GRAHAM HOLDINGS

Risk Factors

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

Failure to Comply With Statutory and Regulatory Requirements as a Service Provider to Title IV Participating Institutions Could Result in Monetary Liabilities or Subject Kaplan to Other Material Adverse Consequences.

KHE is a third-party service provider to Title IV participating institutions, including Purdue Global. As a result, KHE is required to comply with certain laws and regulations in connection with the provision of these services. KHE also provides financial aid services to Purdue Global, and as such, meets the definition of a "third-party servicer" contained in Title IV regulations. By virtue of being a third-party servicer, KHE is also subject to applicable statutory provisions of Title IV and ED regulations that, among other things, require KHE to be jointly and severally liable with Purdue Global to the ED for any violation by Purdue Global of any Title IV statute or ED regulation or requirement. Separately, if KHE provides financial aid services to more than one Title IV participating institution, it will be required to arrange for an independent auditor to conduct an annual Title IV compliance audit of Kaplan's compliance with applicable ED requirements. KHE also is subject to other federal and state laws, including, but not limited to, information security requirements established by the Federal Trade Commission, as well as the applicable provisions of the Family Educational Rights and Privacy Act regarding the privacy of student records.

Failure to comply with these and other federal and state laws and regulations could result in adverse consequences, including, for example:

- The imposition on KHE of fines or repayment obligations for Title IV funds to the ED, or the termination or limitation of Kaplan's eligibility to provide services as a third-party servicer to Purdue Global or any other Title IV participating institution if KHE fails to comply with statutory or regulatory requirements applicable to such service providers;
- Adverse effects on Kaplan's business and operations from a reduction or loss in KHE's revenues under the TOSA or any other agreement with any Title IV participating institution if a client institution loses or has limits placed on its Title IV eligibility, accreditation, operations or state licensure, or is subject to fines, repayment obligations or other adverse actions due to non-compliance by KHE (or the institution) with Title IV, accreditor, federal or state agency requirements;

- Liability under the TOSA or any other agreement with any Title IV participating institution for non-compliance with federal, state or accreditation requirements arising from conduct by Kaplan; and
- Liability for non-compliance with Title IV or other federal or state requirements occurring prior to the transfer of KU to Purdue.

Failure to Comply With the ED's Title IV Incentive Compensation Rule Could Subject Kaplan to Liabilities, Sanctions and Fines.

Under the ED's incentive compensation rule, an institution participating in Title IV programs may not provide any commission, bonus or other incentive payment to any person or entity engaged in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV funds if such payment is based directly or indirectly on success in securing enrollments or financial aid. KHE is a third party providing bundled services to Title IV participating institutions, including recruiting and, in the case of Purdue Global, financial aid services. As such, KHE is also subject to the incentive compensation rules and cannot provide any commission, bonus or other incentive payment to any covered employees, subcontractors or other parties engaged in certain student recruiting, admission or financial aid activities based on success in securing enrollments or financial aid. In addition, Purdue Global's tuition revenue sharing payments to KHE under the TOSA (as well as any other agreement with any Title IV participating institution) must comply with revenue sharing guidance provided by the ED related to bundled services agreements. KHE cannot predict how the ED or a federal court will interpret, revise or enforce all aspects of the incentive compensation rule or the revenue sharing guidance in the future or how it would be applied to KHE's agreements. Any revisions or changes in interpretation or enforcement could require KHE and its client institutions to change their practices or the tuition revenue sharing payment terms of KHE's agreements with such client institutions and could have a material adverse effect on Kaplan's business and results of operations. Additionally, failure to comply with the incentive compensation rule could result in litigation or enforcement actions against KHE or its clients and could result in liabilities, fines or other sanctions against KHE or its clients, which could have a material adverse effect on Kaplan's business and results of operations.

Failure to Comply With the ED's Title IV Misrepresentation Regulations Could Subject Kaplan to Liabilities, Sanctions and Fines.

A Title IV participating institution is required to comply with the ED regulations related to misrepresentations and with related federal and state laws. These laws and regulations are broad in scope and may extend to statements by servicers, such as KHE, that provide marketing or certain other services to such institutions. These laws and regulations may also apply to KHE's employees and agents, with respect to statements addressing the nature of an institution's programs, financial charges or the employability of its graduates. KHE provides certain marketing and other services to Title IV participating institutions. A violation of misrepresentation regulations or other federal or state laws and regulations applicable to the services KHE provides to its client institutions arising out of statements by KHE, its employees or agents could require KHE or its clients to pay fines or other monetary penalties, result in the termination of KHE's agreements with client institutions or require KHE to pay the costs associated with indemnifying its client institutions from applicable losses. Additionally, failure to comply with these or other federal and state laws and regulations could result in the imposition on KHE of fines or federal student aid repayment obligations to the ED or the termination or limitation of KHE's eligibility to provide services as a third-party servicer to Purdue Global or any other Title IV participating institution.

Compliance Reviews, Program Review, Audits and Investigations Could Result in Findings of Non-Compliance With Statutory and Regulatory Requirements and Result in Liabilities, Sanctions and Fines.

As a third-party servicer providing financial aid services to a Title IV participating institution, KHE is subject to reviews, audits, investigations and other compliance reviews conducted by various regulatory agencies and auditors, including, among others, the ED, the ED's Office of the Inspector General, accrediting bodies and state and various other federal agencies. These compliance reviews can result in findings of non-compliance with statutory and regulatory requirements that can, in turn, result in proceedings to impose fines, liabilities, civil or criminal penalties or other sanctions against KHE. KHE will be required, if it enters into contracts to provide financial aid services to more than one Title IV participating institution, to arrange for an independent auditor to conduct an annual Title IV compliance audit of KHE's compliance with applicable ED requirements.

On February 23, 2015, the ED began a program review assessing KU's administration of its Title IV and Higher Education Act programs during the 2013–2014 and 2014–2015 award years. In 2018, Kaplan contributed the institutional assets and operations of KU to Purdue Global, and the university became Purdue Global, under the ownership and control of Purdue University. However, Kaplan retains liability for any financial obligations the ED might impose under this program review and that are the result of actions taken during the time that Kaplan owned the institution. On September 28, 2018, the ED issued a Preliminary Program Report (Preliminary Report). This Preliminary Report is not final, and the ED may change the findings in the final report. None of the initial findings in the Preliminary Report carries material financial liability. Although the program review technically covers only the 2013–2015 award years, the ED included a review of the treatment of student financial aid refunds for students who withdrew from a program prior to completion in 2017–2018. KHE cannot predict the outcome of this review, when it will be completed, whether any final findings of non-compliance with financial aid program or other requirements will impact KHE's operations, or what liability or other limitations the ED might place on KHE or Purdue Global as a result of this review.

There are also two open program reviews at campuses that were part of the KHE Campuses business prior to its sale in 2015 to ECA. The ED's final reports on the program reviews at former KHE Broomall, PA, and Pittsburgh, PA, locations are pending. KHE retains responsibility for any financial obligations resulting from these program reviews.

Prior to the transfer of the institutional assets and operations of KU to Purdue Global, on September 3, 2015, Kaplan sold substantially all of the assets of the KHE Campuses. As part of the transaction, similar to the transfer of KU, Kaplan retained liability for the pre-sale conduct of the KHE schools. Kaplan may also have liabilities under certain lease obligations. Although Kaplan no longer owns KU or the KHE Campuses, Kaplan may be liable to the current owners of KU and the KHE Campuses, respectively, for the pre-sale conduct of the schools.

Non-Compliance With Regulations by KHE's Client Institutions May Adversely Impact Kaplan's Results of Operations.

KHE currently provides services to higher education institutions that are heavily regulated by federal and state laws and regulations and by accrediting body requirements. Presently, a substantial portion of KHE's revenues are attributable to service fees it receives under its agreement with Purdue Global, which are dependent upon revenues generated by Purdue Global and upon Purdue Global's eligibility to participate in the Title IV federal student aid program. To maintain Title IV eligibility, Purdue Global and KHE's other client institutions must be certified by the ED as eligible institutions, maintain authorizations by applicable state education agencies and be accredited by an accrediting commission recognized by the ED. Purdue Global and KHE's other client institutions must also comply with the extensive statutory and regulatory requirements of the Higher Education Act and other state and federal laws and accrediting standards relating to their financial aid management, educational programs, financial strength, disbursement and return of Title IV funds, facilities, recruiting practices, representations made by the school and various other matters. If the ED finds that Purdue Global or any other KHE client institution has failed to comply with Title IV requirements or improperly disbursed or retained Title IV program funds, it may take one or more of a number of actions, including fining the school, requiring the school to repay Title IV program funds, limiting or terminating the school's eligibility to participate in Title IV programs, initiating an emergency action to suspend the school's participation in the Title IV programs without prior notice or opportunity for a hearing, transferring the school to a method of Title IV payment that would adversely affect the timing of the institution's receipt of Title IV funds, requiring the submission of a letter of credit, denying or refusing to consider the school's application for renewal of its certification to participate in the Title IV programs or for approval to add a new campus or educational program and referring the matter for possible civil or criminal investigation. There can be no assurance that the ED will not take any of these or other actions in the future, whether as a result of lawsuits, program reviews or otherwise. In turn, any of the aforementioned consequences could have a material adverse effect on Kaplan's operating results even though such institution's compliance is affected by circumstances beyond Kaplan's control, including, for example:

- a reduction or loss in KHE's revenues under the TOSA or other client agreements if Purdue Global or any other KHE client institution loses or has limits placed on its Title IV eligibility, accreditation or state licensure;
- a reduction or loss in KHE's revenues under the TOSA or other client agreements if Purdue Global or any other client institution is subject to fines, repayment obligations or other adverse actions due to non-compliance by Purdue Global (or Kaplan) with Title IV, accreditor or state agency requirements;
- the imposition on KHE of fines or repayment obligations to the ED or the termination or limitation on KHE's eligibility to provide services to Purdue Global or other Title IV participating institutions if findings of non-compliance by Purdue Global or such other institution result in a determination that Kaplan failed to comply with statutory or regulatory requirements applicable to service providers; and
- liability under the TOSA or other client agreements for non-compliance with federal, state or accreditation requirements arising from KHE's conduct.

Kaplan May Fail to Realize the Anticipated Benefits of the Purdue Global Transaction.

Kaplan's ability to realize the anticipated benefits of the Purdue Global transaction will depend in part on its ability to successfully and efficiently provide services to Purdue Global. Achieving the anticipated benefits is subject to a number of uncertainties, including whether the services can be provided in the manner and at the cost Kaplan anticipated and whether Purdue Global is able to realize anticipated student enrollment levels. If Kaplan is unable to effectively execute its post-transaction strategy, it may take longer than anticipated to achieve the benefits of the transaction or it may not realize those benefits at all.

Regulatory Changes and Developments Could Negatively Impact Kaplan's Results of Operations.

Any legislative, regulatory or other development that has the effect of materially reducing the amount of Title IV financial assistance or other federal, state or private financial assistance available to the students of Purdue Global or any other client institution could have a material adverse effect on Kaplan's business and results of operations. In addition, any development that has the effect of making the terms on which Title IV financial assistance or other financial assistance funds are available to Purdue Global's or other client institutions' students materially less attractive could have a material adverse effect on Kaplan's business and results of operations. The laws, regulations and other requirements applicable to KHE or any KHE client institutions are subject to change and to interpretation. In addition, there are other factors related to Purdue Global's and other client institutions' compliance with federal, state and accrediting agency requirements—many of which are largely outside of Kaplan's control—that could have a material adverse effect on Purdue Global's and other client institutions' revenues and, in turn, on Kaplan's operating results including, for example:

Reduction in Title IV or other federal, state or private financial assistance: KHE receives revenue based on its agreements with client institutions and, particularly, from Purdue Global revenue under the TOSA. Purdue Global is expected to derive a significant percentage of its tuition revenues from its participation in Title IV programs. Any legislative, regulatory or other development that materially reduces the amount of Title IV, federal, state or private financial assistance available to the students of Purdue Global and other client institutions could have a material adverse effect on Kaplan's business and results of operations. In addition, any development that makes the terms of such financial assistance less attractive could have a material adverse effect on Kaplan's business and results of operations.

Compliance reviews and litigation: Institutions participating in the Title IV programs, including Purdue Global and other client institutions, are subject to program reviews, audits, investigations and other compliance reviews conducted by various regulatory agencies and auditors, including, among others, the ED, the ED's Office of the Inspector General, accrediting bodies and state and various other federal agencies, as well as annual audits by an independent certified public accountant of compliance with Title IV statutory and regulatory requirements. Purdue Global and other client institutions also may be subject to various lawsuits and claims related to a variety of matters, including, but not limited to, alleged violations of federal and state laws and accrediting agency requirements. These compliance reviews and litigation matters could extend to activities conducted by KHE on behalf of Purdue Global or other client institutions and to KHE itself as a third-party servicer subject to Title IV regulations.

Legislative and regulatory change: Congress periodically revises the Higher Education Act and other laws and enacts new laws governing the Title IV programs and annually determines the funding level for each Title IV program and may make changes in the laws at any time. The ED also may issue new regulations and guidance or change its interpretation of new regulations at any time. Any action by Congress or the ED that significantly reduces funding for Title IV programs or the ability of Purdue Global or other client institutions to receive funding through these programs could reduce Purdue Global's or other client institutions' enrollments and tuition revenues and, in turn, the revenues KHE receives under the TOSA or other agreements. Any action by Congress or the ED that impacts the ability of Purdue Global or other client institutions to contract with KHE to provide bundled services in exchange for a share of tuition revenue could require KHE to modify the TOSA, other agreements and its practices and could impact the revenues KHE may receive under such agreements. Congress, the ED and other federal and state regulators may create new laws or take actions that may require Purdue Global, other client institutions or KHE to modify practices in ways that could have a material adverse effect on Kaplan's business and results of operations.

Increased regulatory scrutiny of postsecondary education and service providers: The increased scrutiny of online schools that offer programs similar to those offered by Purdue Global or other client institutions has resulted, and may continue to result, in additional enforcement actions, investigations and lawsuits by the ED, other federal agencies, state Attorneys General and state licensing agencies. Recent enforcement actions have resulted in substantial liabilities, restrictions and sanctions and, in some cases, have led to the loss of Title IV eligibility and closure of institutions. This increased activity and other current and future activity may result in further legislation, rulemaking and other governmental actions affecting the amount of student financial assistance for which Purdue Global's or other client institutions' students are eligible, or Kaplan's participation in Title IV programs as a third-party servicer to Purdue Global or such other client institutions'.

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

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

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

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

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

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

Changes in International Regulatory and Physical Environments and Failure to Comply With Regulations Applicable to International Operations Could Negatively Affect International Student Enrollments and Kaplan's Business.

Any significant changes to the regulatory environment or other factors, including geopolitical instability, imposition of international sanctions or a natural disaster or pandemic in either the students' countries of origin or countries in which they desire to study, could negatively affect Kaplan's ability to attract and retain students and negatively affect Kaplan's operating results. In addition, any significant changes to visa policies or the tax environment in a country in which KI operates could negatively affect its operating results.

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

KI's operations, institutions and programs in the United States may be subject to state-level regulation and oversight by state regulatory agencies, whose approval or exemption from approval is necessary to allow an institution to operate in the state. These agencies may establish standards for instruction, qualifications of faculty, location and nature of facilities, financial policies and responsibility and other operational matters. Institutions that seek to admit international students are required to be federally certified and legally authorized to operate in the state in which the institution is physically located in order to be allowed to issue the relevant documentation to permit international students to obtain a visa.

A substantial portion of KI's revenue comes from programs that prepare international students to study and travel in English-speaking countries, principally the U.S., the U.K., Australia and Singapore. KI's ability to enroll students in these programs is directly dependent on its ability to comply with complex regulatory environments. For example, on June 23, 2016, the U.K. held a referendum in which voters approved a proposal that the U.K. leave the European Union (EU), commonly referred to as "Brexit." The impact of Brexit on KI will depend, in part, on the outcome of future negotiations regarding the terms of the U.K.'s withdrawal from the EU, possibly including any transition period or the outcome of any "no deal" exit. A "no deal" exit would occur if the U.K. government is not able to reach agreement with the EU on either transition arrangements or its future relationship with the EU upon exit. This risk increased following the rejection of the proposed transition arrangements by the U.K. Parliament on January 15, 2019. A U.K. exit on a "no deal" basis could adversely impact the value of the British pound as compared to other currencies or potentially have other adverse consequences and may have a materially adverse impact on KI's results of operations. Uncertainty over the outcome of the negotiations and the possibility of a "no deal" exit may materially or significantly diminish interest in traveling to the U.K. for study. If the U.K. is no longer viewed as a favorable study destination, KI's ability to recruit international students will be adversely impacted, which would result in material adverse impacts to KI's results of operations and cash flows. The U.K. government's Immigration White Paper, issued in December 2018, clarified that EU nationals' ability to enter the U.K. for long- or short-term study will change. EU national students seeking to study higher education courses will be broadly subject to similar rules as those that presently apply to non-EU international students (KI Pathways). EU national students seeking to study English-language courses will either require an Electronic Travel Authorization or a short-term student visa (KI English). EU nationals do not currently require visas or face other administrative barriers to study in the U.K. It is also expected that recruitment of staff from outside the U.K will become more difficult and that Kaplan may experience difficulties in attracting and retaining international staff in the U.K. It is unclear how international student recruitment agents and prospective international students will view the U.K. as a study destination after the introduction of these new requirements, the EU exit negotiations and the U.K.'s eventual exit from the EU. The introduction of new visa and other administrative requirements, Brexit and the perception of the U.K. as a less favorable study destination may have a materially adverse impact on KI's ability to recruit international students, KI's results of operations and cash flows. Additionally, if the U.K does not receive a determination of adequacy under the EU General Data Protection Regulation, then flows of personal data within KI or between KI and its clients, suppliers, business partners and affiliates may be substantially disrupted.

Changes to levels of direct and indirect government funding for international education programs would also materially impact the success of KI's operations. For example, if government funding for vocational education in Singapore were to be reduced or the training requirements materially changed, this could produce a material adverse effect on Kaplan's operating results. Similarly, if access to student loan or other funding were to be lost for KI operations that admit students who are entitled to receive the benefit of this funding, this could also produce a material adverse effect on Kaplan's operating results.

In January 2017, President Trump signed an executive order barring citizens from Syria, Iraq, Iran, Yemen, Libya, Somalia and Sudan from entering the U.S. for a certain period of time. Although the countries that were the subject of the order were subsequently modified, the order has been the subject of significant international press interest. Negative perceptions regarding travel to the U.S. could have a significant negative impact on KI's ability to recruit international students, and Kaplan's business could be adversely and materially impacted.

In December 2017, the Australian government established a Royal Commission into Misconduct in the Banking Superannuation and Financial Services Industry. The Commission's investigations have uncovered, among other things, widespread issues around fee misuse, adviser misconduct, conflicted remuneration and errant breach reporting. These findings are expected to result in new legislation that would further increase the compliance burden on affected firms, that may in the short term adversely impact spending on training and KI's business in Australia.

Liability Under Real Estate Lease Guaranties for Certain Real Estate Leases That Were Assigned to Education Corporation of America Could Have a Material Adverse Effect on the Company's Results.

On September 3, 2015, Kaplan sold to ECA substantially all of the assets of KHE Campuses. The transaction included the transfer of certain real estate leases that were guaranteed by Kaplan. As part of the transaction, Kaplan retained liability for, among other things, obligations arising under certain lease guarantees. ECA is currently in receivership and has terminated all of its higher education operations other than the New England College of Business (NECB). The receiver has repudiated all of ECA's real estate leases not connected to NECB. Although ECA is required to indemnify Kaplan for any amounts Kaplan must pay due to ECA's failure to fulfill its obligations under real estate leases guaranteed by Kaplan, ECA's financial situation and the existence of secured and unsecured creditors make it unlikely that Kaplan will recover from ECA. If Kaplan is not successful in mitigating these liabilities, the Company's results could be materially adversely impacted. In the second half of 2018, the Company recorded an estimated $17.5 million in losses on guarantor lease obligations in connection with this transaction in other non-operating expense.

Changes in U.K. Tax Laws Could Have a Material Adverse Effect on KI.

Her Majesty's Revenue and Customs (HMRC), a department of the U.K. government responsible for the collection of taxes, has raised assessments against the Kaplan UK Pathways business for Value Added Tax (VAT) relating to 2017 and earlier years, which have been paid by Kaplan. In September 2017, in a case captioned *Kaplan International Colleges UK Limited* v*. The Commissioners for Her Majesty's Revenue and Custom*, Kaplan challenged these assessments. The Company believes it has met all requirements under U.K. VAT law and expects to recover the £15.4 million receivable related to the assessments and subsequent payments that have been paid. Following a hearing held in January 2019, before the First Tier Tax Tribunal, all issues related to EU law in the case were referred to the Court of Justice of the European Union. In March 2018, HMRC issued new VAT guidance indicating a change of policy in relation to certain aspects of a cost sharing exemption that could impact the U.K. Pathways business adversely if this guidance were to become law. As of December 31, 2018, this guidance had not yet been incorporated into U.K. law. If Kaplan is not successful in preserving a valid exemption under U.K. VAT law, the U.K. Pathways business would incur additional VAT expense in the future, which may materially adversely impact its financial results. In a separate matter, there is presently a legal case awaiting judgment at the Supreme Court in the U.K. that may impact U.K. Pathways' ability to receive the benefit of an exemption from charging its students VAT on tuition fees. The case may reverse or amend existing law and guidance that permits private providers to qualify as a “college of a university” and, therefore, receive the benefit of an exemption from charging its students VAT on tuition fees. If the case restricts which businesses are capable of constituting “colleges of a university” and entitled to exemption, KI Pathways Colleges’ financial results may be materially adversely impacted if they are not able to meet any new requirements.

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

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

Increased Competition Resulting From Technological Innovations in News, Information and Video Programming Distribution Systems and Changing Consumer Behavior Could Adversely Affect the Company’s Operating Results.

The continuing growth and technological expansion of Internet-based services has increased competitive pressure on the Company’s media businesses. Examples of such developments include online delivery of programming, technologies that enable users to fast-forward or skip advertisements and devices that allow users to consume content on demand and in remote locations, while avoiding traditional commercial advertisements or subscription payments. Changing consumer behavior may also put pressure on the Company’s media businesses to change traditional distribution methods. Anticipating and adapting to changes in technology and consumer behavior on a timely basis will affect the Company’s media businesses’ ability to continue to increase their revenue. The development and deployment of new technologies and changing consumer behavior have the potential to negatively and significantly affect the Company’s media businesses in ways that cannot now be reliably predicted and that may have a material adverse effect on the Company’s operating results.

Changes in the Nature and Extent of Government Regulations Could Adversely Affect the Company’s Television Broadcasting Business and Other Businesses.

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

Transition to the New Technical Standard for Broadcast Television Stations May Alter the Competitive Environment in the Company's Stations' Markets or Cause the Company to Incur Increased Costs.

The Company cannot predict how the market will react to the new broadcast television station technical standard, ATSC 3.0, as voluntary transition to the new standard has only recently been approved. ATSC 3.0-capable consumer devices are not yet widely available in the United States. Many station groups are beginning to test ATSC 3.0 under experimental authority. Notably, there is a large consortium led by the Pearl Media Group (of which GMG is a member) that is leading test trials in the Phoenix market. Competing stations that transition to ATSC 3.0 may increase competition for the Company's stations and/or create competitive pressure for the Company's stations to launch ATSC 3.0 streams. Any transition to ATSC 3.0 may cause the Company to incur substantial costs. In the event the Company transitions any or all of its stations to ATSC 3.0, there can be no guarantee that the Company would successfully earn sufficient additional revenues to offset such costs. More generally, the deployment of ATSC 3.0 may have other material effects on the Company's media businesses that cannot now be reliably predicted and that may have a material adverse effect on the Company's operating results.

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

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

System Disruptions and Security Threats to the Company's Information Technology Infrastructure Could Have a Material Adverse Effect on Its Businesses and Results of Operations.

The Company relies extensively on information technology systems, networks and services, including Internet sites, data hosting and processing facilities and tools and other hardware, software and technical platforms, some of which are managed, hosted, provided and/or used by third parties or their vendors, to assist in conducting the Company's business.

The Company's systems and the third-party systems on which it relies are subject to damage or interruption from a number of causes, including power outages; computer and telecommunications failures; computer viruses; security breaches; cyberattacks, including the use of ransomware; catastrophic events such as fires, floods, earthquakes, tornadoes or hurricanes; acts of war or terrorism; and design or usage errors by our employees, contractors or third-party service providers. Although the Company and the third-party service providers seek to maintain their respective systems effectively and to successfully address the risk of compromise of the integrity, security and consistent operations of these systems, such efforts may not be successful. As a result, the Company or its service providers could experience errors, interruptions, delays or cessations of service in key portions of the Company's information technology infrastructure, which could significantly disrupt its operations and be costly, time consuming and resource intensive to remedy. To the extent such vulnerabilities require remediation, such remedial measures could require significant resources and may not be implemented before such vulnerabilities are exploited. As the cybersecurity landscape evolves, the Company may also find it necessary to make significant further investments to protect data and infrastructure. Any of these events could have a material adverse effect on the Company's businesses and results of operations.

Failure to Comply With Privacy Laws or Regulations Could Have an Adverse Effect on the Company's Businesses.

Various federal, state and international laws and regulations govern the collection, use, retention, sharing and security of consumer data. This area of the law is evolving, and interpretations of applicable laws and regulations differ. Legislative activity in the privacy area may result in new laws that are relevant to the Company's operations, including the use of consumer data for marketing or advertising, that could result in exposure to material liability. For example, new general data privacy regulations adopted by the European Union known as the General Data Protection Regulation (GDPR), became effective in May 2018. These regulations require companies to meet requirements regarding the handling of personal data, including its use, protection and transfer and the ability of persons whose data is stored to correct or delete such data about themselves. Failure to meet the GDPR could result in fines of up to 4% of the Company's annual global revenues. In addition, in 2018, California adopted a new privacy law, scheduled to go into effect on January 1, 2020, that borrows heavily from the GDPR. Compliance with the GDPR and other applicable international and U.S. privacy laws can be costly and time consuming. Claims of failure to comply with the Company's privacy policies or applicable laws or regulations could form the basis of governmental or private-party actions against the Company and could result in significant penalties. Such claims and actions could cause damage to the Company's reputation and could have an adverse effect on the Company's businesses.

Extensive Regulation of the Healthcare Industry Could Adversely Affect the Company's Healthcare Businesses and Results of Operations.

The home health and hospice industries are subject to extensive federal, state and local laws, with regulations affecting a wide range of matters, including licensure and certification, quality of services, qualifications of personnel, confidentiality and security of medical records, relationships with physicians and other referral sources, operating policies and procedures, and billing and coding practices. These laws and regulations change frequently, and the manner in which they will be interpreted is subject to change in ways that may not be predicted.

Effective January 1, 2020, the Center for Medicare and Medicaid Services (CMS) is proposing to overhaul the home health prospective payment system. Specifically, CMS is moving forward with a new payment model that will decrease reimbursement for cases with high therapy utilization and increase billing costs by significantly increasing billing requirements. In addition, CMS has implemented a rigorous system of claim reviews to identify improper home health billing and limit fraudulent claims. Pre-claim review disrupts the current healthcare delivery model and results in additional home health operational costs for chart reviews, preparation and response to CMS.

Reimbursement for services by third-party payers, including Medicare, Medicaid and private health insurance providers, continues to decline, while authorization, audit and compliance requirements continue to add to the cost of providing those services. In 2018, an anticipated extensive overhaul of Medicare reimbursement for the home health benefit was delayed, but is likely to be revisited in the future.

Managed-care organizations, hospitals, physician practices and other third-party payers continue to consolidate in response to the evolving regulatory environment, thereby enhancing their ability to influence the delivery of healthcare services and decreasing the number of organizations serving patients.

This consolidation could adversely impact Graham Healthcare Group's businesses if they are unable to maintain their ability to participate in established networks.

GHG also is subject to periodic and routine reviews, audits and investigations by federal and state government agencies and private payers, and these audits could result in negative findings that adversely impact the business. CMS increasingly uses third-party, for-profit contractors to conduct these reviews, many of whom share in the amounts that CMS denies. These reviews, audits and investigations consume significant staff and financial resources and may take years to resolve.

Failure to Comply With Environmental, Health, Safety and Other Laws Applicable to The Company's Manufacturing Operations Could Negatively Impact the Company's Business.

The Company's manufacturing operations are subject to extensive federal, state and local laws and regulations relating to the environment, as well as health and workplace safety, including those set forth by the Occupational Safety and Health Administration (OSHA) and the Environmental Protection Agency (EPA) and state and local regulatory authorities in the U.S. Such laws and regulations affect manufacturing operations and require compliance with various environmental registrations, licenses, permits, inspections and other approvals. The Company incurs substantial costs to comply with these regulations, and any failure to comply may expose the Company to civil, criminal and administrative fees, fines, penalties and interruptions in operations that could have a material adverse impact on the Company's results of operations, financial position or cash flows.

The Company May Be Subject to Liability Claims That Could Have a Material Adverse Effect on Its Business.

The Company's manufacturing operations are subject to hazards inherent in manufacturing and production-related facilities. An accident involving these operations or equipment may result in losses due to personal injury; loss of life; damage or destruction of property, equipment or the environment; or a suspension of operations. Insurance may not protect the Company against liability for certain kinds of events, including events involving pollution or against losses resulting from business interruption. Any damages caused by the Company's operations that are not covered by insurance, or are in excess of policy limits, could materially adversely affect the Company's result of operations, financial position or cash flows

Failure to Successfully Integrate Acquired Businesses Could Negatively Affect the Company's Business.

Acquisitions involve various inherent risks and uncertainties, including difficulties in efficiently integrating the service offerings, accounting and other administrative systems of an acquired business; the challenges of assimilating and retaining key personnel; the consequences of diverting the attention of senior management from existing operations; the possibility that an acquired business does not meet or exceed the financial projections that supported the purchase price; and the possible failure of the due diligence process to identify significant business risks or liabilities associated with the acquired business. A failure to effectively manage growth and integrate acquired businesses could have a material adverse effect on the Company's operating results.

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

Goodwill generally represents the purchase price paid in excess of the fair value of net tangible and intangible assets acquired in a business combination. Goodwill is not amortized and remains on the Company's balance sheet indefinitely unless there is an impairment or a sale of a portion of the business. Goodwill is subject to an impairment test on an annual basis and when circumstances indicate that an impairment is more likely than not. Such circumstances include an adverse change in the business climate for one of the Company's businesses or a decision to dispose of a business or a significant portion of a business. The Company's businesses each face uncertainty in their business environment due to a variety of factors. The Company may experience unforeseen circumstances that adversely affect the value of the Company's goodwill or intangible assets and trigger an evaluation of the amount of the recorded goodwill and intangible assets. There also exists a reasonable possibility that changes to the discounted cash flow model used to perform the quantitative goodwill impairment review, including a decrease in the assumed projected cash flows or long-term growth rate, or an increase in the discount rate assumption, could result in an impairment charge. Future write-offs of goodwill or other intangible assets as a result of an impairment in the business could materially adversely affect the Company's results of operations and financial condition.

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

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

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

If the Distribution were determined not to qualify for non-recognition of gain and loss, the Company, its stockholders who received shares of Cable ONE common stock in the Distribution, or both, could be subject to tax. Any such tax liability could be material.