**As TV ratings and profits fall, networks face a cliffhanger**

**By Brian Stelter**

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NEW YORK » As the major television networks prepare to unveil their new fall lineups in New York this week, they face threats from seemingly every corner.

Prime time ratings for the Big Four broadcasters — ABC, CBS, NBC and Fox — together are dropping more precipitously than ever. Even their biggest hits, like "American Idol" and "Dancing With the Stars," are fading fast. Advertisers are moving more cash to cable, cutting into the networks' quarterly profits. New technologies are making it easier to skip those ads, anyway.

That's not all: There are more outlets for programming cropping up all the time, with Netflix and Amazon and dozens of cable channels competing for actors, producers and, most important, viewers. Government regulators want to take back some of the spectrum allotted to local television stations. And startups like Aereo are threatening to deprive the stations of subscription revenue, causing some broadcasters to talk of options that were unthinkable a few short years ago. Some have warned they might go off the air entirely.

The many pressures bearing down on the industry are casting a shadow over this week's upfronts, an annual tradition in New York in which the new sitcoms, dramas and reality shows are previewed at splashy, open-bar events and the networks try to capture their portion of an estimated $9 billion in advertising commitments.

"The networks are getting picked at from every direction," said Jessica Reif Cohen, the senior media analyst at Bank of America Merrill Lynch. "This year was the tipping point," she said, "when the television ratings really fell apart."

The broadcast networks have managed declining viewership for years, but executives by and large said they believed that they had escaped the punishing losses that digital media exacted on the music industry and newspapers. Now, though, they say they are not sure; even the industry's biggest boosters concede that the business is under assault, though they express confidence that the networks will adapt. While the challenges before them are numerous, said Gary Carr, who oversees ad-buying at TargetCast, "the networks are far from dead."

They are certainly smaller, though. Historically the broadcasters have had outsize cultural and civic importance in the country; their owners pledged long ago to uphold the public interest and provide news programming in exchange for valuable access to the airwaves. These days the public has mostly forgotten about those commitments. The major network news divisions have as a group suffered hundreds of layoffs in recent years, though they have added staff members to supply news for their websites. No matter how optimistic the Big Four networks may feel about their new seasons — TV executives are masters at forgetting last year's failures and staying on message about the future — the stress factors are enough to make them long for the days of "I Love Lucy," when 50 million Americans would watch the same show at the same time.

Now NBC and ABC are lucky to get 5 million to tune in. Goldman Sachs found last month that broadcast ratings in the 18-to-49-year-old demographic, the one most coveted by advertisers, fell by 17 percent in the winter months compared with last winter. Goldman Sachs called it "the sharpest pace on record." While broadcast networks were setting record lows, cable channels were setting record highs; AMC's "The Walking Dead" and the History mini-series "The Bible" regularly beat almost all the shows on network television while they were on.

At ABC, the lowest-rated of the four broadcasters, first-quarter profit fell 40 percent compared with the same quarter last year, but the network still made $138 million. NBC, on the other hand, lost $35 million in the quarter, because of lower advertising revenues. NBC's parent, Comcast, said the network would have fared better if its biggest hit, "The Voice," had been on in the quarter.

Ad revenue slipped at Fox too, partly because "Idol" has lost nearly a quarter of its viewers this season, on top of a 50 percent decline over the previous five years.

"We're clearly disappointed" with the season's ratings, said Chase Carey, president of Fox's parent, News Corp., to Wall Street analysts last week before delivering bullish words about the coming season's slate. Fox eked out 15 percent profit growth, to $196 million, by spending less on programming and persuading distributors to pay higher subscriber fees — a strategy pioneered by the cable channels that the broadcasters also own.

Wall Street has driven up the stock prices of all the broadcast network owners in the past year, partly out of a belief that the broadcasters will win further subscriber fee increases. Mostly, though, what investors care about are the cable channels the parent companies also own.

On Wall Street "no one really talks about the broadcast side anymore — which tells you something, doesn't it?" said Garth Ancier, who was a co-founder of the Fox network and who had stints running NBC and the WB, now defunct. The dominant emotion among his former colleagues, he said, is "tremendous frustration about working in a declining marketplace."

The CBS network is in some ways the exception to the rules, and a possible blueprint for its rivals. It is by far the highest-rated network, and this season it lost only 3 percent of its audience between the ages of 18 and 49. Last week the CBS chief executive, Leslie Moonves, predicted that the network would once again persuade advertisers to pay roughly 10 percent more for commercial time than they did this time last year. The reason, he said, was simple: "We pull together mass audiences like no one else can."

To skeptics, CBS is merely winning a game of musical chairs that will end with no chairs left. Studio heads and series creators privately complain that the broadcasters have largely stuck with the same arcane production strategy they have employed for decades: commissioning dozens of pilots early in the year, rushing them to completion and then holding a bake-off that rarely results in new hits. Some predict that the networks will eventually start cutting back on the number of hours a week they program with new shows.

But there is a trend toward trying more shows and running fewer repeats, reflecting the fact that the production business "is actually pretty healthy," as Reif Cohen put it. Broadcast networks increasingly act as big billboards for new dramas and comedies, which are then sold and resold at a big profit to smaller channels, online services like Netflix and international channels. Networks are becoming "the first window of a bigger opportunity," said David Bank, an analyst for RBC Capital Markets, who cautioned that "change is slower than it sometimes appears."

The newest threat comes from Aereo, a service with an antenna array that scoops up the free signals of stations and then streams them over the Internet to paying subscribers, a tactic that the broadcasters say is illegal. Courts in New York have supported Aereo, spurring the startup to expand to other markets — and to file a pre-emptive lawsuit against CBS, which has said it will sue in other courts.

The real risk for the broadcasters comes if cable and satellite distributors use Aereo's tactic to circumvent laws that require them to pay stations for their signals. Then the subscriber fees that have propped up stations and their owners might evaporate. That is why CBS, Fox and Univision have threatened to take their signals off the air if Aereo continues to be upheld by the courts. Sen. John McCain introduced a bill last week that would, among other measures, penalize the broadcasters if they were to do so.

Viewers, for their part, already penalize the networks often — for disappointing them, for changing shows' time slots and for canceling shows prematurely. If this season is any indicator for next year, the networks will wind up canceling almost all of the shows they announce this week.