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In its pursuit of a bigger share of pay-television fees, CBS Corp. plays hardball. Last summer it humbled Time Warner Cable Inc. in a month-long blackout that cost TWC hundreds of thousands of subscribers. This summer, CBS has turned its attention to its TV-station affiliates' share of pay-TV fees. Last week CBS stripped an Indianapolis television station of its affiliation with the network, switching to another company's station at year-end, after a fee disagreement. The timing couldn't have been worse: The station's owner, LIN Media LLC, was due to be acquired by broadcaster Media General for $1.6 billion in the biggest TV-station merger of the year.

On Wednesday, the impact of CBS's affiliation switch became apparent when Media General cut the price it is paying for LIN by nearly 7%, or more than $100 million, citing the CBS move, among other factors. Without the CBS affiliation—and the prime time network programming that comes with it—the station will be forced to acquire other programming to show at night, likely causing the station's tens of millions of dollars in annual revenue to decline, according to Gabelli & Co.

That makes the Indianapolis station the most significant casualty yet in the battle by networks to grab more of the fees that pay-TV operators shell out for the right to rebroadcast television programming. At the heart of the dispute is the relationship between networks and affiliates. While major networks own stations in big markets, they rely on stations owned by other companies to show their programming in most of the U.S.

And the fees that pay-TV operators, such as Comcast Corp. and Time Warner Cable, pay for the programming go to the broadcast stations in each market, not the network itself. As a result, a network will receive pay-TV "retransmission" fees directly only from those stations it owns outright. But the networks have successfully demanded that affiliate stations share the fees they negotiate with pay-TV operators.

In the past few years, networks have been pushing for a bigger cut of that revenue. SNL Kagan estimates that networks currently take about 45% of the fees that affiliates receive, but it projects that will rise to about 50% by 2019. And Robin Flynn, the research director at SNL Kagan, says the Indianapolis affiliate change is one of several factors suggesting "it's going to get to 50% a lot quicker."

This is bad news for stations. Most of their revenue comes from advertising, which is growing very slowly, whereas retransmission fees are rising quickly. Kagan estimates retransmission fees will account for 16% of broadcast-station revenue this year, rising to 19% next year. That's why the Indianapolis episode is making Wall Street nervous. "One of the big investor concerns has been that over time, the broadcast

pennlive.com **Amid protests, Lebanon GOP committee votes to withhold spending in Diamond race**	networks will squeeze station groups and request more and more from them in terms of program fees," says Marci Ryvicker, an analyst at Wells Fargo Securities (and 2011 Cable Academy presenter). "And so the fantastic margins that these stations are getting on retransmission-consent revenue, which is the monthly fee they get from the cable guys, will go down." Broadcast stocks tumbled after the Indianapolis affiliation switch. Sinclair Broadcast Group and Nexstar Broadcasting Group, two of the biggest station owners, fell more than 8%. CBS, which has fewer cable-channel properties than its competitors but has been working to reduce its reliance on advertising in recent years, has made no secret of its plans to aggressively claim its slice of the retransmission-consent-fee pie. It has told investors that it plans to get to $2 billion in retransmission revenue, including money paid by affiliate stations, by 2020, up from $500 million last year. The Time Warner Cable dispute reflected CBS's determination. Some analysts see the Indianapolis affiliate change as CBS's attempt to force its dozens of affiliates to play the same kind of hardball with their pay-TV distributors. "CBS is saying, 'Look, we are getting $1.50 to $2 [per subscriber per month] from the cable companies,'" says Ms. Ryvicker. "'You should be able to get $1.25 to $1.75, and you need to fight for that, because we are going to charge you a programming fee, whether it's 65 cents or 80 cents." SNL Kagan estimates that LIN Media stations get an average of $1 per subscriber in retransmission revenue right now. Industry executives say CBS has been asking for the equivalent of about 80 cents per subscriber from its affiliates in its recent negotiations. On a conference call with analysts on Aug. 7, Mr. Moonves said that while the company initially thought it should claim about half of its affiliates' retransmission consent-fee revenue, lately it has begun to charge a flat "program fee" instead. "We decide what we think is fair. It generally is higher than the 50% number," Mr. Moonves said, adding that CBS affiliates are doing well "primarily because of network programming both in prime time and in sports." CBS declined to make any of its executives available for this article, but CBS Television Networks Distribution President Ray Hopkins hinted last week that Tribune—which owns the station that got the new CBS affiliation—was willing to pay more than LIN. "We've very pleased that Tribune recognized the full value that CBS brings to their businesses and brands across all of their stations included in this deal," he said in a statement announcing the affiliation change and renewals for four Tribune-owned CBS affiliates ahead of schedule. – ***Wall Street Journal***

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