UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended September 30, 2017

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number 1-671

GRAHAM HOLDINGS COMPANY

(Exact name of registrant as specified in its charter)

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

(703) 345-6300

(Registrant's telephone number, including area code)

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 Web site, 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "small reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Shares outstanding at October 27, 2017:

Class A Common Stock – 964,001 Shares
Class B Common Stock – 4,567,815 Shares

GRAHAM HOLDINGS COMPANY

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

GRAHAM HOLDINGS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands, except per share amounts)	**2017**	2016	**2017**	2016
Operating Revenues				
Education	**$ 377,033**	$ 386,936	**$ 1,136,706**	$ 1,207,086
Advertising	**69,495**	86,531	**207,143**	225,590
Other	**210,697**	148,171	**572,180**	419,635
	657,225	621,638	**1,916,029**	1,852,311
Operating Costs and Expenses				
Operating	**352,635**	293,194	**1,011,553**	880,859
Selling, general and administrative	**232,782**	237,694	**678,139**	709,344
Depreciation of property, plant and equipment	**16,002**	16,097	**46,525**	48,903
Amortization of intangible assets	**10,923**	6,620	**28,290**	19,160
Impairment of goodwill and other long-lived assets	**312**	—	**9,536**	—
	612,654	553,605	**1,774,043**	1,658,266
Income from Operations	**44,571**	68,033	**141,986**	194,045
Equity in (losses) earnings of affiliates, net	**(532)**	(1,008)	**1,448**	(895)
Interest income	**861**	740	**3,397**	2,052
Interest expense	**(8,619)**	(8,614)	**(25,783)**	(24,533)
Other income (expense), net	**1,963**	(18,225)	**6,881**	15,871
Income Before Income Taxes	**38,244**	40,926	**127,929**	186,540
Provision for Income Taxes	**13,400**	7,800	**40,000**	54,000
Net Income	**24,844**	33,126	**87,929**	132,540
Net Income Attributable to Noncontrolling Interests	**(60)**	—	**(63)**	(868)
Net Income Attributable to Graham Holdings Company Common Stockholders	**$ 24,784**	$ 33,126	**$ 87,866**	$ 131,672
Per Share Information Attributable to Graham Holdings Company Common Stockholders				
Basic net income per common share	**$ 4.45**	$ 5.90	**$ 15.74**	$ 23.33
Basic average number of common shares outstanding	**5,518**	5,544	**5,530**	5,570
Diluted net income per common share	**$ 4.42**	$ 5.87	**$ 15.64**	$ 23.21
Diluted average number of common shares outstanding	**5,554**	5,574	**5,567**	5,600

See accompanying Notes to Condensed Consolidated Financial Statements.

GRAHAM HOLDINGS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)	Three Months Ended September 30 2017	Three Months Ended September 30 2016	Nine Months Ended September 30 2017	Nine Months Ended September 30 2016
Net Income	**$ 24,844**	$ 33,126	**$ 87,929**	$ 132,540
Other Comprehensive Income, Before Tax				
Foreign currency translation adjustments:				
Translation adjustments arising during the period	**11,470**	(353)	**34,776**	(1,629)
Unrealized gains on available-for-sale securities:				
Unrealized gains for the period, net	**47,836**	12,154	**71,370**	7,190
Reclassification of realized gain on sale of available-for-sale securities included in net income	**—**	—	**—**	(6,256)
	47,836	12,154	**71,370**	934
Pension and other postretirement plans:				
Amortization of net prior service cost included in net income	**118**	105	**358**	314
Amortization of net actuarial (gain) loss included in net income	**(1,567)**	289	**(4,958)**	868
	(1,449)	394	**(4,600)**	1,182
Cash flow hedge (loss) gain	**(72)**	49	**(215)**	49
Other Comprehensive Income, Before Tax	**57,785**	12,244	**101,331**	536
Income tax expense related to items of other comprehensive income	**(18,540)**	(5,039)	**(26,665)**	(866)
Other Comprehensive Income (Loss), Net of Tax	**39,245**	7,205	**74,666**	(330)
Comprehensive Income	**64,089**	40,331	**162,595**	132,210
Comprehensive income attributable to noncontrolling interests	**(60)**	—	**(63)**	(868)
Total Comprehensive Income Attributable to Graham Holdings Company	**$ 64,029**	$ 40,331	**$ 162,532**	$ 131,342

See accompanying Notes to Condensed Consolidated Financial Statements.

GRAHAM HOLDINGS COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)	As of September 30, 2017 (Unaudited)	As of December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$ 395,009	$ 648,885
Restricted cash	21,403	21,931
Investments in marketable equity securities and other investments	519,586	448,241
Accounts receivable, net	525,779	615,101
Income taxes receivable	28,108	41,635
Inventories and contracts in progress	62,531	34,818
Other current assets	65,443	60,735
Total Current Assets	1,617,859	1,871,346
Property, Plant and Equipment, Net	259,809	233,664
Investments in Affiliates	122,166	58,806
Goodwill, Net	1,299,226	1,122,954
Indefinite-Lived Intangible Assets, Net	109,901	66,026
Amortized Intangible Assets, Net	239,152	107,939
Prepaid Pension Cost	863,098	881,593
Deferred Income Taxes	15,820	17,246
Deferred Charges and Other Assets	92,884	73,096
Total Assets	$ 4,619,915	$ 4,432,670
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 446,076	$ 500,726
Deferred revenue	353,367	312,107
Current portion of long-term debt	6,713	6,128
Dividends declared	7,025	—
Total Current Liabilities	813,181	818,961
Postretirement Benefits Other Than Pensions	22,929	21,859
Accrued Compensation and Related Benefits	198,907	195,910
Other Liabilities	67,589	65,554
Deferred Income Taxes	454,027	379,092
Mandatorily Redeemable Noncontrolling Interest	12,584	12,584
Long-Term Debt	486,242	485,719
Total Liabilities	2,055,459	1,979,679
Redeemable Noncontrolling Interest	3,779	50
Preferred Stock	—	—
Common Stockholders' Equity		
Common stock	20,000	20,000
Capital in excess of par value	368,505	364,363
Retained earnings	5,648,479	5,588,942
Accumulated other comprehensive income (loss), net of tax		
Cumulative foreign currency translation adjustment	7,778	(26,998)
Unrealized gain on available-for-sale securities	135,753	92,931
Unrealized gain on pensions and other postretirement plans	168,070	170,830
Cash flow hedge	(449)	(277)
Cost of Class B common stock held in treasury	(3,787,459)	(3,756,850)
Total Equity	2,560,677	2,452,941
Total Liabilities and Equity	$ 4,619,915	$ 4,432,670

See accompanying Notes to Condensed Consolidated Financial Statements.

GRAHAM HOLDINGS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)	Nine Months Ended September 30 2017	2016
Cash Flows from Operating Activities		
Net Income	**$ 87,929**	$ 132,540
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and goodwill and other long-lived asset impairment	**84,351**	68,063
Net pension benefit	**(44,281)**	(36,714)
Early retirement program expense	**932**	—
Stock-based compensation expense, net	**7,528**	10,319
Loss (gain) on disposition of businesses, property, plant and equipment, investments and other assets, net	**504**	(62,132)
Foreign exchange (gain) loss	**(6,608)**	33,324
Write-down of cost method investments	**200**	15,161
Equity in (earnings) losses of affiliates, net of distributions	**(1,434)**	895
Provision (benefit) for deferred income taxes	**16,306**	(17,281)
Change in operating assets and liabilities:		
Accounts receivable, net	**106,230**	5,980
Accounts payable and accrued liabilities	**(63,255)**	(38,099)
Deferred revenue	**27,254**	28,014
Income taxes receivable	**14,477**	27,206
Other assets and other liabilities, net	**(9,795)**	(16,492)
Other	**519**	671
Net Cash Provided by Operating Activities	**220,857**	151,455
Cash Flows from Investing Activities		
Investments in certain businesses, net of cash acquired	**(299,938)**	(242,472)
Investments in equity affiliates, cost method and other investments	**(66,097)**	(4,550)
Purchases of property, plant and equipment	**(43,863)**	(41,373)
Disbursement of loan to affiliate	**(6,771)**	(7,730)
Return of investment in equity affiliate	**3,527**	—
Net proceeds from disposition of businesses, property, plant and equipment, investments and other assets	**2,672**	36,777
Proceeds from sales of marketable equity securities	**—**	22,837
Purchases of marketable equity securities	**—**	(48,265)
Net Cash Used in Investing Activities	**(410,470)**	(284,776)
Cash Flows from Financing Activities		
Common shares repurchased	**(35,394)**	(90,328)
Dividends paid	**(21,304)**	(20,532)
Repayments of borrowings	**(7,712)**	—
Deferred payments of acquisition and noncontrolling interest	**(5,187)**	—
Issuance of borrowings	**—**	98,610
Purchase of noncontrolling interest	**—**	(21,000)
Payments of financing costs	**—**	(648)
Other	**(4,962)**	16,608
Net Cash Used in Financing Activities	**(74,559)**	(17,290)
Effect of Currency Exchange Rate Change	**9,768**	(3,147)
Net Decrease in Cash and Cash Equivalents and Restricted Cash	**(254,404)**	(153,758)
Beginning Cash and Cash Equivalents and Restricted Cash	**670,816**	774,952
Ending Cash and Cash Equivalents and Restricted Cash	**$ 416,412**	$ 621,194

See accompanying Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION, BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS

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 seven television broadcasting stations, several websites and print publications, and a marketing solutions provider. The Company's other business operations include manufacturing and home health and hospice services.

Basis of Presentation – The accompanying condensed consolidated financial statements have been prepared in accordance with: (i) generally accepted accounting principles in the United States of America (GAAP) for interim financial information; (ii) the instructions to Form 10-Q; and (iii) the guidance of Rule 10-01 of Regulation S-X under the Securities and Exchange Act of 1934, as amended, for financial statements required to be filed with the Securities and Exchange Commission (SEC). They include the assets, liabilities, results of operations and cash flows of the Company, including its domestic and foreign subsidiaries that are more than 50% owned or otherwise controlled by the Company. As permitted under such rules, certain notes and other financial information normally required by GAAP have been condensed or omitted. Management believes the accompanying condensed consolidated financial statements reflect all normal and recurring adjustments necessary for a fair statement of the Company's financial position, results of operations, and cash flows as of and for the periods presented herein. The Company's results of operations for the three and nine months ended September 30, 2017 and 2016 may not be indicative of the Company's future results. These condensed consolidated financial statements are unaudited and should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

Out of Period Adjustment – In the second quarter of 2016, the Company benefited from a favorable $5.6 million out of period adjustment to the provision for deferred income taxes related to the $248.6 million goodwill impairment at the KHE reporting unit in the third 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 2016 and the related interim periods, based on its consideration of quantitative and qualitative factors.

Use of Estimates in the Preparation of the Condensed Consolidated Financial Statements – The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect the amounts reported herein. 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.

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, full retrospective, requiring retrospective application of the new guidance with a restatement of prior years, or modified retrospective, requiring prospective application of the new guidance with disclosure of results under the old guidance in the first year of adoption. The Company will adopt the new guidance on January 1, 2018 using the modified retrospective approach.

The Company is in the process of completing the evaluation of the impact of adopting the new guidance, as well as assessing the need for any potential changes to the Company's accounting policies and internal control structure. The evaluation of contracts at the Company's television broadcasting and other businesses is substantially complete, and based upon the results of the work performed to date, the Company does not expect the application of the new guidance to have a material impact to the Company's Consolidated Statement of Operations or Balance Sheet, either at initial implementation or on an ongoing basis. The Company is continuing its evaluation of contracts at the education division and is not yet able to estimate the anticipated impact of these arrangements to the Company's Consolidated Financial Statements. The Company expects adoption of the new guidance will result in a change to its current treatment of certain commissions paid to employees and agents at the education division. The Company currently expenses such commissions as incurred. Under the new guidance, the Company expects to capitalize certain commission costs as an incremental cost of obtaining a contract and subsequently amortize the cost as the tuition services are delivered to students. The Company expects to complete its evaluation of the impact of the new guidance in the fourth quarter of 2017. The Company is also evaluating the new disclosures required by the guidance to determine additional information that will need to be disclosed.

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 Condensed 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 Condensed 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. The Company adopted the new guidance as of January 1, 2017. As a result of adoption, the Company recognized a $5.9 million excess tax benefit as a discrete item in its tax provision related to the vesting of restricted stock awards in the first quarter of 2017. This tax benefit is classified as an operating activity on the Condensed Consolidated Statement of Cash Flows. Additionally, the Company elected to account for forfeitures of stock awards as they occur and not estimate a forfeiture rate. The Company does not expect the forfeiture rate election to have a material impact on its 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. The prior period has been adjusted to reflect this adoption, as detailed below:

	Nine Months Ended September 30, 2016		
(in thousands)	As Previously Reported	Adjustment	As Adopted
Cash Flows from Operating Activities			
Increase in Restricted Cash	$ (7,266)	$ 7,266	$ —
Net Cash Provided by Operating Activities	144,189	7,266	151,455
Net Decrease in Cash and Cash Equivalents and Restricted Cash	(161,024)	7,266	(153,758)
Cash and Cash Equivalents and Restricted Cash at Beginning of Period	754,207	20,745	774,952
Cash and Cash Equivalents and Restricted Cash at End of Period	593,183	28,011	621,194

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, with early adoption permitted. The Company early adopted this guidance in the second quarter of 2017.

In March 2017, the FASB issued new guidance that changes the presentation of net periodic pension cost and net periodic postretirement benefit cost for defined benefit plans. The guidance requires an issuer to disaggregate the service cost component of net periodic pension and postretirement benefit cost from other components. Under the new guidance, service cost will be included in the same line item(s) as other compensation costs arising from services rendered by employees during the period, while the other components will be recognized after income from operations. The guidance is effective for interim and fiscal years beginning after December 15, 2017. The guidance must be applied retrospectively; however, a practical expedient is available which permits an employer to use amounts previously disclosed in its pension and postretirement plans footnote for the prior comparative periods. The Company will adopt the new standard in the first quarter of 2018, and expects the following changes to its financial statements upon adoption, as detailed below:

(in thousands)	Income from Operations	Non-operating pension and postretirement benefit income	Income Before Income Taxes
Three Months Ended September 30, 2017			
As Reported	$ 44,571	$ —	$ 38,244
Adjustment	(17,621)	17,621	—
Upon Adoption	26,950	17,621	38,244
Three Months Ended September 30, 2016			
As Reported	$ 68,033	$ —	$ 40,926
Adjustment	(15,705)	15,705	—
Upon Adoption	52,328	15,705	40,926
Nine Months Ended September 30, 2017			
As Reported	$ 141,986	$ —	$ 127,929
Adjustment	(55,042)	55,042	—
Upon Adoption	86,944	55,042	127,929
Nine Months Ended September 30, 2016			
As Reported	$ 194,045	$ —	$ 186,540
Adjustment	(46,966)	46,966	—
Upon Adoption	147,079	46,966	186,540
Twelve Months Ended December 31, 2016			
As Reported	$ 303,534	$ —	$ 250,658
Adjustment	(80,665)	80,665	—
Upon Adoption	222,869	80,665	250,658

2. INVESTMENTS

As of September 30, 2017 and December 31, 2016, the Company had commercial paper and money market investments of $205.8 million and $485.1 million, respectively, that are classified as cash, cash equivalents and restricted cash in the Company’s Condensed Consolidated Balance Sheets.

Investments in marketable equity securities comprised the following:

	As of	
(in thousands)	**September 30, 2017**	December 31, 2016
Total cost	**$ 269,343**	$ 269,343
Gross unrealized gains	**226,256**	154,886
Total Fair Value	**$ 495,599**	$ 424,229

There were no purchases of marketable equity securities during the first nine months of 2017. The Company settled on $48.3 million of marketable equity securities purchases during the first nine months of 2016, of which $47.9 million was purchased in the first nine months of 2016.

There were no sales of marketable equity securities for the first nine months of 2017. The total proceeds from the sales of marketable equity securities for the first nine months of 2016 were $22.8 million, with realized gains of $6.3 million.

In September 2017, the Company acquired approximately 10% of Intersection Holdings, LLC, a company that provides digital marketing and advertising services and products for cities, transit systems, airports, and other public and private spaces, which is accounted for as an investment in affiliate. As of September 30, 2017, the Company held interests in several 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). For the three and nine months ended September 30, 2017, the Company recorded $4.5 million and $14.1 million, respectively, 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. KIHL agreed to loan the joint venture £25 million, of which, £11.0 million was advanced in 2016 and £5.0 million was advanced in 2017. The loan will be repayable over 25 years at an interest rate of 7% and the loan is guaranteed by the University of York.

3. ACQUISITIONS AND DISPOSITIONS OF BUSINESSES

Acquisitions. In the first nine months of 2017, the Company acquired six businesses, two in its education division, two in its television broadcasting division and two in other businesses for $318.7 million in cash and contingent consideration, and the assumption of $59.1 million in certain pension and postretirement obligations.

At the end of June 2017, Graham Healthcare Group (GHG) acquired a 100% interest in Hometown Home Health and Hospice, a Lapeer, MI-based healthcare services provider by purchasing all of its issued and outstanding shares. This acquisition expands GHG’s service area in Michigan. GHG is included in other businesses.

In April 2017, the Company acquired 97.72% of the issued and outstanding shares of Hoover Treated Wood Products, Inc., a Thomson, GA-based supplier of pressure impregnated kiln-dried lumber and plywood products for fire retardant and preservative applications for $206.8 million, net of cash acquired. The fair value of the redeemable noncontrolling interest in Hoover was $3.7 million at the acquisition date, determined using a market approach. The minority shareholders have an option to put some of their shares to the Company starting in 2019 and the remaining shares starting in 2021. The Company has an option to buy the shares of minority shareholders starting in 2027. This acquisition is consistent with the Company’s ongoing strategy of investing in companies with a history of profitability and strong management. Hoover is included in other businesses.

In February 2017, Kaplan acquired a 100% interest in Genesis Training Institute, a Dubai-based provider of professional development training in the United Arab Emirates, by purchasing all of its issued and outstanding shares. Additionally, Kaplan acquired a 100% interest in Red Marker Pty Ltd, an Australia-based regulatory technology company by purchasing all of its outstanding shares. These acquisitions are expected to provide certain strategic benefits in the future.

On January 17, 2017, the Company closed on its agreement with Nexstar Broadcasting Group, Inc. and Media General, Inc. to acquire the assets of WCWJ, a CW affiliate television station in Jacksonville, FL and WSLS, an NBC affiliate television station in Roanoke, VA for cash and the assumption of certain pension obligations. The acquisition of WCWJ and WSLS will complement the other stations that GMG operates.

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 rationale for these acquisitions was 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. Dekko is included in other businesses.

Acquisition-related costs of $3.5 million related to these 2017 acquisitions were expensed as incurred. The aggregate purchase price of the 2017 and 2016 acquisitions was allocated as follows (2017 on a preliminary basis):

	Purchase Price Allocation	
	As of	
(in thousands)	**September 30, 2017**	**December 31, 2016**
Accounts receivable	**$ 12,502**	$ 8,538
Inventory	**25,253**	878
Other current assets	**593**	1,420
Property, plant and equipment	**30,961**	3,940
Goodwill	**143,433**	184,118
Indefinite-lived intangible assets	**41,600**	53,110
Amortized intangible assets	**158,907**	28,267
Pension and other postretirement benefits liabilities	**(59,116)**	—
Other liabilities	**(10,822)**	(21,892)
Deferred income taxes	**(34,875)**	(11,009)
Redeemable noncontrolling interest	**(3,666)**	—
Aggregate purchase price, net of cash acquired	**$ 304,770**	$ 247,370

The 2017 fair values recorded were based upon preliminary valuations and the estimates and assumptions used in such valuations are subject to change, which could be significant, within the measurement period (up to one year from the acquisition date). The recording of deferred tax assets or liabilities, working capital and the final amount of residual goodwill and other intangibles are not yet finalized. 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 $11.0 million and $22.2 million of goodwill for income tax purposes for the acquisitions completed in 2017 and 2016, respectively.

The acquired companies were consolidated into the Company's financial statements starting on their respective acquisition dates. The Company's Condensed Consolidated Statements of Operations include aggregate revenues and operating income for the companies acquired in 2017 of $64.9 million and $4.0 million, respectively, for the third quarter of 2017, and aggregate revenues and operating income of $133.8 million and $3.8 million, respectively, for the first nine months of 2017. The following unaudited pro forma financial information presents the Company's results as if the 2017 acquisitions had occurred at the beginning of 2016. The unaudited pro forma information also includes the 2016 acquisitions as if they occurred at the beginning of 2015:

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	**2017**	2016	**2017**	2016
Operating revenues	**$ 657,225**	$ 696,767	**$ 1,979,784**	$ 2,058,571
Net income	**24,735**	36,250	**96,065**	137,967

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.

Sale of Businesses. In February 2017, GHG completed the sale of Celtic Healthcare of Maryland.

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

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 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 September 30, 2017.

Kaplan University Transaction. On April 27, 2017, certain Kaplan subsidiaries entered into a Contribution and Transfer Agreement (Transfer Agreement) to contribute Kaplan University (KU), its institutional assets and operations to a new, nonprofit, public-benefit corporation (New University) affiliated with Purdue University (Purdue) in exchange for a Transition and Operations Support Agreement (TOSA) to provide key non-academic operations support to New University for an initial term of 30 years with a buy-out option after six years. The transfer does not include any of the assets of Kaplan University School of Professional and Continuing Education (KU-PACE), which provides professional training and exam preparation for professional certifications and licensures, nor does it include the transfer of other Kaplan businesses such as Kaplan Test Preparation and Kaplan International.

Consummation of the transactions contemplated by the Transfer Agreement is subject to various closing conditions, including, among others, regulatory approvals from the U.S. Department of Education (ED), the Indiana Commission for Higher Education (ICHE) and Higher Learning Commissions (HLC), which is the regional accreditor of both Purdue and KU, and certain other state educational agencies and accreditors of programs. In the third quarter of 2017, ICHE granted its approval and the ED provided preliminary approval based on its review of a pre-acquisition application, subject to certain conditions. Kaplan is unable to predict with certainty when and if HLC approval will be obtained; however, such approval is not expected to be received until the first quarter of 2018. If the transaction is not consummated by April 30, 2018, either party may terminate the Transfer Agreement.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

In the second quarter of 2017, as a result of a challenging operating environment, the Forney reporting unit recorded a goodwill and other long-lived asset impairment charge of $9.2 million. The Company performed an interim review of the goodwill and other long-lived assets of the reporting unit by utilizing a discounted cash flow model to estimate the fair value. The carrying value of the reporting unit exceeded the estimated fair value, resulting in a goodwill impairment charge for the amount by which the carrying value exceeded the reporting unit's estimated fair value.

Amortization of intangible assets for the three months ended September 30, 2017 and 2016 was $10.9 million and $6.6 million, respectively. Amortization of intangible assets for the nine months ended September 30, 2017 and 2016 was $28.3 million and $19.2 million, respectively. Amortization of intangible assets is estimated to be approximately $10 million for the remainder of 2017, $38 million in 2018, $37 million in 2019, $33 million in 2020, $28 million in 2021 and $93 million thereafter.

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

(in thousands)	Education	Television Broadcasting	Other Businesses	Total
Balance 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
Acquisitions	**18,986**	**24,256**	**100,191**	**143,433**
Impairment	**—**	**—**	**(7,616)**	**(7,616)**
Dispositions	**—**	**—**	**(412)**	**(412)**
Foreign currency exchange rate changes	**40,867**	**—**	**—**	**40,867**
Balance as of September 30, 2017				
Goodwill	**1,170,856**	**192,601**	**301,920**	**1,665,377**
Accumulated impairment losses	**(350,850)**	**—**	**(15,301)**	**(366,151)**
	$ 820,006	**$ 192,601**	**$ 286,619**	**$ 1,299,226**

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
Balance 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
Acquisitions		**—**		**—**		**18,986**		**18,986**
Foreign currency exchange rate changes		**154**		**—**		**40,713**		**40,867**
Balance as of September 30, 2017								
Goodwill		**389,874**		**166,098**		**614,884**		**1,170,856**
Accumulated impairment losses		**(248,591)**		**(102,259)**		**—**		**(350,850)**
	$	**141,283**	**$**	**63,839**	**$**	**614,884**	**$**	**820,006**

Other intangible assets consist of the following:

(in thousands)	Useful Life Range		As of September 30, 2017 Gross Carrying Amount		Accumulated Amortization		Net Carrying Amount		As of December 31, 2016 Gross Carrying Amount		Accumulated Amortization		Net Carrying Amount
Amortized Intangible Assets													
Student and customer relationships	**1–10 years (1)**	**$**	**224,872**	**$**	**74,304**	**$**	**150,568**	$	129,616	$	55,863	$	73,753
Trade names and trademarks	**2–10 years**		**58,917**		**33,143**		**25,774**		55,240		29,670		25,570
Network affiliation agreements	**15 years**		**42,600**		**2,067**		**40,533**		—		—		—
Databases and technology	**3–6 years (1)**		**19,583**		**4,173**		**15,410**		5,601		4,368		1,233
Noncompete agreements	**2–5 years**		**2,080**		**1,549**		**531**		1,730		1,404		326
Other	**1–8 years**		**13,430**		**7,094**		**6,336**		12,030		4,973		7,057
		$	**361,482**	**$**	**122,330**	**$**	**239,152**	$	204,217	$	96,278	$	107,939
Indefinite-Lived Intangible Assets													
Trade names and trademarks		**$**	**82,651**					$	65,192				
FCC licenses			**26,600**						—				
Licensure and accreditation			**650**						834				
		$	**109,901**					$	66,026				

(1) As of December 31, 2016, the student and customer relationships' minimum useful life was 2 years and the databases and technology's maximum useful life was 5 years.

5. DEBT

The Company's borrowings consist of the following:

(in thousands)		As of September 30, 2017		December 31, 2016
7.25% unsecured notes due February 1, 2019 (1)	**$**	**399,393**	$	399,052
UK Credit facility (2)		**93,450**		91,316
Other indebtedness		**112**		1,479
Total Debt	**$**	**492,955**	$	491,847
Less: current portion		**(6,713)**		(6,128)
Total Long-Term Debt	**$**	**486,242**	$	485,719

(1) The carrying value is net of $0.1 million of unamortized debt issuance costs as of September 30, 2017 and December 31, 2016, respectively.
(2) The carrying value is net of $0.4 million and $0.5 million of unamortized debt issuance costs as of September 30, 2017 and December 31, 2016, respectively.

The Company's other indebtedness at September 30, 2017 is at an interest rate of 2% and matures in 2025.

On July 14, 2016, Kaplan entered into a Facility 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 September 30, 2017, 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.

During the three months ended September 30, 2017 and 2016, the Company had average borrowings outstanding of approximately $492.4 million and $473.7 million, respectively, at average annual interest rates of approximately 6.3% and 6.2%, respectively. During the three months ended September 30, 2017 and 2016, the Company incurred net interest expense of $7.8 million and $7.9 million, respectively.

During the nine months ended September 30, 2017 and 2016, the Company had average borrowings outstanding of approximately $493.5 million and $429.4 million, respectively, at average annual interest rates of approximately 6.3% and 6.9%, respectively. During the nine months ended September 30, 2017 and 2016, the Company incurred net interest expense of $22.4 million and $22.5 million, respectively.

At September 30, 2017, the fair value of the Company’s 7.25% unsecured notes, based on quoted market prices (Level 2 fair value assessment), totaled $424.1 million, compared with the carrying amount of $399.4 million. At December 31, 2016, 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, compared with the carrying amount of $399.1 million. The carrying value of the Company’s other unsecured debt at September 30, 2017 approximates fair value.

6. FAIR VALUE MEASUREMENTS

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

	As of September 30, 2017			
(in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Money market investments (1)	**$ —**	**$ 205,845**	**$ —**	**$ 205,845**
Marketable equity securities (3)	**495,599**	**—**	**—**	**495,599**
Other current investments (4)	**9,948**	**14,039**	**—**	**23,987**
Total Financial Assets	**$ 505,547**	**$ 219,884**	**$ —**	**$ 725,431**
Liabilities				
Deferred compensation plan liabilities (5)	**$ —**	**$ 43,575**	**$ —**	**$ 43,575**
Interest rate swap (6)	**—**	**595**	**—**	**595**
Mandatorily redeemable noncontrolling interest (7)	**—**	**—**	**12,584**	**12,584**
Total Financial Liabilities	**$ —**	**$ 44,170**	**$ 12,584**	**$ 56,754**

	As of December 31, 2016			
(in thousands)	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

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(1) The Company's money market investments are included in cash, cash equivalents and restricted cash and the value considers the liquidity of the counterparty.

(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.

In the second quarter of 2017, the Company recorded a goodwill and other long-lived asset impairment charge of $9.2 million. 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 and made estimates and assumptions regarding future cash flows, discount rates and long-term growth rates.

In the third quarter of 2016, the Company recorded an impairment charge of $15.0 million to its 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 assumptions regarding future cash flows, discount rates, long-term growth rates and market values to determine the estimated fair value.

7. EARNINGS 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 the 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 net income and share data used in the basic and diluted earnings per share computations using the two-class method:

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands, except per share amounts)	**2017**	2016	**2017**	2016
Numerator:				
Numerator for basic earnings per share:				
Net income attributable to Graham Holdings Company common stockholders	**$ 24,784**	$ 33,126	**$ 87,866**	$ 131,672
Less: Dividends paid-common stock outstanding and unvested restricted shares	**(7,047)**	(6,796)	**(28,329)**	(27,329)
Undistributed earnings	**17,737**	26,330	**59,537**	104,343
Percent allocated to common stockholders	**99.07%**	98.70%	**99.07%**	98.70%
	17,572	25,987	**58,981**	102,987
Add: Dividends paid-common stock outstanding	**6,981**	6,708	**28,066**	26,976
Numerator for basic earnings per share	**$ 24,553**	$ 32,695	**$ 87,047**	$ 129,963
Add: Additional undistributed earnings due to dilutive stock options	**1**	2	**4**	7
Numerator for diluted earnings per share	**$ 24,554**	$ 32,697	**$ 87,051**	$ 129,970
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares outstanding	**5,518**	5,544	**5,530**	5,570
Add: Effect of dilutive stock options	**36**	30	**37**	30
Denominator for diluted earnings per share	**5,554**	5,574	**5,567**	5,600
Graham Holdings Company Common Stockholders:				
Basic earnings per share	**$ 4.45**	$ 5.90	**$ 15.74**	$ 23.33
Diluted earnings per share	**$ 4.42**	$ 5.87	**$ 15.64**	$ 23.21

Diluted earnings per share excludes the following weighted average potential common shares, as the effect would be antidilutive, as computed under the treasury stock method:

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	**2017**	2016	**2017**	2016
Weighted average restricted stock	**30**	42	**29**	40

The diluted earnings per share amounts for the three and nine months ended September 30, 2017 and September 30, 2016 exclude the effects of 104,000 and 102,000 stock options outstanding, as their inclusion would have been antidilutive due to a market condition. The diluted earnings per share amounts for the three and nine months ended September 30, 2017 and September 30, 2016 exclude the effects of 5,250 and 6,100 restricted stock awards, respectively, as their inclusion would have been antidilutive due to a performance condition.

In the three and nine months ended September 30, 2017, the Company declared regular dividends totaling $1.27 and $5.08 per common share, respectively. In the three and nine months ended September 30, 2016, the Company declared regular dividends totaling $1.21 and $4.84 per common share, respectively.

8. PENSION AND POSTRETIREMENT PLANS

Defined Benefit Plans. The total benefit arising from the Company’s defined benefit pension plans consists of the following components:

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	**2017**	2016	**2017**	2016
Service cost	**$ 4,591**	$ 5,040	**$ 14,096**	$ 15,422
Interest cost	**11,980**	12,845	**35,945**	38,763
Expected return on assets	**(30,338)**	(30,348)	**(91,078)**	(91,122)
Amortization of prior service cost	**42**	74	**128**	223
Recognized actuarial gain	**(1,039)**	—	**(3,372)**	—
Net Periodic Benefit	**(14,764)**	(12,389)	**(44,281)**	(36,714)
Special separation benefit expense	**932**	—	**932**	—
Total Benefit	**$ (13,832)**	$ (12,389)	**$ (43,349)**	$ (36,714)

In the third quarter of 2017, the Company recorded $0.9 million related to a Separation Incentive Program for certain Forney employees, which will be funded from the assets of the Company's pension plan.

The total cost arising from the Company’s Supplemental Executive Retirement Plan (SERP) consists of the following components:

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	**2017**	2016	**2017**	2016
Service cost	**$ 214**	$ 246	**$ 643**	$ 738
Interest cost	**1,059**	1,096	**3,175**	3,288
Amortization of prior service cost	**114**	114	**342**	342
Recognized actuarial loss	**444**	665	**1,331**	1,995
Net Periodic Cost	**$ 1,831**	$ 2,121	**$ 5,491**	$ 6,363

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 plan were allocated as follows:

	As of	
	September 30, 2017	December 31, 2016
U.S. equities	**51%**	53%
U.S. stock index fund	**32%**	30%
U.S. fixed income	**11%**	11%
International equities	**6%**	6%
	100%	100%

The Company manages approximately 45% 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 fixed income securities. The remaining 55% of plan assets are managed by two investment companies. The goal for the investments 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 from the Plan administrator. As of September 30, 2017, 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 September 30, 2017. 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 September 30, 2017 and 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. These investments were valued at $1,057.5 million and $978.8 million at September 30, 2017 and December 31, 2016, respectively, or approximately 47% and 48%, respectively, of total plan assets.

Other Postretirement Plans. The total cost arising from the Company's other postretirement plans consists of the following components:

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	**2017**	2016	**2017**	2016
Service cost	**$ 257**	$ 346	**$ 771**	$ 1,039
Interest cost	**195**	308	**584**	923
Amortization of prior service credit	**(38)**	(83)	**(112)**	(251)
Recognized actuarial gain	**(972)**	(376)	**(2,917)**	(1,127)
Net Periodic (Benefit) Cost	**$ (558)**	$ 195	**$ (1,674)**	$ 584

9. OTHER NON-OPERATING INCOME (EXPENSE)

A summary of non-operating income (expense) is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	**2017**	2016	**2017**	2016
Foreign currency gain (loss), net	**$ 1,414**	$ (3,797)	**$ 6,608**	$ (33,324)
(Loss) gain on sales of businesses	**—**	—	**(342)**	18,931
Loss on write-downs of cost method investments	**(200)**	(15,000)	**(200)**	(15,161)
Gain on sale of land	**—**	—	**—**	34,072
Gain on sales of marketable equity securities (see Note 2)	**—**	—	**—**	6,256
Gain on the formation of a joint venture	**—**	—	**—**	3,232
Other, net	**749**	572	**815**	1,865
Total Other Non-Operating Income (Expense)	**$ 1,963**	$ (18,225)	**$ 6,881**	$ 15,871

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 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 3). 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 a part of Kaplan corporate and other, for a gain of $18.9 million.

10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The other comprehensive income consists of the following components:

	Three Months Ended September 30					
	2017			2016		
(in thousands)	**Before-Tax Amount**	**Income Tax**	**After-Tax Amount**	Before-Tax Amount	Income Tax	After-Tax Amount
Foreign currency translation adjustments:						
Translation adjustments arising during the period	**$ 11,470**	**$ —**	**$ 11,470**	$ (353)	$ —	$ (353)
Unrealized gains on available-for-sale securities:						
Unrealized gains for the period, net	**47,836**	**(19,134)**	**28,702**	12,154	(4,862)	7,292
Pension and other postretirement plans:						
Amortization of net prior service cost included in net income	**118**	**(47)**	**71**	105	(41)	64
Amortization of net actuarial (gain) loss included in net income	**(1,567)**	**627**	**(940)**	289	(116)	173
	(1,449)	**580**	**(869)**	394	(157)	237
Cash flow hedge:						
(Loss) gain for the period	**(72)**	**14**	**(58)**	49	(20)	29
Other Comprehensive Income	**$ 57,785**	**$ (18,540)**	**$ 39,245**	$ 12,244	$ (5,039)	$ 7,205

	Nine Months Ended September 30					
	2017			2016		
(in thousands)	**Before-Tax Amount**	**Income Tax**	**After-Tax Amount**	Before-Tax Amount	Income Tax	After-Tax Amount
Foreign currency translation adjustments:						
Translation adjustments arising during the period	**$ 34,776**	**$ —**	**$ 34,776**	$ (1,629)	$ —	$ (1,629)
Unrealized gains on available-for-sale securities:						
Unrealized gains for the period, net	**71,370**	**(28,548)**	**42,822**	7,190	(2,876)	4,314
Reclassification of realized gain on sale of available-for-sale securities included in net income	**—**	**—**	**—**	(6,256)	2,502	(3,754)
	71,370	**(28,548)**	**42,822**	934	(374)	560
Pension and other postretirement plans:						
Amortization of net prior service cost included in net income	**358**	**(143)**	**215**	314	(125)	189
Amortization of net actuarial (gain) loss included in net income	**(4,958)**	**1,983**	**(2,975)**	868	(347)	521
	(4,600)	**1,840**	**(2,760)**	1,182	(472)	710
Cash flow hedge:						
(Loss) gain for the period	**(215)**	**43**	**(172)**	49	(20)	29
Other Comprehensive Income	**$ 101,331**	**$ (26,665)**	**$ 74,666**	$ 536	$ (866)	$ (330)

The accumulated balances related to each component of other comprehensive income (loss) 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**
Balance as of December 31, 2016	$ (26,998)	$ 92,931	$ 170,830	$ (277)	$ 236,486
Other comprehensive income (loss) before reclassifications	**34,776**	**42,822**	**—**	**(270)**	**77,328**
Net amount reclassified from accumulated other comprehensive income (loss)	**—**	**—**	**(2,760)**	**98**	**(2,662)**
Other comprehensive income (loss), net of tax	**34,776**	**42,822**	**(2,760)**	**(172)**	**74,666**
Balance as of September 30, 2017	**$ 7,778**	**$ 135,753**	**$ 168,070**	**$ (449)**	**$ 311,152**

The amounts and line items of reclassifications out of Accumulated Other Comprehensive Income (Loss) are as follows:

	Three Months Ended September 30		Nine Months Ended September 30		Affected Line Item in the Condensed Consolidated Statement of Operations
(in thousands)	**2017**	2016	**2017**	2016	
Unrealized Gains on Available-for-sale Securities:					
Realized gain for the period	**$ —**	$ —	**$ —**	$ (6,256)	Other income (expense), net
	—	—	**—**	2,502	Provision for Income Taxes
	—	—	**—**	(3,754)	Net of Tax
Pension and Other Postretirement Plans:					
Amortization of net prior service cost	**118**	105	**358**	314	(1)
Amortization of net actuarial (gain) loss	**(1,567)**	289	**(4,958)**	868	(1)
	(1,449)	394	**(4,600)**	1,182	Before tax
	580	(157)	**1,840**	(472)	Provision for Income Taxes
	(869)	237	**(2,760)**	710	Net of Tax
Cash Flow Hedge					
	51	(3)	**123**	(3)	Interest expense
	(11)	1	**(25)**	1	Provision for Income Taxes
	40	(2)	**98**	(2)	Net of Tax
Total reclassification for the period	**$ (829)**	$ 235	**$ (2,662)**	$ (3,046)	Net of Tax

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(1) These accumulated other comprehensive income components are included in the computation of net periodic pension and postretirement plan cost (see Note 8).

11. CONTINGENCIES

Litigation, Legal and Other Matters. The Company and its subsidiaries are involved in various legal, regulatory and other proceedings that arise in the ordinary course of its business. Although the outcomes of these proceedings against the Company cannot be predicted with certainty, based on currently available information, management believes that there are no existing claims or proceedings (asserted or unasserted) that are likely to have a material effect on the Company’s business, financial condition, results of operations or cash flows. However, based on currently available information, management believes it is reasonably possible that future losses from existing and threatened legal, regulatory and other proceedings in excess of the amounts recorded could reach approximately $25 million.

Kaplan subsidiaries were subject to two 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. (“Diaz”, unsealed March 25, 2008) and *United States of America* ex rel. *Charles Jajdelski* v. *Kaplan Higher Education Corp*. et al. (“Jajdelski”, 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 actually included three separate complainants: 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 limiting the scope and time frame of its False Claims Act allegations regarding compliance with the U.S. Federal Rehabilitation Act. On July 16, 2013, the court entered summary judgment in favor of the Company on all remaining claims in the Gillespie complaint and on March 11, 2015, the U.S. Court of Appeals for the Eleventh Judicial Circuit affirmed that dismissal ending the Gillespie claims in Kaplan’s favor. 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. And, on March 11, 2015, the appellate court affirmed the summary judgment on all issues in the Diaz case except the court reversed and remanded Diaz’s claim that incentive compensation for admissions representatives was improperly based solely on enrollments in violation of the Title IV regulations. On July 13, 2017, the District Court again granted summary judgment on this final issue in the Diaz case in Kaplan’s favor, ending the case at the U.S. District Court level; the plaintiff has filed a notice of appeal.

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. In March 2017, the Appellate Court denied the appeal and ruled fully in

Kaplan’s favor and Jajdelski filed a motion to re-hear the matter. On May 12, 2017, the Court of Appeals issued its Mandate ending the case and relinquishing jurisdiction.

Despite the sale of the nationally accredited Kaplan Higher Education Campuses business, Kaplan retains liability for these claims.

Her Majesty's Revenue and Customs (HMRC), a department of the UK government responsible for the collection of taxes, has raised assessments against the Kaplan UK Pathways business for VAT relating to 2017 and earlier years, which have been paid by Kaplan. Kaplan has challenged these assessments and the case is currently on appeal to a tax tribunal with a hearing expected in 2018. The Company believes it has met all requirements under UK VAT law and expects to recover the receivable related to the assessments that have been paid.

Department of Education (ED) Program Reviews. ED has undertaken program reviews at various KHE locations. Currently, there are three open program reviews, two of which are at campuses that were formerly a part of the KHE Campuses business, including the ED’s final reports on the program reviews at former KHE 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.

On February 23, 2015, the ED began a review of Kaplan University. The review will assess Kaplan’s administration of its Title IV, HEA 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.

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.

Other. In October 2017, Kaplan received a citation from the California Bureau for Private Postsecondary Education (BPPE) that non-employees may not be used to recruit students for its English-language programs operating in California. Kaplan currently operates seven English-language schools in California and non-employee agents are used extensively for student recruitment. Kaplan intends to appeal the citation, but there can be no guarantee that Kaplan will prevail on this matter.

12. BUSINESS SEGMENTS

The Company has four reportable segments: Kaplan Higher Education, Kaplan Test Preparation, Kaplan International and television broadcasting.

The following table summarizes financial information related to each of the Company's business segments:

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	**2017**	2016	**2017**	2016
Operating Revenues				
Education	**$ 376,805**	$ 386,936	**$ 1,136,201**	$ 1,207,225
Television broadcasting	**101,295**	112,389	**298,893**	300,927
Other businesses	**179,125**	122,313	**480,935**	344,298
Corporate office	**—**	—	**—**	—
Intersegment elimination	**—**	—	**—**	(139)
	$ 657,225	$ 621,638	**$ 1,916,029**	$ 1,852,311
Income (Loss) from Operations				
Education	**$ 13,391**	$ 16,333	**$ 55,347**	$ 63,713
Television broadcasting	**32,948**	59,159	**98,181**	144,594
Other businesses	**(7,033)**	(10,801)	**(26,515)**	(21,593)
Corporate office	**5,265**	3,342	**14,973**	7,331
	$ 44,571	$ 68,033	**$ 141,986**	$ 194,045
Equity in Earnings (Losses) of Affiliates, Net	**(532)**	(1,008)	**1,448**	(895)
Interest Expense, Net	**(7,758)**	(7,874)	**(22,386)**	(22,481)
Other Income (Expense), Net	**1,963**	(18,225)	**6,881**	15,871
Income Before Income Taxes	**$ 38,244**	$ 40,926	**$ 127,929**	$ 186,540
Depreciation of Property, Plant and Equipment				
Education	**$ 8,085**	$ 9,977	**$ 24,994**	$ 31,322
Television broadcasting	**3,118**	2,540	**8,703**	7,367
Other businesses	**4,520**	3,289	**11,968**	9,389
Corporate office	**279**	291	**860**	825
	$ 16,002	$ 16,097	**$ 46,525**	$ 48,903
Amortization of Intangible Assets and Impairment of Goodwill and Other Long-Lived Assets				
Education	**$ 1,355**	$ 1,773	**$ 3,798**	$ 5,158
Television broadcasting	**1,071**	63	**2,943**	189
Other businesses	**8,809**	4,784	**31,085**	13,813
Corporate office	**—**	—	**—**	—
	$ 11,235	$ 6,620	**$ 37,826**	$ 19,160
Net Pension (Credit) Expense				
Education	**$ 2,430**	$ 2,838	**$ 7,289**	$ 8,965
Television broadcasting	**485**	428	**1,457**	1,285
Other businesses	**1,375**	279	**2,273**	839
Corporate office	**(18,122)**	(15,934)	**(54,368)**	(47,803)
	$ (13,832)	$ (12,389)	**$ (43,349)**	$ (36,714)

Asset information for the Company's business segments are as follows:

	As of	
(in thousands)	**September 30, 2017**	December 31, 2016
Identifiable Assets		
Education	**$ 1,615,116**	$ 1,479,267
Television broadcasting	**447,702**	336,631
Other businesses	**918,684**	796,935
Corporate office	**157,550**	455,209
	$ 3,139,052	$ 3,068,042
Investments in Marketable Equity Securities	**495,599**	424,229
Investments in Affiliates	**122,166**	58,806
Prepaid Pension Cost	**863,098**	881,593
Total Assets	**$ 4,619,915**	$ 4,432,670

The Company's education division comprises the following operating segments:

(in thousands)	Three Months Ended September 30 2017	Three Months Ended September 30 2016	Nine Months Ended September 30 2017	Nine Months Ended September 30 2016
Operating Revenues				
Higher education	**$ 133,459**	$ 148,602	**$ 416,973**	$ 472,131
Test preparation	**72,680**	78,291	**212,978**	224,102
Kaplan international	**171,259**	160,456	**507,568**	512,068
Kaplan corporate and other	**49**	47	**120**	190
Intersegment elimination	**(642)**	(460)	**(1,438)**	(1,266)
	$ 376,805	$ 386,936	**$ 1,136,201**	$ 1,207,225
Income (Loss) from Operations				
Higher education	**$ 8,809**	$ 11,494	**$ 39,124**	$ 50,037
Test preparation	**7,330**	8,588	**10,207**	13,314
Kaplan international	**5,348**	1,561	**29,009**	22,937
Kaplan corporate and other	**(8,037)**	(5,310)	**(22,957)**	(22,526)
Intersegment elimination	**(59)**	—	**(36)**	(49)
	$ 13,391	$ 16,333	**$ 55,347**	$ 63,713
Depreciation of Property, Plant and Equipment				
Higher education	**$ 2,768**	$ 4,157	**$ 9,448**	$ 12,325
Test preparation	**1,407**	1,441	**4,080**	4,837
Kaplan international	**3,780**	4,360	**11,071**	13,739
Kaplan corporate and other	**130**	19	**395**	421
	$ 8,085	$ 9,977	**$ 24,994**	$ 31,322
Amortization of Intangible Assets	**$ 1,355**	$ 1,773	**$ 3,798**	$ 5,158
Pension Expense				
Higher education	**$ 548**	$ 1,905	**$ 4,636**	$ 5,715
Test preparation	**244**	768	**2,066**	2,304
Kaplan international	**24**	67	**198**	201
Kaplan corporate and other	**1,614**	98	**389**	745
	$ 2,430	$ 2,838	**$ 7,289**	$ 8,965

Asset information for the Company's education division is as follows:

(in thousands)	As of September 30, 2017	As of December 31, 2016
Identifiable assets		
Higher education	**$ 349,756**	$ 373,127
Test preparation	**135,442**	133,709
Kaplan international	**1,110,596**	950,922
Kaplan corporate and other	**19,322**	21,509
	$ 1,615,116	$ 1,479,267

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition.

This analysis should be read in conjunction with the condensed consolidated financial statements and the notes thereto.

Results of Operations

The Company reported income attributable to common shares of $24.8 million ($4.42 per share) for the third quarter of 2017, compared to $33.1 million ($5.87 per share) for the third quarter of 2016.

Items included in the Company's net income for the third quarter of 2017:

- $1.4 million in non-operating foreign currency gains (after-tax impact of $0.9 million, or $0.16 per share).

Items included in the Company's net income for the third quarter of 2016:

- a $15.0 million non-operating expense from the write-down of a cost method investment (after-tax impact of $9.6 million, or $1.70 per share);
- $3.8 million in non-operating foreign currency losses (after-tax impact of $2.4 million, or $0.43 per share); and
- a net nonrecurring $8.3 million deferred tax benefit related to Kaplan's international operations ($1.47 per share).

Revenue for the third quarter of 2017 was $657.2 million, up 6% from $621.6 million in the third quarter of 2016. Revenues increased in other businesses, offset by a decline at the education and television broadcasting divisions. The Company reported operating income of $44.6 million for the third quarter of 2017, compared to $68.0 million for the third quarter of 2016. The operating income decline is driven by lower earnings at the television broadcasting and education divisions, offset by an increase in other businesses.

On April 27, 2017, certain Kaplan subsidiaries entered into a Contribution and Transfer Agreement (Transfer Agreement) to contribute Kaplan University (KU), its institutional assets and operations to a new, nonprofit, public-benefit corporation (New University) affiliated with Purdue University (Purdue) in exchange for a Transition and Operations Support Agreement (TOSA) to provide key non-academic operations support to New University for an initial term of 30 years with a buy-out option after six years. The transfer does not include any of the assets of Kaplan University School of Professional and Continuing Education (KU-PACE), which provides professional training and exam preparation for professional certifications and licensures, nor does it include the transfer of other Kaplan businesses such as Kaplan Test Preparation and Kaplan International.

Consummation of the transactions contemplated by the Transfer Agreement is subject to various closing conditions, including, among others, regulatory approvals from the U.S. Department of Education (ED), the Indiana Commission for Higher Education (ICHE) and Higher Learning Commissions (HLC), which is the regional accreditor of both Purdue and KU, and certain other state educational agencies and accreditors of programs. In the third quarter of 2017, ICHE granted its approval and the ED provided preliminary approval based on its review of a pre-acquisition application, subject to certain conditions. Kaplan is unable to predict with certainty when and if HLC approval will be obtained; however, such approval is not expected to be received until the first quarter of 2018. If the transaction is not consummated by April 30, 2018, either party may terminate the Transfer Agreement.

For the first nine months of 2017, the Company reported income attributable to common shares of $87.9 million ($15.64 per share), compared to $131.7 million ($23.21 per share) for the first nine months of 2016.

Items included in the Company's net income for the first nine months of 2017:

- a $9.2 million goodwill and other long-lived asset impairment charge in other businesses (after-tax impact of $5.8 million, or $1.03 per share);
- $6.6 million in non-operating foreign currency gains (after-tax impact of $4.2 million, or $0.74 per share); and
- $5.9 million in income tax benefits related to stock compensation ($1.06 per share).

Items included in the Company's net income for the first nine months of 2016:

- a $40.3 million non-operating gain from the sales of land and marketable equity securities (after-tax impact of $25.0 million, or $4.42 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);
- a $15.0 million non-operating expense from the write-down of a cost method investment (after-tax impact of $9.6 million, or $1.70 per share);
- $33.3 million in non-operating foreign currency losses (after-tax impact of $21.3 million, or $3.76 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).

Revenue for the first nine months of 2017 was $1,916.0 million, up 3% from $1,852.3 million in the first nine months of 2016. Revenues increased in other businesses, offset by a decline at the education and television broadcasting divisions. The Company reported operating income of $142.0 million for the first nine months of 2017, compared to $194.0 million for first nine months of 2016. Operating results declined at the education and television broadcasting divisions and in other businesses.

Division Results

Education

Education division revenue totaled $376.8 million for the third quarter of 2017, down 3% from $386.9 million for the same period of 2016. Kaplan reported operating income of $13.4 million for the third quarter of 2017, compared to $16.3 million for the third quarter of 2016.

For the first nine months of 2017, education division revenue totaled $1,136.2 million, down 6% from $1,207.2 million for the same period of 2016. Kaplan reported operating income of $55.3 million for the first nine months of 2017, compared to $63.7 million for the first nine months of 2016.

In recent years, Kaplan has formulated and implemented restructuring plans at its various businesses that have resulted in restructuring costs, with the objective of establishing lower cost levels in future periods. Across all businesses, restructuring costs totaled $2.7 million and $4.9 million for the first nine months of 2017 and 2016, respectively. Additional restructuring costs are expected to be incurred in the fourth quarter of 2017.

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

	Three Months Ended September 30			Nine Months Ended September 30		
(in thousands)	**2017**	2016	% Change	**2017**	2016	% Change
Revenue						
Higher education	**$ 133,459**	$ 148,602	(10)	**$ 416,973**	$ 472,131	(12)
Test preparation	**72,680**	78,291	(7)	**212,978**	224,102	(5)
Kaplan international	**171,259**	160,456	7	**507,568**	512,068	(1)
Kaplan corporate and other	**49**	47	4	**120**	190	(37)
Intersegment elimination	**(642)**	(460)	—	**(1,438)**	(1,266)	—
	$ 376,805	$ 386,936	(3)	**$ 1,136,201**	$ 1,207,225	(6)
Operating Income (Loss)						
Higher education	**$ 8,809**	$ 11,494	(23)	**$ 39,124**	$ 50,037	(22)
Test preparation	**7,330**	8,588	(15)	**10,207**	13,314	(23)
Kaplan international	**5,348**	1,561	—	**29,009**	22,937	26
Kaplan corporate and other	**(6,682)**	(3,537)	(89)	**(19,159)**	(17,368)	(10)
Amortization of intangible assets	**(1,355)**	(1,773)	24	**(3,798)**	(5,158)	26
Intersegment elimination	**(59)**	—	—	**(36)**	(49)	—
	$ 13,391	$ 16,333	(18)	**$ 55,347**	$ 63,713	(13)

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 and other continuing education businesses.

In the third quarter and first nine months of 2017, KHE revenue was down 10% and 12%, respectively, due to declines in average enrollments at Kaplan University. KHE operating results declined in the first nine months of 2017 due primarily to lower enrollment at Kaplan University.

New higher education student enrollments at Kaplan University declined 8% in the third quarter of 2017 and 4% for the first nine months of 2017; total students at Kaplan University were 30,461 at September 30, 2017, down 12% from September 30, 2016.

Kaplan University enrollments at September 30, 2017 and 2016, by degree and certificate programs, are as follows:

	As of September 30	
	2017	2016
Certificate	**10.0%**	7.7%
Associate’s	**16.8%**	19.5%
Bachelor’s	**50.1%**	51.0%
Master’s	**23.1%**	21.8%
	100.0%	100.0%

Kaplan Test Preparation (KTP) includes Kaplan’s standardized test preparation programs. KTP revenue declined 7% and 5% for the third quarter and first nine months of 2017, respectively. Enrollments, excluding the new economy skills training offerings, were flat for both the third quarter and the first nine months of 2017; however, unit prices were generally lower. In comparison to 2016, KTP operating results were down 15% and 23% in the third quarter and first nine months of 2017, respectively, due to lower revenues and increased losses from the new economy skills training programs. Operating losses for the new economy skills training programs were $11.2 million and $9.8 million for the first nine months of 2017 and 2016, respectively, including $1.3 million in restructuring costs in the third quarter of 2017. In July 2017, Kaplan announced that Dev Bootcamp, which makes up the majority of KTP’s new economy skills training programs, will be closing operations by the end of 2017.

Kaplan International includes English-language programs, and postsecondary education and professional training businesses largely outside the United States. Kaplan International revenue increased 7% for the third quarter and decreased 1% for the first nine months of 2017, respectively. On a constant currency basis, revenue increased 6% for the third quarter and 3% for the first nine months of 2017, respectively, primarily due to growth in Pathways enrollments and favorable timing of class starts in the third quarter of 2017. Operating income increased 26% in the first nine months of 2017, due largely to improved Pathways results, partially offset by a decline in Singapore. Restructuring costs at Kaplan International totaled $0.9 million and $3.2 million for the first nine months of 2017 and 2016, respectively.

Kaplan corporate and other represents unallocated expenses of Kaplan, Inc.’s corporate office, other minor businesses and certain shared activities.

Television Broadcasting

On January 17, 2017, the Company closed on its 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 continues to operate both stations under their current network affiliations.

In the third quarter of 2017, the Company's televisions stations in Texas and Florida ran extensive news programming coverage of hurricanes Harvey and Irma; this adversely impacted revenues by an estimated $2.1 million and resulted in $0.6 million in additional expenses during the third quarter of 2017.

Revenue at the television broadcasting division decreased 10% to $101.3 million in the third quarter of 2017, from $112.4 million in the same period of 2016. Excluding revenue from the two newly acquired stations, revenue declined 15% due to $13.1 million in third quarter 2016 incremental summer Olympics-related advertising revenue at the Company's NBC affiliates, an $8.1 million decrease in political advertising revenue, lower network revenue and the adverse impact of the hurricanes, offset by $6.0 million in higher retransmission revenues. As previously disclosed, the Company’s NBC affiliates in Houston and Detroit are operating under a new contract with NBC effective January 1, 2017 that has resulted in a significant increase in network fees in 2017, compared to 2016. Operating income for the third quarter of 2017 decreased 44% to $32.9 million, from $59.2 million in the same period of 2016 due to lower revenues and the significantly higher network fees.

Revenue at the television broadcasting division decreased 1% to $298.9 million in the first nine months of 2017, from $300.9 million in the same period of 2016. Excluding revenue from the two newly acquired stations, revenue declined 7% due to $13.1 million in third quarter 2016 incremental summer Olympic-related advertising revenue at the Company's NBC affiliates, a $13.4 million decrease in political advertising revenue, lower network revenue and the adverse impact of the hurricanes, offset by $14.7 million in higher retransmission revenues. Operating income for the first nine months of 2017 decreased 32% to $98.2 million from $144.6 million in the same period of 2016, due to lower revenues and the significantly higher network fees.

Other Businesses

A summary of Other Businesses' operating results is as follows:

	Three Months Ended September 30		%	Nine Months Ended September 30		%
(in thousands)	**2017**	2016	Change	**2017**	2016	Change
Operating Revenues						
Manufacturing	**$ 115,594**	$ 62,207	86	**$ 298,164**	$ 176,908	69
Healthcare	**40,473**	37,690	7	**115,592**	110,068	5
SocialCode	**14,497**	15,180	(4)	**41,926**	38,961	8
Other	**8,561**	7,236	18	**25,253**	18,361	38
	$ 179,125	$ 122,313	46	**$ 480,935**	$ 344,298	40
Operating Expenses						
Manufacturing	**$ 109,813**	$ 58,430	88	**$ 292,893**	$ 169,145	73
Healthcare	**39,553**	36,383	9	**115,214**	107,288	7
SocialCode	**20,745**	26,017	(20)	**50,078**	54,223	(8)
Other	**16,047**	12,284	31	**49,265**	35,235	40
	$ 186,158	$ 133,114	40	**$ 507,450**	$ 365,891	39
Operating Income (Loss)						
Manufacturing	**$ 5,781**	$ 3,777	53	**$ 5,271**	$ 7,763	(32)
Healthcare	**920**	1,307	(30)	**378**	2,780	(86)
SocialCode	**(6,248)**	(10,837)	42	**(8,152)**	(15,262)	47
Other	**(7,486)**	(5,048)	(48)	**(24,012)**	(16,874)	(42)
	$ (7,033)	$ (10,801)	35	**$ (26,515)**	$ (21,593)	(23)
Depreciation						
Manufacturing	**$ 2,717**	$ 1,809	50	**$ 6,629**	$ 5,588	19
Healthcare	**1,166**	686	70	**3,429**	2,090	64
SocialCode	**256**	241	6	**753**	683	10
Other	**381**	553	(31)	**1,157**	1,028	13
	$ 4,520	$ 3,289	37	**$ 11,968**	$ 9,389	27
Amortization of Intangible Assets and Impairment of Goodwill and Other Long-Lived Assets						
Manufacturing	**$ 6,306**	$ 3,089	—	**$ 25,117**	$ 8,722	—
Healthcare	**2,420**	1,674	45	**5,718**	5,028	14
SocialCode	**83**	—	—	**250**	—	—
Other	**—**	21	—	**—**	63	—
	$ 8,809	$ 4,784	84	**$ 31,085**	$ 13,813	—
Pension Expense						
Manufacturing	**$ 947**	$ 24	—	**$ 994**	$ 62	—
Healthcare	**166**	—	—	**498**	—	—
SocialCode	**149**	135	10	**445**	406	10
Other	**113**	120	(6)	**336**	371	(9)
	$ 1,375	$ 279	—	**$ 2,273**	$ 839	—

Manufacturing includes four businesses: Dekko, a manufacturer of electrical workspace solutions, architectural lighting and electrical components and assemblies; Joyce/Dayton Corp., a manufacturer of screw jacks and other linear motion systems; Forney, a global supplier of products and systems that control and monitor combustion processes in electric utility and industrial applications; and Hoover Treated Wood Products, Inc., a supplier of pressure impregnated kiln-dried lumber and plywood products for fire retardant and preservative applications that the Company acquired in April 2017. In September 2016, Dekko acquired Electri-Cable Assemblies (ECA), a manufacturer of power, data and electrical solutions for the office furniture industry.

In the second quarter of 2017, the Company recorded a $9.2 million goodwill and other long-lived asset impairment charge at Forney, due to lower than expected revenues resulting from sluggish overall demand for its energy products. Excluding this impairment charge, manufacturing revenues and operating income increased in the first nine months of 2017 due to the Hoover acquisition and growth and improved results at Dekko, including the ECA acquisition, offset by a decline in results at Forney, which included $1.2 million in expense related to a separation incentive program implemented in the third quarter of 2017 that will be mostly funded from the assets of the Company's pension plan.

The Graham Healthcare Group (GHG) provides home health and hospice services in three 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. The company incurred approximately $2.0 million in expense in conjunction with these transactions in the second quarter of 2016. At the end of June 2017, GHG acquired Hometown Home Health and Hospice, a Lapeer, MI-based healthcare services provider. Healthcare revenues increased 5% in the first nine months of 2017, while operating results were down, due largely to increased bad debt expense and higher 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 June 2016 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.

SocialCode is a provider of marketing solutions on social, mobile and video platforms. SocialCode revenue declined 4% in the third quarter of 2017 due to lower digital advertising spend from its clients in the retail and consumer packaged goods sectors. SocialCode revenue increased 8% for the first nine months of 2017, due to growth in digital advertising service revenues. SocialCode reported operating losses of $6.2 million and $8.2 million in the third quarter and first nine months of 2017, compared to operating losses of $10.8 million and $15.3 million in the third quarter and first nine months of 2016. SocialCode's operating results included incentive accruals of $5.1 million and $1.2 million related to SocialCode’s phantom equity plans in the third quarter and first nine months of 2017, respectively; whereas 2016 results included incentive accruals of $11.3 million and $12.0 million related to phantom equity plans for the relevant periods. As of September 30, 2017, the accrual balance related to these plans is $23.2 million.

Other businesses also include 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 the first nine months of 2017 adversely affected operating results.

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. The total pension credit for the Company’s traditional defined benefit plan was $54.6 million and $48.1 million in the first nine months of 2017 and 2016, respectively.

Without the pension credit, corporate office expenses declined slightly in the first nine months of 2017.

Equity in Earnings (Losses) of Affiliates

At September 30, 2017, the Company held interests in a number of home health and hospice joint ventures, and interests in several other affiliates. In September 2017, the Company acquired approximately 10% of Intersection Holdings, LLC, which provides digital marketing and advertising services and products for cities, transit systems, airports, and other public and private spaces. The Company recorded equity in losses of affiliates of $0.5 million for the third quarter of 2017, compared to $1.0 million for the third quarter of 2016. The Company recorded equity in earnings of affiliates of $1.4 million for the first nine months of 2017, compared to equity in losses of affiliates of $0.9 million for the first nine months of 2016.

Other Non-Operating Income (Expense)

The Company recorded total other non-operating income, net, of $2.0 million for the third quarter of 2017, compared to other non-operating expense, net, of $18.2 million for the third quarter of 2016. The 2017 amounts included $1.4 million in foreign currency gains and other items. The 2016 amounts included a $15.0 million write-down of a cost method investment and $3.8 million in foreign currency losses, partially offset by other items.

The Company recorded total other non-operating income, net, of $6.9 million for the first nine months of 2017, compared to $15.9 million for the first nine months of 2016. The 2017 amounts included $6.6 million in foreign currency gains and other items. The 2016 amounts included a $34.1 million gain on the sale of land; an $18.9 million gain on the sale of a business; a $6.3 million gain on the sale of marketable equity securities; a $3.2 million gain on the Residential joint venture transaction and other items, partially offset by $33.3 million in foreign currency losses and $15.2 million in cost method investment write-downs.

Net Interest Expense and Related Balances

The Company incurred net interest expense of $7.8 million and $22.4 million for the third quarter and first nine months of 2017, compared to $7.9 million and $22.5 million for the third quarter and first nine months of 2016. At September 30, 2017, the Company had $493.0 million in borrowings outstanding at an average interest rate of 6.3% and cash, marketable equity securities and other investments of $936.0 million.

Provision for Income Taxes

The Company's effective tax rate for the first nine months of 2017 was 31.3%, compared to 28.9% for the first nine months of 2016. The low effective tax rate in the first nine months of 2017 is due to a $5.9 million income tax benefit related to the vesting of restricted stock awards. In the first quarter of 2017, the Company adopted a new accounting standard that requires all excess income tax benefits and deficiencies from stock compensation to be recorded as discrete items in the provision for income taxes. Excluding this $5.9 million benefit, the overall income tax rate for the first nine months of 2017 was 35.9%.

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 these adjustments, the Company's effective tax rate for the first nine months of 2016 was 36.4%.

The Company is in the process of finalizing an international legal restructuring plan in the fourth quarter of 2017 that may have an impact on the Company's tax provision in the fourth quarter of 2017 related to deferred taxes provided on undistributed earnings of investments in non-U.S. subsidiaries.

Earnings Per Share

The calculation of diluted earnings per share for the third quarter and first nine months of 2017 was based on 5,554,458 and 5,566,874 weighted average shares outstanding, compared to 5,573,982 and 5,599,898 for the third quarter and first nine months of 2016. At September 30, 2017, there were 5,531,816 shares outstanding. 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 has remaining authorization for 163,237 shares as of September 30, 2017.

Kaplan University Transaction

On April 27, 2017, certain Kaplan subsidiaries entered into a Contribution and Transfer Agreement (Transfer Agreement) to contribute Kaplan University (KU), its institutional assets and operations to a new, nonprofit, public-benefit corporation (New University) affiliated with Purdue University (Purdue) in exchange for a Transition and Operations Support Agreement (TOSA) to provide key non-academic operations support to New University for an initial term of 30 years with a buy-out option after six years.

Subject to the terms and conditions of the Transfer Agreement, KU, which specializes in online education and is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC), will transfer certain assets of its Title IV-authorized and accredited academic institution to New University. New University will operate as a new Indiana public university, as authorized by the Indiana legislature, affiliated with Purdue University and focused on expanding access to education for non-traditional adult learners.

New University will initially consist of the seven schools and colleges that now comprise KU (excluding the Kaplan University School of Professional and Continuing Education (KU-PACE)), which together offer more than 100 diploma, certificate, associate, bachelor, masters and doctoral degree programs, as well as 15 campus and learning center locations. Current online and campus KU students, approximately 30,000, will transfer to New University. Current full-time and adjunct faculty and staff at KU, approximately 3,000 employees, will also transfer to New University. New University will be governed by its own board of trustees that will fully control all of the functions of New University, the members of which will be appointed by Purdue. Upon approval by its accreditor, New University will have its own institutional accreditation and maintain its own faculty and administrative operations.

In addition, as part of the transfer of KU's academic institution, students, academic personnel, faculty and operations, and property leases for KU's campuses and learning centers, KU also will transfer Kaplan-owned academic curriculum and content related to KU courses (collectively and including such specific assets as described in the Transfer Agreement, the "Institutional Assets"). The transfer does not include any of the assets of KU-PACE, which provides professional training and exam preparation for professional certifications and licensures, nor does it include the transfer of other Kaplan businesses such as Kaplan Test Preparation and Kaplan International.

Kaplan will receive nominal cash consideration upon transfer of KU's Institutional Assets. In exchange for KU's Institutional Assets, upon closing of the transactions contemplated by the Transfer Agreement, the parties will enter into the TOSA. Under the TOSA, Kaplan will provide operations support activities to New University including, but not limited to, technology support, help-desk functions, human resources support for transferred faculty and employees, admissions support, financial aid administration, marketing and advertising, back-office business functions, international student recruiting and certain test preparation services.

Pursuant to the TOSA, Kaplan is not entitled to receive any reimbursement of costs incurred in providing support functions, or any fee, unless and until New University has first covered all of its operating costs. In addition, during each of New University's first five years, prior to any payment to Kaplan, New University is entitled to a priority payment of $10 million per year beyond costs, which will be paid out of New University's revenue. To the extent New University's revenue is insufficient to pay the $10 million per year priority payment, Kaplan is required to advance an amount to New University to cover such insufficiency. In addition, if New University achieves cost savings in its budgeted operating costs, then New University may be entitled to a payment equal to 20 percent of such savings (the "Efficiency Payment"). To the extent that there are sufficient revenues to pay the Efficiency Payment, pay the priority payment and to reimburse New University for its direct expenses, Kaplan will receive reimbursement for Kaplan's costs of providing the support activities in addition to a fee equal to 12.5 percent of New University's revenue.

The TOSA has a 30-year initial term, which will automatically renew for five-year periods unless terminated. After the sixth year, New University has the right to terminate the agreement upon payment of a termination fee equal to 1.25 times New University's revenue for the preceding 12-month period (the "Buy-out Fee"), which payment would be made pursuant to a 10-year note, and at New University's election, it may receive for no additional consideration certain assets used by Kaplan to provide the support activities pursuant to the TOSA. At the end of the 30-year term, if New University does not renew the TOSA, New University would be obligated to make a final payment of six times the fees paid or payable during the preceding 12-month period, which payment would be made pursuant to a 10-year note, and at New University's election, it may receive for no additional consideration certain assets used by Kaplan to provide the support activities pursuant to the TOSA.

Either party may terminate the TOSA at any time if New University generates (i) $25 million in cash operating losses for three consecutive years or (ii) aggregate cash operating losses greater than $75 million at any point during the initial term. Operating loss is defined as the amount of revenue New University generates minus the sum of (1) New University's and Kaplan's respective costs in performing academic and support functions and (2) the $10 million priority payment to New University in each of the first five years. Upon termination for any reason, New University would retain the assets that Kaplan contributed pursuant to the Transfer Agreement. Each party also has certain termination rights in connection with a material default or material breach of the TOSA by the other party.

Kaplan, on the one hand, and Purdue, on the other hand, will indemnify each other for damages arising from the indemnifying party's breaches of its representations and warranties and covenants under the Transfer Agreement as well as for damages arising from certain specified liabilities, subject to certain limitations set forth in the Transfer Agreement.

Consummation of the transactions contemplated by the Transfer Agreement is subject to various closing conditions, including, among others, regulatory approvals from the U.S. Department of Education (ED), the Indiana Commission for Higher Education (ICHE) and Higher Learning Commissions (HLC), which is the regional accreditor of both Purdue and KU, and certain other state educational agencies and accreditors of programs. In the third quarter of 2017, ICHE granted its approval and the ED provided preliminary approval based on its review of a pre-acquisition application, subject to certain conditions. Kaplan is unable to predict with certainty when and if HLC approval will be obtained; however, such approval is not expected to be received until the first quarter of 2018. If the transaction is not consummated by April 30, 2018, either party may terminate the Transfer Agreement.

Kaplan Higher Education (KHE) Regulatory Matters

Gainful Employment. On June 15, 2017, the Department of Education (ED) announced its intention to negotiate issues related to gainful employment. On July 5, 2017, the ED released in the Federal Register an announcement that the Department will allow additional time, until July 1, 2018, for institutions to comply with certain disclosure requirements in the GE regulations. The Department also extended the deadline for all programs to file supporting documents for their alternate earnings appeals to February 1, 2018.

Borrower Defense to Repayment Regulations. The final rule was scheduled to be effective July 1, 2017. However, prior to the effective date, on June 14, 2017, the ED delayed implementation of a large portion of the rule.

In the summer of 2017, ED began the process to revise and replace the Borrower Defense regulation by holding public hearings and soliciting nominations for individuals to serve on a negotiated rulemaking committee that will meet this fall and winter to develop a new regulation. On October 24, 2017, ED issued an interim final rule, effective upon publication, delaying the effective date of the current regulation until July 1, 2018, citing a lawsuit from the California Association of Private Postsecondary Schools (CAPPS), which is pending, as well as the requirement in the Higher Education Act that ED must give institutions time to make changes without disrupting the current award year. Also on October 24, 2017, ED issued a notice of proposed rulemaking (NPRM) seeking public comment on a proposal to further delay the effective date of the Borrower Defense regulation to July 1, 2019. ED explained that this further delay would prevent institutions having to make changes twice, once for the 2018 effective date, and again for the 2019 effective date, which is when the revised regulation is expected to take effect.

Financial Condition: Capital Resources and Liquidity

Acquisitions, Dispositions and Exchanges

Acquisitions. In the first nine months of 2017, the Company acquired six businesses, two in its education division, two in its television broadcasting division and two in other businesses for $318.7 million in cash and contingent consideration, and the assumption of $59.1 million in certain pension and postretirement obligations.

At the end of June 2017, Graham Healthcare Group (GHG) acquired a 100% interest in Hometown Home Health and Hospice, a Lapeer, MI-based healthcare services provider by purchasing all of its issued and outstanding shares. This acquisition expands GHG's service area in Michigan. GHG is included in other businesses.

In April 2017, the Company acquired 97.72% of the issued and outstanding shares of Hoover Treated Wood Products, Inc., a Thomson, GA-based supplier of pressure impregnated kiln-dried lumber and plywood products for fire retardant and preservative applications for $206.8 million, net of cash acquired. The fair value of the redeemable noncontrolling interest in Hoover was $3.7 million at the acquisition date, determined using a market approach. The minority shareholders have an option to put some of their shares to the Company starting in 2019 and the remaining shares starting in 2021. The Company has an option to buy the shares of minority shareholders starting in 2027. This acquisition is consistent with the Company's ongoing strategy of investing in companies with a history of profitability and strong management. Hoover is included in other businesses.

In February 2017, Kaplan acquired a 100% interest in Genesis Training Institute, a Dubai-based provider of professional development training in the United Arab Emirates, by purchasing all of its issued and outstanding shares. Additionally, Kaplan acquired a 100% interest in Red Marker Pty Ltd, an Australia-based regulatory technology company by purchasing all of its outstanding shares. These acquisitions are expected to provide certain strategic benefits in the future.

On January 17, 2017, the Company closed on its agreement with Nexstar Broadcasting Group, Inc. and Media General, Inc. to acquire the assets of WCWJ, a CW affiliate television station in Jacksonville, FL and WSLS, an NBC affiliate television station in Roanoke, VA for cash and the assumption of certain pension obligations. The acquisition of WCWJ and WSLS will complement the other stations that GMG operates.

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 rationale for these acquisitions was 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. Dekko is included in other businesses.

Sale of Businesses. In February 2017, GHG completed the sale of Celtic Healthcare of Maryland.

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

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 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 September 30, 2017.

Capital Expenditures

During the first nine months of 2017, the Company's capital expenditures totaled $40.4 million. This amount includes assets acquired during the year, whereas the amounts reflected in the Company's Condensed 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 $60 million to $70 million in 2017.

Liquidity

The Company's borrowings were $493.0 million and $491.8 million, at September 30, 2017 and December 31, 2016, respectively.

At September 30, 2017, the Company had cash and cash equivalents, restricted cash and investments in marketable securities and other investments totaling $936.0 million, compared with $1,119.1 million at December 31, 2016. The Company's net cash provided by operating activities, as reported in the Company's Condensed Consolidated Statements of Cash Flows, was $220.9 million for the first nine months of 2017, compared to $151.5 million for the first nine months of 2016. The increase is due to significant cash receipts from customers received in the first nine months of 2017 compared to 2016, offset by increased current year payments to vendors and a reduction in the income tax receivable in the prior year.

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). 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. The Credit Agreement contains terms and conditions, including remedies in the event of a default by the Company, typical of facilities of this type.

On July 14, 2016, Kaplan entered into a Facility 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.

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 1.5%. 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 the first nine months of 2017, the Company acquired an additional 61,039 shares of its Class B common stock at a cost of approximately $35.4 million.

On May 24, 2017, Moody's affirmed the Company's credit ratings, but revised the outlook from Stable to Negative.

The Company's current credit ratings are as follows:

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

At September 30, 2017 and December 31, 2016, the Company had working capital of $804.7 million and $1,052.4 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 expects to fund its estimated capital needs primarily through existing cash balances and internally generated funds. In management's opinion, the Company will have sufficient liquidity to meet its various cash needs within the next 12 months.

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 approximately £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. In the third quarter of 2017, KIHL advanced an additional £5.0 million to York International College.

In October 2017, the Company made additional commitments totaling $45.0 million for certain investments expected to close in the next twelve months.

During the third quarter of 2017, Kaplan renewed an office lease, committing an additional $20.1 million in rent payments through 2024. There were no other significant changes to the Company's contractual obligations or other commercial commitments from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Forward-Looking Statements

This report contains certain forward-looking statements that are based largely on the Company's current expectations. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results and achievements to differ materially from those expressed in the forward-looking statements. For more information about these forward-looking statements and related risks, please refer to the section titled "Forward-Looking Statements" in Part I of the Company's Annual Report on Form 10-K.

Item 3. 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 foreign business operations, which are subject to foreign exchange rate risk. The Company's market risk disclosures set forth in its 2016 Annual Report filed on Form 10-K have not otherwise changed significantly.

Item 4. Controls and Procedures.

(a) 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 September 30, 2017. 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.

(b) 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 September 30, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the quarter ended September 30, 2017, 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*
July	—	$ —	—	223,526
August	41,258	586.17	41,258	182,268
September	19,031	568.28	19,031	163,237
	60,289	$ 580.52	60,289	

*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 September 30, 2017 were open market transactions.

Item 6. Exhibits.

Exhibit Number	Description
2.1	Contribution and Transfer Agreement, dated April 27, 2017, by and among Kaplan Higher Education, LLC, Iowa College Acquisition, LLC, Purdue University, and Purdue New U, Inc. (incorporated by reference to the Company's Current Report on Form 8-K filed April 27, 2017). *
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 dated 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 dated 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 dated 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 dated June 29, 2015).
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 Quarterly Report on Form 10-Q for the period ended September 30, 2017, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2017 and 2016, (ii) Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2017 and 2016, (iii) Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016, (iv) Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and 2016, and (v) Notes to Condensed 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.

* Graham Holdings Company hereby undertakes to furnish supplementally a copy of any omitted exhibit or schedule to such agreement to the U.S. Securities and Exchange Commission upon request.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements 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.

GRAHAM HOLDINGS COMPANY
(Registrant)

Date: November 1, 2017

/s/ Timothy J. O'Shaughnessy

Timothy J. O'Shaughnessy,
President & Chief Executive Officer
(Principal Executive Officer)

Date: November 1, 2017

/s/ Wallace R. Cooney

Wallace R. Cooney,
Senior Vice President-Finance
(Principal Financial Officer)

Exhibit 31.1

RULE 13a-14(a)/15d-14(a) CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Timothy J. O’Shaughnessy, Chief Executive Officer (principal executive officer) of Graham Holdings Company (the “Registrant”), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Registrant;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of Registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

/s/ Timothy J. O’Shaughnessy

Timothy J. O’Shaughnessy
Chief Executive Officer
November 1, 2017

Exhibit 31.2

RULE 13a-14(a)/15d-14(a) CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Wallace R. Cooney, Senior Vice President-Finance (principal financial officer) of Graham Holdings Company (the "Registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Registrant;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/s/ Wallace R. Cooney

Wallace R. Cooney
Senior Vice President–Finance
November 1, 2017

Exhibit 32

SECTION 1350 CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER AND THE CHIEF FINANCIAL OFFICER
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Graham Holdings Company (the “Company”) on Form 10-Q for the period ended September 30, 2017 (the “Report”), Timothy J. O'Shaughnessy, Chief Executive Officer of the Company and Wallace R. Cooney, Senior Vice President-Finance of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Timothy J. O’Shaughnessy

Timothy J. O’Shaughnessy
Chief Executive Officer
November 1, 2017

/s/ Wallace R. Cooney

Wallace R. Cooney
Senior Vice President–Finance
November 1, 2017