subject to dismissal during the risk-free trial period do not incur any significant financial obligation. The Company does not recognize revenues related to coursework until the students complete the risk-free period and decide to continue with their studies, at which time the fees become fixed or determinable.

KHE's refund policy may permit students who do not complete a course to be eligible for a refund for the portion of the course they did not attend. The amount of the refund differs by school, program and state, as some states require different policies. Refunds generally result in a reduction in deferred revenue during the period that a student drops or withdraws from a class because the associated tuition revenue is recognized daily over the period of instruction as the services are delivered.

Television broadcasting revenues. Advertising revenues are recognized, net of agency commissions, when the underlying advertisement is broadcast. Retransmission revenues are recognized over the term of the agreement based on monthly subscriber counts and contractual rates.

Revenue presentation. The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company acts as a principal or an agent in the transaction. In certain cases, the Company is considered the agent, and the Company records revenue equal to the net amount retained when the fee is earned. In these cases, costs incurred with third-party suppliers are excluded from the Company's revenue. The Company assesses whether it or the third-party supplier is the primary obligor and evaluates the terms of its customer arrangements as part of this assessment. In addition, the Company considers other key indicators such as latitude in establishing price, inventory risk, nature of services performed, discretion in supplier selection and credit risk.

SocialCode LLC (SocialCode), a wholly owned subsidiary, is a marketing and insights company that manages digital advertising for leading brands on digital media platforms like Facebook, Twitter, Instagram, Snapchat, Pinterest and YouTube. Donald E. Graham, the Chairman of the Company's Board, was a member of the Board of Directors of Facebook, Inc. in 2014 and through June 10, 2015. SocialCode's revenues are reported on a net basis; therefore, the Company's Statements of Operations exclude the media acquisition costs incurred related to the relevant advertising platforms.

Deferred revenue. Amounts received from customers in advance of revenue recognition are deferred as liabilities. Deferred revenue to be earned after one year is included in other noncurrent liabilities in the Company's Consolidated Balance Sheets.

Leases. The Company leases substantially all of its educational facilities and enters into various other lease agreements in conducting its business. At the inception of each lease, the Company evaluates the lease agreement to determine whether the lease is an operating or capital lease. Additionally, many of the Company's lease agreements contain renewal options, tenant improvement allowances, rent holidays and/or rent escalation clauses. When such items are included in a lease agreement, the Company records a deferred rent asset or liability in the Consolidated Financial Statements and records these items in rent expense evenly over the terms of the lease.

The Company is also required to make additional payments under operating lease terms for taxes, insurance and other operating expenses incurred during the operating lease period; such items are expensed as incurred. Rental deposits are included as other assets in the Company's Consolidated Balance Sheets for lease agreements that require payments in advance or deposits held for security that are refundable, less any damages, at the end of the respective lease.

Pensions and Other Postretirement Benefits. The Company maintains various pension and incentive savings plans. Most of the Company's employees are covered by these plans. The Company also provides health care and life insurance benefits to certain retired employees. These employees become eligible for benefits after meeting age and service requirements.

The Company recognizes the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its Consolidated Balance Sheets and recognizes changes in that funded status in the year in which the changes occur through comprehensive income. The Company measures changes in the funded status of its plans using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate, the expected return on plan assets and rate of compensation increase. The Company uses a measurement date of December 31 for its pension and other postretirement benefit plans.

Self-Insurance. The Company uses a combination of insurance and self-insurance for a number of risks, including claims related to employee health care and dental care, disability benefits, workers' compensation, general liability, property damage and business interruption. Liabilities associated with these plans are estimated based on, among other things, the Company's historical claims experience, severity factors and other actuarial assumptions. The expected loss accruals are based on estimates, and, while the Company believes that the amounts accrued are adequate, the ultimate loss may differ from the amounts provided.

Income Taxes. The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records net deferred tax assets to the extent that it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations; this evaluation is made on an ongoing basis. In the event the Company were to determine that it was able to realize net deferred income tax assets in the future in excess of their net recorded amount, the Company would record an adjustment to the valuation allowance, which would reduce the provision for income taxes.

The Company recognizes a tax benefit from an uncertain tax position when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The Company records a liability for the difference between the benefit recognized and measured for financial statement purposes and the tax position taken or expected to be taken on the Company's tax return. Changes in the estimate are recorded in the period in which such determination is made.

Foreign Currency Translation. Income and expense accounts of the Company's non-United States operations where the local currency is the functional currency are translated into United States (U.S.) dollars using the current rate method, whereby operating results are converted at the average rate of exchange for the period, and assets and liabilities are converted at the closing rates on the period end date. Gains and losses on translation of these accounts are accumulated and reported as a separate component of equity and other comprehensive income. Gains and losses on foreign currency transactions, including foreign currency denominated intercompany loans on entities with a functional currency in U.S. dollars, are recognized in the Consolidated Statements of Operations.

Equity-Based Compensation. The Company measures compensation expense for awards settled in shares based on the grant date fair value of the award. The Company measures compensation expense for awards settled in cash, or that may be settled in cash, based on the fair value at each reporting date. The Company recognizes the expense over the requisite service period, which is generally the vesting period of the award.

Earnings Per Share. Basic earnings per share is calculated under the two-class method. The Company treats restricted stock as a participating security due to its nonforfeitable right to dividends. Under the two-class method, the Company allocates to the participating securities their portion of dividends declared and undistributed earnings to the extent the participating securities may share in the earnings as if all earnings for the period had been distributed. Basic earnings per share is calculated by dividing the income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated similarly except that the weighted average number of common shares outstanding during the period includes the dilutive effect of the assumed exercise of options and restricted stock issuable under the Company's stock plans. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per share by application of the treasury stock method.

Mandatorily Redeemable Noncontrolling Interest. The Company's mandatorily redeemable noncontrolling interest represents the noncontrolling interest in Graham Healthcare Group (GHG) which is 90% owned. The minority shareholders have an option to put their shares to the Company starting in 2020 and are required to put a percentage of their shares in 2022 and 2024, with the remaining shares required to be put by the minority shareholders in 2026. Since the noncontrolling interest is mandatorily redeemable by the Company by 2026, it is reported as a noncurrent liability at December 31, 2016, in the Consolidated Balance Sheets. The Company presents this liability at fair value, which is computed annually as the current redemption value. Changes in the redemption value are recorded as interest expense or income in the Company's Consolidated Statements of Operations.

Comprehensive Income. Comprehensive income consists of net income, foreign currency translation adjustments, the change in unrealized gains (losses) on investments in marketable equity securities, net changes in cash flow hedge and pension and other postretirement plan adjustments.

Discontinued Operations. A disposal of a component is reported as discontinued operations if the disposal represents a strategic shift that has or will have a major effect on the Company's operations and financial results. The results of discontinued operations (as well as the gain or loss on the disposal) are aggregated and separately presented in the Company's Consolidated Statements of Operations, net of income taxes.

Recently Adopted and Issued Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board (FASB) issued comprehensive new guidance that supersedes all existing revenue recognition guidance. In August 2015, the FASB issued an amendment to the guidance that defers the effective date by one year. The new guidance requires revenue to be recognized when the Company transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The new guidance also significantly expands the disclosure requirements for revenue recognition. The guidance is effective for interim and fiscal years beginning after December 15, 2017. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016. The standard permits two implementation approaches, one requiring retrospective application of the new guidance with a restatement of prior years and one requiring prospective application of the new guidance with disclosure of results under the old guidance. The Company is in the process of evaluating the impact of this new guidance on its Consolidated Financial Statements and believes such evaluation will extend over several future periods because of the significance of the changes to the Company's policies and business processes.

In August 2014, the FASB issued new guidance that requires management to assess the Company's ability to continue as a going concern and to provide related disclosures in certain circumstances. This guidance is effective for interim and fiscal years ending after December 15, 2016. The Company adopted the guidance as of December 31, 2016. The guidance did not have an impact on its Consolidated Financial Statements.

In April 2015, the FASB issued new guidance that simplifies the presentation of debt issuance costs. The new guidance requires that debt issuance costs be reported in the balance sheet as a direct deduction from the gross amount of debt instead of classified as a deferred asset. The guidance is effective for interim and fiscal years beginning after December 15, 2015. The Company adopted the new guidance retrospectively as of January 1, 2016. Therefore, prior periods have been adjusted to reflect this guidance which resulted in the reclassification of $0.1 million of unamortized debt issuance costs related to the Company's 7.25% unsecured notes from deferred charges and other assets to long-term debt within its Consolidated Balance Sheet as of December 31, 2015.

In January 2016, the FASB issued new guidance that substantially revises the recognition, measurement and presentation of financial assets and financial liabilities. The new guidance, among other things, requires (i) equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, with some exceptions; (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (iii) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (iv) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and

(v) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The guidance is effective for interim and fiscal years beginning after December 15, 2017. Early adoption is not permitted. The Company is in the process of evaluating the impact of this new guidance on its Consolidated Financial Statements.

In February 2016, the FASB issued new guidance that requires, among other things, a lessee to recognize a right-of-use asset representing an entity's right to use the underlying asset for the lease term and a liability for lease payments on its balance sheet, regardless of classification of a lease as operating or financing. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities and account for the lease similar to existing guidance for operating leases today. This new guidance supersedes all prior guidance. The guidance is effective for interim and fiscal years beginning after December 15, 2018. Early adoption is permitted. The standard requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is in the process of evaluating the impact of this new guidance on its Consolidated Financial Statements.

In March 2016, the FASB issued new guidance that simplifies the accounting for stock-based compensation. The new guidance (i) requires all excess tax benefits and tax deficiencies to be recognized in the income statement with the tax effects of vested or exercised awards treated as discrete items. Additionally, excess tax benefits will be recognized regardless of whether the benefit reduces taxes payable in the current period, effectively eliminating the APIC pool; (ii) concludes excess tax benefits should be classified as an operating activity in the statement of cash flows; (iii) requires an entity to make an entity-wide accounting policy election to either estimate a forfeiture rate for awards or account for forfeitures as they occur; (iv) changes the threshold for equity classification for cash settlements of awards for withholding requirements to the maximum statutory tax rate in the applicable jurisdiction; and (v) concludes cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity in the statement of cash flows. The guidance is effective for interim and fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company is in the process of evaluating the impact of this new guidance on its Consolidated Financial Statements.

In November 2016, the FASB issued new guidance that clarifies how restricted cash and restricted cash equivalents should be presented in the statement of cash flows. The guidance requires the cash flow statement to show changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents, which eliminates the presentation of transfers between cash and cash equivalents and restricted cash and cash equivalents. The guidance is effective for interim and fiscal years beginning after December 15, 2017, with early adoption permitted. The Company adopted the new guidance retrospectively as of December 31, 2016. Prior periods have been adjusted to reflect this adoption, as detailed below:

	Year Ended December 31, 2015			Year Ended December 31, 2014		
(in thousands)	**As Previously Reported**	**Adjustment**	**As Adopted**	**As Previously Reported**	**Adjustment**	**As Adopted**
Cash Flows from Operating Activities						
Decrease in Restricted Cash	$ 4,153	(4,153)	$ –	$ 58,871	(58,871)	$ –
Net Cash Provided by Operating Activities	74,804	(4,153)	70,651	372,370	(58,871)	313,499
Net (Decrease) Increase in Cash and Cash Equivalents and Restricted Cash	(19,779)	(4,153)	(23,932)	204,267	(58,871)	145,396
Cash and Cash Equivalents and Restricted Cash at Beginning of Year	773,986	24,898	798,884	569,719	83,769	653,488
Cash and Cash Equivalents and Restricted Cash at End of Year	754,207	20,745	774,952	773,986	24,898	798,884

In January 2017, the FASB issued new guidance which simplifies the subsequent measurement of goodwill. The new guidance eliminates Step 2 from the goodwill impairment test, which required entities to determine the implied fair value of goodwill as of the test date to measure a goodwill impairment charge. Instead, an entity should continue to test goodwill for impairment by comparing the fair value of a reporting unit with its carrying amount (Step 1), and an impairment charge will be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The guidance is effective for interim and fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is in the process of evaluating the impact of this new guidance on its Consolidated Financial Statements.

Other new pronouncements issued but not effective until after December 31, 2016, are not expected to have a material impact on the Company's Consolidated Financial Statements.

3. DISCONTINUED OPERATIONS

Cable ONE Spin-Off. On July 1, 2015 (the Distribution Date), the Company completed the spin-off of Cable ONE as an independent, publicly traded company. The transaction was structured as a tax-free spin-off of Cable ONE to the stockholders of the Company as one share of Cable ONE common stock was distributed for every share of Class A and Class B common stock of Graham Holdings outstanding on the June 15, 2015, record date. Cable ONE is now an independent public company trading on the New York Stock Exchange under the symbol "CABO". After the spin-off, the Company does not beneficially own any shares of Cable ONE common stock.

The results of operations of Cable ONE are included in the Company's Consolidated Statements of Operations as income from discontinued operations, net of tax, for all periods presented.

In order to implement the spin-off, the Company entered into certain agreements with Cable ONE to give effect to the legal and structural separation and to allocate various assets, liabilities and obligations between the Company and Cable ONE. In addition to executing the spin-off in the manner provided in the agreements, Cable ONE distributed $450 million in cash to the Company in June 2015 using the proceeds from their issuance of unsecured notes of $450 million. Also, in connection with the spin-off, the Company modified the terms of 10,830 restricted stock awards in the second quarter of 2015 affecting 21 Cable ONE employees. The modification resulted in the acceleration of the vesting period of 6,324 restricted stock awards and the forfeiture of 4,506 restricted stock awards. The Company recorded incremental stock compensation expense, net of forfeitures, in the second quarter of 2015 amounting to $3.7 million, which is reflected as discontinued operations in the Company's Consolidated Financial Statements.

The spin-off resulted in a modification of some of the Company's outstanding restricted stock awards and stock options due to the equity restructuring on July 1, 2015. The holders of restricted stock awards received Cable ONE restricted common stock, on a pro rata basis, as part of the distribution, while the stock options were modified to add an antidilution provision. The modification of the restricted stock awards resulted in an estimated incremental stock compensation expense of $3.0 million that is being recognized over the remaining service periods of the unvested restricted stock awards through the end of 2018. The modification of some of the stock options resulted in an incremental stock compensation expense of $23.5 million, of which $18.8 million related to fully vested stock options was recognized as a one-time expense in the third quarter of 2015, with the remaining $4.7 million to be recognized over the remaining service periods of the unvested stock options through the end of 2018. The $18.8 million expense is included in the Company's corporate office segment results and in selling, general and administrative in the Company's Consolidated Statements of Operations.

As a result of the spin-off, Cable ONE assumed the liability related to their employees participating in the Company's Supplemental Executive Retirement Plan (SERP), and the Company eliminated the accrual of pension benefits for all Cable ONE employees related to their future service. As a result, the Company remeasured the accumulated and projected benefit obligation of the pension and SERP as of July 1, 2015. A pension curtailment gain of $2.2 million was recorded in the third quarter of 2015 in income from discontinued operations, net of tax.

On July 1, 2015, the Company divested the following assets and liabilities which net to $406.5 million, or $312.3 million net of cash retained by Cable ONE on the Distribution Date:

(in thousands)	As of July 1, 2015
Cash and cash equivalents	$ 94,115
Accounts receivable, net	29,778
Other current assets	14,182
Total current assets	138,075
Property, plant and equipment, net	612,812
Goodwill, net	85,488
Indefinite-lived intangible assets, net	496,321
Amortized intangible assets, net	510
Deferred charges and other assets	22,541
Total Assets	**$1,355,747**
Accounts payable and accrued liabilities	$ 70,920
Income taxes payable	2,962
Deferred revenue	21,883
Short-term borrowings	2,500
Total current liabilities	98,265
Accrued compensation and related benefits	24,227
Other liabilities	57
Deferred income taxes	279,245
Long-term debt	547,500
Total Liabilities	**$ 949,294**
Net assets divested in the Spin-Off	**$ 406,453**

Cash flows from Cable ONE for the years ended December 31, 2015 and 2014 are combined with the cash flows from operations within each of the categories presented. Cash flows from Cable ONE are as follows:

	Year Ended December 31	
(in thousands)	2015	2014
Net Cash Provided by Operating Activities	$109,772	$251,506
Net Cash Used in Investing Activities	(74,416)	(78,405)

Spin-Off Costs: One-time spin-off transaction, financing and related costs of $7.4 million and $3.5 million in 2015 and 2014, respectively, are included in discontinued operations, net of tax.

Other Discontinued Operations. In the third quarter of 2014, Kaplan completed the sale of three of its schools in China that were previously included as part of Kaplan International that resulted in a pre-tax loss of $3.1 million. An additional school in China was sold by Kaplan in January 2015 that resulted in a pre-tax loss of $0.7 million.

On June 30, 2014, the Company and Berkshire Hathaway Inc. (Berkshire) completed a transaction, as described in Note 7, in which Berkshire acquired a wholly owned subsidiary of the Company that included, among other things, WPLG, a Miami-based television station; a $375.0 million gain from the WPLG sale was recorded in the second quarter of 2014.

The results of operations of Cable ONE, the schools in China and WPLG for 2015 and 2014, where applicable, are included in the Company's Consolidated Statements of Operations as income from discontinued operations, net of tax. All corresponding prior period operating results presented in the Company's Consolidated Financial Statements and the accompanying notes have been reclassified to reflect the discontinued operations presented. The Company did not reclassify its Consolidated Statements of Cash Flows to reflect the discontinued operations.

The summarized income from discontinued operations, net of tax, is presented below:

(in thousands)	Year Ended December 31 2015	2014
Operating revenues	$ 397,404	$ 845,114
Operating costs and expenses	(325,379)	(660,180)
Operating income	72,025	184,934
Non-operating (expense) income	(1,288)	74,196
Income from discontinued operations	70,737	259,130
Provision for income taxes	27,783	98,207
Net Income from Discontinued Operations	42,954	160,923
(Loss) gain on dispositions of discontinued operations	(732)	351,133
Provision (benefit) for income taxes on dispositions of discontinued operations	52	(15,801)
Income from Discontinued Operations, Net of Tax	$ 42,170	$ 527,857

4. INVESTMENTS

Commercial Paper and Money Market Investments. As of December 31, 2016 and 2015, the Company had commercial paper and money market investments of $485.1 million and $433.0 million, respectively, that are classified as cash, cash equivalents and restricted cash in the Company's Consolidated Balance Sheets.

Investments in Marketable Equity Securities. Investments in marketable equity securities consist of the following:

(in thousands)	As of December 31 2016	2015
Total cost	**$269,343**	$253,062
Gross unrealized gains	**154,886**	97,741
Gross unrealized losses	**–**	(240)
Total Fair Value	**$424,229**	$350,563

At December 31, 2016, and 2015, the Company owned 28,000 shares in Markel Corporation (Markel) valued at $25.3 million and $24.7 million, respectively. The Co-Chief Executive Officer of Markel, Mr. Thomas S. Gayner, is a member of the Company's Board of Directors.

The Company settled on $48.3 million of marketable equity securities during 2016, of which $47.9 million was purchased during the year. The Company invested in $146.2 million and $50.0 million in marketable equity securities during 2015 and 2014, respectively. During 2016, proceeds from sales of marketable equity securities were $29.7 million, resulting in gross realized losses of $8.1 million and gross realized gains of $6.2 million. During 2014, proceeds from sales of marketable equity securities were $5.8 million and net realized losses on such sales were $2.6 million.

On June 30, 2014, the Company completed a transaction with Berkshire, as described in Note 7, that included the exchange of 2,107 Class A Berkshire shares and 1,278 Class B Berkshire shares owned by the Company; a $266.7 million gain was recorded.

Investments in Affiliates. As of December 31, 2016, the Company held an approximate 20% interest in HomeHero and interests in several other affiliates; Residential Healthcare (Residential) held a 40% interest in Residential Home Health Illinois, a 42.5% interest in Residential Hospice Illinois, and a 40% interest in the joint venture formed between Residential and a Michigan hospital; and Celtic Healthcare (Celtic) held a 40% interest in the joint venture formed between Celtic Healthcare and Allegheny Health Network (AHN) (see Note 7). For the year ended December 31, 2016, the Company recorded $14.9 million in revenue for services provided to the affiliates of Celtic and Residential.

Additionally, Kaplan International Holdings Limited (KIHL) held a 45% interest in a joint venture formed with York University. In July 2016, Kaplan International Holdings Limited (KIHL) entered into an agreement with University of York International Pathway College LLP (York International College) to loan the LLP £25 million over the next eighteen months, to construct an academic building in the UK to be used by the College. York International College is a limited liability partnership joint venture between Kaplan York Limited (a subsidiary of Kaplan International Colleges UK Limited) and a subsidiary of the University of York, that operates a pathways college. The loan will be repayable over 25 years at an interest rate of 7% and the loan is guaranteed by the University of York. While there is no strict requirement to make annual principal and interest payments, interest will be rolled up and accrue interest at 7% if no such payments are made. The loan becomes due and payable if the partnership agreement with Kaplan is terminated. In the second half of 2016, KIHL advanced approximately £11.0 million to York International College.

As a result of the challenging industry operating environment and operating losses, in the fourth quarter of 2016, the Company recorded an $8.4 million write-down on its investment in HomeHero, a company that managed an online senior home care marketplace.

On April 1, 2014, the Company received a gross cash distribution of $95.0 million from Classified Ventures' sale of apartments.com. In connection with this sale, the Company recorded a pre-tax gain of $90.9 million in the second quarter of 2014. On September 30, 2014, the Company held a 16.5% interest in Classified Ventures. On October 1, 2014, the Company and the remaining partners completed the sale of their entire stakes in Classified Ventures. Total proceeds to the Company, net of transaction costs, were $408.5 million, of which $16.5 million was held in escrow until received in the fourth quarter of 2015. The Company recorded a pre-tax gain of $396.6 million in connection with the sale in the fourth quarter of 2014.

5. ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts receivable consist of the following:

(in thousands)	As of December 31 2016	2015
Trade accounts receivable, less doubtful accounts of $26,723 and $27,854	**$591,854**	$553,780
Other receivables	**23,247**	18,655
	$615,101	$572,435

The changes in allowance for doubtful accounts was as follows:

(in thousands)	Balance at Beginning of Period	Additions – Charged to Costs and Expenses	Deductions	Balance at End of Period
2016	**$27,854**	**$29,718**	**$(30,849)**	**$26,723**
2015	$32,598	$39,982	$(44,726)	$27,854
2014	$33,834	$47,356	$(48,592)	$32,598

Accounts payable and accrued liabilities consist of the following:

(in thousands)	As of December 31 2016	As of December 31 2015
Accounts payable and accrued liabilities	**$352,356**	$285,321
Accrued compensation and related benefits	**148,370**	142,693
	$500,726	$428,014

Cash overdrafts of $15.5 million and $1.1 million are included in accounts payable and accrued liabilities at December 31, 2016 and 2015, respectively.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

(in thousands)	As of December 31 2016	As of December 31 2015
Land	**$ 10,410**	$ 10,410
Buildings	**88,256**	83,642
Machinery, equipment and fixtures	**433,652**	438,388
Leasehold improvements	**209,612**	205,018
Construction in progress	**36,728**	13,517
	778,658	750,975
Less accumulated depreciation	**(544,994)**	(519,852)
	$ 233,664	$ 231,123

Depreciation expense was $64.6 million, $77.9 million and $74.9 million in 2016, 2015 and 2014, respectively.

The Company capitalized $0.4 million of interest related to the construction of a building in 2016. No interest expense was capitalized in 2015 and 2014.

In the second quarter of 2015, as a result of the sale of Kaplan's KHE Campuses business, Kaplan recorded a $6.9 million impairment charge. In 2014, as a result of restructuring activities at KHE Campuses, Kaplan recorded an impairment charge of $13.6 million. The Company estimated the fair value of the property, plant and equipment using a market approach.

7. ACQUISITIONS AND DISPOSITIONS OF BUSINESSES

Acquisitions. In May 2016, Graham Media Group entered into an agreement to acquire two television stations for $60 million in cash and the assumption of certain pension obligations. This transaction closed on January 17, 2017.

The Company completed business acquisitions totaling approximately $258.0 million in 2016; $163.3 million in 2015; and $210.2 million in 2014. The assets and liabilities of the companies acquired have been recorded at their estimated fair values at the date of acquisition.

During 2016, the Company acquired five businesses, three businesses included in its education division and two businesses in other businesses. In January 2016, Kaplan acquired a 100% interest in Mander Portman Woodward, a leading provider of high-quality, bespoke education to UK and international students in London, Cambridge and Birmingham, by purchasing all of its issued and outstanding shares. In February 2016, Kaplan acquired a

100% interest in Osborne Books, an educational publisher of learning resources for accounting qualifications in the UK, by purchasing all of its issued and outstanding shares. The primary reason for these acquisitions is based on several strategic benefits expected to be realized in the future. Both of these acquisitions are included in Kaplan International.

In September 2016, Group Dekko, Inc. (Dekko) acquired a 100% interest in Electri-Cable Assemblies (ECA), a Shelton, CT-based manufacturer of power, data and electrical solutions for the office furniture industry, by purchasing all of its issued and outstanding shares. Dekko's primary reasons for the acquisition were to complement existing product offerings and provide opportunities for synergies across the businesses. This acquisition is included in other businesses.

During 2015, the Company acquired two businesses. On November 13, 2015, the Company acquired a 100% interest in Dekko, a Garrett, IN-based manufacturer of electrical solutions for applications across three business lines: workspace power solutions, architectural lighting and electrical components and assemblies, by purchasing all of the issued and outstanding shares. Dekko is included in other businesses. On December 22, 2015, Kaplan acquired a 100% interest in SmartPros, a provider of accredited professional education and training, primarily in accountancy, which is included in Higher Education.

During 2014, the Company acquired nine businesses. On April 1, 2014, Celtic Healthcare acquired a 100% interest in VNA-TIP Healthcare, a provider of home health and hospice services in Missouri and Illinois. On May 30, 2014, the Company completed its acquisition of a 100% interest in Joyce/Dayton Corp., a Dayton, OH-based manufacturer of screw jacks and other linear motion systems. On July 3, 2014, the Company completed its acquisition of an 80% interest in Residential Healthcare Group, Inc., the parent company of Residential Home Health and Residential Hospice, providers of skilled home health care and hospice services in Michigan and Illinois. Residential Healthcare Group, Inc. has a 40% ownership interest in Residential Home Health Illinois and a 42.5% ownership interest in Residential Hospice Illinois, which are accounted for as investments in affiliates. The fair value of the redeemable noncontrolling interest in Residential Healthcare Group, Inc. was $17.1 million at the acquisition date, determined using a market approach. The minority shareholders had an option to put their shares to the Company starting in 2017, and the Company had an option to buy the shares of some minority shareholders in 2020 and those of the remaining minority shareholders in 2024. The operating results of these businesses are included in other businesses. The Company also acquired three small businesses in its education division, one small business in its broadcasting division and two small businesses in other businesses.

Acquisition-related costs for 2016 were $1.5 million and expensed as incurred. Acquisition-related costs were not significant for 2015 and 2014 and were expensed as incurred. The aggregate purchase price of these acquisitions was allocated as follows based on acquisition date fair values to the following assets and liabilities (excluding measurement period adjustments recorded in subsequent years):

	Purchase Price Allocation		
	Year Ended December 31		
(in thousands)	**2016**	**2015**	**2014**
Accounts receivable	**$ 8,538**	$ 30,537	$ 15,912
Other assets	**2,298**	21,806	16,495
Property, plant and equipment	**3,940**	28,872	12,834
Goodwill	**184,118**	76,156	128,919
Indefinite-lived intangible assets	**53,110**	7,400	12,051
Amortized intangible assets	**28,267**	31,900	73,766
Deferred income taxes and other liabilities	**(32,901)**	(36,892)	(36,834)
Redeemable noncontrolling interest	**–**	–	(17,108)
Aggregate purchase price, net of cash received	**$247,370**	$159,779	$206,035

The fair values recorded were based upon valuations. Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The goodwill recorded due to these acquisitions is attributable to the assembled workforces of the acquired companies and expected synergies. The Company expects to deduct $22.2 million and $20.0 million of goodwill for income tax purposes for the acquisitions completed in 2016 and 2015, respectively.

In 2016, the Company recorded adjustments to the deferred taxes included in the preliminary accounting of Dekko and SmartPros acquired in the fourth quarter of 2015. These adjustments resulted in a $20.0 million decrease to goodwill.

The acquired companies were consolidated into the Company's financial statements starting on their respective acquisition dates. The Company's Consolidated Statements of Operations include aggregate revenues and operating income for the companies acquired in 2016 of $47.6 million and $7.2 million, respectively, for 2016. The following unaudited pro forma financial information presents the Company's results as if the current year acquisitions had occurred at the beginning of 2015. The unaudited pro forma information also includes the 2015 acquisitions as if they occurred at the beginning of 2014:

	Year Ended December 31	
(in thousands)	**2016**	**2015**
Operating revenues	**$2,498,753**	$2,804,663
Net income (loss)	**$ 172,738**	$ (84,209)

These pro forma results were based on estimates and assumptions, which the Company believes are reasonable, and include the historical results of operations of the acquired companies and adjustments for depreciation and amortization of identified assets and the effect of pre-acquisition transaction related expenses incurred by the Company and the acquired entities. The pro forma information does not include efficiencies, cost reductions and synergies expected to result from the acquisitions. They are not the results that would have been realized had these entities been part of the Company during the periods presented and are not necessarily indicative of the Company's consolidated results of operations in future periods.

Spin-Off. On July 1, 2015, the Company completed the spin-off of Cable ONE, by way of a distribution of all the issued and outstanding shares of Cable ONE common stock, on a pro rata basis, to the Company's stockholders (see Note 3).

Sale of Businesses. In January 2016, Kaplan completed the sale of Colloquy, which was included in Kaplan Corporate and Other.

On September 3, 2015, Kaplan completed the sale of substantially all of the assets of its KHE Campuses business, consisting of 38 nationally accredited ground campuses and certain related assets, in exchange for a preferred equity interest in a vocational school company. KHE Campuses schools that were closed or were in the process of closing were not included in the sale transaction.

The revenue and operating losses related to schools that were sold as part of the KHE Campuses sale are as follows:

	Year Ended December 31	
(in thousands)	**2015**	**2014**
Revenue	$167,093	$268,895
Operating income (loss)	(6,264)	(7,748)

In the second quarter of 2015, Kaplan also recorded a $6.9 million long-lived assets impairment charge in connection with the KHE Campuses business (this amount is included in the above table).

In the third quarter of 2015, Kaplan sold Franklyn Scholar, which was part of Kaplan International. In the second quarter of 2015, the Company sold The Root, a component of Slate, and Kaplan sold two small businesses, Structuralia, which was part of Kaplan International, and Fire and EMS Training, which was part of Kaplan Higher Education. As a result of these sales, the Company reported net losses in other non-operating (expense) income (see Note 15).

In the third quarter of 2014, Kaplan completed the sale of three of its schools in China that were previously included as part of Kaplan International. In January 2015, Kaplan completed the sale of an additional school in China.

Exchanges. On June 30, 2014, the Company and Berkshire Hathaway Inc. completed a previously announced transaction in which Berkshire acquired a wholly owned subsidiary of the Company that included, among other things, WPLG, a Miami-based television station, 2,107 Class A Berkshire shares and 1,278 Class B Berkshire shares owned by Graham Holdings and $327.7 million in cash, in exchange for 1,620,190 shares of Graham Holdings Class B common stock owned by Berkshire Hathaway (Berkshire exchange transaction). As a result, income from continuing operations for the second quarter of 2014 includes a $266.7 million gain from the sale of the Berkshire Hathaway shares, and income from discontinued operations for the second quarter of 2014 includes a $375.0 million gain from the WPLG exchange.

The pre-tax gain of $266.7 million related to the disposition of the Berkshire shares was not subject to income tax as the Berkshire exchange transaction qualifies as a tax-free distribution.

As discussed above, this exchange transaction includes significant noncash investing and financing activities. On the date of exchange, the fair value of the Berkshire Class A and B shares was $400.3 million, and the fair value of WPLG was determined to be $438.0 million. In total, the Company recorded an increase in treasury stock of $1,165.4 million in the second quarter of 2014 in connection with the Berkshire exchange transaction.

Other. In June 2016, Residential and a Michigan hospital formed a joint venture to provide home health services to patients in western Michigan. In connection with this transaction, Residential contributed its western Michigan home health operations to the joint venture and then sold 60% of the newly formed venture to its Michigan hospital partner. Although Residential manages the operations of the joint venture, Residential holds a 40% interest in the joint venture, so the operating results of the joint venture are not consolidated, and the pro rata operating results are included in the Company’s equity in earnings of affiliates.

In June 2016, the Company purchased the outstanding 20% redeemable noncontrolling interest in Residential. At that time, the Company recorded an increase to redeemable noncontrolling interest of $3.0 million, with a corresponding decrease to capital in excess of par value, to reflect the redemption value of the redeemable noncontrolling interest at $24.0 million. Following this transaction, Celtic and Residential combined their business operations to form Graham Healthcare Group (GHG). The redeemable noncontrolling interest shareholders in Celtic exchanged their 20% interest in Celtic for a 10% mandatorily redeemable noncontrolling interest in the combined entity, and the Company recorded a $4.1 million net increase to the mandatorily redeemable noncontrolling interest to reflect the estimated fair value of the mandatorily redeemable noncontrolling interest. The minority shareholders have an option to put their shares to the Company starting in 2020 and are required to put a percentage of their shares in 2022 and 2024, with the remaining shares required to be put by the minority shareholders in 2026. The redemption value is based on an EBITDA multiple, adjusted for working capital and other items, computed annually, with no limit on the amount payable. The Company now owns 90% of GHG. Because the noncontrolling interest is now mandatorily redeemable by the Company by 2026, it is reported as a noncurrent liability at December 31, 2016.

In January 2015, Celtic and Allegheny Health Network closed on the formation of a joint venture to combine each other’s home health and hospice assets in the western Pennsylvania region. Although Celtic manages the operations of the joint venture, Celtic holds a 40% interest in the joint venture, so the operating results of the joint venture are not consolidated, and the pro rata operating results are included in the Company's equity in earnings of affiliates. Celtic's revenues from the western Pennsylvania region that are now part of the joint venture made up 29% of total Celtic revenues in 2014.

The Company's income from continuing operations excludes Cable ONE, the sold Kaplan China schools and WPLG, which have been reclassified to discontinued operations (see Note 3).

8. GOODWILL AND OTHER INTANGIBLE ASSETS

In the fourth quarter of 2016, as a result of the challenging industry operating environment and operating losses, one of the businesses in the other businesses segment recorded a goodwill impairment charge of $1.6 million.

In the third quarter of 2015, as a result of continued declines in student enrollments at KHE and the challenging industry operating environment, the Company performed an interim impairment review of its goodwill and long-lived assets at the KHE reporting unit. The KHE reporting unit failed the step one goodwill impairment test. As a result of the step two analysis, the Company recorded a $248.6 million goodwill impairment charge. The Company estimated the fair value of the KHE reporting unit utilizing a discounted cash flow model, supported by a market approach. A substantial portion of the impairment charge is due to the amount of unrecognized intangible assets identified in the step two analysis.

In addition, in the fourth quarter of 2015, Kaplan recorded intangible asset impairment charges of $0.9 million related to one of the Kaplan International businesses and $0.5 million related to a KTP business. The fair values of these intangible assets were estimated using an income approach. In November 2015, the Company announced that Trove, a digital innovation team included in other businesses, would largely be integrated into SocialCode and that Trove's existing offerings would be discontinued. In connection with this action, the Company recorded a $2.8 million goodwill impairment charge in the fourth quarter of 2015.

In 2014, as a result of regulatory changes impacting Kaplan's operations in China, Kaplan recorded an intangible asset impairment charge of $7.8 million, reported in discontinued operations. The Company estimated the fair value of the student and customer relationships using an income approach. In addition, Kaplan recorded intangible asset impairment charges of $1.8 million related to a KTP business, $1.1 million related to one of the Kaplan International businesses and $0.7 million related to KHE. The fair value of these intangible assets were estimated using an income approach. One of the businesses in the other businesses segment recorded an intangible asset impairment charge of $0.1 million.

Amortization of intangible assets for the years ended December 31, 2016, 2015 and 2014, was $26.7 million, $19.0 million and $18.2 million, respectively. Amortization of intangible assets is estimated to be approximately $24 million in 2017, $21 million in 2018, $20 million in 2019, $16 million in 2020, $12 million in 2021 and $15 million thereafter.

In July 2014, the cable division sold wireless spectrum licenses that were purchased in 2006; a pre-tax non-operating gain of $75.2 million was recorded in the third quarter of 2014 in connection with these sales. As a result of the Cable ONE spin-off, this gain is now reported in discontinued operations.

The changes in the carrying amount of goodwill, by segment, were as follows:

(in thousands)	Education	Cable	Television Broadcasting	Other Businesses	Total
As of December 31, 2014					
Goodwill	$1,057,226	$ 85,488	$168,345	$145,992	$1,457,051
Accumulated impairment losses	(102,259)	–	–	(6,082)	(108,341)
	954,967	85,488	168,345	139,910	1,348,710
Measurement period adjustment	–	–	–	4,570	4,570
Acquisitions	11,515	–	–	60,071	71,586
Impairment	(248,591)	–	–	(2,810)	(251,401)
Dispositions	(33,502)	(85,488)	–	(7,819)	(126,809)
Foreign currency exchange rate changes	(29,143)	–	–	–	(29,143)
As of December 31, 2015					
Goodwill	1,006,096	–	168,345	202,814	1,377,255
Accumulated impairment losses	(350,850)	–	–	(8,892)	(359,742)
	655,246	–	168,345	193,922	1,017,513
Measurement period adjustment	**(2,781)**	**–**	**–**	**(17,243)**	**(20,024)**
Acquisitions	**161,938**	**–**	**–**	**22,180**	**184,118**
Impairment	**–**	**–**	**–**	**(1,603)**	**(1,603)**
Dispositions	**–**	**–**	**–**	**(2,800)**	**(2,800)**
Foreign currency exchange rate changes	**(54,250)**	**–**	**–**	**–**	**(54,250)**
As of December 31, 2016					
Goodwill	**1,111,003**	**–**	**168,345**	**202,141**	**1,481,489**
Accumulated impairment losses	**(350,850)**	**–**	**–**	**(7,685)**	**(358,535)**
	$ 760,153	**$ –**	**$168,345**	**$194,456**	**$1,122,954**

The changes in carrying amount of goodwill at the Company's education division were as follows:

(in thousands)	Higher Education	Test Preparation	Kaplan International	Total
As of December 31, 2014				
Goodwill	$ 409,884	$ 166,098	$481,244	$1,057,226
Accumulated impairment losses	–	(102,259)	–	(102,259)
	409,884	63,839	481,244	954,967
Acquisitions	11,515	–	–	11,515
Impairment	(248,591)	–	–	(248,591)
Dispositions	(28,738)	–	(4,764)	(33,502)
Foreign currency exchange rate changes	(204)	–	(28,939)	(29,143)
As of December 31, 2015				
Goodwill	392,457	166,098	447,541	1,006,096
Accumulated impairment losses	(248,591)	(102,259)	–	(350,850)
	143,866	63,839	447,541	655,246
Measurement period adjustment	**(2,781)**	**–**	**–**	**(2,781)**
Acquisitions	**–**	**–**	**161,938**	**161,938**
Foreign currency exchange rate changes	**44**	**–**	**(54,294)**	**(54,250)**
As of December 31, 2016				
Goodwill	**389,720**	**166,098**	**555,185**	**1,111,003**
Accumulated impairment losses	**(248,591)**	**(102,259)**	**–**	**(350,850)**
	$ 141,129	**$ 63,839**	**$555,185**	**$ 760,153**

Other intangible assets consist of the following:

(in thousands)	Useful Life Range	As of December 31, 2016 Gross Carrying Amount	As of December 31, 2016 Accumulated Amortization	As of December 31, 2016 Net Carrying Amount	As of December 31, 2015 Gross Carrying Amount	As of December 31, 2015 Accumulated Amortization	As of December 31, 2015 Net Carrying Amount
Amortized Intangible Assets							
Student and customer relationships	**2–10 years**	**$129,616**	**$55,863**	**$ 73,753**	$108,806	$40,280	$ 68,526
Trade names and trademarks	**2–10 years**	**55,240**	**29,670**	**25,570**	53,848	23,941	29,907
Databases and technology	**3–5 years**	**5,601**	**4,368**	**1,233**	4,617	4,114	503
Noncompete agreements	**2–5 years**	**1,730**	**1,404**	**326**	1,381	1,012	369
Other	**1–8 years**	**12,030**	**4,973**	**7,057**	10,095	2,209	7,886
		$204,217	**$96,278**	**$107,939**	$178,747	$71,556	$107,191
Indefinite-Lived Intangible Assets							
Trade names and trademarks		**$ 65,192**			$ 21,051		
Licensure and accreditation		834			834		
		$ 66,026			$ 21,885		

9. INCOME TAXES

Income (loss) from continuing operations before income taxes consists of the following:

(in thousands)	Year Ended December 31 2016	2015	2014
U.S.	**$227,457**	$(142,705)	$1,025,101
Non-U.S.	**23,201**	21,815	52,602
	$250,658	$(120,890)	$1,077,703

The provision for income taxes on income from continuing operations consists of the following:

(in thousands)	Current	Deferred	Total
Year Ended December 31, 2016			
U.S. Federal	**$ 56,342**	**$ 33,959**	**$ 90,301**
State and Local	**6,325**	**(5,164)**	**1,161**
Non-U.S.	**8,463**	**(18,725)**	**(10,262)**
	$ 71,130	**$ 10,070**	**$ 81,200**
Year Ended December 31, 2015			
U.S. Federal	$ 5,728	$ 20,890	$ 26,618
State and Local	402	(10,749)	(10,347)
Non-U.S.	2,441	1,788	4,229
	$ 8,571	$ 11,929	$ 20,500
Year Ended December 31, 2014			
U.S. Federal	$215,450	$ 38,684	$254,134
State and Local	23,737	27,257	50,994
Non-U.S.	10,485	(3,313)	7,172
	$249,672	$ 62,628	$312,300

The provision for income taxes on continuing operations differs from the amount of income tax determined by applying the U.S. Federal statutory rate of 35% to the income (loss) from continuing operations before taxes as a result of the following:

	Year Ended December 31		
(in thousands)	2016	2015	2014
U.S. Federal taxes at statutory rate	**$ 87,731**	$(42,311)	$377,196
State and local taxes, net of U.S. Federal tax	**(2,965)**	(3,441)	38,106
Valuation allowances against state tax benefits, net of U.S. Federal tax	**3,196**	(3,285)	(4,960)
Tax-free stock transactions	**–**	–	(91,540)
Tax provided on non-U.S. subsidiary earnings and distributions	**1,993**	2,688	2,186
Valuation allowances against other non-U.S. income tax benefits	**(12,688)**	431	(2,477)
Goodwill impairments and dispositions	**(5,631)**	63,889	–
U.S. Federal Manufacturing Deduction tax benefits	**(6,012)**	(625)	(6,789)
Write-off of deferred taxes related to intercompany loans	**10,965**	–	–
Other, net	**4,611**	3,154	578
Provision for Income Taxes	**$ 81,200**	$ 20,500	$312,300

During 2016, certain intercompany loans were capitalized and other intercompany loans were designated as long-term investments, resulting in the write-off of $11.0 million in U.S. deferred tax assets. Also, the Company benefited from a favorable $5.6 million out of period deferred tax adjustment related to the KHE goodwill impairment recorded in the third quarter of 2015.

During 2015 and 2014, in addition to the income tax provision for continuing operations presented above, the Company also recorded tax expense or benefits on discontinued operations. Income from discontinued operations and net (loss) gain on dispositions of discontinued operations have been reclassified from previously reported income from operations and reported separately as income from discontinued operations, net of tax. Tax expense of $27.8 million and $82.4 million were recorded in discontinued operations in 2015 and 2014, respectively.

Deferred income taxes consist of the following:

(in thousands)	As of December 31 2016	2015
Accrued postretirement benefits	**$ 9,444**	$ 13,763
Other benefit obligations	**120,792**	108,349
Accounts receivable	**10,780**	12,840
State income tax loss carryforwards	**23,178**	19,550
U.S. Federal income tax loss carryforwards	**6,212**	5,007
U.S. Federal foreign income tax credit carryforwards	**1,921**	1,374
Non-U.S. income tax loss carryforwards	**19,246**	26,921
Non-U.S. capital loss carryforwards	**1,929**	10,055
Other	**44,401**	44,858
Deferred Tax Assets	**237,903**	242,717
Valuation allowances	**(41,319)**	(69,545)
Deferred Tax Assets, Net	**$196,584**	$173,172
Property, plant and equipment	**13,591**	17,465
Prepaid pension cost	**349,878**	386,916
Unrealized gain on available-for-sale securities	**61,964**	39,010
Goodwill and other intangible assets	**132,997**	133,097
Deferred Tax Liabilities	**$558,430**	$576,488
Deferred Income Tax Liabilities, Net	**$361,846**	$403,316

The Company has $455.6 million of state income tax net operating loss carryforwards available to offset future state taxable income. State income tax loss carryforwards, if unutilized, will start to expire approximately as follows:

(in millions)	
2017	$ 7.3
2018	9.3
2019	2.8
2020	18.3
2021	19.6
2022 and after	398.3
Total	**$455.6**

The Company has recorded at December 31, 2016, $23.2 million in deferred state income tax assets, net of U.S. Federal income tax, with respect to these state income tax loss carryforwards. The Company has established $21.0 million in valuation allowances against these deferred state income tax assets, since the Company has determined that it is more likely than not that some state tax losses may not be fully utilized in the future to reduce state taxable income.

The Company has $17.6 million of U.S. Federal income tax loss carryforwards obtained as a result of prior stock acquisitions. U.S. Federal income tax loss carryforwards are expected to be fully utilized as follows:

(in millions)	
2017	$ 4.1
2018	3.6
2019	3.3
2020	3.3
2021	1.1
2022 and after	2.2
Total	**$17.6**

The Company has established at December 31, 2016, $6.2 million in U.S. Federal deferred tax assets with respect to these U.S. Federal income tax loss carryforwards.

For U.S. Federal income tax purposes, the Company has $1.9 million of foreign tax credits available to be credited against future U.S. Federal income tax liabilities. These U.S. Federal foreign tax credits are expected to be fully utilized in the future; if unutilized, $0.7 million of these foreign tax credits will expire in 2024, $0.7 million will expire in 2025, and $0.5 million will expire in 2026. The Company has established at December 31, 2016, $1.9 million of U.S. Federal deferred tax assets with respect to these U.S. Federal foreign tax credit carryforwards.

The Company has $69.3 million of non-U.S. income tax loss carryforwards, as a result of operating losses and carryforwards obtained through prior stock acquisitions that are available to offset future non-U.S. taxable income and has recorded, with respect to these losses, $19.2 million in non-U.S. deferred income tax assets. The Company has established $4.9 million in valuation allowances against the deferred tax assets recorded for the portion of non-U.S. tax losses that may not be fully utilized to reduce future non-U.S. taxable income. The $69.3 million of non-U.S. income tax loss carryforwards consist of $60.3 million in losses that may be carried forward indefinitely; $4.8 million of losses that, if unutilized, will expire in varying amounts through 2021; and $4.2 million of losses that, if unutilized, will start to expire after 2021.

The Company has $6.4 million of non-U.S. capital loss carryfowards that may be carried forward indefinitely and are available to offset future non-U.S. capital gains. The Company recorded a $1.9 million non-U.S. deferred income tax asset and has established a full valuation allowance against this non-U.S. deferred tax asset since the Company has determined that it is more likely than not that the capital loss carryforwards may not be fully utilized to reduce taxable income in the future.

Deferred tax valuation allowances and changes in deferred tax valuation allowances were as follows:

(in thousands)	Balance at Beginning of Period	Tax Expense and Revaluation	Deductions	Balance at End of Period
Year ended				
December 31, 2016	**$69,545**	**$4,709**	**$(32,935)**	**$41,319**
December 31, 2015	$65,521	$4,024	$ –	$69,545
December 31, 2014	$72,767	$ 889	$ (8,135)	$65,521

The Company has established $31.8 million in valuation allowances against deferred state tax assets recognized, net of U.S. Federal tax. As stated above, approximately $21.0 million of the valuation allowances, net of U.S. Federal income tax, relate to state income tax loss carryforwards. The Company has established valuation allowances against deferred state income tax assets, without considering potentially offsetting deferred tax liabilities established with respect to prepaid pension cost and goodwill. Prepaid pension cost and goodwill have not been considered a source of future taxable income for realizing deferred tax assets recognized since these temporary differences are not likely to reverse in the foreseeable future. The valuation allowances established against deferred state income tax assets are recorded at the parent company, the education division and other businesses and may increase or decrease within the next 12 months, based on operating results or the market value of investment holdings. As a result, the Company is unable to estimate the potential tax impact, given the uncertain operating and market environment. The Company will be monitoring future operating results and projected future operating results on a quarterly basis to determine whether the valuation allowances provided against deferred state tax assets should be increased or decreased, as future circumstances warrant.

The Company has established $9.5 million in valuation allowances against non-U.S. deferred tax assets, and, as stated above, $4.9 million of the non-U.S. valuation allowances relate to non-U.S. income tax loss carryforwards and $1.9 million relate to non-U.S. capital loss carryforwards.

Deferred U.S. Federal and state income taxes are recorded with respect to undistributed earnings of investments in non-U.S. subsidiaries to the extent taxable dividend income would be recognized if such earnings were distributed. Deferred income taxes recorded with respect to undistributed earnings of investments in non-U.S. subsidiaries are recorded net of foreign tax credits with respect to such undistributed earnings estimated to be creditable against future U.S. Federal tax liabilities. At December 31, 2016 and 2015, net U.S. Federal and state deferred income tax liabilities of about $23.8 million and $17.5 million, respectively, were recorded with respect to undistributed earnings of investments in non-U.S. subsidiaries based on the year-end position.

Deferred U.S. Federal and state income taxes have not been recorded for the full book value and tax basis differences related to investments in non-U.S. subsidiaries because such investments are expected to be indefinitely held. The book value exceeded the tax basis of investments in non-U.S. subsidiaries by approximately $103.3 million and $71.8 million at December 31, 2016 and 2015, respectively; these differences would result in approximately $0.3 million of net additional U.S. Federal and state deferred tax liabilities, net of foreign tax credits related to undistributed earnings and estimated to be creditable against future U.S. Federal tax liabilities, at December 31, 2016, and would not result in any additional U.S. Federal and state deferred tax liabilities at December 31, 2015. If investments in non-U.S. subsidiaries were held for sale instead of expected to be held indefinitely, additional U.S. Federal and state deferred tax liabilities would be required to be recorded, and such deferred tax liabilities, if recorded, may exceed the above estimates.

The Company does not currently anticipate that within the next 12 months there will be any events requiring the establishment of any valuation allowances against U.S. Federal net deferred tax assets.

In the third quarter of 2016, the Company released $19.3 million of valuation allowance previously recorded on its operations in Australia, as the Company determined that it was more likely than not that the benefit of the net deferred tax assets would be realized, based on improved operating results that have recently generated positive ordinary income. The remaining valuation allowances established against non-U.S. deferred tax assets are recorded at the education division and other businesses. The remaining non-U.S. valuation allowances may increase or decrease within the next 12 months, based on operating results. As a result, the Company is unable to estimate the potential tax impact, given the uncertain operating environment. The Company will be monitoring future education division and other businesses' operating results and projected future operating results on a quarterly basis to determine whether the valuation allowances provided against non-U.S. deferred tax assets should be increased or decreased, as future circumstances warrant.

The Company recorded a $10.5 million U.S. Federal income tax receivable with respect to capital loss carryforwards to the 2013 tax year and is currently under examination by the Internal Revenue Service. The Company files income tax returns with the U.S. Federal government and in various state, local and non-U.S. governmental jurisdictions, with the consolidated U.S. Federal tax return filing considered the only major tax jurisdiction. The statute of limitations has expired on all consolidated U.S. Federal corporate income tax returns filed through 2012, though any carryforward adjustment to the 2013 tax year is still subject to examination.

The Company endeavors to comply with tax laws and regulations where it does business, but cannot guarantee that, if challenged, the Company's interpretation of all relevant tax laws and regulations will prevail and that all tax benefits recorded in the financial statements will ultimately be recognized in full.

The following summarizes the Company's unrecognized tax benefits, excluding interest and penalties, for the respective periods:

(in thousands)	Year Ended December 31 2016	2015	2014
Beginning unrecognized tax benefits	**$17,331**	$19,817	$ –
Increases related to current year tax positions	**–**	–	19,817
Increases related to prior year tax positions	**–**	–	–
Decreases related to prior year tax positions	**–**	(2,486)	–
Decreases related to settlement with tax authorities	**–**	–	–
Decreases due to lapse of applicable statutes of limitations	**–**	–	–
Ending unrecognized tax benefits	**$17,331**	$17,331	$19,817

The unrecognized tax benefits mainly relate to state income tax filing positions applicable to the 2014 tax period. In making these determinations, the Company presumes that taxing authorities pursuing examinations of the Company's compliance with tax law filing requirements will have full knowledge of all relevant information, and, if necessary, the Company will pursue resolution of disputed tax positions by appeals or litigation. Although the Company cannot predict the timing of resolution with tax authorities, the Company estimates that no portion of unrecognized tax benefits will be reduced in the next 12 months due to settlement with the tax authorities. The Company expects that a $5.1 million state tax benefit, net of $1.8 million federal tax expense, will reduce the effective tax rate in the future if recognized.

The Company classifies interest and penalties related to uncertain tax positions as a component of interest and other expenses, respectively. As of December 31, 2016, the Company has accrued $0.7 million of interest related to the unrecognized tax benefits. The Company has not accrued any penalties related to the unrecognized tax benefits.

10. DEBT

The Company's borrowings consist of the following:

(in thousands)	As of December 31 2016	2015
7.25% unsecured notes due February 1, 2019(1)	**$399,052**	$398,596
UK Credit facility(2)	**91,316**	–
Other indebtedness	**1,479**	1,204
Total Debt	**491,847**	399,800
Less: current portion	**(6,128)**	–
Total Long-Term Debt	**$485,719**	$399,800

(1) The carrying value is net of $0.1 million of unamortized debt issuance costs as of December 31, 2016 and 2015, respectively.
(2) The carrying value is net of $0.5 million of unamortized debt issuance costs as of December 31, 2016.

The Company did not borrow funds under its USD revolving credit facility in 2016 or 2015. The Company's other indebtedness at December 31, 2016, is at interest rates of 2% to 6% and matures between 2019 and 2025. The Company's other indebtedness at December 31, 2015, is at an interest rate of 6% and matures in 2019.

On July 14, 2016, Kaplan entered into a credit agreement (the Kaplan Credit Agreement) among Kaplan International Holdings Limited, as borrower, the lenders party thereto, HSBC BANK PLC as Facility Agent, and other agents party thereto. The Kaplan Credit Agreement provides for a four-year credit facility in an aggregate principal amount of £75 million. Borrowings bear interest at a rate per annum of LIBOR plus an applicable interest rate margin between 1.25% and 1.75%, in each case determined on a quarterly basis by reference to a pricing grid based upon the Company's total leverage ratio. The Kaplan Credit Agreement requires that 6.66% of the amount of the loan be repaid on the first three anniversaries of funding, with the remaining balance due on July 1, 2020. The Kaplan Credit Agreement contains terms and conditions, including remedies in the event of a default by the Company, typical of facilities of this type and requires the Company to maintain a leverage ratio of not greater than 3.5 to 1.0 and a consolidated interest coverage ratio of at least 3.5 to 1.0 based upon the ratio of consolidated adjusted EBITDA to consolidated interest expense as determined pursuant to the Kaplan Credit Agreement. As of December 31, 2016, the Company is in compliance with all financial covenants.

On July 25, 2016, Kaplan borrowed £75 million under the Kaplan Credit Agreement. On the same date, Kaplan entered into an interest rate swap agreement with a total notional value of £75 million and a maturity date of July 1, 2020. The interest rate swap agreement will pay Kaplan variable interest on the £75 million notional amount at the three-month LIBOR, and Kaplan will pay the counterparties a fixed rate of 0.51%, effectively resulting in a total fixed interest rate of 2.01% on the outstanding borrowings at the current applicable margin of 1.50%. The interest rate swap agreement was entered into to convert the variable rate British pound borrowing under the Kaplan Credit Agreement into a fixed rate borrowing. The Company provided a guarantee on any borrowings under the Kaplan Credit Agreement. Based on the terms of the interest rate swap agreement and the underlying borrowing, the interest rate swap agreement was determined to be effective and thus qualifies as a cash flow hedge. As such, changes in the fair value of the interest rate swap are recorded in other comprehensive income on the accompanying Condensed Consolidated Balance Sheets until earnings are affected by the variability of cash flows.

In January 2009, the Company issued $400 million in unsecured ten-year fixed-rate notes due February 1, 2019 (the Notes). The Notes have a coupon rate of 7.25% per annum, payable semiannually on February 1 and August 1. Under the terms of the Notes, unless the Company has exercised its right to redeem the Notes, the Company is required to offer to repurchase the Notes in cash at 101% of the principal amount, plus accrued and unpaid interest, upon the occurrence of both a Change of Control and Below Investment Grade Rating Events as described in the Prospectus Supplement of January 27, 2009.

In June 2015, Cable ONE issued $550 million in debt. With the Cable ONE spin-off effective on July 1, 2015, the Cable ONE debt is no longer an obligation of the Company.

On June 17, 2015, the Company terminated its U.S. $450 million, AUD 50 million four-year revolving credit facility dated June 17, 2011. No borrowings were outstanding under the 2011 Credit Agreement at the time of termination. On June 29, 2015, the Company entered into a credit agreement (the Credit Agreement) providing for a U.S. $200 million five-year revolving credit facility (the Facility) with each of the lenders party thereto, Wells Fargo Bank, National Association as Administrative Agent (Wells Fargo), JPMorgan Chase Bank, N.A., as Syndication Agent, and HSBC Bank USA, National Association, as Documentation Agent (the Credit Agreement). The Company is required to pay a commitment fee on a quarterly basis, based on the Company's leverage ratio, of between 0.15% and 0.25% of the amount of the Facility. Any borrowings are made on an unsecured basis and bear interest at the Company's option, either at (a) a fluctuating interest rate equal to the highest of Wells Fargo's prime rate, 0.50 percent above the Federal funds rate or the one-month Eurodollar rate plus 1%, or (b) the Eurodollar rate for the applicable interest period as defined in the Credit Agreement, which is generally a periodic rate equal to LIBOR, in each case plus an applicable margin that depends on the Company's consolidated debt to consolidated adjusted EBITDA (as determined pursuant to the Credit Agreement, "leverage ratio"). The Company may draw on the Facility for general corporate purposes. The Facility will expire on July 1, 2020, unless the Company and the banks agree to extend the term. Any outstanding borrowings must be repaid on or prior to the final termination date. The Credit Agreement contains terms and conditions, including remedies in the event of a default by the Company, typical of facilities of this type and requires the Company to maintain a leverage ratio of not greater than 3.5 to 1.0 and a consolidated interest coverage ratio of at least 3.5 to 1.0 based upon the ratio of consolidated adjusted EBITDA to consolidated interest expense as determined pursuant to the Credit Agreement. As of December 31, 2016, the Company is in compliance with all financial covenants.

On September 7, 2011, the Company borrowed AUD 50 million under its revolving credit facility. On the same date, the Company entered into interest rate swap agreements with a total notional value of AUD 50 million and a maturity date of March 7, 2015. These interest rate swap agreements paid the Company variable interest on the AUD 50 million notional amount at the three-month bank bill rate, and the Company paid the counterparties a fixed rate of 4.5275%. These interest rate swap agreements were entered into to convert the variable rate Australian dollar borrowing under the revolving credit facility into a fixed-rate borrowing. Based on the terms of the interest rate swap agreements and the underlying borrowing, these interest rate swap agreements were determined to be effective and thus qualified as a cash flow hedge. As such, any changes in the fair value of these interest rate swaps were recorded in other comprehensive income on the Consolidated Balance Sheets until earnings were affected by the variability of cash flows. On March 9, 2015, the Company repaid the AUD 50 million borrowed under its revolving credit facility. On the same day, the AUD 50 million interest rate swap agreements matured.

During 2016 and 2015, the Company had average borrowings outstanding of approximately $443.9 million and $428.0 million, respectively, at average annual interest rates of approximately 6.7% and 7.1%, respectively. The Company incurred net interest expense of $32.3 million, $30.7 million and $33.4 million during 2016, 2015 and 2014, respectively. Included in interest expense for the year ended December 31, 2016, is a $2.7 million charge to adjust the fair value of the Company's mandatorily redeemable noncontrolling interest (see Note 7). The fair value of the mandatorily redeemable noncontrolling interest is based on an EBITDA multiple, adjusted for working capital and other items, which approximates fair value (Level 3 fair value assessment).

At December 31, 2016 and 2015, the fair value of the Company's 7.25% unsecured notes, based on quoted market prices (Level 2 fair value assessment), totaled $438.7 million and $436.6 million, respectively, compared with the carrying amount of $399.1 million and $398.6 million. The carrying value of the Company's other unsecured debt at December 31, 2016, approximates fair value.

11. FAIR VALUE MEASUREMENTS

The Company's financial assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	As of December 31, 2016 Level 1	Level 2	Level 3	Total
Assets				
Money market investments(1)	$ –	$435,258	$ –	$435,258
Commercial paper(2)	49,882	–	–	49,882
Marketable equity securities(3)	424,229	–	–	424,229
Other current investments(4)	6,957	17,055	–	24,012
Total Financial Assets	$481,068	$452,313	$ –	$933,381
Liabilities				
Deferred compensation plan liabilities(5)	$ –	$ 46,300	$ –	$ 46,300
Interest rate swap(6)	–	365	–	365
Mandatorily redeemable noncontrolling interest(7)	–	–	12,584	12,584
Total Financial Liabilities	$ –	$ 46,665	$12,584	$ 59,249

(in thousands)	As of December 31, 2015 Level 1	Level 2	Total
Assets			
Money market investments(1)	$ –	$433,040	$433,040
Marketable equity securities(3)	350,563	–	350,563
Other current investments(4)	12,822	16,060	28,882
Total Financial Assets	$363,385	$449,100	$812,485
Liabilities			
Deferred compensation plan liabilities(5)	$ –	$ 48,055	$ 48,055

(1) The Company's money market investments are included in cash, cash equivalents and restricted cash.

(2) The Company's commercial paper investments with original maturities of three months or less are included in cash and cash equivalents.

(3) The Company's investments in marketable equity securities are classified as available-for-sale.

(4) Includes U.S. Government Securities, corporate bonds, mutual funds and time deposits. These investments are valued using a market approach based on the quoted market prices of the security or inputs that include quoted market prices for similar instruments and are classified as either Level 1 or Level 2 in the valuation hierarchy.

(5) Includes Graham Holdings Company's Deferred Compensation Plan and supplemental savings plan benefits under the Graham Holdings Company's Supplemental Executive Retirement Plan, which are included in accrued compensation and related benefits. These plans measure the market value of a participant's balance in a notional investment account that is comprised primarily of mutual funds, which are based on observable market prices. However, since the deferred compensation obligations are not exchanged in an active market, they are classified as Level 2 in the fair value hierarchy. Realized and unrealized gains (losses) on deferred compensation are included in operating income.

(6) Included in Other liabilities. The Company utilized a market approach model using the notional amount of the interest rate swap multiplied by the observable inputs of time to maturity and market interest rates.

(7) The fair value of the mandatorily redeemable noncontrolling interest is based on an EBITDA multiple, adjusted for working capital and other items, which approximates fair value.

For the year ended December 31, 2016, the Company recorded impairment charges totaling $27.0 million to its cost method investment relating to a preferred equity interest in a vocational school company due to a decline in business conditions. The measurement of the preferred equity interest is classified as a Level 3 fair value assessment due to the significance of unobservable inputs developed in the determination of the fair value. The Company used a discounted cash flow model to determine the estimated fair value of the preferred equity interest and made estimates and assumption regarding future cash flows, discount rates, long-term growth rates and market values to determine the estimated fair value.

For the year ended December 31, 2016, the Company recorded goodwill impairment charges of $1.6 million. For the year ended December 31, 2015, the Company recorded goodwill and other long-lived assets impairment charges of $259.7 million. For the year ended December 31, 2014, the Company recorded an intangible and other long-lived assets impairment charge of $25.1 million, of which $7.8 million is reported in discontinued operations (see Notes 2 and 8). The remeasurement of the goodwill and other long-lived assets is classified as a Level 3 fair value assessment due to the significance of unobservable inputs developed in the determination of the fair value. The Company used a discounted cash flow model to determine the estimated fair value of the reporting unit. A market value approach was also utilized to supplement the discounted cash flow model. The Company made estimates and assumptions regarding future cash flows, discount rates, long-term growth rates and market values to determine the reporting unit's estimated fair value.

12. REDEEMABLE PREFERRED STOCK

On October 1, 2015, the Company redeemed its Series A preferred stock with a par value of $1.00 per share and a liquidation preference of $1,000 per share. The 10,510 shares outstanding were redeemed at the redemption price of $1,000 per share for $10.5 million. Prior to redemption, dividends on the Series A preferred stock were payable four times a year at the annual rate of $80.00 per share and in preference to any dividends on the Company's common stock. The Series A preferred stock was not convertible into any other security of the Company, and the holders thereof had no voting rights except with respect to any proposed changes in the preferences and special rights of such stock.

13. CAPITAL STOCK, STOCK AWARDS AND STOCK OPTIONS

Capital Stock. Each share of Class A common stock and Class B common stock participates equally in dividends. The Class B stock has limited voting rights and as a class has the right to elect 30% of the Board of Directors; the Class A stock has unlimited voting rights, including the right to elect a majority of the Board of Directors. In 2015, the Company's Class A shareholders converted 10,822, or 1%, of the Class A shares of the Company to an equal number of Class B shares. The conversions had no impact on the voting rights of the Class A and Class B common stock. There were no conversions in 2016.

During 2016 and 2015, the Company purchased a total of 229,498 and 46,226 shares, respectively, of its Class B common stock at a cost of approximately $108.9 million and $23.0 million, respectively. As part of the exchange transaction with Berkshire in 2014, the Company acquired 1,620,190 shares of its Class B common stock at a cost of approximately $1,165.4 million. On May 14, 2015, the Board of Directors authorized the Company to acquire up to 500,000 shares of its Class B common stock. The Company did not announce a ceiling price or time limit for the purchases. The authorization included 159,219 shares that remained under the previous authorization. At December 31, 2016, the Company had remaining authorization from the Board of Directors to purchase up to 224,276 shares of Class B common stock. Shares acquired as part of the exchange transaction received separate authorization by the Company's Board of Directors.

Stock Awards. In 2012, the Company adopted an incentive compensation plan (the 2012 Plan), which, among other provisions, authorizes the awarding of Class B common stock to key employees in the form of stock awards, stock options and other awards involving the actual transfer of shares. All stock awards, stock options and other awards involving the actual transfer of shares issued subsequent to the adoption of this plan are covered under this incentive compensation plan. Stock awards made under the 2012 Plan are primarily subject to the general restriction that stock awarded to a participant will be forfeited and revert to Company ownership if the participant's employment terminates before the end of a specified period of service to the Company. Some of the awards are also subject to performance conditions and will be forfeited and revert to Company ownership if the conditions are not met. As a result of the Cable ONE spin-off, the number of Class B common stock authorized for issuance under the 2012 Plan was increased from 500,000 shares to 772,588 shares. The individual award limit under the 2012 Plan was also increased from 50,000 shares to 77,258 shares per calendar year. At

December 31, 2016, there were 617,326 shares reserved for issuance under the 2012 incentive compensation plan. Of this number, 171,156 shares were subject to stock awards and stock options outstanding and 446,170 shares were available for future awards.

Activity related to stock awards under the 2012 incentive compensation plan for the year ended December 31, 2016 was as follows:

	Number of Shares	Average Grant-Date Fair Value
Beginning of year, unvested	**81,475**	**$637.70**
Awarded	**1,291**	**872.36**
Vested	**(11,366)**	**565.79**
Forfeited	**(4,175)**	**625.04**
End of Year, Unvested	**67,225**	**655.15**

In connection with the spin-off of Cable ONE, the Company modified the terms of 10,830 restricted stock awards in the second quarter of 2015 affecting 21 Cable ONE employees. The modification resulted in the acceleration of the vesting period of 6,324 restricted stock awards and the forfeiture of 4,506 restricted stock awards. The Company recorded incremental stock compensation expense, net of forfeitures, in the second quarter of 2015 amounting to $3.7 million, which is reflected in discontinued operations in the Company's consolidated financial statements. The spin-off also resulted in a modification of some of the Company's outstanding restricted stock awards. The holders of restricted stock awards received Cable ONE restricted common stock, on a pro rata basis, as part of the distribution. The modification of the restricted stock awards resulted in an estimated incremental stock compensation expense of $3.0 million that is being recognized over the remaining service periods of the unvested restricted stock awards through the end of 2018.

In the fourth quarter of 2015, the Company also modified the terms of an additional 9,800 restricted stock awards affecting one now former employee. The modification resulted in the acceleration of the vesting period of 9,412 restricted stock awards and the forfeiture of 388 restricted stock awards. As a result, the Company recorded incremental stock compensation expense, net of forfeitures, of $6.0 million.

For the share awards outstanding at December 31, 2016, the aforementioned restriction will lapse in 2017 for 28,200 shares, in 2018 for 14,225 shares, in 2019 for 24,550 shares and in 2020 for 250 shares. Also, in early 2017, the Company issued stock awards of 15,150 shares. Stock-based compensation costs resulting from Company stock awards were $11.0 million, $25.3 million and $15.4 million in 2016, 2015 and 2014, respectively.

As of December 31, 2016, there was $11.9 million of total unrecognized compensation expense related to these awards. That cost is expected to be recognized on a straight-line basis over a weighted average period of 0.9 years.

Stock Options. The Company's 2003 employee stock option plan reserves 1,900,000 shares of the Company's Class B common stock for options to be granted under the plan. The purchase price of the shares covered by an option cannot be less than the fair value on the grant date. Options generally vest over four years and have a maximum term of ten years. At December 31, 2016, there were 83,065 shares reserved for issuance under this stock option plan, which were all subject to options outstanding.

Stock options granted under the 2012 Plan cannot be less than the fair value on the grant date, generally vest over four years and have a maximum term of ten years. In 2015 and 2014, grants were issued which vest over six years.

Activity related to options outstanding for the year ended December 31, 2016 was as follows:

	Number of Shares	Average Option Price
Beginning of year	**191,722**	**$552.00**
Granted	**–**	**–**
Exercised	**(4,726)**	**250.29**
Expired or forfeited	**–**	**–**
End of Year	**186,996**	**559.62**

In connection with the spin-off of Cable ONE, the Company modified outstanding stock options to add an antidilution provision. This resulted in an incremental stock compensation expense of $23.5 million, of which $18.8 million related to fully vested stock options was recognized as a one-time expense in the third quarter of 2015, with the remaining $4.7 million to be recognized over the remaining service periods of the unvested stock options through the end of 2018. The $18.8 million expense is included in the Company's corporate office segment results and in selling, general and administrative in the Consolidated Statements of Operations.

Of the shares covered by options outstanding at the end of 2016, 114,872 are now exercisable; 17,000 will become exercisable in 2017; 17,000 will become exercisable in 2018; 17,000 will become exercisable in 2019; 17,000 will become exercisable in 2020; and 4,124 will become exercisable in 2021. For 2016, 2015 and 2014, the Company recorded expense of $2.4 million, $22.9 million and $2.7 million related to stock options, respectively. Information related to stock options outstanding and exercisable at December 31, 2016, is as follows:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Shares Outstanding at 12/31/2016	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares Exercisable at 12/31/2016	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
$244–284	4,648	4.4	$261.18	4,648	4.4	$261.18
325	77,258	4.1	325.26	77,258	4.1	325.26
422	3,090	1.4	421.91	3,090	1.4	421.91
719	77,258	7.8	719.15	25,753	7.8	719.15
805–872	24,742	8.9	866.58	4,123	8.9	866.58
	186,996	6.3	559.62	114,872	5.1	433.00

At December 31, 2016, the intrinsic value for all options outstanding, exercisable and unvested was $15.9 million, $15.9 million and $0.0 million, respectively. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option. The market value of the Company's stock was $511.95 at December 31, 2016. At December 31, 2016, there were 72,124 unvested options related to this plan with an average exercise price of $761.30 and a weighted average remaining contractual term of 8.1 years. At December 31, 2015, there were 89,896 unvested options with an average exercise price of $755.65 and a weighted average remaining contractual term of 9.1 years.

As of December 31, 2016, total unrecognized stock-based compensation expense related to stock options was $8.2 million, which is expected to be recognized on a straight-line basis over a weighted average period of approximately 4.2 years. There were 4,726 options exercised during 2016. The total intrinsic value of options exercised during 2016 was $1.2 million; a tax benefit from these stock option exercises of $0.5 million was realized. There were 40,527 options exercised during 2015. The total intrinsic value of options exercised during 2015 was $19.5 million; a tax benefit from these stock option exercises of $7.8 million was realized. There were

19,125 options exercised during 2014. The total intrinsic value of options exercised during 2014 was $6.7 million; a tax benefit from these option exercises of $2.7 million was realized.

During 2015 and 2014, the Company granted 24,742 and 50,000 (adjusted to 77,258 post Cable ONE spin-off) options at an exercise price above the fair market value of its common stock at the date of grant, respectively. All other options granted during 2015 and 2014 were at an exercise price equal to the fair market value of the Company's common stock at the date of grant. The weighted average grant-date fair value of options granted during 2015 and 2014 was $155.00 and $178.95, respectively. No options were granted during 2016.

The fair value of options at date of grant was estimated using the Black-Scholes method utilizing the following assumptions:

	2015	2014
Expected life (years)	7–8	7–8
Interest rate	1.88%–2.17%	2.15%–2.45%
Volatility	31.59%–32.69%	30.75%–32.10%
Dividend yield	0.81%–1.18%	1.30%–1.54%

The Company also maintains a stock option plan at Kaplan. Under the provisions of this plan, options are issued with an exercise price equal to the estimated fair value of Kaplan's common stock, and options vest ratably over the number of years specified (generally four to five years) at the time of the grant. Upon exercise, an option holder may receive Kaplan shares or cash equal to the difference between the exercise price and the then fair value.

At December 31, 2016, a Kaplan senior manager holds 7,206 Kaplan restricted shares. The fair value of Kaplan's common stock is determined by the Company's compensation committee of the Board of Directors, and in January 2017, the committee set the fair value price at $1,327 per share. During 2015, 2,500 options were awarded to a Kaplan senior manager at a price of $1,180 that would have vested over a four-year period. No options were awarded during 2016 and 2014; no options were exercised during 2016, 2015 or 2014; and due to 2015 forfeitures, there were no options outstanding at December 31, 2016.

Kaplan recorded stock compensation expense of $0.6 million and $0.9 million in 2016 and 2014, respectively, and a credit of $1.8 million in 2015. At December 31, 2016, the Company's accrual balance related to the Kaplan restricted shares totaled $9.6 million. There were no payouts in 2016, 2015 or 2014.

Earnings (Loss) Per Share. The Company's unvested restricted stock awards contain nonforfeitable rights to dividends and, therefore, are considered participating securities for purposes of computing earnings per share pursuant to the two-class method. The diluted earnings per share computed under the two-class method is lower than the diluted earnings per share computed under the treasury stock method, resulting in the presentation of the lower amount in diluted earnings per share. The computation of earnings per share under the two-class method excludes the income attributable to the unvested restricted stock awards from the numerator and excludes the dilutive impact of those underlying shares from the denominator.

The following reflects the Company's income from continuing operations and share data used in the basic and diluted earnings (loss) per share computations using the two-class method:

(in thousands, except per share amounts)	Year Ended December 31		
	2016	**2015**	**2014**
Numerator:			
Numerator for basic earnings (loss) per share:			
Income (loss) from continuing operations attributable to Graham Holdings Company common stockholders	**$168,590**	$(143,456)	$765,139
Less: Dividends paid – common stock outstanding and unvested restricted shares	**(27,325)**	(53,090)	(67,267)
Undistributed earnings (losses)	**141,265**	(196,546)	697,872
Percent allocated to common stockholders[1]	**98.79%**	100.00%	97.98%
	139,562	(196,546)	683,780
Add: Dividends paid – common stock outstanding	**26,962**	52,050	66,012
Numerator for basic earnings (loss) per share	**166,524**	(144,496)	749,792
Add: Additional undistributed earnings due to dilutive stock options	**9**	–	64
Numerator for diluted earnings (loss) per share	**$166,533**	$(144,496)	$749,856
Denominator:			
Denominator for basic earnings (loss) per share:			
Weighted average shares outstanding	**5,559**	5,727	6,470
Add: Effect of dilutive stock options	**30**	–	27
Denominator for diluted earnings (loss) per share	**5,589**	5,727	6,497
Graham Holdings Company Common Stockholders:			
Basic earnings (loss) per share from continuing operations	**$ 29.95**	$ (25.23)	$ 115.88
Diluted earnings (loss) per share from continuing operations	**$ 29.80**	$ (25.23)	$ 115.40

(1) Percent of undistributed losses allocated to common stockholders is 100% in 2015 as participating securities are not contractually obligated to share in losses.

Diluted earnings (loss) per share excludes the following weighted average potential common shares, as the effect would be antidilutive, as computed under the treasury stock method:

(in thousands)	Year Ended December 31		
	2016	**2015**	**2014**
Weighted average restricted stock	**40**	52	62
Weighted average stock options	**–**	39	–

The 2016, 2015 and 2014 diluted earnings (loss) per share amounts exclude the effects of 102,000, 102,000 and 52,000 stock options outstanding, respectively, as their inclusion would have been antidilutive due to a market condition. The 2016, 2015 and 2014 diluted earnings (loss) per share amounts also exclude the effects of 5,450, 6,250 and 5,175 restricted stock awards, respectively, as their inclusion would have been antidilutive due to a performance condition.

In 2016, 2015 and 2014, the Company declared regular dividends totaling $4.84, $9.10 and $10.20 per share, respectively.

14. PENSIONS AND OTHER POSTRETIREMENT PLANS

The Company maintains various pension and incentive savings plans and contributed to multiemployer plans on behalf of certain union-represented employee groups. Most of the Company's employees are covered by these plans. The Company also provides health care and life insurance benefits to certain retired employees. These employees become eligible for benefits after meeting age and service requirements.

The Company uses a measurement date of December 31 for its pension and other postretirement benefit plans.

Cable ONE Spin-Off. On July 1, 2015, as part of the spin-off, Cable ONE assumed the liability related to their employees participating in the Company's SERP. The Company also eliminated the accrual of pension benefits for all Cable ONE employees related to their future service. As a result of the spin-off of Cable ONE, the Company remeasured the accumulated and projected benefit obligation of the pension plan and SERP as of July 1, 2015, and recorded curtailment and settlement gains. The new measurement basis was used for the recognition of the SERP cost recorded in the third quarter of 2015 and the pension benefit recorded for the first two months of the third quarter of 2015. The curtailment gain on the spin-off of Cable ONE is included in income from discontinued operations, net of tax. The settlement gain on the spin-off of Cable ONE is included in the SERP liability distributed to Cable ONE (see Note 3).

KHE Campuses Sale. On September 3, 2015, the Company eliminated the accrual of pension benefits for almost all of the KHE Campuses employees related to their future service. As a result, the Company remeasured the accumulated and projected benefit obligation of the pension plan as of September 3, 2015, and the Company recorded a curtailment gain in the third quarter of 2015. The new measurement basis was used for the recognition of the Company's pension benefit beginning in September 2015. The curtailment gain on the sale of the KHE Campuses is included in the loss on the sale of the KHE Campuses and reported in other (expense) income, net in the Consolidated Statement of Operations.

Defined Benefit Plans. The Company's defined benefit pension plans consist of various pension plans and a SERP offered to certain executives of the Company.

In the fourth quarter of 2016, the Company offered certain terminated participants with a vested pension benefit an opportunity to take their benefits in the form of a lump sum or an annuity. Most of the participants that elected a lump sum benefit under the program were paid in December 2016. Additional lump sum payments are scheduled to be paid in early 2017. The Company recorded an $18.0 million settlement gain related to the bulk lump sum pension program offering.

In the fourth quarter of 2015, the Company recorded $0.9 million related to a Special Incentive Program for certain Corporate employees, which was funded from the assets of the Company's pension plan. In the third quarter of 2015, the Company recorded $3.7 million related to a Special Incentive Program for certain Kaplan employees, which was funded from the assets of the Company's pension plan.

In the first quarter of 2014, the Company recorded $4.5 million related to a Separation Incentive Program for certain Corporate employees, which was funded from the assets of the Company's pension plan. In the third quarter of 2014, the Company recorded $3.9 million related to a Voluntary Retirement Incentive Program (VRIP) for certain Corporate employees, which was funded from the assets of the Company's pension plan. In addition, the Company recorded a $2.4 million SERP charge related to the VRIP for certain Corporate employees.

The following table sets forth obligation, asset and funding information for the Company's defined benefit pension plans:

(in thousands)	Pension Plans As of December 31 2016	2015
Change in Benefit Obligation		
Benefit obligation at beginning of year	**$1,254,298**	$1,317,480
Service cost	**20,461**	26,294
Interest cost	**51,608**	52,613
Amendments	**–**	4,606
Actuarial gain	**(32,203)**	(57,834)
Benefits paid	**(60,076)**	(85,542)
Curtailment	**–**	(3,319)
Settlement	**(73,191)**	–
Benefit Obligation at End of Year	**$1,160,897**	$1,254,298
Change in Plan Assets		
Fair value of assets at beginning of year	**$2,234,268**	$2,469,968
Actual return on plan assets	**(58,511)**	(150,158)
Benefits paid	**(60,076)**	(85,542)
Settlement	**(73,191)**	–
Fair Value of Assets at End of Year	**$2,042,490**	$2,234,268
Funded Status	**$ 881,593**	$ 979,970

(in thousands)	SERP As of December 31 2016	2015
Change in Benefit Obligation		
Benefit obligation at beginning of year	**$ 105,004**	$ 116,083
Service cost	**985**	1,946
Interest cost	**4,384**	4,550
Actuarial loss (gain)	**1,120**	(6,544)
Benefits paid	**(4,967)**	(6,083)
Curtailment	**–**	(4,948)
Benefit Obligation at End of Year	**$ 106,526**	$ 105,004
Change in Plan Assets		
Fair value of assets at beginning of year	**$ –**	$ –
Employer contributions	**4,967**	6,083
Benefits paid	**(4,967)**	(6,083)
Fair Value of Assets at End of Year	**$ –**	$ –
Funded Status	**$(106,526)**	$(105,004)

The accumulated benefit obligation for the Company's pension plans at December 31, 2016 and 2015, was \$1,137.9 million and \$1,219.7 million, respectively. The accumulated benefit obligation for the Company's SERP at December 31, 2016 and 2015, was \$103.0 million and \$102.5 million, respectively. The amounts recognized in the Company's Consolidated Balance Sheets for its defined benefit pension plans are as follows:

	Pension Plans		SERP	
	As of December 31		As of December 31	
(in thousands)	2016	2015	2016	2015
Noncurrent asset	**\$881,593**	\$979,970	**\$ –**	\$ –
Current liability	**–**	–	**(5,580)**	(5,442)
Noncurrent liability	**–**	–	**(100,946)**	(99,562)
Recognized Asset (Liability)	**\$881,593**	\$979,970	**\$(106,526)**	\$(105,004)

Key assumptions utilized for determining the benefit obligation are as follows:

	Pension Plans		SERP	
	As of December 31		As of December 31	
	2016	2015	2016	2015
Discount rate	**4.1%**	4.3%	**4.1%**	4.3%
Rate of compensation increase	**Graded (5.00% – 1.00%)**	4.0%	**Graded (5.00% – 1.00%)**	4.0%

The Company made no contributions to its pension plans in 2016, 2015 and 2014, and the Company does not expect to make any contributions in 2017. The Company made contributions to its SERP of \$5.0 million and \$6.1 million for the years ended December 31, 2016 and 2015, respectively. As the plan is unfunded, the Company makes contributions to the SERP based on actual benefit payments.

At December 31, 2016, future estimated benefit payments, excluding charges for early retirement programs, are as follows:

(in thousands)	Pension Plans	SERP
2017	\$ 68,782	\$ 5,693
2018	\$ 69,704	\$ 5,820
2019	\$ 69,465	\$ 6,232
2020	\$ 69,933	\$ 6,327
2021	\$ 70,122	\$ 6,429
2022 – 2026	\$350,228	\$34,061

The total cost (benefit) arising from the Company's defined benefit pension plans, including the portion included in discontinued operations, consists of the following components:

	Pension Plans		
	Year Ended December 31		
(in thousands)	2016	2015	2014
Service cost	**$ 20,461**	$ 26,294	$ 27,792
Interest cost	**51,608**	52,613	51,825
Expected return on assets	**(121,470)**	(130,571)	(120,472)
Amortization of prior service cost	**297**	320	329
Recognized actuarial gain	**–**	(11,925)	(28,880)
Net Periodic Benefit for the Year	**(49,104)**	(63,269)	(69,406)
Curtailment	**–**	(3,267)	–
Settlement	**(17,993)**	–	–
Early retirement programs and special separation benefit expense	**–**	4,606	8,374
Total Benefit for the Year	**$ (67,097)**	$ (61,930)	$ (61,032)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income			
Current year actuarial loss	**$ 147,779**	$ 222,894	$ 125,866
Amortization of prior service cost	**(297)**	(320)	(329)
Recognized net actuarial gain	**–**	11,925	28,880
Curtailment and settlement	**17,993**	(51)	(368)
Total Recognized in Other Comprehensive Income (Before Tax Effects)	**$ 165,475**	$ 234,448	$ 154,049
Total Recognized in Total Benefit and Other Comprehensive Income (Before Tax Effects)	**$ 98,378**	$ 172,518	$ 93,017

	SERP		
	Year Ended December 31		
(in thousands)	2016	2015	2014
Service cost	**$ 985**	$ 1,946	$ 1,493
Interest cost	**4,384**	4,550	4,397
Amortization of prior service cost	**457**	457	47
Recognized actuarial loss	**2,659**	3,015	1,544
Net Periodic Cost for the Year	**8,485**	9,968	7,481
Special separation benefit expense	**–**	–	2,422
Total Cost for the Year	**$ 8,485**	$ 9,968	$ 9,903
Other Changes in Benefit Obligations Recognized in Other Comprehensive Income			
Current year actuarial loss (gain)	**$ 1,120**	$ (6,544)	$19,168
Current year prior service cost	**–**	–	1,600
Amortization of prior service cost	**(457)**	(457)	(47)
Recognized net actuarial loss	**(2,659)**	(3,015)	(1,544)
Curtailment and settlement	**–**	(834)	–
Total Recognized in Other Comprehensive Income (Before Tax Effects)	**$(1,996)**	$(10,850)	$19,177
Total Recognized in Total Cost and Other Comprehensive Income (Before Tax Effects)	**$ 6,489**	$ (882)	$29,080

The net periodic benefit for the Company's pension plans, as reported above, includes pension cost of $1.9 million and $3.7 million reported in discontinued operations for 2015 and 2014, respectively. The net periodic cost for the Company's SERP, as reported above, includes cost of $0.2 million and $0.5 million reported in discontinued operations for 2015 and 2014, respectively. The curtailment gain of $2.2 million related to the Cable ONE spin-off is also included in discontinued operations for 2015. The curtailment gain of $1.1 million related to the sale of the KHE Campuses business is included in other (expense) income, net.

The costs for the Company's defined benefit pension plans are actuarially determined. Below are the key assumptions utilized to determine periodic cost:

	Pension Plans			SERP		
	Year Ended December 31			Year Ended December 31		
	2016	2015	2014	2016	2015	2014
Discount rate[(1)]	**4.3%**	4.4%/4.0%	4.8%	**4.3%**	4.4%/4.0%	4.8%
Expected return on plan assets	**6.5%**	6.5%	6.5%	**–**	–	–
Rate of compensation increase	**4.0%**	4.0%	4.0%	**4.0%**	4.0%	4.0%

(1) As a result of the spin-off of Cable ONE and the sale of the KHE Campuses business, the Company remeasured the accumulated and projected benefit obligation of the pension plan as of July 1, 2015 and September 3, 2015, respectively. As a result of the spin-off of Cable ONE, the accumulated and projected benefit obligation of the SERP was remeasured as of July 1, 2015. The remeasurement changed the discount rate from 4.0% for the first six months to 4.4% for the second half of 2015.

Accumulated other comprehensive income (AOCI) includes the following components of unrecognized net periodic cost for the defined benefit plans:

	Pension Plans		SERP	
	As of December 31		As of December 31	
(in thousands)	2016	2015	2016	2015
Unrecognized actuarial (gain) loss	**$(285,304)**	$(451,076)	**$ 24,958**	$ 26,497
Unrecognized prior service cost	**365**	662	**775**	1,232
Gross Amount	**(284,939)**	(450,414)	**25,733**	27,729
Deferred tax liability (asset)	**113,976**	180,166	**(10,293)**	(11,091)
Net Amount	**$(170,963)**	$(270,248)	**$ 15,440**	$ 16,638

During 2017, the Company expects to recognize the following amortization components of net periodic cost for the defined benefit plans:

	2017	
(in thousands)	Pension Plans	SERP
Actuarial (gain) loss recognition	$(5,161)	$1,827
Prior service cost recognition	$ 156	$ 457

Defined Benefit Plan Assets. The Company's defined benefit pension obligations are funded by a portfolio made up of a U.S. stock index fund, a relatively small number of stocks and high-quality fixed-income securities that are held by a third-party trustee. The assets of the Company's pension plans were allocated as follows:

	As of December 31	
	2016	2015
U.S. equities	**53%**	62%
U.S. stock index fund	**30%**	–%
U.S. fixed income	**11%**	13%
International equities	**6%**	25%
	100%	100%

Beginning in the second quarter of 2016, the Company started managing approximately 44% of the pension assets internally, of which the majority is invested in a U.S. stock index fund with the remaining investments in Berkshire Hathaway stock and short-term income securities. The remaining 56% of plan assets are still managed by two investment companies. The goal of the investment managers is to produce moderate long-term growth in the value of these assets, while protecting them against large decreases in value. Both investment managers may invest in a combination of equity and fixed-income securities and cash. The managers are not permitted to invest in securities of the Company or in alternative investments. The investment managers cannot invest more than 20% of the assets at the time of purchase in the stock of Berkshire Hathaway or more than 10% of the assets in the securities of any other single issuer, except for obligations of the U.S. Government, without receiving prior approval by the Plan administrator. As of December 31, 2016, the investment managers can invest no more than 23% of the assets they manage in specified international exchanges, at the time the investment is made, and no less than 10% of the assets could be invested in fixed-income securities.

In determining the expected rate of return on plan assets, the Company considers the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. In addition, the Company may consult with and consider the input of financial and other professionals in developing appropriate return benchmarks.

The Company evaluated its defined benefit pension plan asset portfolio for the existence of significant concentrations (defined as greater than 10% of plan assets) of credit risk as of December 31, 2016. Types of concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, type of industry, foreign country and individual fund. At December 31, 2016, the pension plan held investments in one common stock and one U.S. stock index fund that exceeded 10% of total plan assets valued at $978.8 million, or approximately 48% of total plan assets. At December 31, 2015, the pension plan held common stock in two investments that exceeded 10% of total plan assets, valued at $562.6 million, or 25% of total plan assets. At December 31, 2015, the pension plan held investments in one foreign country that exceeded 10% of total plan assets, valued at $332.4 million, or 15% of total plan assets.

The Company's pension plan assets measured at fair value on a recurring basis were as follows:

	As of December 31, 2016			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents and other short-term investments	**$ 61,438**	**$162,010**	**$ –**	**$ 223,448**
Equity securities				
U.S. equities	**1,074,528**	**–**	**–**	**1,074,528**
International equities	**120,735**	**–**	**–**	**120,735**
U.S. stock index fund	**–**	**–**	**622,865**	**622,865**
Total Investments	**$1,256,701**	**$162,010**	**$622,865**	**$2,041,576**
Receivables				**914**
Total				**$2,042,490**

	As of December 31, 2015		
(in thousands)	**Level 1**	**Level 2**	**Total**
Cash equivalents and other short-term investments	$ 256,364	$33,909	$ 290,273
Equity securities			
U.S. equities	1,378,158	–	1,378,158
International equities	564,263	–	564,263
Total Investments	$2,198,785	$33,909	$2,232,694
Receivables			1,574
Total			$2,234,268

Cash equivalents and other short-term investments. These investments are primarily held in U.S. Treasury securities and registered money market funds. These investments are valued using a market approach based on the quoted market prices of the security or inputs that include quoted market prices for similar instruments and are classified as either Level 1 or Level 2 in the valuation hierarchy.

U.S. equities. These investments are held in common and preferred stock of U.S. corporations and American Depositary Receipts (ADRs) traded on U.S. exchanges. Common and preferred shares and ADRs are traded actively on exchanges, and price quotes for these shares are readily available. These investments are classified as Level 1 in the valuation hierarchy.

International equities. These investments are held in common and preferred stock issued by non-U.S. corporations. Common and preferred shares are traded actively on exchanges, and price quotes for these shares are readily available. These investments are classified as Level 1 in the valuation hierarchy.

U.S. stock index fund. This fund consists of investments held in a diversified mix of securities (U.S. and international stocks, and fixed income securities) and a combination of other collective funds that together are designed to track the performance of the S&P 500 Index. The fund is valued using the net asset value (NAV) provided by the administrator of the fund and reviewed by the Company. The NAV is based on the value of the underlying assets owned by the fund, minus liabilities and divided by the number of units outstanding. The investment in this fund may be redeemed daily, subjected to the restrictions of the fund. This investment is classified as Level 3 in the valuation hierarchy.

The following table provides a reconciliation of changes in pension assets measured at fair value on a recurring basis, using Level 3 inputs:

(in thousands)	U.S. stock index fund
Balance at December 31, 2015	$ –
Acquisitions	574,000
Actual return on plan assets:	
Gains relating to assets still held at year-end	48,865
Balance at December 31, 2016	**$622,865**

Other Postretirement Plans. The following table sets forth obligation, asset and funding information for the Company's other postretirement plans:

	Postretirement Plans	
	As of December 31	
(in thousands)	2016	2015
Change in Benefit Obligation		
Benefit obligation at beginning of year	**$ 37,391**	$ 41,957
Service cost	**1,386**	1,331
Interest cost	**1,230**	1,299
Actuarial gain	**(14,984)**	(5,296)
Benefits paid, net of Medicare subsidy	**(852)**	(1,900)
Benefit Obligation at End of Year	**$ 24,171**	$ 37,391
Change in Plan Assets		
Fair value of assets at beginning of year	**$ –**	$ –
Employer contributions	**852**	1,900
Benefits paid, net of Medicare subsidy	**(852)**	(1,900)
Fair Value of Assets at End of Year	**$ –**	$ –
Funded Status	**$(24,171)**	$(37,391)

The amounts recognized in the Company's Consolidated Balance Sheets for its other postretirement plans are as follows:

	Postretirement Plans	
	As of December 31	
(in thousands)	2016	2015
Current liability	**$ (2,312)**	$ (3,444)
Noncurrent liability	**(21,859)**	(33,947)
Recognized Liability	**$(24,171)**	$(37,391)

The discount rates utilized for determining the benefit obligation at December 31, 2016 and 2015, for the postretirement plans were 3.31% and 3.45%, respectively. The assumed health care cost trend rate used in measuring the postretirement benefit obligation at December 31, 2016, was 7.15% for pre-age 65, decreasing to 4.5% in the year 2025 and thereafter. The assumed health care cost trend rate used in measuring the postretirement benefit obligation at December 31, 2016, was 8.65% for post-age 65, decreasing to 4.5% in the year 2025 and thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A change of one percentage point in the assumed health care cost trend rates would have the following effects:

(in thousands)	1% Increase	1% Decrease
Benefit obligation at end of year	$1,330	$(1,220)
Service cost plus interest cost	$ 165	$ (148)

The Company made contributions to its postretirement benefit plans of $0.9 million and $1.9 million for the years ended December 31, 2016 and 2015, respectively. As the plans are unfunded, the Company makes contributions to its postretirement plans based on actual benefit payments.

At December 31, 2016, future estimated benefit payments are as follows:

(in thousands)	Postretirement Plans
2017	$ 2,312
2018	$ 2,240
2019	$ 2,199
2020	$ 2,319
2021	$ 2,277
2022 – 2026	$10,725

The total (benefit) cost arising from the Company's other postretirement plans consists of the following components:

	Postretirement Plans		
	Year Ended December 31		
(in thousands)	2016	2015	2014
Service cost	**$ 1,386**	$ 1,331	$ 1,500
Interest cost	**1,230**	1,299	1,448
Amortization of prior service credit	**(335)**	(502)	(783)
Recognized actuarial gain	**(1,502)**	(996)	(2,076)
Net Periodic Cost	**779**	1,132	89
Curtailment	**–**	–	(1,292)
Total Cost (Benefit) for the Year	**$ 779**	$ 1,132	$(1,203)
Other Changes in Benefit Obligations Recognized in Other Comprehensive Income			
Current year actuarial (gain) loss	**$(14,984)**	$(5,296)	$ 4,448
Amortization of prior service credit	**335**	502	783
Recognized actuarial gain	**1,502**	996	2,076
Curtailment and settlement	**–**	–	360
Total Recognized in Other Comprehensive Income (Before Tax Effects)	**$(13,147)**	$(3,798)	$ 7,667
Total Recognized in (Benefit) Cost and Other Comprehensive Income (Before Tax Effects)	**$(12,368)**	$(2,666)	$ 6,464

The Company recorded a curtailment gain of $1.3 million in the fourth quarter of 2014 in connection with the exchange of WPLG, and the Separation Incentive Program and VRIP offered to certain Corporate employees.

The costs for the Company's postretirement plans are actuarially determined. The discount rates utilized to determine periodic cost for the years ended December 31, 2016, 2015 and 2014, were 3.45%, 3.25% and 3.80%, respectively. AOCI included the following components of unrecognized net periodic benefit for the postretirement plans:

	As of December 31	
(in thousands)	2016	2015
Unrecognized actuarial gain	**$(25,186)**	$(11,704)
Unrecognized prior service credit	**(326)**	(661)
Gross Amount	**(25,512)**	(12,365)
Deferred tax liability	**10,205**	4,946
Net Amount	**$(15,307)**	$ (7,419)

During 2017, the Company expects to recognize the following amortization components of net periodic cost for the other postretirement plans:

(in thousands)	2017
Actuarial gain recognition	$(3,953)
Prior service credit recognition	$ (291)

Multiemployer Pension Plans. In 2016, 2015 and 2014, the Company contributed to one multiemployer defined benefit pension plan under the terms of a collective-bargaining agreement that covered certain union-represented employees. The Company's total contributions to all multiemployer pension plans amounted to $0.1 million in each year for 2016, 2015 and 2014.

Savings Plans. The Company recorded expense associated with retirement benefits provided under incentive savings plans (primarily 401(k) plans) of approximately $7.5 million in 2016, $7.6 million in 2015 and $8.6 million in 2014.

15. OTHER NON-OPERATING (EXPENSE) INCOME

A summary of non-operating (expense) income is as follows:

	Year Ended December 31		
(in thousands)	2016	2015	2014
Gain on sale of property, plant and equipment	**$ 34,072**	$ 21,379	$127,670
Foreign currency losses, net	**(39,890)**	(15,564)	(11,129)
Net losses on sales or write-downs of cost method investments	**(28,571)**	(1,124)	(94)
Net gain (losses) on sales of businesses	**18,931**	(23,335)	–
Gain on formation of a joint venture	**3,232**	5,972	–
Gain on sale of Classified Ventures	**–**	4,827	396,553
Gain on Berkshire marketable equity securities exchange	**–**	–	266,733
Net losses on sales or write-down of marketable equity securities	**(1,791)**	(14)	(3,044)
Other, net	**1,375**	(764)	1,321
Total Other Non-Operating (Expense) Income	**$(12,642)**	$ (8,623)	$778,010

In the third quarter of 2016, the Company recorded an impairment of $15.0 million to the preferred equity interest in a vocational school company. In the fourth quarter of 2016, an additional $12.0 million impairment was recorded.

In the second quarter of 2016, the Company sold the remaining portion of the Robinson Terminal real estate retained from the sale of the Publishing Subsidiaries, for a gain of $34.1 million.

In June 2016, Residential contributed assets to a joint venture entered into with a Michigan hospital in exchange for a 40% equity interest and other assets, resulting in a $3.2 million gain (see Note 7). The Company used an income and market approach to value the equity interest. The measurement of the equity interest in the joint venture is classified as a Level 3 fair value assessment due to the significance of unobservable inputs developed in the determination of the fair value.

In the first quarter of 2016, Kaplan sold Colloquy, which was part of Kaplan corporate and other, for a gain of $18.9 million.

In the fourth quarter of 2015, the Company sold a portion of the Robinson Terminal real estate remaining from the sale of the Publishing Subsidiaries, for a gain of $21.4 million.

In the third quarter of 2015, Kaplan sold the KHE Campuses business, and Franklyn Scholar, which was part of Kaplan International, for a total loss of $26.3 million.

In the second quarter of 2015, the Company sold The Root and Kaplan sold two small businesses for a total gain of $2.9 million.

In the second quarter of 2015, the Company benefited from a favorable $4.8 million out of period adjustment to the gain on the sale of Classified Ventures related to the fourth quarter of 2014. With respect to this error, the Company has concluded that it was not material to the Company's financial position or results of operations for 2015 and 2014 and the related interim periods, based on its consideration of quantitative and qualitative factors.

In January 2015, Celtic contributed assets to a joint venture entered into with AHN in exchange for a 40% equity interest, resulting in the Company recording a $6.0 million gain (see Note 7). The Company used an income and market approach to value the equity interest. The measurement of the equity interest in the joint venture is classified as a Level 3 fair value assessment due to the significance of unobservable inputs developed in the determination of the fair value.

On October 1, 2014, the Company and the remaining partners completed the sale of their entire stakes in Classified Ventures. Total proceeds to the Company, net of transaction costs, were $408.5 million, of which $16.5 million was held in escrow until October 1, 2015. The Company recorded a pre-tax gain of $396.6 million on the sale of its interest in Classified Ventures in the fourth quarter of 2014.

On June 30, 2014, the Company completed a transaction with Berkshire Hathaway, as described in Note 7, that included the exchange of 2,107 Class A Berkshire shares and 1,278 Class B Berkshire shares owned by the Company; a $266.7 million gain was recorded.

On March 27, 2014, the Company completed the sale of its headquarters building for $158 million. In connection with the sale, the Company recorded a $127.7 million pre-tax gain.

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The other comprehensive loss consists of the following components:

	Year Ended December 31, 2016		
(in thousands)	Before-Tax Amount	Income Tax	After-Tax Amount
Foreign currency translation adjustments:			
Translation adjustments arising during the year	$ (22,149)	$ –	$(22,149)
Unrealized gains on available-for-sale securities:			
Unrealized gains for the year	55,507	(22,203)	33,304
Reclassification adjustment for net realized loss on sale of available-for-sale securities included in net income	1,879	(752)	1,127
	57,386	(22,955)	34,431
Pension and other postretirement plans:			
Actuarial loss	(133,915)	53,566	(80,349)
Amortization of net actuarial loss included in net income	1,157	(463)	694
Amortization of net prior service cost included in net income	419	(167)	252
Curtailments and settlements included in net income	(17,993)	7,197	(10,796)
	(150,332)	60,133	(90,199)
Cash flow hedge:			
Loss for the year	(334)	57	(277)
Other Comprehensive Loss	$(115,429)	$ 37,235	$(78,194)

(in thousands)	Year Ended December 31, 2015 Before-Tax Amount	Income Tax	After-Tax Amount
Foreign currency translation adjustments:			
Translation adjustments arising during the year	$ (18,898)	$ –	$ (18,898)
Adjustment for sales of businesses with foreign operations	5,501	–	5,501
	(13,397)	–	(13,397)
Unrealized gains on available-for-sale securities:			
Unrealized gains for the year	10,620	(4,248)	6,372
Reclassification adjustment for realized gain on sale of available-for-sale securities included in net income	(4)	2	(2)
	10,616	(4,246)	6,370
Pension and other postretirement plans:			
Actuarial loss	(211,054)	84,421	(126,633)
Amortization of net actuarial gain included in net income	(9,906)	3,962	(5,944)
Amortization of net prior service cost included in net income	275	(110)	165
Curtailments and settlements included in net income	51	(21)	30
Curtailments and settlements included in distribution to Cable ONE	834	(333)	501
	(219,800)	87,919	(131,881)
Cash flow hedge:			
Gain for the year	179	(71)	108
Other Comprehensive Loss	$(222,402)	$83,602	$(138,800)

(in thousands)	Year Ended December 31, 2014 Before-Tax Amount	Income Tax	After-Tax Amount
Foreign currency translation adjustments:			
Translation adjustments arising during the year	$ (16,061)	$ –	$ (16,061)
Adjustment for sales of businesses with foreign operations	(404)	–	(404)
	(16,465)	–	(16,465)
Unrealized gains on available-for-sale securities:			
Unrealized gains for the year	62,719	(25,088)	37,631
Reclassification adjustment for realization of (gain) loss on exchange, sale or write-down of available-for-sale securities included in net income	(265,274)	106,110	(159,164)
	(202,555)	81,022	(121,533)
Pension and other postretirement plans:			
Actuarial loss	(149,482)	59,792	(89,690)
Prior service cost	(1,600)	640	(960)
Amortization of net actuarial gain included in net income	(29,412)	11,765	(17,647)
Amortization of net prior service credit included in net income	(407)	163	(244)
Curtailments and settlements	8	(3)	5
	(180,893)	72,357	(108,536)
Cash flow hedge:			
Gain for the year	867	(347)	520
Other Comprehensive Loss	$(399,046)	$153,032	$(246,014)

The accumulated balances related to each component of other comprehensive (loss) income are as follows:

(in thousands, net of taxes)	Cumulative Foreign Currency Translation Adjustment	Unrealized Gain on Available-for-Sale Securities	Unrealized Gain on Pensions and Other Postretirement Plans	Cash Flow Hedge	Accumulated Other Comprehensive Income
As of December 31, 2014	$ 8,548	$52,130	$ 392,910	$(108)	$ 453,480
Other comprehensive (loss) income before reclassifications	(18,898)	6,372	(126,132)	29	(138,629)
Net amount reclassified from accumulated other comprehensive income	5,501	(2)	(5,749)	79	(171)
Net other comprehensive (loss) income	(13,397)	6,370	(131,881)	108	(138,800)
As of December 31, 2015	(4,849)	58,500	261,029	–	314,680
Other comprehensive (loss) income before reclassifications	**(22,149)**	**33,304**	**(80,349)**	**(290)**	**(69,484)**
Net amount reclassified from accumulated other comprehensive income	**–**	**1,127**	**(9,850)**	**13**	**(8,710)**
Net other comprehensive (loss) income	**(22,149)**	**34,431**	**(90,199)**	**(277)**	**(78,194)**
As of December 31, 2016	**$(26,998)**	**$92,931**	**$ 170,830**	**$(277)**	**$ 236,486**

The amounts and line items of reclassifications out of Accumulated Other Comprehensive Income are as follows:

(in thousands)	Year Ended December 31 2016	2015	2014	Affected Line Item in the Consolidated Statement of Operations
Foreign Currency Translation Adjustments:				
Adjustment for sales of businesses with foreign operations	**$ –**	$ 5,501	$ (404)	(1)
Unrealized Gains on Available-for-Sale Securities:				
Realized loss (gain) for the year	**1,879**	(4)	(265,274)	Other (expense) income, net
	(752)	2	106,110	(2)
	1,127	(2)	(159,164)	Net of tax
Pension and Other Postretirement Plans:				
Amortization of net actuarial loss (gain)	**1,157**	(9,906)	(29,412)	(3)
Amortization of net prior service cost (credit)	**419**	275	(407)	(3)
Curtailment (gains) losses	**(17,993)**	51	–	(3)
	(16,417)	(9,580)	(29,819)	Before tax
	6,567	3,831	11,928	Provision for income taxes
	(9,850)	(5,749)	(17,891)	Net of tax
Cash Flow Hedge				
	16	132	847	Interest expense
	(3)	(53)	(339)	Provision for income taxes
	13	79	508	Net of tax
Total reclassification for the year	**$ (8,710)**	$ (171)	$(176,951)	Net of tax

(1) The amount for 2015 was recorded in other (expense) income, net and the amount for 2014 was recorded in income from discontinued operations, net of tax.

(2) The amounts for 2016 and 2015 were recorded in Provision for Income Taxes. Benefits of $1.2 million were recorded in Provision for Income Taxes related to the realized loss for the year ended December 31, 2014. The remaining $107.3 million for the year relates to the reversal of income taxes previously recorded on the unrealized gain of the Company's investment in Berkshire Hathaway Inc. marketable securities as part of the Berkshire exchange transaction, which qualified as a tax-free distribution under IRC Section 355 and 361 (see Note 7).

(3) These accumulated other comprehensive income components are included in the computation of net periodic pension and postretirement plan cost (see Note 14).

17. LEASES AND OTHER COMMITMENTS

The Company leases real property under operating agreements. Many of the leases contain renewal options and escalation clauses that require payments of additional rent to the extent of increases in the related operating costs.

At December 31, 2016, future minimum rental payments under noncancelable operating leases approximate the following:

(in thousands)	
2017	$ 87,626
2018	84,525
2019	73,899
2020	65,592
2021	50,416
Thereafter	146,857
	$508,915

Minimum payments have not been reduced by minimum sublease rentals of $93.0 million due in the future under noncancelable subleases.

Rent expense under operating leases, including a portion reported in discontinued operations, was approximately $86.9 million, $102.6 million and $105.5 million in 2016, 2015 and 2014, respectively. Sublease income was approximately $14.3 million, $6.7 million and $5.4 million in 2016, 2015 and 2014, respectively.

In connection with the sale of the KHE Campuses business, Kaplan is secondarily liable on a number of leases that were transferred to the buyer; the leases run through 2024 with commitments totaling approximately $51.3 million at December 31, 2016.

The Company's broadcast subsidiaries are parties to certain agreements that commit them to purchase programming to be produced in future years. At December 31, 2016, such commitments amounted to approximately $16.4 million. If such programs are not produced, the Company's commitment would expire without obligation.

18. CONTINGENCIES

Litigation, Legal and Other Matters. The Company and its subsidiaries are subject to complaints and administrative proceedings and are defendants in various civil lawsuits that have arisen in the ordinary course of their businesses, including contract disputes; actions alleging negligence, libel, invasion of privacy; trademark, copyright and patent infringement; U.S. False Claims Act (False Claims Act) violations; violations of applicable wage and hour laws; and statutory or common law claims involving current and former students and employees. Although the outcomes of the legal claims and proceedings against the Company cannot be predicted with certainty, based on currently available information, management believes that there are no existing claims or proceedings that are likely to have a material effect on the Company's business, financial condition, results of operations or cash flows. Also, based on currently available information, management is of the opinion that the exposure to future material losses from existing legal and administrative proceedings is not reasonably possible, or that future material losses in excess of the amounts accrued are not reasonably possible.

On February 6, 2008, a purported class-action lawsuit was filed in the U.S. District Court for the Central District of California by purchasers of BAR/BRI bar review courses, from July 2006 onward, alleging antitrust claims against Kaplan and West Publishing Corporation, BAR/BRI's former owner. On April 10, 2008, the court granted defendants' motion to dismiss, a decision that was reversed by the Ninth Circuit Court of Appeals on

November 7, 2011. The Ninth Circuit also referred the matter to a mediator for the purpose of exploring a settlement. In the fourth quarter of 2012, the parties reached a comprehensive agreement to settle the matter. The settlement was approved by the District Court in September 2013 and will be administered following the resolution of appeals relating to attorney fees.

On or about January 17, 2008, an Assistant U.S. Attorney in the Civil Division of the U.S. Attorney's Office for the Eastern District of Pennsylvania contacted KHE's former Broomall campus and made inquiries about the Surgical Technology program, including the program's eligibility for Title IV U.S. Federal financial aid, the program's student loan defaults, licensing and accreditation. Kaplan responded to the information requests and fully cooperated with the inquiry. The ED also conducted a program review at the Broomall campus, and Kaplan likewise cooperated with the program review. On July 22, 2011, the U.S. Attorney's Office for the Eastern District of Pennsylvania announced that it had entered into a comprehensive settlement agreement with Kaplan that resolved the U.S. Attorney's inquiry, provided for the conclusion of the ED's program review and also settled a previously sealed U.S. Federal False Claims Act (False Claims Act) complaint that had been filed by a former employee of the CHI-Broomall campus. The total amount of all required payments by Broomall under the agreements was $1.6 million. Pursuant to the comprehensive settlement agreement, the U.S. Attorney inquiry has been closed, the False Claims Act complaint (*United States of America* ex rel. *David Goodstein* v. *Kaplan, Inc.* et al.) was dismissed with prejudice and the ED will issue a final program review determination. However, to date, the ED has not issued the final report. At this time, Kaplan cannot predict the contents of the pending final program review determination or the ultimate impact the proceedings may have on Kaplan.

During 2014, certain Kaplan subsidiaries were subject to two other unsealed cases filed by former employees that include, among other allegations, claims under the False Claims Act relating to eligibility for Title IV funding. The U.S. Government declined to intervene in all cases, and, as previously reported, court decisions either dismissed the cases in their entirety or narrowed the scope of their allegations. The two cases are captioned: *United States of America* ex rel. *Carlos Urquilla-Diaz* et al. v. *Kaplan University* et al. (unsealed March 25, 2008) and *United States of America* ex rel. *Charles Jajdelski* v. *Kaplan Higher Education Corp.* et al. (unsealed January 6, 2009).

On August 17, 2011, the U.S. District Court for the Southern District of Florida issued a series of rulings in the Diaz case, which included three separate complaints: Diaz, Wilcox and Gillespie. The court dismissed the Wilcox complaint in its entirety; dismissed all False Claims Act allegations in the Diaz complaint, leaving only an individual employment claim; and dismissed in part the Gillespie complaint, thereby limiting the scope and time frame of its False Claims Act allegations regarding compliance with the U.S. Federal Rehabilitation Act. On October 31, 2012, the court entered summary judgment in favor of the Company as to the sole remaining employment claim in the Diaz complaint. On July 16, 2013, the court likewise entered summary judgment in favor of the Company on all remaining claims in the Gillespie complaint. Diaz and Gillespie each appealed to the U.S. Court of Appeals for the Eleventh Judicial Circuit. Arguments on both appeals were heard on February 3, 2015. On March 11, 2015, the appellate court issued a decision affirming the lower court's dismissal of all of Gillespie's claims, however Gillespie continues to file challenges to the appellate decision. The appellate court also dismissed three of the four Diaz claims, but reversed and remanded on Diaz's claim that incentive compensation for admissions representatives was improperly based solely on enrollment counts. Kaplan filed an answer to Diaz's amended complaint on September 11, 2015. Kaplan filed a motion to dismiss Diaz's claims, and a hearing was held on December 17, 2015. On March 24, 2016, the Court denied the motion to dismiss. Discovery in the case closed in January 2017. Kaplan filed a motion for summary judgment on February 21, 2017. A trial, if needed, is scheduled for July 10, 2017.

On July 7, 2011, the U.S. District Court for the District of Nevada dismissed the Jajdelski complaint in its entirety and entered a final judgment in favor of Kaplan. On February 13, 2013, the U.S. Circuit Court for the Ninth Judicial Circuit affirmed the dismissal in part and reversed the dismissal on one allegation under the False Claims Act relating to eligibility for Title IV funding based on claims of false attendance. The surviving claim was remanded to the District Court, where Kaplan was again granted summary judgment on March 9, 2015. Plaintiff has appealed this judgment and briefing is complete. Despite the sale of the nationally accredited Kaplan Higher Education Campuses business, Kaplan retains liability for these claims.

On December 22, 2014, a former student representative filed a purported class- and collective-action lawsuit in the U.S. District Court for the Northern District of Illinois, in which she asserts claims under the Illinois Minimum Wage Law and the Fair Labor Standards Act (*Sharon Freeman* v. *Kaplan, Inc.*). The plaintiff alleges that she and other law students who were student representatives, on their respective law school campuses, of Kaplan's bar exam preparation business should have been classified as employees and paid minimum wage. The parties reached an agreement to settle this matter and in June the settlement was approved by the District Court.

On February 7, 2011, KHE received a Civil Investigative Demand from the Office of the Attorney General of the State of Illinois. The demand primarily sought information pertaining to Kaplan University's online students who are residents of Illinois. KHE has cooperated with the Illinois Attorney General and provided the requested information. Although the matter is not technically closed and KHE may receive further requests for information from the Illinois Attorney General, there has been no such further correspondence over the past five years to date. The Company cannot predict the outcome of this inquiry.

On July 20, 2011, KHE received a subpoena from the Office of the Attorney General of the State of Delaware. The demand primarily sought information pertaining to Kaplan University's online students and Kaplan Higher Education Campuses' former students who are residents of Delaware. KHE has cooperated with the Delaware Attorney General and provided the information requested in the subpoena. Although the matter is not technically closed and KHE may receive further requests for information from the Delaware Attorney General, there has been no such further correspondence over the past five years to date. The Company cannot predict the outcome of this inquiry.

On January 16, 2012, prior to Kaplan's sale of the Kidum Group in Israel, the Kidum Group received notice of a putative class action complaint against the Kidum Group's Wall Street Institute business, alleging violations of Israeli consumer protection law in connection with certain enrollment and refund policies. Kaplan has continuing obligations to the purchaser under the terms of the agreement of sale. In January 2016, Israel's Central District Court issued a ruling allowing the case to proceed as a class action. Plaintiffs filed an amended claim on May 3, 2016 in order to comply with the court's class certification order. Kidum filed its statement of defense to the amended claim on September 15, 2016, and plaintiffs filed their reply on November 15, 2016. A pre-trial hearing was held on November 20, 2016 and discovery began in January. At this time, the Company cannot predict the outcome of this matter.

On September 30, 2016, a purported class-action lawsuit was filed against KHE and Education Corporation of America d/b/a Brightwood College, in Alameda County Superior Court, in Oakland, CA, by Donna Hillman alleging violations of California wage and hour laws as they apply to "adjunct" or part-time faculty. The complaint seeks a declaratory judgment that Kaplan violated the California Labor Code and an award of damages for allegedly unpaid wages, penalties under the California Labor Code, interest and attorney's fees. A response and general denial was filed on November 2, 2016. KHE moved to transfer the venue to Sacramento, CA. Mediation has been set for March 7, 2017. At this time, the Company cannot predict the outcome of this matter.

On March 28, 2016, a purported class-action lawsuit was filed in the U.S. District Court for the Northern District of Illinois by Erin Fries, a physical therapist formerly employed by Residential, against Residential Home Health, LLC, Residential Home Health Illinois, LLC, and David Curtis. The complaint alleges violations of the FLSA and the Illinois minimum wage law. The complaint seeks damages, attorney's fees, and costs. At this time, the Company cannot predict the outcome of this matter.

Student Financial Aid. The Company's higher education division derives the majority of its revenues from U.S. Federal financial aid received by its students under Title IV programs administered by the ED pursuant to the Higher Education Act (HEA), as amended. To maintain eligibility to participate in Title IV programs, a school must comply with extensive statutory and regulatory requirements relating to its financial aid management, educational programs, financial strength, administrative capability, compensation practices, facilities, recruiting practices, representations made to current and prospective students, and various other matters. In addition, the school must be licensed, or otherwise legally authorized, to offer postsecondary educational programs by the appropriate governmental body in the state or states in which it is physically located or is otherwise subject to state authorization requirements, be accredited by an accrediting agency recognized by the ED and be certified to participate in the Title IV programs by the ED. Schools are required periodically to apply for renewal of their authorization, accreditation or certification with the applicable state governmental bodies, accrediting agencies and the ED. Kaplan University is assigned its own identification number, known as an OPEID number, for the purpose of determining compliance with certain Title IV requirements. Failure to comply with the requirements of the Higher Education Act or related regulations could result in the restriction or loss of the ability to participate in Title IV programs and subject the Company to financial penalties and refunds. No assurance can be given that Kaplan University or its individual programs will maintain their Title IV eligibility, accreditation and state authorization in the future or that the ED might not successfully assert that Kaplan University has previously failed to comply with Title IV requirements.

Financial aid and assistance programs are subject to political and governmental budgetary considerations. There is no assurance that such funding will be maintained at current levels. Extensive and complex regulations in the U.S. govern all of the government financial assistance programs in which students participate.

For the years ended December 31, 2016, 2015 and 2014, approximately $437 million, $628 million and $806 million, respectively, of the Company's education division revenue was derived from financial aid received by students under Title IV programs. Management believes that the Company's education division schools that participate in Title IV programs are in material compliance with standards set forth in the Higher Education Act and related regulations.

ED Program Reviews. The ED has undertaken program reviews at various KHE locations.

On February 23, 2015, the ED began a review of Kaplan University. The review will assess Kaplan's administration of its Title IV and Higher Education Act programs and will initially focus on the 2013 to 2014 and 2014 to 2015 award years. On December 17, 2015, Kaplan University received a notice from the ED that it had been placed on provisional certification status until September 30, 2018, in connection with the open and ongoing ED program review. The ED has not notified Kaplan University of any negative findings. However, at this time, Kaplan cannot predict the outcome of this review, when it will be completed or any liability or other limitations that the ED may place on Kaplan University as a result of this review. During the period of provisional certification, Kaplan University must obtain prior ED approval to open a new location, add an educational program, acquire another school or make any other significant change.

In addition, there are four open program reviews at campuses that were part of the KHE Campuses business prior to its sale in 2015 to Education Corporation of America (ECA), including the ED's final reports on the program reviews at former KHE Hammond, IN, San Antonio, TX, Broomall, PA, and Pittsburgh, PA, locations. Kaplan retains responsibility for any financial obligation resulting from the ED program reviews at the KHE Campuses business that were open at the time of sale.

The Company does not expect the open program reviews to have a material impact on KHE; however, the results of open program reviews and their impact on Kaplan's operations are uncertain.

The 90/10 Rule. Under regulations referred to as the 90/10 rule, an institution would lose its eligibility to participate in Title IV programs for a period of at least two fiscal years if the institution derives more than 90% of its receipts from Title IV programs, as calculated on a cash basis in accordance with the Higher Education Act and applicable ED regulations, in each of two consecutive fiscal years. An institution with Title IV receipts exceeding 90% for a single fiscal year would be placed on provisional certification and may be subject to other enforcement measures. Kaplan University derived less than 77% and less than 79% of its receipts from Title IV programs in 2016 and 2015, respectively.

19. BUSINESS SEGMENTS

Basis of Presentation. The Company's organizational structure is based on a number of factors that management uses to evaluate, view and run its business operations, which include, but are not limited to, customers, the nature of products and services and use of resources. The business segments disclosed in the Consolidated Financial Statements are based on this organizational structure and information reviewed by the Company's management to evaluate the business segment results. The Company has four reportable segments: KHE, KTP, Kaplan International, and television broadcasting.

The Company evaluates segment performance based on operating income before amortization of intangible assets and impairment of goodwill and other long-lived assets. The accounting policies at the segments are the same as described in Note 2. In computing income from operations by segment, the effects of equity in earnings (losses) of affiliates, interest income, interest expense, other non-operating income and expense items and income taxes are not included. Intersegment sales are not material.

Identifiable assets by segment are those assets used in the Company's operations in each business segment. The Prepaid Pension cost is not included in identifiable assets by segment. Investments in marketable equity securities are discussed in Note 4.

Education. Education products and services are provided by Kaplan, Inc. KHE includes Kaplan's domestic postsecondary education businesses, made up of fixed-facility colleges and online postsecondary and career programs. KHE also includes the domestic professional training and other continuing education businesses. KTP includes Kaplan's standardized test preparation and new economy skills training programs. Kaplan International includes professional training and postsecondary education businesses largely outside the United States, as well as English-language programs.

In the third quarter of 2014, Kaplan completed the sale of three of its schools in China that were previously included as part of Kaplan International. An additional school in China was sold in January 2015. The education division's operating results exclude these businesses as they are included in discontinued operations, net of tax, for all periods presented.

In recent years, Kaplan has formulated and implemented restructuring plans at its various businesses that have resulted in significant costs in the past three years, with the objective of establishing lower cost levels in future periods. Across all Kaplan businesses, restructuring costs of $11.9 million, $44.4 million and $16.8 million were recorded in 2016, 2015 and 2014, respectively, as follows:

	Year Ended December 31		
(in thousands)	**2016**	**2015**	**2014**
Accelerated depreciation	**$ 1,815**	$17,956	$ 2,062
Lease obligation losses	**2,694**	8,240	1,750
Severance and Special Incentive Program expense	**5,902**	17,968	5,075
Software asset write-offs	**–**	–	7,689
Other	**1,441**	209	230
	$11,852	$44,373	$16,806

KHE incurred restructuring costs of $7.2 million, $12.9 million and $6.5 million in 2016, 2015 and 2014, respectively, primarily from severance and Special Incentive Program expense, lease obligation losses and accelerated depreciation. These costs were incurred in connection with a plan announced in September 2012 for KHE to close or consolidate operations at 13 ground campuses, additional plans announced in 2014 to close five more campuses, along with plans to consolidate facilities and reduce its workforce, and the September 2015 sale of the KHE Campuses business.

On February 12, 2015, Kaplan entered into a Purchase and Sale Agreement to sell substantially all of the assets of its KHE Campuses business, consisting of 38 nationally accredited ground campuses, and certain related assets, in exchange for a preferred equity interest in a vocational school company. The transaction closed on September 3, 2015. In addition, Kaplan recorded a $6.9 million and $13.6 million other long-lived asset impairment charge in connection with its KHE Campuses business, in the second quarter of 2015 and fourth quarter of 2014, respectively.

Kaplan International incurred restructuring costs of $4.7 million, $1.3 million and $0.2 million in 2016, 2015 and 2014, respectively. These restructuring costs were largely in the UK and Australia and included severance charges, lease obligations, and accelerated depreciation.

Kaplan Corporate incurred restructuring costs of $29.4 million in 2015 related to accelerated depreciation, severance and Special Incentive Program expense and lease obligations losses.

Total accrued restructuring costs at Kaplan were $11.8 million and $24.2 million at the end of 2016 and 2015, respectively.

Television Broadcasting. Television broadcasting operations are conducted through five VHF television stations serving the Detroit, Houston, San Antonio, Orlando and Jacksonville television markets. All stations are network-affiliated (except for WJXT in Jacksonville), with revenues derived primarily from sales of advertising time.

Other Businesses. Other businesses includes the following:

- Dekko, a Garrett, IN-based manufacturer of electrical workspace solutions, architectural lighting, and electrical components and assemblies (acquired in November 2015); Joyce/Dayton Corp., a Dayton, OH-based manufacturer of screw jacks and other linear motion systems (acquired in May 2014); and Forney, a global supplier of products and systems that control and monitor combustion processes in electric utility and industrial applications;
- Graham Healthcare Group (GHG), made up of Celtic Healthcare (Celtic) and Residential Healthcare Group, Inc. (Residential, acquired in July 2014), providers of home health and hospice services; and
- SocialCode, a marketing and insights company that manages digital advertising for leading brands; and The Slate Group and Foreign Policy Group, which publish online and print magazines and websites.

In November 2015, the Company announced that Trove, a digital innovation team that builds products and technologies in the news space, would largely be integrated into SocialCode.

Corporate Office. Corporate office includes the expenses of the Company's corporate office, a net pension credit and certain continuing obligations related to prior business dispositions.

Geographical Information. The Company's non-U.S. revenues in 2016, 2015 and 2014 totaled approximately $624 million, $660 million and $712 million, respectively, primarily from Kaplan's operations outside the U.S. Additionally, revenues in 2016, 2015 and 2014 totaled approximately $312 million, $319 million, and $351 million, respectively, from Kaplan's operations in the U.K. The Company's long-lived assets in non-U.S. countries (excluding goodwill and other intangible assets), totaled approximately $67 million and $59 million at December 31, 2016 and 2015, respectively.

Company information broken down by operating segment and education division:

(in thousands)	Year Ended December 31 2016	2015	2014
Operating Revenues			
Education	**$1,598,461**	$1,927,521	$2,160,417
Television broadcasting	**409,718**	359,192	363,836
Other businesses	**473,850**	299,517	212,907
Corporate office	**–**	–	–
Intersegment elimination	**(139)**	(116)	(128)
	$2,481,890	$2,586,114	$2,737,032
Income (Loss) from Operations			
Education	**$ 93,632**	$ (223,456)	$ 65,463
Television broadcasting	**200,470**	164,927	187,833
Other businesses	**(22,102)**	(13,667)	(21,086)
Corporate office	**31,534**	(8,629)	510
	$ 303,534	$ (80,825)	$ 232,720
Equity in (Losses) Earnings of Affiliates, Net	**(7,937)**	(697)	100,370
Interest Expense, Net	**(32,297)**	(30,745)	(33,397)
Other (Expense) Income, Net	**(12,642)**	(8,623)	778,010
Income (Loss) from Continuing Operations before Income Taxes	**$ 250,658**	$ (120,890)	$1,077,703
Depreciation of Property, Plant and Equipment			
Education	**$ 41,187**	$ 61,177	$ 61,737
Television broadcasting	**9,942**	9,551	8,409
Other businesses	**12,375**	6,168	3,931
Corporate office	**1,116**	1,010	836
	$ 64,620	$ 77,906	$ 74,913
Amortization of Intangible Assets and Impairment of Goodwill and Other Long-Lived Assets			
Education	**$ 7,516**	$ 262,353	$ 24,941
Television broadcasting	**251**	252	32
Other businesses	**20,507**	16,112	10,516
Corporate office	**–**	–	–
	$ 28,274	$ 278,717	$ 35,489
Net Pension (Credit) Expense			
Education	**$ 11,803**	$ 18,804	$ 15,418
Television broadcasting	**1,714**	1,620	1,355
Other businesses	**1,118**	964	748
Corporate office	**(81,732)**	(81,945)	(82,301)
	$ (67,097)	$ (60,557)	$ (64,780)
Capital Expenditures			
Education	**$ 26,497**	$ 42,220	$ 33,528
Television broadcasting	**27,453**	9,998	11,295
Other businesses	**16,047**	9,504	5,110
Corporate office	**715**	311	7,074
	$ 70,712	$ 62,033	$ 57,007

Asset information for the Company's business segments is as follows:

(in thousands)	As of December 31 2016	2015
Identifiable Assets		
Education	**$1,479,267**	$1,454,520
Television broadcasting	**336,631**	312,243
Other businesses	**796,935**	712,161
Corporate office	**455,209**	484,139
	$3,068,042	$2,963,063
Investments in Marketable Equity Securities	**424,229**	350,563
Investments in Affiliates	**58,806**	59,229
Prepaid Pension Cost	**881,593**	979,970
Total Assets	**$4,432,670**	$4,352,825

The Company's education division comprises the following operating segments:

(in thousands)	Year Ended December 31 2016	2015	2014
Operating Revenues			
Higher education	**$ 617,047**	$ 849,625	$1,010,058
Test preparation	**286,556**	301,607	304,662
Kaplan international	**696,362**	770,273	840,915
Kaplan corporate and other	**214**	6,502	6,094
Intersegment elimination	**(1,718)**	(486)	(1,312)
	$1,598,461	$1,927,521	$2,160,417
Income (Loss) from Operations			
Higher education	**$ 66,632**	$ 55,572	$ 83,069
Test preparation	**9,599**	16,798	(4,730)
Kaplan international	**48,398**	53,661	69,153
Kaplan corporate and other	**(30,968)**	(349,583)	(82,034)
Intersegment elimination	**(29)**	96	5
	$ 93,632	$ (223,456)	$ 65,463
Depreciation of Property, Plant and Equipment			
Higher education	**$ 16,822**	$ 17,937	$ 29,187
Test preparation	**6,287**	9,045	12,547
Kaplan international	**17,523**	17,811	19,297
Kaplan corporate and other	**555**	16,384	706
	$ 41,187	$ 61,177	$ 61,737
Amortization of Intangible Assets	**$ 7,516**	$ 5,523	$ 7,738
Impairment of Goodwill and Other Long-Lived Assets	**$ –**	$ 256,830	$ 17,203
Pension Expense			
Higher education	**$ 7,620**	$ 10,849	$ 10,514
Test preparation	**3,072**	3,101	2,888
Kaplan international	**268**	424	356
Kaplan corporate and other	**843**	4,430	1,660
	$ 11,803	$ 18,804	$ 15,418
Capital Expenditures			
Higher education	**$ 5,364**	$ 10,202	$ 11,551
Test preparation	**4,672**	8,720	1,143
Kaplan international	**16,252**	22,673	20,802
Kaplan corporate and other	**209**	625	32
	$ 26,497	$ 42,220	$ 33,528

In the third quarter of 2015, a favorable $3.0 million out of period revenue adjustment was included at the test preparation segment that related to prior periods from 2011 through the second quarter of 2015. With respect to this error, the Company has concluded that it was not material to the Company's financial position or results of operations for 2015 and prior years and the related interim periods, based on its consideration of quantitative and qualitative factors.

Asset information for the Company's education division is as follows:

	As of December 31	
(in thousands)	2016	2015
Identifiable Assets		
Higher education	**$ 373,127**	$ 447,282
Test preparation	**133,709**	134,535
Kaplan international	**950,922**	826,475
Kaplan corporate and other	**21,509**	46,228
	$1,479,267	$1,454,520

20. SUMMARY OF QUARTERLY OPERATING RESULTS AND COMPREHENSIVE INCOME (UNAUDITED)

Quarterly results of operations and comprehensive income for the year ended December 31, 2016, is as follows:

(in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating Revenues				
Education	$401,006	$419,144	$386,936	$391,261
Advertising	68,158	70,901	86,531	85,488
Other	132,576	138,888	148,171	152,830
	601,740	628,933	621,638	629,579
Operating Costs and Expenses				
Operating	291,632	296,033	293,194	300,086
Selling, general and administrative	235,213	236,437	237,694	195,173
Depreciation of property, plant and equipment	16,761	16,045	16,097	15,717
Amortization of intangible assets	6,262	6,278	6,620	7,511
Impairment of goodwill	–	–	–	1,603
	549,868	554,793	553,605	520,090
Income from Operations	51,872	74,140	68,033	109,489
Equity in earnings (losses) of affiliates, net	1,004	(891)	(1,008)	(7,042)
Interest income	591	721	740	1,041
Interest expense	(7,948)	(7,971)	(8,614)	(10,857)
Other income (expense), net	15,096	19,000	(18,225)	(28,513)
Income from Operations Before Income Taxes	60,615	84,999	40,926	64,118
Provision for Income Taxes	22,400	23,800	7,800	27,200
Net Income	38,215	61,199	33,126	36,918
Net Income Attributable to Noncontrolling Interests	(435)	(433)	–	–
Net Income Attributable to Graham Holdings Company Common Stockholders	$ 37,780	$ 60,766	$ 33,126	$ 36,918
Per Share Information Attributable to Graham Holdings Company Common Stockholders				
Basic net income per common share	$ 6.63	$ 10.82	$ 5.90	$ 6.60
Diluted net income per common share	$ 6.59	$ 10.76	$ 5.87	$ 6.57
Basic average number of common shares outstanding	5,623	5,544	5,544	5,527
Diluted average number of common shares outstanding	5,652	5,574	5,574	5,556
2016 Quarterly comprehensive income (loss)	$ 41,015	$ 49,996	$ 40,331	$ (40,946)

The sum of the four quarters may not necessarily be equal to the annual amounts reported in the Consolidated Statements of Operations due to rounding.

Quarterly results of operations and comprehensive income for the year ended December 31, 2015, is as follows:

(in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating Revenues				
Education	$500,602	$523,625	$ 481,687	$421,491
Advertising	66,454	70,137	68,898	74,435
Other	80,369	87,128	90,847	120,441
	647,425	680,890	641,432	616,367
Operating Costs and Expenses				
Operating	309,223	311,121	302,029	283,780
Selling, general and administrative	302,405	276,412	285,563	239,783
Depreciation of property, plant and equipment	22,197	25,609	14,460	15,640
Amortization of intangible assets	4,738	4,647	4,512	5,120
Impairment of goodwill and other long-lived assets	–	6,876	248,591	4,233
	638,563	624,665	855,155	548,556
Income (Loss) from Operations	8,862	56,225	(213,723)	67,811
Equity in (losses) earnings of affiliates, net	(404)	(353)	95	(35)
Interest income	559	323	481	546
Interest expense	(8,501)	(8,348)	(7,830)	(7,975)
Other (expense) income, net	(1,105)	11,678	(40,458)	21,262
(Loss) Income from Continuing Operations Before Income Taxes	(589)	59,525	(261,435)	81,609
Provision (Benefit) for Income Taxes	900	19,600	(30,500)	30,500
(Loss) Income from Continuing Operations	(1,489)	39,925	(230,935)	51,109
Income from Discontinued Operations, Net of Tax	23,289	18,502	379	–
Net Income (Loss)	21,800	58,427	(230,556)	51,109
Net (Income) Loss Attributable to Noncontrolling Interests	(774)	(434)	(287)	60
Net Income (Loss) Attributable to Graham Holdings Company	21,026	57,993	(230,843)	51,169
Redeemable Preferred Stock Dividends	(420)	(211)	–	–
Net Income (Loss) Attributable to Graham Holdings Company Common Stockholders	$ 20,606	$ 57,782	$(230,843)	$ 51,169
Amounts Attributable to Graham Holdings Company Common Stockholders				
(Loss) income from continuing operations	$ (2,683)	$ 39,280	$(231,222)	$ 51,169
Income from discontinued operations, net of tax	23,289	18,502	379	–
Net income (loss) attributable to Graham Holdings Company common stockholders	$ 20,606	$ 57,782	$(230,843)	$ 51,169
Per Share Information Attributable to Graham Holdings Company Common Stockholders				
Basic (loss) income per common share from continuing operations	$ (0.58)	$ 6.74	$ (40.32)	$ 8.78
Basic income per common share from discontinued operations	4.09	3.18	0.07	–
Basic net income (loss) per common share	$ 3.51	$ 9.92	$ (40.25)	$ 8.78
Diluted (loss) income per common share from continuing operations	$ (0.58)	$ 6.71	$ (40.32)	$ 8.72
Diluted income per common share from discontinued operations	4.06	3.16	0.07	–
Diluted net income (loss) per common share	$ 3.48	$ 9.87	$ (40.25)	$ 8.72
Basic average number of common shares outstanding	5,704	5,720	5,738	5,746
Diluted average number of common shares outstanding	5,791	5,805	5,837	5,834
2015 Quarterly comprehensive income (loss)	$ 4,098	$ 56,304	$(235,556)	$ (64,301)

The sum of the four quarters may not necessarily be equal to the annual amounts reported in the Consolidated Statements of Operations due to rounding.

Quarterly impact from certain items in 2016 and 2015 (after-tax and diluted EPS amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2016				
• Settlement gain of $10.8 million related to a bulk lump sum pension offering				$ 1.92
• Charges of $7.7 million related to restructuring at the education division ($1.2 million, $0.9 million, $1.1 million and $4.5 million in the first, second, third and fourth quarters, respectively)	$(0.21)	$(0.15)	$ (0.19)	$(0.81)
• Non-operating gain, net, of $20.0 million from the sales of land and marketable equity securities ($1.1 million gain, $23.9 million gain and $5.0 million loss in the first, second and fourth quarters, respectively)	$ 0.19	$ 4.23		$(0.90)
• Non-operating gain of $13.6 million arising from the sale of a business and the formation of a joint venture ($11.9 million and $1.7 million in the first and second quarters, respectively)	$ 2.08	$ 0.29		
• Non-operating expense of $24.1 million from the write-down of cost method investments and investments in affiliates ($9.6 million and $14.5 million in the third and fourth quarters, respectively)			$ (1.70)	$(2.57)
• Losses, net, of $25.5 million for non-operating foreign currency losses ($3.4 million, $15.4 million, $2.4 million and $4.2 million in the first, second, third and fourth quarters, respectively)	$(0.60)	$(2.73)	$ (0.43)	$(0.75)
• Net nonrecurring $8.3 million deferred tax benefit related to Kaplan's international operations			$ 1.47	
• Favorable $5.6 million out of period deferred tax adjustment related to the KHE goodwill impairment recorded in the third quarter of 2015		$ 1.00		
2015				
• Goodwill and long-lived assets impairment charges of $225.2 million at Kaplan and other businesses ($4.4 million, $217.1 million and $3.7 million in the second, third and fourth quarters, respectively)		$(0.75)	$(37.85)	$(0.63)
• Charges of $28.9 million related to restructuring at the education division, corporate office and other businesses ($6.8 million, $10.7 million, $5.8 million and $5.5 million in the first, second, third and fourth quarters, respectively)	$(1.17)	$(1.82)	$ (1.00)	$(0.96)
• Charges of $15.3 million related to the modification of stock option awards in conjunction with the Cable ONE spin-off and the modification of restricted stock awards ($11.6 million and $3.7 million in the third and fourth quarters, respectively)			$ (1.99)	$(0.63)
• Non-operating losses, net, of $15.7 million arising from the sales of five businesses and an investment, and on the formation of a joint venture ($3.6 million gain, $5.0 million gain and $24.3 million loss in the first, second and third quarters, respectively)	$ 0.50	$ 0.85	$ (4.16)	
• Gain of $13.2 million from the sale of land				$ 2.27
• Losses, net, of $9.7 million for non-operating unrealized foreign currency (losses) gains ($4.4 million loss, $2.3 million gain, $8.0 million loss and $0.4 million gain in the first, second, third and fourth quarters, respectively)	$(0.75)	$ 0.39	$ (1.37)	$ 0.07

GRAHAM HOLDINGS COMPANY
FIVE-YEAR SUMMARY OF SELECTED HISTORICAL FINANCIAL DATA

See Notes to Consolidated Financial Statements for the summary of significant accounting policies and additional information relative to the years 2014–2016 and refer to Note 3 for discussion of discontinued operations.

(in thousands, except per share amounts)	2016	2015	2014	2013	2012
Results of Operations					
Operating revenues	**$2,481,890**	$2,586,114	$2,737,032	$2,600,602	$2,585,469
Income (loss) from operations	**303,534**	(80,825)	232,720	149,434	(5,967)
Income (loss) from continuing operations	**169,458**	(141,390)	765,403	64,731	(48,513)
Net income (loss) attributable to Graham Holdings Company common stockholders	**168,590**	(101,286)	1,292,996	236,010	131,218
Per Share Amounts					
Basic earnings (loss) per common share attributable to Graham Holdings Company common stockholders					
Income (loss) from continuing operations	**$ 29.95**	$ (25.23)	$ 115.88	$ 8.62	$ (7.17)
Net income (loss)	**29.95**	(17.87)	195.81	32.10	17.39
Diluted earnings (loss) per common share attributable to Graham Holdings Company common stockholders					
Income (loss) from continuing operations	**$ 29.80**	$ (25.23)	$ 115.40	$ 8.61	$ (7.17)
Net income (loss)	**29.80**	(17.87)	195.03	32.05	17.39
Weighted average shares outstanding:					
Basic	**5,559**	5,727	6,470	7,238	7,360
Diluted	**5,589**	5,727	6,559	7,333	7,404
Cash dividends per common share	**$ 4.84**	$ 9.10	$ 10.20	$ –	$ 19.60
Graham Holdings Company common stockholders' equity per common share	**$ 439.88**	$ 429.15	$ 541.54	$ 446.73	$ 348.17
Financial Position					
Working capital	**$1,052,385**	$1,135,573	$ 639,911	$ 768,278	$ 327,476
Total assets	**4,432,670**	4,352,825	5,752,319	5,811,046	5,015,069
Long-term debt	**485,719**	399,800	399,545	447,608	453,384
Graham Holdings Company common stockholders' equity	**2,452,941**	2,490,698	3,140,299	3,300,067	2,586,028

Impact from certain items included in income from continuing operations (after-tax and diluted EPS amounts):

2016

- Settlement gain of $10.8 million ($1.92 per share) related to a bulk lump sum pension offering
- Charges of $7.7 million ($1.36 per share) related to restructuring at the education division
- $20.0 million ($3.52 per share) net non-operating gain from the sales of land and marketable equity securities
- $13.6 million ($2.37 per share) non-operating gain arising from the sale of a business and the formation of a joint venture
- $24.1 million ($4.27 per share) non-operating expense from the write-down of cost method investments and investments in affiliates
- Losses, net, of $25.5 million ($4.51 per share) from non-operating foreign currency losses
- Net nonrecurring $8.3 million ($1.47 per share) deferred tax benefit related to Kaplan's international operations
- Favorable $5.6 million ($1.00 per share) out of period deferred tax adjustment related to the KHE goodwill impairment from 2015

2015

- Goodwill and other long-lived assets impairment charges of $225.2 million ($38.96 per share) at the education division and other business
- Charges of $28.9 million ($4.97 per share) related to restructuring at the education division, corporate office and other businesses
- $15.3 million ($2.64 per share) in expense related to the modification of stock option awards and restricted stock awards
- Net non-operating losses of $15.7 million ($2.82 per share) arising from the sales of five businesses and an investment, and on the formation of a joint venture
- $13.2 million ($2.27 per share) gain on the sale of land
- Losses, net, of $9.7 million ($1.67 per share) from non-operating unrealized foreign currency losses

2014

- Charges of $20.2 million ($3.05 per share) related to restructuring and early retirement program expense and related charges at the education division and corporate office
- Intangible and other long-lived assets impairment charge of $11.2 million ($1.69 per share) at the education division and other business
- Gain from the sale of Classified Ventures of $249.8 million ($37.68 per share)
- $58.2 million ($8.78 per share) gain from the Classified Ventures' sale of apartments.com
- Gain from the Berkshire exchange transaction of $266.7 million ($40.23 per share)
- $81.8 million ($12.34 per share) gain on the sale of the corporate headquarters building
- Losses, net, of $7.1 million ($1.08 per share) from non-operating unrealized foreign currency losses

2013

- Charges of $25.3 million ($3.46 per share) related to severance and restructuring at the education division
- Intangible assets impairment charge of $3.2 million ($0.44 per share) at the education division
- Write-down of a marketable equity security of $6.7 million ($0.91 per share)
- Losses, net, of $8.6 million ($1.17 per share) from non-operating unrealized foreign currency losses

2012

- Goodwill and other long-lived assets impairment charge of $81.9 million ($11.33 per share) at KTP
- Charges of $32.9 million ($4.53 per share) related to severance and restructuring at the education division
- Write-down of a marketable equity security of $11.2 million ($1.54 per share)
- $3.7 million ($0.48 per share) gain on sale of cost method investment
- Gains, net, of $2.0 million ($0.27 per share) from non-operating unrealized foreign currency gains

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Company dated November 13, 2003 (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2003).
3.2	Certificate of Amendment, effective November 29, 2013, to the Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed November 29, 2013).
3.3	By-Laws of the Company as amended and restated through November 29, 2013 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed November 29, 2013).
4.1	Second Supplemental Indenture dated January 30, 2009, between the Company and The Bank of New York Mellon Trust Company, N.A., as successor to The First National Bank of Chicago, as Trustee (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed January 30, 2009).
4.2	Five-Year Credit Agreement, dated as of June 29, 2015, among the Company, and certain of its domestic subsidiaries as guarantors, the several lenders from time to time party thereto, Wells Fargo Bank, National Association, as Administrative Agent and JPMorgan Chase Bank, N.A., as Syndication Agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 1, 2015).
10.1	Graham Holdings Company 2012 Incentive Compensation Plan, as amended and restated effective November 29, 2013, as adjusted to reflect the spin-off of Cable ONE. (incorporated by reference to Exhibit 10.1 to Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015)*
10.2	Washington Post Company Stock Option Plan as amended and restated effective May 31, 2003 (incorporated by reference to Exhibit 10.1 to The Washington Post Company's Quarterly Report on Form 10-Q for the quarter ended September 28, 2003).*
10.3	Graham Holdings Company Supplemental Executive Retirement Plan as amended and restated effective December 10, 2013 (incorporated by reference to Exhibit 10.3 to Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013).*
10.4	Amendment No. 1 to Graham Holdings Company Supplemental Executive Retirement Plan, effective March 31, 2014 (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014).*
10.5	Graham Holdings Company Deferred Compensation Plan as amended and restated effective January 1, 2014 (incorporated by reference to Exhibit 10.4 to Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013).*
10.6	Letter Agreement between the Company and Timothy J. O'Shaughnessy, dated October 20, 2014 (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014).*
10.7	Letter Agreement between the Company and Hal S. Jones, dated July 16, 2014 (incorporated by reference to the Company's Current Report on Form 8-K filed July 16, 2014).*
10.8	Letter Agreement between the Company and Andrew S. Rosen, dated April 7, 2014 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015).*
10.9	Tax Matters Agreement, dated as of June 16, 2015 by and between the Company and Cable One, Inc. (incorporated by reference to the Company's Current Report on Form 8-K filed June 17, 2015).
21	List of subsidiaries of the Company.
23	Consent of independent registered public accounting firm.
24	Power of attorney dated February 24, 2017.
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
32	Section 1350 Certification of the Chief Executive Officer and the Chief Financial Officer.
101	The following financial information from Graham Holdings Company Annual Report on Form 10-K for the year ended December 31, 2016, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014; (ii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014; (iii) Consolidated Balance Sheets as of December 31, 2016 and 2015; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014; (v) Consolidated Statements of Changes in Common Shareholders' Equity for the years ended December 31, 2016, 2015 and 2014; and (vi) Notes to Consolidated Financial Statements. Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed "furnished" and not "filed" or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed "furnished" and not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise are not subject to liability under these sections.

* A management contract or compensatory plan or arrangement required to be included as an exhibit hereto pursuant to Item 15(b) of Form 10-K.

GRAHAM HOLDINGS COMPANY IN BRIEF

Graham Holdings Company (NYSE: GHC) is a diversified education and media company whose principal operations include educational services, television broadcasting, and online, print and local TV news. The Company also owns a social marketing solutions company, health care providers and manufacturing companies.

Graham Holdings Company
ghco.com

Education

Kaplan
Kaplan.com
- Kaplan Higher and Professional Education
- Kaplan Test Prep
- Kaplan International

Television Broadcasting

Graham Media Group

WDIV–Detroit (NBC affiliate)
ClickOnDetroit.com
ThisTV–Detroit

KPRC–Houston (NBC affiliate)
Click2Houston.com
ThisTV–Houston

WKMG–Orlando (CBS affiliate)
ClickOrlando.com
CoziTV Orlando
Heartland

KSAT–San Antonio (ABC affiliate)
KSAT.com
MeTV San Antonio

WJXT–Jacksonville (Independent)
News4Jax.com
ThisTV–Jacksonville

WCWJ–Jacksonville (CW affiliate)
YourJax.com

WSLS–Roanoke (NBC affiliate)
WSLS.com

Graham Digital
GrahamDigital.com

SocialNewsDesk
SocialNewsDesk.com

Other Businesses

SocialCode
SocialCode.com

Group Dekko
Dekko.com

Joyce/Dayton Corp.
JoyceDayton.com

Forney Corporation
ForneyCorp.com

Graham Healthcare Group

Celtic Healthcare
CelticHealthcare.com

Residential Healthcare Group
ResidentialHomeHealth.com

Residential Hospice
ResidentialHospice.com

The Slate Group

Slate.com
Slate.com

Panoply
www.panoply.fm

The FP Group

Foreign Policy
ForeignPolicy.com

CyberVista
CyberVista.net

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Donald E. Graham (3, 4)
Chairman of the Board

Timothy J. O'Shaughnessy (3, 4)
President and Chief Executive Officer

Lee C. Bollinger (2)
President, Columbia University

Christopher C. Davis (1, 3, 4)
Chairman, Davis Selected Advisers, LP

Thomas S. Gayner (1, 3)
Co-Chief Executive Officer, Markel Corporation

Anne M. Mulcahy (2, 4)
Retired Chairman of the Board and Chief Executive Officer, Xerox Corporation

Ronald L. Olson (4)
Partner, Munger, Tolles & Olson LLP

Larry D. Thompson (2)
Retired Executive Vice President–Government Affairs, General Counsel and Corporate Secretary, PepsiCo

G. Richard Wagoner, Jr. (1)
Retired Chairman of the Board and Chief Executive Officer, General Motors Corporation

Katharine Weymouth (3)
Former Chief Executive Officer and Publisher, The Washington Post

Committees of the Board of Directors
(1) *Audit Committee*
(2) *Compensation Committee*
(3) *Finance Committee*
(4) *Executive Committee*

OTHER COMPANY OFFICERS

Hal S. Jones
Senior Vice President–Finance
Chief Financial Officer

Nicole M. Maddrey
Senior Vice President, General Counsel and Secretary

Jacob M. Maas
Senior Vice President–Planning and Development

Andrew S. Rosen
Executive Vice President, Chairman and Chief Executive Officer, Kaplan

Wallace R. Cooney
Vice President–Finance
Chief Accounting Officer

Denise Demeter
Vice President
Chief Human Resources Officer

Emily D. Firippis
Assistant Treasurer

Stacey Halota
Vice President–Information Security and Privacy

Jocelyn E. Henderson
Vice President–Corporate Audit Services

Anthony Lyddane
Vice President–Tax

Daniel J. Lynch
Vice President
Treasurer

Pinkie Dent Mayfield
Vice President–Corporate Affairs
Special Assistant to the Chairman

Marcel Snyman
Controller

Theresa A. Wilson
Vice President—Risk Management

Elaine Wolff
Vice President, Associate General Counsel and Assistant Secretary

ANNUAL MEETING

The annual meeting of stockholders will be held on May 4, 2017, at 8:30 am, at CEB Waterview Conference Center, 1919 North Lynn Street, Arlington, VA 22209.

STOCK TRADING

Graham Holdings Company Class B common stock is traded on the New York Stock Exchange under the symbol GHC. Class A common stock is not traded publicly.

STOCK TRANSFER AGENT AND REGISTRAR

General shareholder correspondence:
Computershare
PO Box 30170
College Station, TX 77842-3170

Transfers by overnight courier:
Computershare
211 Quality Circle, Suite 210
College Station, TX 77845

SHAREHOLDER INQUIRIES

Communications concerning transfer requirements, lost certificates, dividends and changes of address should be directed to Computershare Investor Services:

Tel: (800) 446-2617
(781) 575-2723
TDD: (800) 952-9245

Questions also may be sent via the website:
www-us.computershare.com/investor/Contact.

FORM 10-K

The Company's Form 10-K annual report to the Securities and Exchange Commission is part of this annual report to shareholders. All of the Company's SEC filings are accessible from the Company's website, ghco.com.

COMMON STOCK PRICES AND DIVIDENDS

High and low sales prices for the first half of 2015 were revised to reflect the Cable ONE spin-off.

	2016		2015	
Quarter	High	Low	High	Low
January–March	$532	$425	$664	$505
April–June	$520	$452	$676	$575
July–September	$527	$474	$724	$565
October–December	$548	$441	$608	$469

Class A and Class B common stock participate equally as to dividends. Quarterly dividends were paid at the rate of $1.21 in 2016. Total dividends paid during 2015 were $9.10 with three quarterly dividends paid at a rate of $2.65 per share and one dividend paid at a rate of $1.15 per share. The quarterly dividend rate was adjusted as a result of the spin-off of Cable ONE. At January 31, 2017, there were 27 Class A and 455 Class B registered shareholders.

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GRAHAM HOLDINGS
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ARLINGTON ▲ VA 22209

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