

# Testimony of Peter J. Millones, Jr., Executive Vice President and General Counsel, Priceline.com Incorporated, Norwalk, CT

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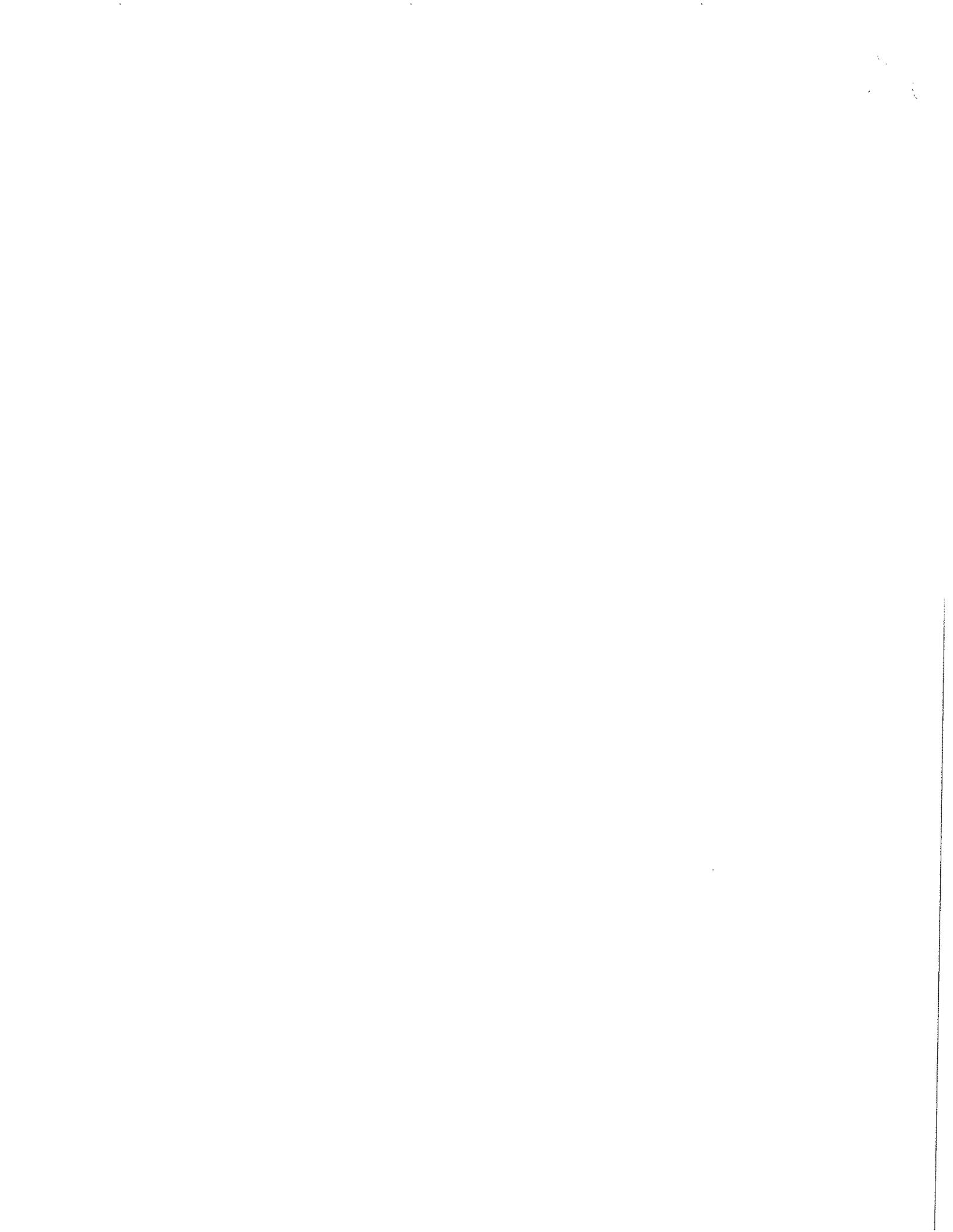
Senator Dailey, Representative Wilditz and Members of the Committee:

Thank you for the opportunity to speak before this Committee hearing. My name is Peter Millones and I am Executive Vice President and General Counsel for priceline.com Incorporated. Our company operates the website *priceline.com* in the U.S.; it also operates, through our subsidiaries, the leading online hotel reservation websites in Europe and Asia. Millions of customers search the websites of the Priceline Group companies each day looking for hotel room reservations. Priceline.com has over 3,000 employees around the globe, many of whom are located in our global headquarters in Norwalk and live in the State of Connecticut. We are the leader in global online hotel reservations.

The Priceline Group companies market our hotel partners – including hotels right here in Connecticut – to consumers around the world, and we give them information about Connecticut destinations in their own language. Priceline.com makes it possible for families in Los Angeles and London to book their Mystic Seaport vacations, and for a businesswoman in Munich to book her Stamford hotel. We do that by giving consumers information they need in order to choose a Connecticut hotel or tourist attraction. The other online travel companies compete with us to do the same thing – that is, reach the most people with the most helpful information, with the goal of making the most bookings. At priceline.com, we strive do it better than anyone, of course, but I think it's safe to say that online travel companies, collectively, have a unique global reach in marketing Connecticut destinations – for leisure or business – to Internet consumers around the world. To that end, at priceline.com, we consider ourselves real contributors to Connecticut's tourism and hospitality economy and we believe we have a valuable perspective on what keeps a destination's hospitality economy healthy and thriving.

I am here this morning to make the business case as to why this bill has far more risk than potential reward for Connecticut. This bill also faces several Constitutional and legal challenges, which I'll let my colleagues cover. We all know that tourism in Connecticut was down 17% in the last 12 months. Undoubtedly, that drop has hurt the state's hotels. It has hurt the people who work in those hotels. It has hurt Connecticut's restaurants and tourist attractions.

None of us likes this trajectory and priceline.com, like you, wants to see the state's tourism economy back on a trend of positive growth. That just makes good business sense to us. We strongly believe, however, that taxing the services of your biggest and most productive tourism promotion partners, the online travel companies and the tour operators and travel agents around

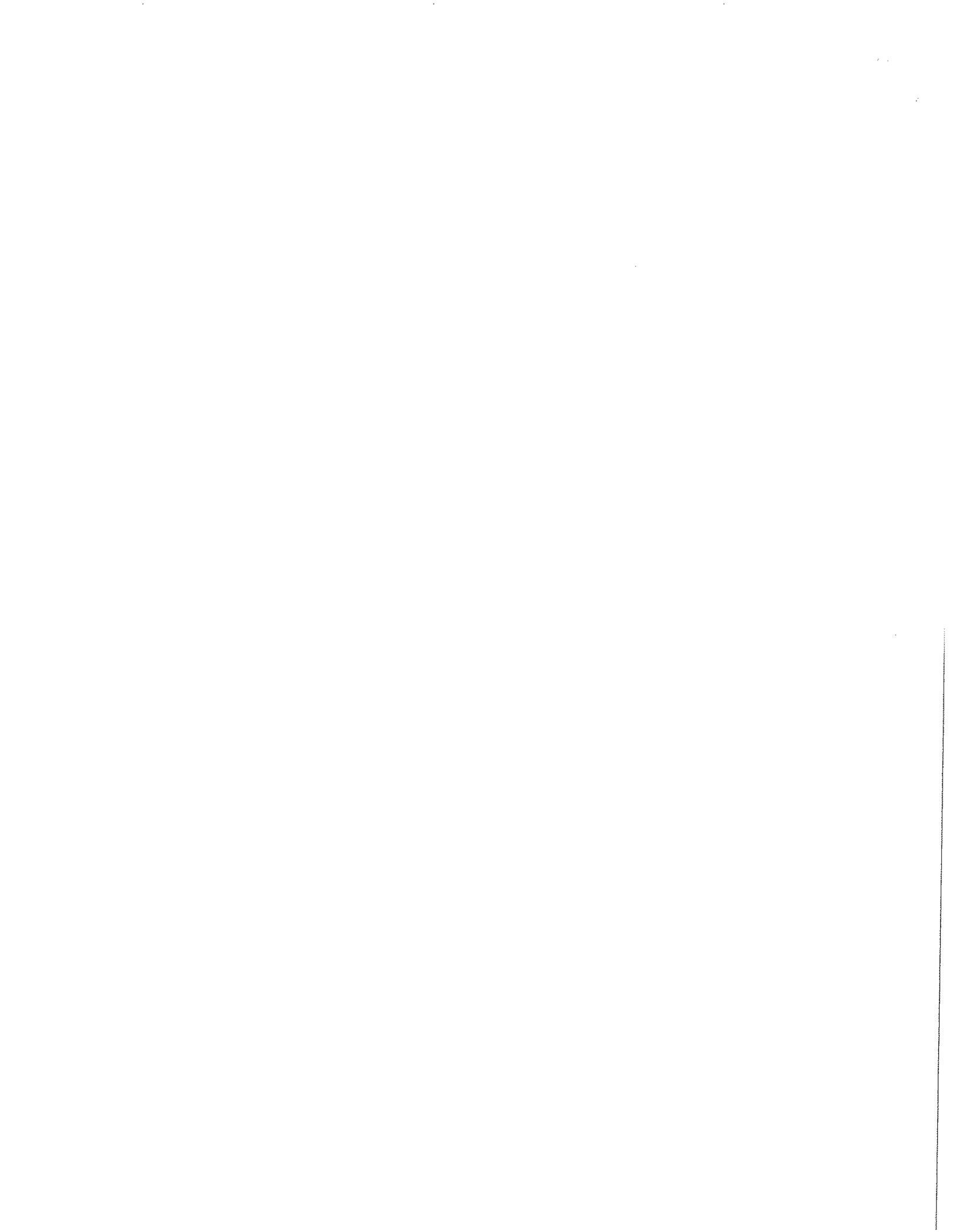


the country who send travelers to Connecticut, is bad business and will have a negative effect on Connecticut's tourism and hospitality economy.

If this new tax is adopted, it is probable that the ultimate cost of the tax will be passed along to consumers. That will make the ultimate cost of a Connecticut hotel reservation higher and less attractive to consumers around the world who may want to take a New England vacation. A lynchpin of what priceline.com offers to consumers is an exceptional ability to compare the prices offered by numerous hospitality providers. If this bill passes, the applause you will hear will be coming from hotel owners and operators in the Berkshires, Cape Cod, Block Island and the Rhode Island shoreline, whose room reservations would be offered by on-line travel sites without the imposition of the tax you are considering. This is the reason that the Commonwealth of Massachusetts has repeatedly rejected the very tax you are considering today.

Here's a concrete example. I was looking to take my family of five to the shore for a one-week vacation this July. With five people in our family, we typically need two hotel rooms to accommodate us. When I looked in priceline.com's system last week, the average median rate for a three (3) star hotel room in Hyannis, Massachusetts, was \$194. Coincidentally, the average median rate for a three (3) star hotel room in Mystic, Connecticut was only slightly higher. After calculating the impact of this tax (and assuming both hotels were offering the same rate), it would cost my family \$73 (all related to the incremental tax) more to come to Mystic. For a family on a budget – and we serve lots of them at Priceline – that could be a deal-breaker for Mystic.

Priceline.com has been a leader in providing a service that allows customers to save money on their travel reservations. The consumers who use our unique Name Your Own Price® service are famously sensitive to price. To take just a moment to explain the service, consumers literally name the price they are willing to pay for a hotel room in a certain area. Our technology allows us to bring together that consumer offer on the one hand and, on the other hand, collect corresponding offers from hotels that are willing to sell hotel reservations at deeply discounted prices. On the consumer side, we offer a way to save a lot of money on hotel reservations. But for hotels, we offer a unique system – a distributions system, really – for hotels to fill hotel rooms that might not otherwise be filled. If hotels are filling rooms at their standard rates, they simply don't offer discounted rates through our service. But if they have rooms that aren't being filled, we offer a way to boost, sometimes significantly, incremental revenue that might otherwise not be made. While hotels provide us with discounted rates and thus earn less rent per room for themselves, our service allows them to fill the rooms, leading to more revenue for the hotels and more tax dollars for the locality. Our more traditional price disclosed service, similar to that offered by other online travel companies, fills the same function for hotels in providing a distribution channel that the hotel has decided makes economic sense – the hotel earns less rent per room but gains overall revenue by filling more rooms. We earn our compensation by building and maintaining the best technology to provide these services to consumers and hotels



alike. It is the compensation that we receive from providing this service that this bill is attempting to tax.

At priceline.com, we closely monitor hotel prices and consumers' reaction to pricing changes. In our experience, we have generally found that a 1% increase in price can yield up to a 2% drop in business. When economists discuss this relationship between prices and demand they often refer to it as the "elasticity of demand;" when we discuss it, we refer to it as price sensitivity – the hallmark of our customers over the 14 years we have been in business. It is likely that Connecticut hotels have experienced the same relationship between pricing and consumer demand; if they thought they could raise prices and not lose sales, they would have beaten the state to the punch. A few weeks ago, when my colleague walked these halls talking with legislators, he was told that the tax "wouldn't make a difference" in the state's tourism. We disagree.

Our experience tells us that, by ultimately raising the cost to visit Connecticut, this bill will dig the state's tourism hole even deeper. It's not just the risk of making hotel reservations in Connecticut more costly than our competitor states, which we believe is a certainty if this new tax is adopted. It is the risk of lost tourism dollars from travelers who may not choose Connecticut as their destination. When you add up the lost income, and potentially jobs, for our hotels, restaurants, outlet malls, casinos, gas stations and more, this bill will cost Connecticut more than it will ever get by taxing the online travel agencies, traditional travel agents and tour operators for the service they provide to facilitate hotel reservations in Connecticut.

We appreciate that Connecticut has a budget gap to fill. We believe that this bill isn't going to get you where you need to go. We realize that tourism-related taxes are attractive because, in theory, they generate most of their money from "out-of-staters." However, these "out-of-staters" generally have flexibility and alternatives available to them -- flexibility and alternatives that, as a general matter, are not realistically available to other groups that are subject to the imposition of a new tax. Put simply, these "out-of-states" don't have to come to Connecticut. For the reasons outlined above, we believe that the ultimate effect of the adoption of this new tax will be to further depress Connecticut tourism, reduce, not increase, Connecticut revenue and jeopardize the many Connecticut jobs in and related to the Connecticut tourism industry.

For these reasons, Norwalk-based priceline.com respectfully requests that you oppose this bill.

Thank you.

