ATTACHMENT C

AFFIDAVIT OF DR. SEAN ENNIS

AFFIDAVIT OF SEAN F. ENNIS

I, Sean F. Ennis, having been duly sworn, state as follows:

1. I am an economist employed by the Antitrust Division of the U.S. Department of Justice as a member of the Competition Policy Section of the Economic Analysis Group, based in Washington, D.C.. I have served as an economist for the Antitrust Division for about two years.

2. In 1990, I received a B.A. with Honors in economics from King's College, Cambridge, England. In 1996, I received a Ph.D. in economics from the University of California at Berkeley.

3. Since July 1996, I have served as an economist in the U.S. Department of Justice. In this capacity, I have performed economic analysis related to many mergers and acquisitions, including numerous radio station mergers.

4. In September 1998, I was asked to assess the likely economic impact of the proposed acquisition of Triathlon Broadcasting by Capstar. Both of these firms own, operate and sell advertising time on radio stations. I have focused on assessing the transaction's likely effects on radio station competition in the vicinity of Wichita, Kansas.

5. I am continuing to analyze this transaction. However, based on the preliminary review I have undertaken, I have concluded that there are substantial and material reasons to believe that the merger may significantly reduce competition among radio stations that serve Wichita and lead to higher prices for radio advertising. The reduction in competition and the price increase would likely be particularly large for advertisers who target listeners in particular demographic groups best served by the Capstar and Triathlon stations. The merger is also likely to harm advertisers who seek general audiences.

6. My analysis is based on data from standard radio industry data sources, general industry knowledge, and discussions with Capstar's attorney and economic consultant. Radio data sources include Arbitron listenership data and Broadcasting Investment Analysis (BIA) station data. My general industry knowledge is derived from speaking with many people who sell and buy radio advertising time throughout the country. These people have included radio station sales people, radio station owners, advertisers, advertising agencies and "media buyers" -- people who purchase advertising time for advertisers. My general industry knowledge is also derived from a variety of written sources.

7. Capstar and Triathlon stations are significant competitors in the sale of radio advertising time in Wichita. Between them, they account for 53% of radio station revenue in the market. The merging parties are two of only three competitors of significant size in Wichita. The third competitor is Great Empire Broadcasting with a share of 39% of the revenue in Wichita. Great Empire has a joint selling agreement with two other stations in

Wichita besides those it owns. This means that Great Empire sells the advertising for these stations. Since it sells their advertising, their revenues, which are small, are included in Great Empire's total revenues.

8. The acquisition of Triathlon by Capstar would lead to one owner controlling nine stations. As this violates current radio station ownership limits, Capstar will have to sell two FM stations in order to comply with the current FCC ownership rules. Assuming Capstar sells the two FM signals with the lowest revenue, Capstar could have a revenue share of 45% after the merger, as is indicated below in Table 1. This means the combined share of Capstar and its only significant competitor would be 84%.

9. A commonly cited index of industry concentration is the Herfindahl-Hirschman Index, or HHI. This index measures the degree of concentration in a market. The Merger Guidelines state that a market with a HHI below 1,000 is unconcentrated while a market with a HHI above 1,800 is highly concentrated. The pre-merger HHI for the Wichita radio market is about 3040 which indicates a highly concentrated market. The HHI for Wichita increases to 3680 after the merger. The merger thus generates a 640 point increase in the HHI.

Table 1. Pre and Post-Merger Revenue Shares

	Pre-Merger		Post-Merger	
Firm	97 Revenue ($ 000)	Percent of Total	97 Revenue ($ 000)	Percent of Total
Capstar	4,950	20.3%	11,100	45.5%
Triathlon	8,000	32.8%		
Great Empire	9,550	39.1%	9,550	39.1%
Stephenson	850	3.5%	850	3.5%
Anderson	700	2.9%	700	2.9%
Spinoff	--	--	1,850	7.6%
Other	350	1.4%	350	1.4%
Total	24,400		24,400	

10. Based on my initial analysis of this transaction, the proposed acquisition is likely to reduce competition substantially, leading to an increase in prices that advertisers pay for radio advertising. This is likely for three reasons. The first is that the bargaining power of advertisers will be reduced. Normally, advertisers negotiate rates with stations in part by threatening to spend their money on other radio stations unless they receive a good price. Currently, when negotiating with a Capstar station, an advertiser can threaten to move its spending to either Triathlon or Great Empire. After this merger, the advertiser will have lost one of its main competitive alternatives. As a result, when negotiating with the new Capstar, the advertiser will have less ability to divert dollars in order to fight a price increase.

11. The second reason the acquisition is likely to lead to higher prices is that Capstar will

control access to a considerably larger number of radio listeners in Wichita. As the number of listeners over which Capstar has control increases, Capstar will have a greater ability to profitably increase the price it charges for advertising.

12. The third reason the acquisition is likely to lead to higher prices is that there is not a likely response by Great Empire or fringe radio stations that would be sufficient to eliminate an increase in price. In particular, new entry or repositioning by competing radio stations is unlikely to arise as a result of this merger.

Analysis of Competition

13. In analyzing competition between radio stations, it is important to consider the factors that enter into the decisions related to the selling and buying of radio advertising time. The likelihood of a price increase depends on the willingness of advertisers to substitute other products and on the effects that substitution would have on profits.

14. An advertiser's decision about where and how to advertise a product is based very much on the particular product, on the intended purpose of the current advertising campaign, and on the special features of the advertising medium and specific outlet under consideration. It is frequently the case that radio stations form part of the media mix selected by an advertiser. Radio is highly differentiated from other media for a variety of reasons. First, and most obvious, radio is an exclusively sound-based medium. Second,

radio allows advertisers to focus more on particular demographic groups than most media. Some radio stations, because of their programming, attract more women, some attract more men; some attract younger listeners, some attract older listeners; some attract more affluent listeners, some attract less affluent listeners. The sheer number of radio stations and variety of programming divides the audience of radio listeners into many smaller, more focused demographic groups. Advertisers often want to reach one demographic group more than another, or to customize their ads for specific demographic groups, so this narrow focused feature of radio can be valuable. Third, radio ad slots have prices low enough to allow for many repetitions of ads. Since there is a common belief that an ad is more effective when it reaches a listener multiple times, the economy of repetition is important. Fourth, the cost of producing a radio ad is low compared to some other media, such as TV. For local advertisers with a low budget, this can be a distinct advantage of radio over TV. Fifth, radio allows for very quick turnaround time from the decision to run an ad to actually hearing a professionally produced ad. This is valuable, for instance, to an advertiser trying to respond quickly to a sale from its competitor. Sixth, radio can reach people while they are driving.

15. The unique features of radio make other media imperfect substitutes for it. The fact that radio stations provide this whole set of features while other media, such as television, cable and newspapers do not provide the same entire set of features, suggests that the best substitutes for a radio station will be other radio stations rather than other media such as TV, cable, and newspapers.

16. Advertisers who are considering a given radio station generally perceive other radio stations as the closest substitutes, particularly when those other stations are similar in terms of total audience, the demographics of the audience, and the qualitative features of the audience. Competition with other media is of secondary importance in determining the prices of radio advertising. In response to a small but significant increase in the price of advertising on a radio station, a prospective purchaser of ad time is much more likely to switch to another radio station than to other media, such as TV, newspaper, or billboards.

17. Over the course of a year, advertisers will often spend very different percentages of their total advertising budgets on radio. This does not show that advertisers are switching between media in response to relative price changes among the media. As a result, it does not indicate the willingness of advertisers to switch media in response to price changes. Rather, this shows simply that for some types of advertising campaigns, radio is more desirable and for other types of campaigns, radio may be less desirable. For instance, if a department store is advertising a general storewide July 4th sale, it may be happy to advertise on radio. In contrast, if a department store is advertising a sale on Scandinavian furniture, the department store might prefer to advertise the sale on television to better show the style of furniture available.

18. The product an advertiser is selling often determines the type of radio station on which it seeks to advertise, because many products are bought more by one gender than another or

by one age group than another. I list a variety of examples below: A car dealer advertising pickups would likely seek to advertise on a radio station that reaches mainly men and may even prefer a country station over a news/talk station, if the country station's listeners are more likely to own and buy pickup trucks. A manufacturer advertising its brand of pregnancy tests would likely seek to advertise on a radio station that reaches mainly women. An advertiser for basketball shoes would likely seek to advertise on a radio station that reaches young people. A retirement community would likely seek to advertise on a station with older listeners. A car dealer advertising Lexus cars would likely seek a radio station that reaches a relatively affluent audience, such as a classical station. In short, for advertisers seeking to reach a specific group, some radio stations offer a more attractive and more economically valuable audience than others.

19. Some products are inherently broader in their demographic appeal than others. Probably the most common demographic focus of a campaign is on people who are aged from 25 to 54. In order to reach a large segment of this broad audience, national advertisers will typically choose to advertise on the top stations in a market. It is unusual for national advertisers to purchase radio stations that are not in the top ten, in terms of audience ratings. Typically, national advertisers seek to advertise products by using a group of stations rather than just a single station. The need to assemble a group of stations makes it particularly difficult for them to "buy around" an owner who controls many top-ranked radio stations.

20. To understand the competitive environment in which advertising is sold, it is important to understand the process by which ads are typically bought and sold. Imagine that an advertiser, such as a car dealer, is interested in advertising. Typically, the car dealer will purchase advertising time in one of three ways: (a) by contracting directly for the purchase of advertising time, (b) by contracting through an agent, such as an advertising agency (that might organize both the creative content of a campaign and the media purchases for that campaign), or (c) by contracting via a media buying company that focuses primarily on buying media for advertising campaigns.

21. Generally, significant advertisers are much less interested in advertising on small stations than on large stations, since it is much more difficult to reach a large audience by advertising on the smallest stations in a market. This is consistent with the general finding that top-rated stations in a market are generally able to extract a higher price per listener than smaller stations in a market.

22. The purchaser of advertising typically either notifies the local radio stations that an advertising "buy" is coming up, or the radio station sales people may simply call on the advertiser directly to seek business. When a purchaser is considering purchasing radio time, the radio station sales people seek out as much information as possible about the type of campaign under consideration. This serves a number of purposes, including (a) helping the seller to estimate the buyer's benefits from and alternatives to advertising on the seller's station, (b) allowing the seller to customize its services better for the advertiser

(c) allowing the seller to ensure that no ads from direct competitors to that car dealer will be run in a set of consecutive ads and (d) allowing them to figure out ways to argue that "my station is better than the others for your purposes." The proposed price for a buy is then negotiated on an individual basis between an individual station and the buyer. The range of prices that a radio station considers is usually governed by comparisons with the price of advertising on other radio stations rather than the price of advertising on other media. After prices have been negotiated, often with more radio stations than the buyer intends to use, the buyer makes a final decision on which offers to accept and thus which radio stations will air the advertiser's ads. The decision over which offers to accept depends on a number of factors including the reasonableness of the price, the extent to which the station provides listeners in the demographic that the advertiser seeks, and many qualitative concerns related to the specific products being offered.

23. Individually negotiated prices -- the practice of radio stations negotiating different rates with different advertisers for the same product -- is called, in economic terms, "price discrimination." Individually negotiated prices are prevalent in the radio industry. The reason for the prevalence is that different advertisers are willing to pay different amounts for advertising on a station because the benefits from and alternatives to advertising on that station differ. The radio station will then quote higher prices to buyers with fewer alternatives to that station and to buyers whose benefits are greater on that station than others. A car dealer, for instance, may have a higher expected profit from running an ad than a small bar. A TV station advertising its Thursday evening lineup of programming

that is focused on young women will value a radio station with an audience of primarily young women more than an audience of primarily old men. It makes sense, then, for radio station sales people to try to figure out the value of the advertising to different advertisers, and adjust the prices to those advertisers accordingly.

24. When advertisers are considering which radio stations can serve as substitutes to one on which they are considering advertising, one of the primary considerations is the geographic area served by the radio stations. The service areas of a radio station are relatively well defined. Similarly, the locations of a radio station's listeners are relatively well defined. Generally, the stations may be considered in the same geographic market when, other things being equal, advertisers regard the stations as close substitutes. Clearly, if a station is based in Kansas City and reaches no Wichita listeners, then it is not a reasonable substitute to a Wichita based station for an advertiser wishing to reach Wichita residents. If a station from Kansas City receives a significant number of listeners in Wichita, but these listeners form a small share of the station's total listenership, then that station will, most likely, serve as a poor substitute to a Wichita station for an advertiser interested in reaching Wichita listeners, because the price for each Wichita listener reached will likely be much higher than that for other Wichita stations.

25. Local advertisers will typically just advertise on radio stations that are "home" to their Arbitron market. Wichita constitutes an Arbitron market. This means that surveys focusing on the Wichita area are conducted and the results of these surveys are distributed

to advertisers and radio stations. The first indicator of whether a station is a substitute for another is whether they are both listed as "home" to the same Arbitron market. Generally, Arbitron allows a radio station to declare itself home to only one market, so radio stations will generally declare their home market as the one in which they believe advertisers will be most interested in them.

26. A second indicator is whether BIA reports the station as in the market. These two indicators help to show whether a station is in a market, because they suggest the stations that an advertiser or other stations would consider close geographic substitutes. In essence, the question of geographic market is one of which radio stations an advertiser wishing to reach Wichita listeners would consider. Based on these criteria, the stations likely to be considered primarily Wichita stations are listed in Table 2. Moreover, the Wichita area is likely the proper geographic market for analyzing this transaction.

Table 2. Wichita Radio Stations

Revenue Rank	CALLS	AM/FM	Format	Owner	97 Revenue ($000)	97 Rev. Share	FM Freq	AM Freq	Class	AQH Share P25-54**
1	KFDI	FM	Country	Great Empire Broadcasting	3,550	14.5%	101.3	-	C	6.5%
2	KZSN	FM	Country	Triathlon	3,300	13.5%	102.1	-	C	11.4%
3	KRBB	FM	AC	Triathlon	2,250	9.2%	97.9	-	C	11.1%
4	KKRD	FM	CHR	Capstar*	2,075	8.5%	107.3	-	C1	11.4%
5	KRZZ	FM	Clsc Rock	Capstar*	2,025	8.3%	96.3	-	C2	10.6%
6	KICT	FM	Rock	Great Empire Broadcasting	1,750	7.2%	95.1	-	C1	3.7%
7	KFDI	AM	Country	Great Empire Broadcasting	1,500	6.1%	-	1070	II	2.0%
8	KEYN	FM	Oldies	Triathlon	1,400	5.7%	103.7	-	C1	7.1%
9	KLLS	FM	70s Oldies	Great Empire Broadcasting	1,050	4.3%	104.5	-	C2	6.3%
10	KNSS	AM	Nws/Tk/Spts	Capstar*	850	3.5%	-	1240	IV	2.6%
10	KTLI	FM	ChrsContemp	Stephens Family	850	3.5%	99.1	-	C1	8.2%
12	KYQQ	FM	Country	Great Empire Broadcasting	800	3.3%	106.5	-	C	2.0%
13	KDGS	FM	Rhythm/Blue	Violet, Viola & Gary ***	700	2.9%	93.9	-	C3	3.9%
14	KOEZ	FM	Easy	Anderson Stations	650	2.7%	92.3	-	C1	1.7%
15	KWSJ	FM	Smooth Jazz	Triathlon	450	1.8%	105.3	-	C	3.1%
16	KFH	AM	News/Talk	Triathlon	350	1.4%	-	1330	III	5.2%
17	KQAM	AM	Sports	Triathlon	250	1.0%	-	1480	III	1.7%
18	KAYY	FM	Country	Violet, Viola & Gary ***	200	0.8%	98.7	-	C2	1.5%
19	KMYR	AM	Sports	Agape Communications	150	0.6%	-	1410	III	0.0%
20	KANR	FM	News	Smith, Daniel D.	75	0.3%	92.7	-	B	0.0%
21	KSGL	AM	Christian	Agape Communications	50	0.2%	-	900	II	0.0%
21	KJRG	AM	Religion	Anderson Stations	50	0.2%	-	950	III	0.0%
21	KSRX	AM	Gospel	Reunion Broadcasting LLC	50	0.2%	-	1360	III	0.0%
	TOTAL				24,400					100.0%

Source: BIA Media Access Pro, except Arbitron listener estimates

* Capstar stations are indicated as Gulf Star stations by BIA, but the ultimate parent is Capstar
** AQH rating share is adjusted to ensure that the shares sum to 100%. Source of raw data: Arbitron Spring 98 Maximizer Survey
*** Advertising sold by Great Empire Broadcasting and revenues attributed to Great Empire Broadcasting