UNITED STATES OF AMERICA

DEPARTMENT OF TRANSPORTATION

NATIONAL COMMISSION TO ENSURE
CONSUMER INFORMATION AND CHOICE
IN THE AIRLINE INDUSTRY

HEARING

THURSDAY,

JULY 11, 2002

SAN FRANCISCO, CALIFORNIA

The Commission met at the Fairmont Hotel, 950 Mason Street, the Crown Room, San Francisco, California at 9:37 a.m., Mr. David Winstead, Chairman, presiding.

PANEL COMMISSIONERS:

DAVID WINSTEAD, Chairman
MARYLES CASTO, Member
PAUL RUDEN, Member
JOYCE ROGGE, Member
ANN B. MITCHELL, Member
PATRICK W. MURPHY, Member

STAFF PRESENT:

Richard Fahy, Executive Director
Angel Anderson, Administrative Director/Fund Administrator
William Jackman, Media Relations
PRESENTERS:

Michael Mulvagh, American Express

Brian Barth, SideStep

Dan Ko, Qixo

Les Ottolenghi, AgentWare

David Rojahn, DTR Travel

Robert Kern, PNR Travel

Steve Hewins, Hewins Travel Consultants

George Delanoy, Brea Travel
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CHAIRMAN WINSTEAD: Good morning. I'm David Winstead, and I'm the Chairman of the Commission to Ensure Consumer Information and Choice in the Aviation Industry, Airline Industry.

I welcome you to San Francisco, those of you to come from out of town. And we really appreciate you taking your time to join us today.

This is the third hearing that the Commission's had since it started officially on sort of May 15th. And San Francisco is the third stop on our hearing schedule. We started in Washington about a month ago, and we'll continue and return back to D.C. on July the 31st for a hearing in Washington again.

Again, we appreciate you coming and we look forward to hearing from you today, as well as anybody else that you're aware of in the industry that might want to testify. We still have the July 31st hearing scheduled.

The Commission was created by the Aviation Investment and Reform Act, 21st Century. And it was enacted in April of 2000. And our charge was basically to study the market conditions and position of the retail travel agencies in today's competitive travel market.

And the Commission was sort of charged with examining the financial condition of travel agencies and their
decline and, if so, what has been the effect of that decline on the consumer.

And I will tell you that over the first two hearings we've had a lot of testimony. We've tried to steer in our questions to that point, that is, trying to make sure that we understand, from the input we received in these hearings, what impact it's having on the consumers, the primary objective of our hearings.

As I mentioned, our two prior hearings have supplied a lot of substantial testimony on the current conditions of travel agents. And we will hear more about that today, as well as airlines. And we've had many website travel companies testify as well.

The second major focus of the Commission by its statute was to explore whether there are impediments to information regarding the services and products offered by the airline industry and, if so, the effect of these impediments on travel agents, internet-based distributors in the distribution chain of airline information, as well as and, again, ultimately on the consumer. I think we're trying again to understand it from both the travel agency standpoint, but the traveling public.

I mentioned that in our hearings in Chicago and Washington we did have a lot of airlines represented. We had organizations representing travel agents, as we do here today again. We had a number of companies that are in the computer
reservation system.

And in addition to statements on the financial conditions of travel agents and airlines there were a lot of public policy questions that were raised and we dealt with about the offering of fares on the websites and whether there are limitations or issues dealing with excluding fares to certain members of the travel industry and the consumer. And so we have heard a lot of that in our prior two hearings.

Today we will hear again from a number of travel agencies, some of which have come a long way to join us and we very much appreciate that; also from major travel companies, such as our first witness; companies that provide booking engines and software services to the travel industry.

I would, just in introducing myself, I'm an attorney in Washington D.C. and spent four years running an intermodal transportation agency, the Maryland Department of Transportation, which includes BWI Airport.

But I had my first real experience, thanks to Maryles yesterday, going to Casto Travel here in San Francisco and sitting at a computer terminal and really seeing how the systems in travel agencies around the country visually look and how they operate. So I found that very instructive.

I think that we want to make sure that in both your testimony and questions that we solicit, and we will do that, responses to issues that we are now facing. And I think what we
ought to continue to do in this hearing today is to try to focus in on conditions, impediments, and impact on consumers, but also what your recommendations are in ways that those issues can be dealt with and ways that consumer information on travel and airline services can be made more easily and more completely available and more transparent, if you will, to the consumer.

I like to, before we can, go around the desk here and ask each of the Commissioners to kind of introduced themselves, I would like to publicly thank Maryles for not only her service on the Commission but her hosting us out here. She's gotten this wonderful room that was at no cost, which I understand, which I very much appreciate, and also providing and working with our staff, the Commission, in getting accommodations for everybody here.

I would mention, before I ask the Commissioners for comments, I would mention that we have a very good staff. We are, as I mentioned in the beginning, a six-month Commission. At the end of six months we will be issuing a report and responding to the charges that we were asked and the ones that I mentioned earlier that are in the statute.

We're very pleased and I think of very appreciative of having Dick Fahy, behind me, who is Executive Director of the Commission. And he has many, many years, three decades of experience as a lawyer, both with airlines and in the distribution systems that we're dealing with here today on the
subject, as well as the travel industry. So we very much appreciate his ability to work full time over the next six months with us.

As I said, before we get into our first witness, I'd like to start on my far right with our host of this great hearing.

Maryles, are there any comments? I thought it would be helpful for all of you to understand who the Commissioners are and where they're coming from in terms of their professions and interests. So, Maryles, maybe you could start out.

MS. CASTO: Well, I was very glad that the Commission decided to have our meeting here in San Francisco and really thank you for the Fairmont because they really came out and, you know, made this available for us, the room. And it's a beautiful room; it's a new room. So it's given us an opportunity to see it.

And I am very involved in our Commission, of course, and very glad that I'm participating as a travel agent. There's a lot of issues, I think, that we are listening to and we are very open to all the witnesses that have been testifying.

CHAIRMAN WINSTEAD: Thanks, Maryles.

Ann?

MS. MITCHELL: I'm Ann Mitchell from Starkville, Mississippi. And I'm the small agency representative on the
Commission and have benefited greatly from the earlier testimony. And if my eyes will hold out, I'll keep reading and keep studying.

And it will be a challenge and an opportunity for us to go through all of the data that we have received, and information, recommendations, and come up with a product that will produce something that is good for the entire travel agency community, the airline industry, the CRS community and, most of all, the consumer.

CHAIRMAN WINSTEAD: Paul?

MR. RUDEN: I'm Paul Ruden. I work for the American Society of Travel Agents. And I guess that explains where I'm coming from here. I would observe that in keeping with what the Chairman said about Maryles getting us this room, that it's a small example of what a good travel agent can do.

(Laughter.)

MS. CASTO: Thank you, Paul.

MR. RUDEN: The other thing I would say, referring again to David's comments about our experience yesterday at Casto Travel, one of the things we saw was a product that searches the web for webfares and enables a working agent to see those up fares against what the CRS produced, and then to go back to the CRS to see those fares, in fact, can be found.

And it was interesting. The webfares in some cases appeared to be cheaper at first look. But in I think every case
that we found, and there was no systematic approach to do this so
the results I think have to replicate what would normally occur,
in most cases the so-called lower webfare was actually for a
different product. It was for a different service. Either the
return trip was different, the times of day were radically
different, maybe there were connections, and so forth.

And it's instructive, as we keep accepting this
often repeated but to some extent false assertion that the
webfares are always cheaper. If they are for a different
service, they may be less. But it's not the same. You're not
comparing apples to apples in each case. And I thought that was
really an interesting thing to see in practice.

Thank you.

CHAIRMAN WINSTEAD: Thanks, Paul.

Joyce?

MS. ROGGE: I'm Joyce Rogge. And I'm the Senior
Vice President of Marketing at Southwest Airlines. And I'm very
pleased to be able to serve on this Commission. At Southwest one
of our big focuses is keeping our costs low. And I think that
throughout the testimony we have heard that the costs for travel
have been a big burden and from every place down the chain.

And I think that that's one of the things that we
needed to keep focused on and hopefully learn a lot today from
the witnesses that we have on how that is working in the web
environment. So I look forward to hearing some good testimony on
that.

CHAIRMAN WINSTEAD: Pat?

MR. MURPHY: My name is Patrick Murphy. I'm an aviation consultant in Washington D.C., having spent approximately 30 years in the U.S. Department of Transportation and Civil Aeronautics Board working on airline issues. I also represent some airports. And I'm very pleased to be here in San Francisco, since one of our clients is San Francisco International Airport. We're delighted to be here.

David, I would just mention the two things with regards to the substance.

First, since our last hearing or just about the same time as our last hearing, the Department of Transportation put out a report to Congress on their efforts to monitor Orbitz. And I think that's a superb document. For me it's been extremely helpful since we've heard so much testimony about Orbitz. For me this was helpful, and I encourage all of the Commissioners to review that.

Secondly, I understand and encourage the Department to get out of OMB soon their proposed revisions to the CRS rules, which have not been revised in 10 years. And understand those proposals are in the Office of the Management and Budget. And when they come out, they'll be available for public comment. But I think how the Department plans to deal with the CRS systems in the future will affect our report.
Thanks.

CHAIRMAN WINSTEAD: Thanks, Pat, for that comment. And I'm sure that you will have a lot of questions during the day with our witnesses.

We do have copies of the Orbitz report. I think we can probably make that available to everybody here. And I know certainly copies from DOT are available, as well.

I wanted to mention what we wanted to try to do, we've had some pretty full hearings to date, the one in Washington, one in Chicago. The one in Chicago was very extensive and lasted most of the day. What we did it was break for lunch, but it was a little later than I think we want to. And so what I'd like to do, and if you all have copies of the agenda, is to go through four witnesses this morning, maybe take a quick break after the second, and then come back and try to conclude, if we can, about 12:00, 12:15. And then break for lunch and come back for afternoon witnesses. So that's sort of the protocol.

I will tell you that many of the Commissioners, as you've heard, have had many decades of experience on different aspects of this industry, from the DOT perspective, to the travel agents, to the airlines, and others.

So we really do want to give you all an opportunity to have enough time, not only to deliver your testimony, but answer a lot of questions that I think the Commissioners will
have. And certainly one thing that I've erred as chairman, at
least on the last hearing, was that we really tried to provide
enough time for everybody. And that even in some cases we went
over 30 minutes in terms of testimony and some questioning from
the desk here. It went quite a bit longer than that.

   So I think we're fine today in terms of the people
who were signed up. Please, if there's anybody else, let Dick
know, that might want to comment.

   But that's sort of the protocol. And if we could
keep maybe the presentations to 15 or 20 minutes, allowing for
maybe half an hour for both testimony and Q&A, I think we will be
pretty much on track.

   Getting right underway, and I'm sure the
Commissioners will be asking questions, during and after
testimony, if something comes up. I hope you would be willing to
respond and then we can go through all the four witnesses this
morning.

   Michael Mulvagh is Vice President of Industry
Affairs and Communications for American Express. And, like all
the witnesses, we very much appreciate it, he did submit in
advance copies of this testimony. I know they're available here
today for anybody in the audience that would like a copy.

   But, Mike, we really appreciate you coming to spend
time with us. You've got a great company, provide a lot of vital
services to the traveling public and to businesses. So we
appreciate you coming.  

Why don't you just go ahead and proceed on testimony? And then we'll get into questions.

MR. MULVAGH: Thank you, very much.

On behalf of American Express I would like to thank you for asking me here today, and for the opportunity to address the critical issues that Secretary Mineta has asked this Commission to examine. We commend the Secretary and Congress for creating this forum, and we would like to recognize the members of the Commission for the time and effort they are devoting to these very important issues.

American Express is a Fortune 100 global services company with a diverse portfolio of products and services. We operate the world's largest travel management company and, as such, are typically known for working with some of the world's largest multinational corporations.

However, American Express also specializes in servicing a number of other customer segments, including over 5,000 small businesses with less than 100 employees and travelers.

In addition, we have a wide-ranging global franchise network composed of hundreds of small, independently-owned travel agencies. And we also operate an extensive network of consumer-oriented leisure travel locations.

And so we are here today to lend our perspective to
the issues at hand from the vantage point of a large
multinational corporation who provides travel management services
to small businesses and individuals.

To begin, it may be helpful if I tell you who were not. We are not a GDS; we are not an airline or airline website owner; we are not an association; and we're not a small business.

You have heard from each one of these industry partners in previous hearings, and they have all presented their own points of view, some of which American Express agrees with and some which it does not.

Our intent here is to not come and engage in what the media has called the "Washington food fight" to put Orbitz of business or to squelch the benefits of the internet to the consumer.

Quite the contrary; American Express welcomes fair and equitable competition where there is clear consumer benefit.

Our intent in being here today is to convey our thoughts regarding the travel agency financial condition and the question of consumer choice.

We also are here today to ask two for things: We want the ability to offer all airline inventory and fares to our business and leisure travelers in an efficient and meaningful way and we want the existing DOT GDS rules to be applied to any airline-owned distribution system.

The industry is abuzz with talk of distribution
cost elimination. From commission cuts, to airline performance incentives, to the notion of airlines subsidizing credit card service fees, no one, certainly not American Express, disagrees that distribution cost elimination is a bad thing.

By now you've heard many points of view regarding agency compensation elimination and reductions that impact agency financials. The recently-eliminated airline commissions were payments for ticket issuance, exchanges, voids, and refunds as laid out in ARC and IATA regulations. Nothing more.

So with the transferring of the commission cost to the consumer, the airlines now have a free ticket distribution system and have been successful at getting their core product into the hands of over 70 percent of their customers at no cost.

Let's be clear: That is not to say there is no cost associated with product distribution.

There are associated marketing, promotion and sales costs, such as volume incentives to move share, similar to the distribution costs that are built into every other industry.

However, as the entire industry strives to return to solvency by lowering costs, an imbalance has been created in terms of consumer choice when it comes to information and access to all inventory and fares.

Business and leisure travelers who choose to work with American Express cannot easily and efficiently get information and access to lowest fares needed to run their
businesses or to visit friends and family.

Economy-conscious travelers must now book outside their preferred booking programs and locations, and book directly on an airline-owned distribution system, such as Orbitz, if they are to be sure they have researched all avenues pertaining to lowest airfares.

Because of this trend, agencies that have serviced individuals such as these in the past will see reduced or negative customer growth and their earnings will decline further.

In turn, the number of agency locations will be reduced and the traveler will have fewer options when it comes to booking their travel. When the number of choices a consumer has is reduced, it is typical that the cost to the consumer rises.

In the past, American Express and other entities have made attempts to gain full inventory and airfare access for the consumer and there have been a number of different reactions from airlines:

Airline Position 1: Webfare access should not be an issue, as there is such limited inventory and it is very restricted.

The Counterpoint is: If that is the case, then opening full access to travel agencies and hence their customers will not erode revenues due to the low number of available seats.

Airline Position 2: These fares are leisure fares and do not fit the typical needs of business travelers.
The Counterpoint is: As we all well know, today's financial pressures have forced business travelers to behave like leisure travelers, so access to these fares would be very helpful for small business travelers trying to lower their travel and entertainment costs.

Airline Position 3: Certain airfares cannot be offered through the GDS due to the high associated fees.

The Counterpoint is: On a recent price quote comparing the same itinerary between an airline website, Orbitz and through a GDS, the GDS fare was higher by $98 than both the airline website and Orbitz. This difference is not solely attributable to the GDS fee.

The entire industry, including American Express, is struggling with how to help customers get access to and benefit from the lowest fares in the marketplace. American Express has and continues to work through a number of different proposals and options, and we will continue to do so on behalf of our customers until we have reached a meaningful resolution.

Technology solutions have been just one approach American Express has taken. It is a fallacy to believe that a technology patch is a viable long-term fare access solution.

Indeed, an entire industry is being built and huge costs are being borne by agencies and customers around a problem that does not need to exist if only the airlines and airline website owners would give full airfare access.
Costly technology fixes are not the solution, as the industry goal is to reduce cost, not to keep adding cost. Airlines can and do change the ability of these technology patches to access their information in the flip of a switch. And today's technology solution is obsolete tomorrow.

On a second point regarding technology, there has been previous hearing testimony that the success of Orbitz is due to its superior search engine capabilities. Orbitz does have a good site, but its search engine technology is not unique and has been widely available to anyone on the market. It is also powered by an existing GDS that is familiar throughout the industry.

American Express is of the opinion that it is not the search engine that makes ventures such as Orbitz successful, but rather that it has a protected position with respect to lowest fares.

From a financial perspective, while American Express is not a small business, we too have had some significant economic challenges in our recent past. Our business was dramatically affected by the weakened economy in 2001 and by the events of September 11th.

As a result, we saw a decline in revenues and volume by some 20 to 25 percent. In the fourth quarter of 2001, we downsized our workforce by over 5,000 people. We had to make some extremely hard decisions.
In the end our costs were brought into line with our lower sales volume; we stabilized our business and are now on a solid footing.

However, this was not an easy process, and we continue to see an erosion of customers who are forced to book on sites that will not provide American Express with full access. This trend continues to provide extreme challenges to the industry, especially to the small agency or franchise owners that we work with.

Prior to commission elimination, over 70 percent of American Express revenues were derived from airline compensation and less than 30 percent from customers. In only two years this model has been completely reversed and today the opposite is true.

Because of the dramatic changes in airline compensation, American Express has had to derisk its business and quickly transition our entire travel unit through a new economic model and change our focus entirely.

Today, the bulk of our revenues are derived from our paying customers. And as an agent for our customers that is why we are here testifying today. We are faring well under this new model. But American Express had the ability to reengineer our business as a result of our size and our customer and product mix.

Our smaller competitors and our franchise partners
did not and do not have that luxury. According to the Airline Reporting Corporation, the number of retail travel locations in the United States decreased by 14 percent in May 2002 year over year. This trend will no doubt continue and over time it is inevitable that travel agencies without large breadth and scope of a mega-agency and without the resources or ability to provide customers with the lowest fares in the marketplace will not survive.

American Express strongly believes that both small businesses and individual consumers are the backbone that creates the economic growth that powers and stabilizes the U.S. economy.

These groups contribute heavily to the economy and should have the ability to choose and do business how they please. Without widespread fair and meaningful inventory and airfare access, small businesses and consumers are ending up the losers as the benefits gained from consolidating, tracking, and managing their total costs are diluted.

Smaller travel agencies and franchises seeking to reinvest in efficiencies to help their small business customers centralize and manage their spending will be forced to close their doors, and customers will have less choice of where to fulfill their business and personal travel needs in the future.

With respect to airline marketing practices and their impact on consumer choice, the American Express point of view is very clear: Orbitz is an airline-owned distribution
system marketing their services to individuals and businesses and should be regulated by the existing GDS rules.

GDS rules were originally created to ensure there was fairness of pricing amongst all airline-owned distribution systems and to curb the possibility of anti-consumer behavior.

In its beginning stages, Orbitz was marketed as a consumer travel agency with low restricted airfares suitable for leisure travelers. Over time Orbitz advanced its product offering to include hotels, cars, package tours, and cruises.

And most recently Orbitz and its airline owners have begun marketing the fact that businesses can now load in their negotiated corporate airfares. Orbitz has evolved into an airline-owned inventory distribution system, offering multiple products and services to both consumers and businesses, and should be governed and treated in the same manner as existing GDSs.

Many have likened the Orbitz model to the following scenario: If the five largest computer manufacturers got together, created a vertical product distribution system, offered pricing through that system that no other consumer outlets would not have access to, and loaded in all their proprietary customer pricing rates, there would be reason for concern. This does not appear to be the case when the same scenario is applied to the airlines and Orbitz.

One of the main questions the Commission is trying
to answer is, "Is the consumer impacted by not having meaningful
comparative information they need to make an educated choice?"

The answer as of today is yes. Small business
owners and consumers looking to make a decision on airfare
purchases are typically faced with the following questions:

"If I book through an online or traditional agency,
will they be able to get me the lowest fares in the market,
including internet fares?"

"If I book on Orbitz or another airline-owned
website, will I be getting all information on all information on
all carriers and be able to make the best purchasing decision?"

"How many sites will I have to visit to find the
best fare?"

While each question poses its own unique set of
problems, the truth is that as of today the questions above are
still valid. No existing airline-owned website has all the
domestic and international carriers and fares. Factually
speaking, all GDSs do not either.

However, GDSs are still the largest repository of
neutral inventory and fare data in the world and still used by
virtually every travel agency and airline around the world except
for low-cost carriers.

GDSs include both domestic and international fares
and are thus the best source consumers have today of comparative
information for making decisions when purchasing airline travel.
So it appears that for now, GDSs are in the best interest of the consumer. But we are still faced with the argument of high GDS costs when compared to the airline-owned distribution channel.

If the main issue at hand to solving the fare access problem is GDS cost, then cost issues can always be solved by mutual business agreements that should not be a barrier to progress.

However, if the main issue surrounding inventory and fare access is not cost, but rather customer ownership, traveler loyalty, and marketing aspirations, then this issue is not easily solved and will continue to exist in our industry today, and the travel consumer will end up being negatively impacted in the long run as the industry works to find a solution.

The EU Commission investigating OPODO, the European-owned airline distribution system and website, have recognized that it poses serious risk to consumer choice should it not be fully consumer-proofed. I am optimistic that this committee can help the DOT come to the same conclusion regarding Orbitz.

So in closing, American Express believes that what is in the best interests of the traveling consumer is for travel agencies to be given full access to all airline inventory and fares, and that GDS rules be applied consistently and fairly to
any airline-owned inventory and fare distribution system.

I would like to thank each of you for this opportunity to speak here today, and I would be happy to answer any questions that you may have.

CHAIRMAN WINSTEAD: Mike, thank you very much. I think your testimony was extremely helpful in both the questions that it posed and the answers that you responded to, as well as the airline position, the counterpoint of the airline position, some of the issues that American Express is concerned about.

You talked about some layoffs since September the 11th. What's happened on the franchise side in terms of the numbers and what's happened over the last two years in terms of any decrease in franchise numbers?

MR. MULVAGH: I think this is on. Yes.

CHAIRMAN WINSTEAD: We can hear you.

MR. MULVAGH: I represent the corporate travel side of American Express.

CHAIRMAN WINSTEAD: Right.

MR. MULVAGH: So I'm not the best person to speak on our franchise operation. But what I can do is speak about our consumer travel organization.

We made a business decision to change our focus and to move our model of consumer travel to now be focused on our card members. It was not economically feasible for us to continue to do business the way that we were doing it in a
widespread fashion and to focus on the individual consumer without another value proposition. So we have changed our focus and we are now focusing our consumer initiatives on our existing card members.

Again, with respect to our franchise operations, I can only tell you that they are feeling the pressure of not being able to compete with fares that are not available to them. And this is a very difficult position for them to be in. I don't have the numbers that would tell you the number of the franchises we have increased or lost over the last while.

CHAIRMAN WINSTEAD: Could you get that for us?

MR. MULVAGH: Sure.

CHAIRMAN WINSTEAD: That would be great.

In one of the drafts, I'm not sure, I think there were some changes that you had in the draft distributed today. But in an earlier draft you mentioned you had approached airlines on this issue of gaining access to their webfares, but that you were refused in some discussions, even though you offered absorbing cost to do that. And those costs, did they talk at all about or a discussion about booking fee expenses in that approach when you offered to cover the costs?

MR. MULVAGH: We talked with the number of our supplier partners about a number of different options for gaining access to webfares. Some of those included subsidization of the GDS fee; some of those included the outright full absorption of
the GDS fee. Each time we did that we were told no, we would
still not have access to the fares.

So our impression is that the GDS fee is not really
the cost here. So we're trying to grapple with how to understand
what is the true cost and what is the true reason for not being
able to get access to these fares if the cost issue is
eliminated.

CHAIRMAN WINSTEAD: I think Paul commented, Mike,
and I mentioned in my opening of my experience yesterday at the
Casto Travel. On page 9 at the bottom you talk about to the
issue of consumer access. And I must say that I know that the
engines and the software support for travel agents is constantly
changing.

I mean, I think one thing I've learned over the
last month or so is just how vibrant this industry is from the
standpoint of providers of software services, and engines, and
other technology. Yesterday, one of the questions I had was just
the amount of time it would take to actually be able to access
both CRS and the websites. And I'm wondering how you view that
difficulty in terms of what it takes now to do it versus what
might be developing for the future that we get.

MR. MULVAGH: Sure. Like a lot of travel
management companies we are a very transactionally-driven
business. And most of our pricing is based on transactions,
meaning a booking.
So to maintain our profitability and the integrity of our pricing, everything we do is around transactional processing efficiency. Because there's a plethora of different technology solutions out there, I can talk to a couple of them.

The first set we would call sort of off-line, you know, search engine-type for abilities. And what that entails is a travel agent, perhaps working on a GDS, will look for a fare in that system. And then they would have to switch off of that system, whether it be in the same terminal, or go to another location in their office.

In our case it's basically the same terminal. Log on to an internet site so that they can either access the fare directly from a airline website, or from Orbitz, or some other location. Then see if that traveler wants to have that fare and then build a record that way.

So in that case they're having to go out live and look for the fare and come back to the traveler with options. That takes a lot of time to come out of a native system, if you will, move on to an internet-based system, and then move back. And, again, there are technology solutions that are coming up now that will do that behind the scenes.

The other one, which is more costly and more prevalent, is actually where we do a fare search. It's called WebBot technology, where you make a booking, you search after the call is finished for a lowest fare. It does a number of
different checks at a number of different locations, and then comes back with an option.

And if that option is lower than the price that you've booked, then the travel counselor must get back in touch with the traveler. Most likely it's on a different carrier, a different time, what-have-you. Make that offer available to them, and either rebook or continue on with the search.

So in a business that's very transactionally driven this adds an enormous amount of process time on to our transactionally-driven business. As such, our profitability goes down, the time it takes goes down, and the efficiencies are lost.

So again, you know, as I mentioned in my testimony, the technology solutions are really not the best option, but we really have at this point no choice.

CHAIRMAN WINSTEAD: Mike, I've got a few more questions. When I talked in the first question about your approach to the airlines, which ones did you approach and what was the rationale that they responded in terms of not being able to --

MR. MULVAGH: Yes. We're under a confidentiality agreement and can't discuss that.

CHAIRMAN WINSTEAD: Okay. Fair enough.

All right. Let me opened it up for some of the other Commissioners in terms of questions that I'm sure they have.
Take it from Pat.

MR. MURPHY: Thank you. I also appreciate the testimony. It was really very helpful. I had about a half a dozen questions. I'll try to get through them quickly.

On page 4 you talked about if a customer wants access to all inventory and fares. Today that situation is imbalanced, I think is your term. When a customer comes to you and wants to fly on what are now the most successful airlines in the industry, let's say Southwest and Jet Blue.

MR. MULVAGH: Yes.

MR. MURPHY: They use different outlets as they try to reduce their costs. How would you deal with that if they came to you and wanted to fly on one of those two airlines?

MR. MULVAGH: Sure. I'll speak to the Southwest model.

For American Express it actually is not a perfect, but it's a good solution. Right now we can view Southwest information in one particular CRS that we use, Sabre. The counselor does not have to go off of their booking system unless there is a web-only fare. Then it results in a telephone call to Southwest.

And the PNR, the booking record, is maintained and held within our systems. We retain the information in terms of, you know, customer information, future negotiating information, what-have-you.
So with respect to Southwest, although it's not a perfect model, it works well and we've integrated our systems as best we can. Where we'd like to go further is to, you know, eliminate the telephone call aspect. But for now it's working fine.

With respect to Jet Blue, you know, they're a very new carrier. And we are obviously anxious to work with them to develop some efficiencies, as well. So we don't have the same opportunity there just as of yet, but we're hopeful that we can mimic the same system with Southwest.

MR. MURPHY: Okay. On page 5 you talked about, as your third counterpoint or your bottom counterpoint, that some models suggest it's now cheaper to distribute tickets through an agency rather than through Orbitz. Can you just elaborate on that a little bit?

MR. MULVAGH: Yes. Unfortunately, you have an old testimony copy.

MR. MURPHY: Okay.

MR. MULVAGH: The new one says GDS fees, but I can comment on that.

MR. MURPHY: Okay.

MR. MULVAGH: There have been a number of different -- I wouldn't say studies -- I would say positions that show, since the costs of commission have been eliminated, that it's feasible that on a apples-to-apples basis the travel agency
community could be considered a lower cost option that Orbitz, because Orbitz has a GDS fee associated with it and they pay a per-booking fee on top of that.

So in terms of the total compensation it's different. It's actually lower when you're just looking at the apples-to-apples comparison of the GDS and the commission, compared side to side.

MR. MURPHY: Okay. On page 6 you talk about how the airlines, if they would only give full access to their airfares, which is all we hear over and over again. What do you think the motives are? Why do the airlines not give full access to their airfares?

MR. MULVAGH: As I said, I think that we're trying to understand the real core issue. If it's cost, we want to address the cost issues and we want to remove that barrier. If it's other than that, if it's a marketing situation, or if it's a customer ownership situation, then we don't know how to compete with that. You know, that's a whole different business case. So I don't want to speculate. But we're hoping that it's cost based as opposed to a different situation.

MR. MURPHY: Okay. And on page 8 you talk about it's inevitable that travel agencies without large breadth will not survive. What is your vision of the future of the travel agency industry? What will it look like?

MR. MULVAGH: If I use our Small Business Travel
Division as a starting point, we service a number of different individual travelers and small businesses. And we have seen an erosion of that business because we just cannot compete to get the lowest fare. And that portion of our business is falling in terms of our profitability, in terms of our volume.

So, you know, our vision for the future is that unless we can carve out a unique value proposition for that customer segment that's going to be a tough one to stay in and remain profitable.

If I was personally to speculate what the future would be, I would say that unless a travel agency does have a wide product offering, the wide scope of customers that we have, the ability to cross-sell other products and services, I'm not sure why someone would be in this industry because of the margins that would be involved and because of their inability to compete, if not just for pure location convenience for the traveler.

Perhaps there will be, as in the airline industry, a few major, major players and some smaller ancillary players, because they have the financial resources and the ability to do so.

MR. MURPHY: And I guess the $64 question then for this Commission is: Okay, if the travel agency industry restructures to a larger model, larger-sized business model, how is the consumer affected? Is the consumer well served with the internet and a different structure in the travel agency industry,
or not?

MR. MULVAGH: I would like to think they would be.

As in American Express, we have different resources focusing on different segments. We poured a lot of time, effort, money, marketing into our Small Business Travel and Consumer Travel Division. And we'd like to continue to do so because it is less volatile than a corporate environment.

So to answer the $64 question, you know, we feel that, given the ability to compete for that business in a fair and equitable way, the consumer would benefit because of the honest brokerage, the one-stop shopping, the things that we can bring to them that one shop could not.

MR. MURPHY: Okay. If I could ask the Chairman's indulgence, one more question, and I'm taking more than my share of time.

CHAIRMAN WINSTEAD: Sure. Thanks, Pat.

MR. MURPHY: But one last question. You do recommend that Orbitz as an airline-owned system be subject to the GDS rules. Which aspect of those rules; what you have in mind? What is it that they're not having to comply with that you would like to see them comply with?

MR. MULVAGH: Yes. Basically one thing, that is, that all fares be made available, as in the GDS, that are there. They would go through the normal process of listing their fares through AT Pico and through the GDS, and that there is no
competitive advantage to not getting access to all the fares that are available.

MR. MURPHY: Fare availability?

MR. MULVAGH: Yes.

MR. MURPHY: Thank you, very much.

MR. MULVAGH: And actually, beyond that point, and inventory as well. It's not just fare availability. It's the actual ability to book that fare.

MR. MURPHY: Thank you, Mike.

Joyce, did you have a question?

MS. ROGGE: Yes. I'll just follow up on that. And thank you for being here today. We appreciate it.

If you could clarify for me that your recommendation is that in following the GDS rules, or applying those rules to Orbitz or other travel sites, do you make a distinction between sites that are jointly owned or that have multiple airline fares on them, as opposed to as, for example, an independent airline site?

MR. MULVAGH: Sure. I don't mean to give the impression that we think that all airline sites should be regulated and that they should follow the GDS rules.

When you have five-member owners of a distribution system of their product, that sounds like an airline distribution system, a jointly-owned integrated airline distribution system and should be regulated.
An individual airline consumer site or one that represents a certain percentage of the market that is less than the rules -- and I can't remember exactly what the figure is -- we don't feel has the same consumer impact than a large multi-airline-owned site.

Does that answer your question?

MS. ROGGE: It does. Thank you.

And then going back to another part of your testimony when you're talking about -- I'm sure I'm not going to say this right -- but OPODO?

MR. MULVAGH: Yes.

MS. ROGGE: Can you describe that a little bit more for me, and what action has the EU taken exactly?

MR. MULVAGH: Sure. OPODO, OPODO, as they call it in Britain, --

MS. ROGGE: OPODO.

MR. MULVAGH: -- is a very similar structure to Orbitz, where it's owned by a majority of the major players in Europe. And the EC Commission has given them the go-ahead, but the main features of, or the main differences is that there is no MFN clause in OPODO. And so it's basically a travel agency that has a great website and offers the same sort of products and services that any other travel agency will offer.

Now EUCDO, which is equivalent to -- you know, it's a very large travel agency association in Europe -- have noticed
that there is the odd thing creeping in here and there that looks like a fare that's only available through OPODO and not through any other channel. And so they are asking the EC to launch an investigation into that.

But the main difference is that any fare difference is actually being explained by the fact that the agency has chosen to lower their margin to offer that lower fare. And that's fine. That's a business decision. That's something that, you know, anybody who operates a travel agency can do at any time. And that's a competitive decision that they make.

However, it seems that it's not based on any advantage in terms of getting a lower fare and having it exclusively, as opposed to just deciding to make a business decision to cut their profit.

MS. ROGGE: All right, thanks.

MR. MULVAGH: Sure.

CHAIRMAN WINSTEAD: Okay. That's fine. Paul?

MR. RUDEN: I think it's very significant that American Express is here, because you occupy, it seems to me, a somewhat unique -- if that's not an oxymoron -- a unique position in the marketplace having, as you point out, a significant owned set of outlets and also a very substantial franchise set of agencies that you refer to as "partners." Most of those franchise entities are pretty small travel agencies, aren't they?

MR. MULVAGH: Correct.
MR. RUDEN: And they're franchisees so you have a contractual relationship with them that enables them to use the American Express name, and so forth, but you don't guarantee their profitability?

MR. MULVAGH: No.

MR. RUDEN: When you opened up your testimony, Mr. Mulvagh, you early on talked about the function that commissions performed as been payments for ticket issuances and essentially ticketing transactions of one sort or another and nothing more than that.

But would you agree that the distribution system that those commissions paid for, which was nationally ubiquitous, has something to do with the demand for air travel? In other words, the existence of a nationally-ubiquitous system of local distributors helps stimulate the purchase of the product for which they exist in the marketplace.

MR. MULVAGH: Can you paraphrase the question? I'm not following you on that.

MR. RUDEN: Yes. Let me try to speak English.

(Laughter.)

MR. RUDEN: If you didn't have any travel agents, if it were more difficult to acquire travel because there were travel agents everywhere, --

MR. MULVAGH: Yes.

MR. RUDEN: -- as they tend to be today throughout
the country in small communities, large, all over the place. If you didn't have that, it would be more difficult to buy it and therefore the search costs and the other consequences of trying to buy travel would be higher and less travel would be purchased; would you agree with that?

MR. MULVAGH: I would agree with you that the cost would be higher. As I said, in my testimony, that when the number of locations or players in a certain market is reduced, it's typical that the cost to the consumer will go up. And then to follow your line of thinking, it's reasonable, if the cost is going up, then the average consumer would have less ability to purchase that.

MR. RUDEN: In line with the questions that the Chairman was asking about your negotiations with the airlines that mysteriously to some extent, produced no, no good results, we now hear -- and it's cited in the Orbitz report to -- or the DOT report to Congress on Orbitz that some of the online agencies have succeeded in acquiring some low fares, low webfares. There is no real description of just what percentage of them they're getting or any real details about it. But your understanding is also, I take it, that that is happening in the marketplace now?

MR. MULVAGH: Yes. I also read previous hearing testimony from a couple of carriers that suggested that that opportunity is open for negotiation. So, as I said, we will go
back and continue to go back and a chip away until we are able to
get access to the fares that we would like to do and are working
with carriers on an ongoing basis to do so.

MR. RUDEN: What accounts for that change of heart, do you think, if that's what is?

MR. MULVAGH: This is speculation on my part, but I would say that over time if you look at the amount of focus and attention, media, pressure from customers, pressure from associations, the motivation for something like Orbitz to withhold their IPO, I think the volume of pressure that is out in the market for this to happen has taken shape and really contributed to that movement.

MR. RUDEN: Very interesting.

With respect to your discussion of technology patches, your testimony rejects those in part because you say that the industry's goal is to reduce costs rather than to keep adding costs. The industry you're referring to there is the distributor industry, the travel agency part of the industry, not the airline part?

MR. MULVAGH: I would say the entire industry focused on cost reduction.

MR. RUDEN: Do you believe it's the airlines' view that they should help travel agents reduce travel agent costs today?

MR. MULVAGH: No.
MR. RUDEN: Okay. The small agencies who make up your franchises, franchisees, they have a particularly difficult time, don't they, with these patches that you described as a somewhat ephemeral? They can't afford to keep investing in the software de jour to stay in tune with whatever the airline manipulations are of access to those fares and how you get them?

MR. MULVAGH: If you -- sorry.

MR. RUDEN: And my ultimate question is: Take that as a given, because I think it really can't be denied. My real question is: American Express is no position -- and this is again why I think it's so important that you are here, you are the biggest and in some sense the most diverse of all the travel retailers in the country -- but you're not in a position to do that for all those small businesses, and keep doing it as things keep changing and new software emerges and replaces the old, just to get access to these fares.

MR. MULVAGH: We're not even able to do that for our own business. When you look at the various tools that are out there and the companies who represents those solutions, some of which you'll hear from today, there are reports and findings that certain airlines or sites will switch access and will not allow that technology solution to search its site and come back with information available.

So we've had to design our own system for our travelers. And we've had to have a number of different options
for them. Some of them are from a manual process. Some of them
are a very technologically-based process that does the things we
spoke about.

But if all of a sudden that were to be regulated
and there would be a ruling that said you cannot -- intellectual
property, what-have-you -- cannot access an airline's website
because that's not feasible to do so, we would have a lot of cost
for something that didn't work. And that's for our own network.

If you think about all of our franchisees who are
not part of our MIS system necessarily, they don't have perhaps
the same CRS that we use; they have different back office
processing systems, it's impossible. It's impossible for us to
provide a those services on an ongoing basis.

MR. RUDEN: Finally, there's a lot of stuff here
that I could go on about, but I won't keep on, given my
reputation for asking too many questions.

CHAIRMAN WINSTEAD: Mike, I don't think -- you
wouldn't -- if we have questions, there are a lot of questions,
probably more than we can ask. Can you respond to them? Can we
submit them in writing?

MR. MULVAGH: Certainly.

CHAIRMAN WINSTEAD: Great.

MR. RUDEN: I have just two things. And
unfortunately they relate to the infamous "O" word.

When you were asked earlier about the GDS cost of
transacting business versus the Orbitz cost, there's another
factor at work in an analysis, isn't there, and that is that
Orbitz has a guaranty of these transaction fees that no one in
the industry has, including the giant American Express, a
guaranty that no matter what happens to commissions Orbitz still
gets paid?

MR. MULVAGH: That is my understanding, yes.

MR. RUDEN: And so that value, would you agree, it
not be something that you would put in a financial statement per
se, but it certainly has relevance. There are 43 airlines making
that guaranty to your competitor that you don't get or no one
else gets, and that that should be factored into the question of
who's got what costs, because that is an important value to have
that assurance that the matter what happens you're going to get
paid something.

MR. MULVAGH: Agreed.

MR. RUDEN: Finally, you somewhat genteelly -- and
I understand why, I think, at the end of your testimony -- talk
about whether the issue here is really GDS costs, or something
else. And you mentioned three things: Customer ownership,
travel loyalty, and marketing aspirations.

Your testimony pretty strongly suggests that it's
not GDS costs that really explain what's going on. These other
things really translate into the question, don't they, of who
controls the marketplace, who controls the customer, whether it's
going to be the airlines that control it together through Orbitz, or whether someone else will control it, as they have the past.

MR. MULVAGH: If you look at all the competition for the customer today, factored in the desire to reduce the distribution cost, if that can be done in a one-to-one marketing arrangement with a customer, no matter who it is, and the cost is reduced, then you're golden. You have the opportunity to hold on to your repeat customer. You don't have the associated costs that are required to have a widespread sales network and distribution network.

So, again, if it's not costs, as we've supposed, we've offered to pay the cost. If it's not that, then it seems likely that then the second next question we would ask is, "Well, what is it?" It seems to be a marketing customer ownership issue.

MR. RUDEN: If it's something to do with domination of the market, or control of the market, that's not likely to be something you're going to negotiate your way to a satisfactory solution on, is it?

MR. MULVAGH: It does not seem likely.

MR. RUDEN: Thank you very much.

CHAIRMAN WINSTEAD: Thanks Paul.

Ann?

MS. MITCHELL: Thank you so much for your testimony. It was very thoughtfully presented. And as Paul
mentioned, you certainly represent a varied marketplace.

When you were talking about negotiating paying the GDS fees, if that was their problem, what kind of fee level were you willing to go to, because it’s been suggested in previous testimony, particularly by Orbitz and some of the others, that the GDS costs are very out of line. But you’re saying you would have been willing to pay that. And, if so, could you explain that?

MR. MULVAGH: You know, the GDS costs obviously vary from GDS to airline, as well. It’s a complex arrangement between the Agency, and you all know that. But again we offered to subsidize, to either bring down the cost of distribution, because we believe that there is always a cost of distribution of your product. And in some cases we offered to pay the whole thing. And I don’t know if you’re looking for specific dollar amounts or what that entails, but --

MS. MITCHELL: Well, we have asked several of our people who have presented to us costs from the airlines and the GDS people. And the answers that we get are all across the board.

MR. MULVAGH: Yes.

MS. MITCHELL: So it’s a little bit confusing and puzzling to try to determine who’s telling what, and what does it really mean in the marketplace and whether or not the distribution cost of a product should be expected to be zero?
MR. MULVAGH: If I could indulge you, I'd like to come back with that answer in terms of a GDS cost model, because it takes into account a number of different things that I don't think I could spend time here today. And, plus, I don't think I have all the knowledge and the details. But what that would entail is basically the circuitous cycle of how that would work.

May I do that?

MS. MITCHELL: Yes.

MR. MULVAGH: Yes.

MS. MITCHELL: Thank you.

MR. MULVAGH: Thank you.

MS. MITCHELL: Thank you.

It's been suggested to us through some of the previous testimony that there should not be any recommendations or decisions made based on what might happen, particularly in regard to Orbitz and others.

What would be your view on that as representative of a large organization? Should we wait until it's several years down the road, travel agencies have fallen by the way right and left, and the consumer is compromised in its ability to get airline arrangements?

MR. MULVAGH: As I stated in my opening, we're not here to suggest we regulate internet, or that we regulate opportunity, or the ability for new products and new entrants and new services to come to the marketplace.
But if I could take a sidestep and compare what happens when choice is taken away to the pricing of a market like Minneapolis, or Rochester, or Detroit, or what-have-you. When there is less opportunity, the price goes up. And so to answer your question, we believe that market forces should be allowed to decide what happens.

However, we think it's very prudent to look at what does happen when a dominant market force comes into play, eliminates competition because of a favorable opportunity that they have that no one else has, and then becomes a sole player in a market. And that's the position that I'm coming from. Does that --

MS. MITCHELL: So you think it would be much more difficult to reverse it after happens than to address it now when we can take information and look at what is likely to happen --

MR. MULVAGH: Yes, I do.

MS. MITCHELL: -- based on history?

I was particularly amused at your acronyms in EU arena. I had said to the Committee early on that I thought we might be less successful if we don't come up with a catchy acronym for our Commission. And so far we haven't come up with one, so if you'll help us we'll appreciate it.

Thank you.

MR. MULVAGH: I'll look at the naming convention on the way home.
(Laughter.)

CHAIRMAN WINSTEAD: Maryles?

MS. CASTO: Being at the end everybody's asked the questions that I was going to ask.

CHAIRMAN WINSTEAD: Okay.

MS. CASTO: But just a question.

On page 4 you had said, "Business and leisure travelers who choose to work with American Express cannot easily and efficiently get information and access to the lowest fare..."

To what level of ease and efficiency should the systems be to be in the consumer's best interest?

MR. MULVAGH: If I understand your question, it is what is the answer for the consumer, is that what you're -- I'm sorry.

MS. CASTO: You're saying that you "cannot easily and efficiently get information and access..."

MR. MULVAGH: Yes.

MS. CASTO: And my question is: To what level of ease and efficiency should do the system be to be in the interest of the consumer?

MR. MULVAGH: Okay. Yes. And, again, I don't want to come off as sounding like the GDS is the solution.

MS. CASTO: Yes.

MR. MULVAGH: If there's an economic way to manage this process that's efficient for everyone where there is
consumer benefit but everyone also is not disadvantaged, then we think that that is the solution. And what that solution would be is again spreading the wealth, the full access to the consumer of the lowest fares in the marketplace.

And I'm hoping I'm answering your question. But really we're looking for that it's a level playing field, that there is the opportunity for American Express and other agencies to compete fairly and to have access to these fares that our customers are asking us for.

MS. CASTO: Okay. Did you object to Orbitz when it was focused on leisure travelers or only when it begun loading negotiated corporate fares?

MR. MULVAGH: No. From the very beginning, American Express has been concerned with the MFN clause and with the in-kind marketing agreements. So, no, this is not a new position. It has been that way since prior to Orbitz' launch.

MS. CASTO: Okay. That's about all I had.

CHAIRMAN WINSTEAD: Thanks, Maryles.

Given questions that have been asked, is there any other pressing?

Mike, I really appreciate your -- we all do -- great testimony, great response to the questions. And, with indulgence, Dick might have some other questions that we haven't covered that he might submit to you.

MR. MULVAGH: Okay.
CHAIRMAN WINSTEAD: If you could provide some written response, that would be great.

MR. MULVAGH: Sure. Just to recap, I'm going to come back to you with the franchise view in terms of how that's been impacted, the number of locations that we've -- I'm sorry -- the number of participants we have versus last year, as well as clarifying the GDS cost model that we work within. And I will come back to you with that.

CHAIRMAN WINSTEAD: Great.

MR. MULVAGH: Yes.

CHAIRMAN WINSTEAD: Well, thank you very much.

MS. CASTO: Thank you.

CHAIRMAN WINSTEAD: I appreciate you joining us, and it was very constructive and informative. Thank you very much.

MS. MITCHELL: Yes, thank you.

CHAIRMAN WINSTEAD: Let me ask if we could take just a ten-minute break here. We have three witnesses, and I'm instructed that it probably would be best that we set up all three here. And then we'll go through individual presentations.

The restrooms are right back here on the left. And why don't we take like a ten-minute break while we set up for the remaining three witnesses for this morning.

Thanks.

(Recess taken from 10:44 a.m. to 10:59 a.m.)
CHAIRMAN WINSTEAD: If we might start back in, I'd appreciate your indulgence. We have three witnesses that we've asked to sort of sit up together, even though we'll take them individually.

Brian Barth is CEO of SideStep and has joined us just off of vacation he tells me. This is a vacation for most of us, coming to San Francisco.

Well, why don't we go ahead, Brian, while I introduce the other ones. Why don't you introduce yourself, your company, and then get into your testimony.

MR. BARTH: Well, actually I've included some of that in the thing I wrote here.

CHAIRMAN WINSTEAD: Good.

MR. BARTH: I'm Brian Barth, the CEO of SideStep. We're a local company here. We're down in Santa Clara about 30 miles south of here, glad to be here.

CHAIRMAN WINSTEAD: Thank you.

MR. BARTH: So good morning, everybody.

I thought I'd start by giving you some background information on SideStep, the technology company that we founded back in 1999.

From the start our vision has been to build a special kind of search engine that makes it easy for users to instantaneously access rapidly-changing information from across the internet. As our technology matured we discovered that it
worked extraordinarily well for accessing travel. Since travel is a very sizable and dynamic market, SideStep has focused all of its efforts on providing access to the largest and most useful assortment of travel options online.

SideStep currently connects to more than 130 different internet-connected systems, including traditional published inventory, web-only fares, and special negotiated rates.

SideStep makes it easy to book directly on a variety of websites which are typically a very low-cost distribution channel. Once the buyer has made their selection, SideStep streamlines the purchasing process by navigating the buyer directly to the point-of-purchase webpage with brands that they can trust.

Since SideStep introduces buyers directly to our travel partners, we give them the opportunity to build richer, closer relationships with their customers.

The standard version of SideStep is available for free from our website and a number of our airline, hotel, and rental car partners. Our system provides access to one of the broadest selections of fares and rates available online, including more than 45,000 hotel properties, 585 different domestic and international airlines, and over 2800 rental car locations.

SideStep has won numerous awards, including Forbes'...
Best the Web, and CIO Magazine's WebBusiness 50 Award, and is frequently mentioned in the consumer press.

We regularly receive accolades from travel agents who find our system useful. Furthermore, companies that sell travel have embraced us nearly across the board. We continue to be encouraged by the number of quality travel companies that are asking to participate in our system.

With the strong support of the travel industry, and from travel buyers of all types, the SideStep service which formally launched a year and half ago has grown to become one of the most popular online travel systems for both leisure and business travel.

This growth to nearly two million users has been driven primarily by word-of-mouth from satisfied users.

SideStep is currently facilitating annualized gross bookings in excess of $200 million and is growing organically at a rate in excess of 30 percent quarter over quarter. SideStep is both cash flow positive and profitable.

The SideStep system is based on the latest distributed internet architectures and technologies which result in increased system performance at a dramatically lower cost. For example, rather than using large numbers of dedicated proprietary communication links to each of our partners, SideStep utilizes low-cost internet bandwidth.

Similarly, rather than relying on a few large
computers to run the system, SideStep architectural allows us to run across many small inexpensive computers working together. And we can add these computers one at a time whenever more capacity is needed. Most importantly, taking advantage of the latest technology's lower cost ultimately enables low prices for consumers.

Across the internet SideStep has a number of communication technologies that make it easy and inexpensive for systems to communicate. The most exciting era of development is called, "Web Services." All the major computer software companies, such as Microsoft, IBM, and Sun Microsystems support Web Services.

For example, SideStep has been searching for fares and booking transactions using XML Web Services with Dollar Rent-a-Car for some time now.

SideStep is also a member of Open Travel Alliance, which will make it even easier for travel distribution systems to speak the same language over the internet.

Not all of SideStep's partners have these latest capabilities yet. Fortunately, our system is extremely flexible in that we have been able to connect to any internet-connected system with no work on the part of our partners.

Some of these communication methods are based on older techniques, such as EDI, while others are based on technology that emulates user interaction on a website.
In working together with our partners we've been steadily improving internet distribution systems and further reducing costs. The benefits of SideStep's distribution model are so dramatic and clear we believe that only a company with ulterior motives would ultimately decline to participate.

SideStep has also produced a number of customized versions of our system for many of our partners. For example, Carlson Wagonlit Travel has licensed a customized version of SideStep for their travel agents that fully integrates special nonpublic travel inventory in addition to displaying webfares and published fares.

Additionally CWT's edition of SideStep has a customized to display with additional information of interest to their travel agents. As long as webfares are available to systems like SideStep, all types of users will be ensured access to the widest range of inventory at the lowest possible cost. Whether using our free standard version or a customized licensed version, SideStep makes it easy for consumers and travel agents to access the broadest variety of inventory, including webfares.

Thank you very much for your time and attention.

CHAIRMAN WINSTEAD: Brian, thank you.

I'm sure the other Commissioners have got questions.

Can you explain a little bit under your business model on the revenue and profit side in terms of how you're
earning money and sort of where the payments are coming from in terms of your customers. And then also tell us a little bit about the -- if you're willing to -- fee structures.

MR. BARTH: Yes. Well, actually it's probably a long discussion, and there's a lot of -- let me just kind of broadly categorize it for you, --

CHAIRMAN WINSTEAD: Sure.

MR. BARTH: -- which is that generally we are paid by the companies that we search and sell travel services for. And, for example, for our consumer model it has to be that case, because it is free for the consumer.

For our licensed versions, like for example Carlson Wagonlit, you know, they paid for a customized system which is actually really slick and they've been having really good metrics, that it's saving their travel agents a lot of time and productivity overall. And, of course, in that case there's a number of sources of inventory that are private to them. It is internet connected. That's the common theme.

But those systems, of course, we, you know, wouldn't be paid. These would be private systems of various sorts for their purposes. So it's kind of the general flavor of it. You got to remember that, you know, when we have 130 different suppliers in our system, and adding all the time, and we have quite a few different customized versions of our system, there's an awful lot of arrangements out there. But, you know,
the majority of our revenues are generated by referral fees to
the companies that we sell travel with.

CHAIRMAN WINSTEAD: Okay. There's been some
comment in prior hearings about the web search systems that
you're using, and you understand this perhaps better than I do,
the screen scraping technology that imposes, some have commented,
a resource burden on the airlines and the CRS systems. Is that
something that has been applied in the past, or...

MR. BARTH: Yes, you know what? That actually is
really dependent upon the partner and their particular systems.
The trend going forward is that that is probably a very
short-term sort of problem in that if you kind of go and look
what's happening across the industry there's all of these systems
called off-host faring systems, where it's, you know, essentially
what ITA has done where they're doing all of the searching
completely independent of the booking process.

I mean, there's more projects, if you go talk to
people, underway for off-host faring systems than you can
probably count easily. And, you know, it's mainly because the
need has arisen because people are generally searching a lot more
than they used to. And so the problem is being solved. But it
doesn't mean that there haven't been some justified concerns.

For example, if you had a website and you foolishly
signed an agreement to pay somebody a nickel a search, you know,
just because that was sort of the old way of thinking, well, it
was justified that, you know, until you renegotiate and kind of get with the new way of doing things, you probably have a legitimate claim.

Going forward with that that's really not going to be a valid claim. If you look at -- you know, the cost of these systems is incredibly low. They are very scalable. They're all based on very low-cost hardware.

For example, you know, Intel is busy, you know, down the Peninsula building cheaper and cheaper processors all the time. I mean, search is going to become almost free, from a cost perspective.

CHAIRMAN WINSTEAD: In American Express' testimony they talked about the airlines that, you know, can change the ability of your technology to access fares in really the flip of a switch. And has that actually happened in your case?

MR. BARTH: Say that again?

CHAIRMAN WINSTEAD: In terms of the ability of the technology to access the fares, in terms of the airlines being able to basically cut off that technology; is that a concern that you have?

MR. BARTH: Well, I think one of the things that would be interesting to compare, because our model might be a little bit different than a lot of these guys.

For example, for us the bigger issue, you know, we're not sort of out there trying to take fares that we don't
get paid on. So we have a little bit of a less of an issue with that where we're -- you know, for example so the models are that you take the fares and you add your own mark up to them.

For us, you know, there's sort of a whole series of technology issues where, you know, you can shut people out. And then there's ways around that. And there's this continual cat-and-mouse.

Where that ends, I don't know from a technical perspective. From a practical perspective for us, since we're in business and trying to get paid, you know, clearly that's our primary issue.

CHAIRMAN WINSTEAD: Thank you. I appreciate it.

Let me turn to the other Commissioners.

MS. ROGGE: I have one. When you the focus on the consumer model, which is one of the things that the Commission is very focused on, is the consumer information and choice. And, you know, I'm familiar with your product. And how many users do you have that are SideStep customers, I guess?

MR. BARTH: Yes. We have about two million people who have come and found SideStep and installed it. And we consider about half of them really active travel shoppers. So we have a pretty good number of people who are using it.

MS. ROGGE: And really just kind of the record, because I'm not sure how familiar everyone is, you might take us through the process for what a customer does as far as
downloading it to their own computer at home.

MR. BARTH: Yes. It's actually -- most people -- I would say that there's probably a large portion of people who don't even realize that it's not just a website because we've tried to make it extraordinarily easy to use.

But you simply go to SideStep or there's a lot of other airlines, and rental car companies, and hotels that have been sending it out on our behalf just because they like the system.

And you click on a button. It actually installs in the side panel of your web browser. And what it does is it goes and it pulls together a summary of all of this information from all over the internet.

And the thing that's very different about us is that we don't actually -- we're not the merchant of record. We don't take the booking ourselves. We actually just help navigate the person to a convenient point to make the purchase. So that is something that's a pretty big difference between the way our system works than a lot of the ones you might be familiar with.

MS. ROGGE: And does the consumer know -- yes, that answers my question -- and does the consumer know, you know, sitting at your desk at home, are they aware of the fact that you're searching through some of what is out there as the supply, but perhaps not all?

And the reason I'm asking that question is that
there's been a lot of testimony and discussion about the consumer having access to everything all at once. And is that really feasible, or will consumers need to, you know, check more than one thing?

MR. BARTH: Yes. And I think from a practical perspective at the moment we think we have, and we can't really find anything that isn't just some very, very small niche thing, or that isn't sort of already in our pipeline that we feel like we're missing. Although, you know, it's hard to say what the future has in store. But right now I think we believe you can -- I mean, I don't know of anything that you can't get through our system.

MS. ROGGE: Okay. And then one last question.

When you were talking about the travel agency product, how many travel agencies do you -- beyond the customized product for Carlson, how many do you have, like independent agencies, small agencies that have access to your product?

MR. BARTH: Well, we know, and this is a lot more hearsay than any statistical measurement that we take in, is that there's a lot of travel agencies. Essentially it's, you know, we've heard -- they send fan mail from time to time saying, "We love your system. It seems to work -- you know, it works really well."

As a matter fact, just last week somebody sent me something off some travel agency bulletin board that was posted.
They said they really like it and they are using it. And most people as -- I think the smaller agencies are feeling like the free version that's essentially the same as what consumers use is meeting their needs. And, of course, we're open as time goes forward if there's, you know, features or things that we need.

And essentially what we did is we -- you know, we're really technology people by background rather than travel people. And we try to step back and build, you know, kind of the best system we could think of. And, you know, we're actually finding a lot of different are people using it. And we're really happy. And it's really remarkable, the fact that since we haven't really done any marketing, the fact it is, you know, in this age of all of this marketing noise, that as many people have found us as they have.

MS. ROGGE: So part of that two million subscriber group that you talked about, many of those are actual businesses that just use it as a consumer would?

MR. BARTH: Um-hum.

MS. ROGGE: Thank you. Thanks.

MR. BARTH: Hey, you're welcome.

CHAIRMAN WINSTEAD: Thanks, Brian.

Pat.

MR. MURPHY: As I understand then, you're not a travel agent, internet travel agent? You're --

MR. BARTH: No.
MR. MURPHY: Okay.

MR. BARTH: Um-hum.

MR. MURPHY: So do you have -- because you merely connect the user with the provider you do not, for example, have telephone, people do not call you and ask questions about the product, do they? You just hook them up with the ultimate provider?

MR. BARTH: Exactly.

MR. MURPHY: Okay. And with the kind of growth you're experiencing, congratulations on that, and the popularity of your site. I mean, do you have a vision for where all this takes the small travel agencies? Do you have any sense of how they're going to adapt, adjust to all of this technology coming their way?

MR. BARTH: Yes. Well, I was afraid I was going to bore everybody with that little Web Services to comment. But I think perhaps a lot of people in the travel industry don't fully realize and appreciate what's happening there.

There is a massive movement happening in -- you know, essentially the first generation of the internet was getting, you know, content out to people. And this next generation that's happening is getting computers talking directly to computers that are spread out all over the place.

And the reason why this is going to work so well is that even software companies which tend not to want to be
cooperative together, you know, for example, you know, listing
out a company like Sun Microsystems and Microsoft. I mean, there
are really important elements of this that everybody is in
agreement with.

As a matter of fact, you know when I mentioned the
Dollar Rent-a-Car connection that we've been running for a while,
that actually -- they use a completely different operating
system. They use a different type of application server than we
do. Their entire system is different, yet there's a
standardization happening in this language of communication that
is really going to, I believe, change everything fundamentally.

And I think, you know, quite frankly, there's a lot
of people, you know, on the technology side of the industry that
see this coming. So they're really are some very, very big
things afoot that are going to have a big impact on distribution
costs and how all the capabilities of all these systems.

MR. MURPHY: That's helpful and makes our job way
more complicated, but thank you.

MR. BARTH: I'm sorry about that.

(Laughter.)

MR. MURPHY: Do you have any recommendations for
the role of the federal government here, or do we just step back
and let all this evolve? What are your thoughts?

MR. BARTH: Well, it's very hard to say really
because from our perspective, you know, we don't see any
particular problems at the moment. It doesn't necessarily mean there won't be.

So, you know, I really can't give you a particular recommendation, except I think it's to apply a lot of the type of internet principles that are just sort of commonly thought of which is that, you know, information should be made available and that, you know, as long as information is publicly available and kept that way, then this will all sort itself out, I think. I mean, the force of what's going on in the technology in there right now is so strong that, you know, I really think that that is going to take care of it.

MR. MURPHY: Thank you.

CHAIRMAN WINSTEAD: Great.

Maryles?

MS. CASTO: I have a couple of questions for you, Brian.

MR. BARTH: Yes.

MS. CASTO: Thank you, by the way.

MR. BARTH: You're welcome.

MS. CASTO: First, have you found that the airlines have denied access to their internet fares by your system, by use of your system?

MR. BARTH: Well, you know, we know that there are some airlines that some of their -- you know that seems a little incongruent in their position.
The thing from our perspective is because we have a complete system, or we have, you know, through, you know, one channel or another access to all of the webfares and everything, it isn't an issue that we've really taken up. But you'll certainly -- in fact, I think the other guys were planning on making some comments about that. In a model where you want to get paid on the buyer's side as opposed to the supplier's side, I think, you know, you really do have to pay a lot more attention to those kind of issues.

MS. CASTO: Okay. Does SideStep integrate with a back office?

MR. BARTH: No.

MS. CASTO: And how does it integrate?

MR. BARTH: I'm probably the wrong guy to ask, because I'm the least knowledgeable about travel agent systems. But we know that -- we've done some modifications, for example, for this Carlson Wagonlit system. We know that some travel agents use us and just type the information. I don't know exactly how their systems work.

And, in general, you know, we know the direction is to make things easier to use. And as a matter of fact I think that's probably a great question for Les, because I think they've done a fair amount of that, not to put words in his mouth. So, you know, I think these are all things that can be done very well.
MS. CASTO: Okay. That's about all the questions I have now.

CHAIRMAN WINSTEAD: Okay, great.

MS. MITCHELL: Brian, congratulations on being one of the internet companies that makes money.

MR. BARTH: Thank you.

MS. MITCHELL: Really unique these days.

You mentioned that, in answer to Pat's question about the government involvement, you thought that information should continue to be made available?

MR. BARTH: Yes.

MS. MITCHELL: What is your view on some pretty powerful groups of people getting together to control information on the internet?

MR. BARTH: Yes. I think from our perspective, we haven't, you know, I mean, like when you refer to groups, you know, whether it's Orbitz, that you -- yes, this is something. We've actually found them all to be surprisingly helpful and cooperative.

To tell you the truth, I would actually think that, you know, where some of these questions might reside more is with the motivations of some the carriers themselves. But from, you know, all of the other parties, you know, we haven't actually -- that's not been our experience. The question as to what the real motivations for all the airlines are for that, now you've got
something.

MS. MITCHELL: Okay. Thank you. So as long as you're directing people to their website, they're real happy about that?

MR. BARTH: Yes.

MS. MITCHELL: Okay.

MR. BARTH: As a matter of fact, actually we have an abundance of people who are interested in having that help, yes.

MS. MITCHELL: All right. You referred to XML and the Open Travel Alliance. Would you explain how you would use XML, please?

MR. BARTH: Yes, sure. As a matter of fact what XML is, and its actually really -- you know, this is something that is -- you know, a lot of times there will be technologies that you ask yourself, is this something, is this sort of flash in the pan, or is this something that really looks like it's going to be a core piece of the puzzle for long time?

I would, you know, venture out to say that XML, you know, pretty much without a doubt is pretty, you know, widely embraced by just about everybody. And that what it really is is just simply a very flexible way of being able to exchange information between, you know, computers on the Internet.

MS. MITCHELL: Yes.

MR. BARTH: And the nice thing is, you know,
basically everything can get plugged into the internet these days. But the next question is can you actually make it talk and have everybody speak to sign language?

So that the layers of the puzzle are, one, you've got to get everything wired together. That's sort of step one of the internet. The next, the second thing is you got to get them so they can sort of send messages back and forth. And then where the Open Travel Alliance fits into that is to try to, you know, for example, maybe we both speak a language, but I'm speaking French and you're speaking German. I mean, that's kind of that next layer that the Open Travel Alliance is looking to address.

And, quite frankly, it will certainly be wonderful when that all gets straightened out. We actually haven't found that to be a huge impediment because, for example, a lot of the people that -- we are actually using XML with a number of our partners. They aren't all speaking the same language. We've got one speaking French, and Italian, and Japanese, essentially in that metaphor. And it still works just fine. As a matter of fact, it works very well.

MS. MITCHELL: Would you hazard a view on whether or not the airlines at some point would be able to bypass the CRS systems entirely using XML technology?

MR. BARTH: Oh, it's not that they really should. And technically they should be very capable of doing it in that a lot of the systems that they're using to build their web
platforms on, for example, you look at, you know, IBM and their
WebSphere, or BEA WebLogic. All these servers that they're
actually building this on, they're building Web Services into it.
I mean, it's a "gimme" feature that not only can people talk to
the system, but so can another computers.

The real question is going to be what all of the
other motivations are. I mean, what it's going to solve is that
it technically is possible that it will be extraordinarily low
cost. And then there's all kinds of other issues. And that's
really going to be the test as to, you know, how do people behave
now this Brave New World has been enabled.

MS. MITCHELL: Are there privacy issues involved,
or are there ways to control access to certain information?

MR. BARTH: Yes. Well, first of all, the access is
a little bit different than privacy, so I'll take them both.

Privacy and security are generally taken care of.
I mean, there's great security in encryption and all that. And
so, you know, for example, losing your credit card, or the kind
of things that people sort of worry about, I think everyone's
sort of finally come to the realization that isn't really a big
issue.

As far as, you know, access I mean, one of the
promises of the web is that you actually can change your answers,
or what you do, based on who's asking. And the web is an
incredibly powerful CRM or one-to-one marketing vehicle. So, of
course, you could use that in a variety of ways. And who knows?

    MS. MITCHELL: Okay. Thank you very much.

    MR. BARTH: Sure.

    CHAIRMAN WINSTEAD: Paul?

    MR. RUDEN: I'm interested in two aspects, I think, of what you talked about it.

    One was the notion that this is essentially -- that information searching is free or nearly free. We've heard that before about the internet. And a lot of companies built a reputation on the notion that what they were doing essentially had no cost. But there are costs. And you had to invest money in programmers, and so forth, to build this thing which is now available for download to consumers free, and to travel agencies in some cases.

    MR. BARTH: Um-hum.

    MR. RUDEN: And you're recovering the cost of that. You've chosen to recover the cost under your model by having the suppliers pay you. Am I right so far?

    MR. BARTH: Um-hum.

    MR. RUDEN: Okay. So in that sense someone pays. I mean, this is not free?

    MR. BARTH: Right. I mean, actually --

    MR. RUDEN: It wasn't a cost-free activity?

    MR. BARTH: -- there is no free lunch, correct.

    MR. RUDEN: Yes, okay. We're in agreement on that.
MR. BARTH: Actually, well, maybe to say that, "the almost free," or -- I think it's the de minimis part of it that's important. In fact, one of the things -- this should probably be verified -- but, for example, it's my understanding, you know, ITA, for example, which, you know, sells and is licensing their search system to a lot of different companies, my understanding of how they price it is on a booking basis, not on a search.

And I think that's a really interesting data point in that, you know, people can do a lot. You know, what they're really trying to do is recover their investment, you know, the fixed-cost element of this investment. But on a variable cost basis I think what the message is, if I'm not misreading it, is that, you know, it's very, very low.

I mean, these are inexpensive processors. You know, as we know what the telecom companies bandwidth is quite inexpensive these days. And I think that's the message. And I think you're absolutely right in saying, you know, you still -- the expensive part of all this is you need to get a lot of really smart people to build these pretty, you know, big, brave, new software architectures.

MR. RUDEN: All right. Well, then from a supplier point of view, they see this thing that you've built that, if I understand it right, I download it on a computer. Let's say I'm a small business, an agency, a travel agency. I download it to the office computers. I have an inquiry from a customer. I can
use the software to search the Web. I have a CRS I can use to
search the CRS database.

MR. BARTH: Yes.

MR. RUDEN: And if the decision that the customer
makes, with the agent's help, is I want to book this particular
thing on the web because you found perhaps a lower price. Your
software takes the agent to that website. And they then transact
business as if they were the customer.

MR. BARTH: (Nodding head up and down.)

Um-hum.

MR. RUDEN: And --

CHAIRMAN WINSTEAD: Speak up.

MS. ROGGE: You can say yes --

MR. BARTH: Oh, yes.

MS. ROGGE: -- for the recorder.

MR. BARTH: Okay. Thanks. Nodding doesn't work.

Okay.

(Laughter.)

MR. RUDEN: And the suppliers are cooperating with
you. In what sense do they cooperate? Well, what is the nature
of the cooperation that you require from them in order to make
that happen?

MR. BARTH: Well, the nice thing -- so there's sort
of the two parts of it. There's a technical part and a business
part.
The technical part, one of the reasons why our
system has been so successful is we've made it extraordinarily
easy for people to participate. Basically, you can be in our
system without having to make any changes technically to yours.
We've never encountered a system that we couldn't connect and
integrate successfully.

From a business perspective, you know, we need to
have some model or some way of being able to generate revenue if
we're going to provide it free to the buyer. And so that's the
business side of it. And we need to negotiate something. And I
think, you know, the general thing, from our perspective, is that
we -- you know, our primary cost aside from, you know, some of
the technology development it is, you know, going forward, going
to be attaining reach.

And I think that generally if you look at what the
expensive pieces of the internet are is, you know, getting the
word out to people. And, for example, a lot of people have --
and perhaps some of you haven't even heard of us before.

MR. RUDEN: Well, that kind of goes to what I'm
trying to explore a little bit here. The airlines have invested
in Orbitz. Orbitz, you don't have to download it, but you can go
there and it purports to give you the web. And it purports also
to give you the CRS component.

MR. BARTH: Um-hum.

MR. RUDEN: And you book it in Orbitz instead of
going to the website. But fundamentally, if you're a travel
agent, you still have to pretend you're the customer to conclude
that booking. So they have a device that does essentially what
your device does insofar the air part is concerned.

I'm right so far?

MR. BARTH: Well, actually there are a lot of
important differences. But I don't know how much the whole
Committee wants to hear about it.

MR. RUDEN: Well, I'm not interested in the
technical differences. I'm interested in understanding why the
airlines cooperate with you, why they pay you, and what might
cause them to stop paying you?

MR. BARTH: All right. Yes. Well, and that's
actually really what I was driving at in a lot of my comments,
which is that we think that the benefits of our system are just
so obvious. And it's not like it's closed. I mean, it's very
clearcut. I mean, it's very low cost. It's very efficient. You
got the customer on and on and on.

As a matter of fact, any other issue that anyone's
ever come up with -- for example, we've got a search cost issue,
or something, we say, "Okay. Well, we've got a solution for it."

And so that's not to say that we -- you know, all
will be well, because there, you know, may be other issues. We
don't know what they are yet, though, if they are out there.

MR. RUDEN: Well, is your cost to the suppliers,
the airlines suppliers, less than the cost to them of Orbitz, as you understand it?

MR. BARTH: Yes, as far as I know.

MR. RUDEN: Significantly less?

MR. BARTH: I believe so, yeah. But, again, I don't purport to be an expert on what everybody is paying to everybody else in the industry, either.

MR. RUDEN: All right. Okay.

MR. BARTH: But I mean I think we generally endeavor, and we intend to do this, going forward. You know, perhaps it's our background of being technologists. I mean, we've been here in Silicon Valley, a lot of people, the company, for, you know, quite some time. And, you know, the general trend, when you're a technology company, is you better be delivering a lot more performance of a lower cost on a pretty regular schedule or you're going to not be around for much longer.

And I think that kind of the era that were entering now is that the internet, because it's managed to get all this stuff connected, we're kind of at the cusp of something new and different where, you know, really new things can happen. That's my perspective.

MR. RUDEN: Thank you very much.

MR. BARTH: Okay. Your welcome.

MR. RUDEN: Thank you, Mr. Chairman.
CHAIRMAN WINSTEAD: Okay, Paul.

Fine, thank you very much. Appreciate your response.

I think, Dan, if we could go to you on the agenda.

You're next.

MR. KO: Sure.

CHAIRMAN WINSTEAD: And then finish out with the Les.

And I'm sure there are questions that, you know, that some of you would like to respond to that are being asked of Brian, so we'll open up afterwards.

MR. KO: Well, thank you again for inviting me here. I'm very excited to speak. And it was very interesting to hear what American Express had to say, what Brian had to say.

CHAIRMAN WINSTEAD: Please state in the record your title and name.

MR. KO: Sure. I'm founder and CEO of Qixo, Q-i-x-o. And I'll do just a quick background on myself, because I think it might be relevant to this discussion. My background, I actually used to be an attorney for a few years. And then I got into a software business. And I got into a consolidator, airline consolidator business, by accident, four years ago.

My friend dared me to make this booking engine for airline consolidator fares, which -- the booking engine didn't exist, you know, four or five years ago. So I thought that seems
kind of easy. So I tried it, and we figured out how to do it. And it turned out to be a pretty well-known success. We sold our system to consolidators for huge amounts of money.

And the company is called, by the way, Patheo. I don't know if you've heard of it. By now we have thousands and thousands of travel agents are either using our engine to find consolidator fares, or they put this consolidator fare engine on their website. So that's the background that I come from.

And two years ago I was, you know, very excited that our engine searched, you know, kind of like, well, not just those now with webfares, it searched about 20 consolidators simultaneously which was a big deal, because a typical travel agent had access to maybe two consolidator fares, by phone, two consolidators. Now we're searching 20 of them simultaneously. So I thought we got it, we're going to kill Expedia, and so forth, that was very exciting.

(Laughter.)

MR. KO: And then what I find out was that the webfares were actually kicking our butt most of the time in the domestic fare area. By the way, in the international fares, those consolidated fares could not be beaten even to this day. Even to this day, consolidated fares are much better, you know, than the webfares. We do comparison, you know, on a weekly basis of all the fares. So we have a very good understanding of the various price structures.
But in the domestic area I realized that consolidated fares were virtually nonexistent. And the webfares were much, much cheaper and there were more of them. They were increasing every day. So that’s why I decided to get into this business of searching webfares instead of consolidated fares, because I saw the future there. And thankfully, you know, it turned out to be a correct, a good bet.

So that’s how Qixo started two years ago. And we launched in September of 2000. And we actually beat SideStep by two months. We were the first to launch. And, you know, just like SideStep, we got written up in a lot of press. Just, you know, no marketing but space unique to the product we got millions of users over the last two years. We are also very profitable. Our revenues have grown more than a hundred percent every year.

So I think the fact that I know nothing about marketing and this company has grown in revenues tremendously, you know, speaks a lot about, not only the product but the concept, which is that the webfares collectively are very compelling.

And just about how Qixo makes money is very different from SideStep. We actually make nothing from the airlines or the websites that we search. We make money by charging customers service fees. We started out with $10 per booking. And we tried, "Okay, let's change it to $10 per
ticket." And people are still paying. And we said, "Okay, let's charge $20 per ticket." People are still paying. So we're at around $20 per ticket at this point. And because the savings are so significant people are still paying.

Another distinguishing factor about our company is that we focus primarily on airfares, because that's where we found how compelling our value proposition is for consumers. There are, to be exact, 27 sites that really have deals that really matter.

And that includes Expedia, Travelocity, Orbitz, in addition to AA.com, United.com, and so forth. Now to be able to search these 27 sites faithfully, every single time you come in and search is a very difficult task, because sites change constantly. So we have to make sure that our engine -- our QA team in place to make sure that we upgrade and make sure that, you know, if AA.com changes, then we adapt and make that changing effective within hopefully hours, so we don't miss any good fares.

So there's a lot involved. And we'd like to, I guess, you know, take pride in the fact that we really are focused on the airfare business, because there is so much to be done there.

Now out of the 27 sites, I'll go into a little more details about what is involved in searching the 27 sites, not so much from the technology point of view, I think Brian covered
that really well, but more on the business end.

Okay, so do we get blocked? Yes.

Do we get cease-and-desist letters? Yes.

Are we working with some of them to maybe work out a different deal? Yes.

So as a result of that we're not searching all 27 sites all of the time. Three sites, including Expedia, HotWire, and AmericanAirlines.com, we intentionally do not search. Expedia, mainly for legal reasons. HotWire, for strategic reasons. All the HotWire searches are amazing. We don't search, you know, because we have other strategic relationships now. American Airlines, we're talking to them about arranging a different deal.

Now there are two other companies that I'm not going to mention their names, who are just mainly resorting to blocking just using technology. And is that easy to get around? Well, it was tough, because it constantly evolved. But to do we get around them 50 percent of the time at this point? Yes.

We are constantly enhancing our technology so that we get around the block a hundred percent of the time. As long as they're going to implement a technology to block us, we're going to do the same to get around the block. And the reason for that is because our valued proposition is, you know, is to find the best fares for the consumers. And we regret that we can't search those last three.
But my understanding is that, you know, no one else in the industry is actually searching as many as we do, because we're not making money from these websites. We make money by finding the cheapest fare not, you know, not by just searching maybe 10 or 15, but trying to search every 27 as often as possible.

So I just wanted to point out the difficulty in searching all those 27 sites and the value. And this brings up another point of, well, if you just -- you know, this is about Orbitz having too much leverage in this business.

But if you think about that and the fact that we are going out of our way to try to search as many sites as possible, you know, that says something. Basically what that says, and we have, you know, plenty of data to prove this, is that Orbitz does not have the best fares all, you know, not even the majority of the time. Yes, they do have, you know, very significantly. Based on certain itineraries that we tested it was about 40 percent.

But the 60 percent were, you know, Expedia, Travelocity. And Expedia has actually a lot of deals that even Orbitz doesn't have, special deals. So it's hard to say that -- you know, it's a separate point.

But I don't see how, you know, making Orbitz put its fares into this GDS system, and so on, really makes the life that much better for the travel agents, because travel agents
will still have answer when the customer says, "Well, you know, I
found this great fare on Expedia, you know, that's half of, you
know, what you found."

So, you know, it all goes to the point that even if
the airlines themselves are giving deals to Orbitz we often find
that, you know, United.com, for example, has fares that Orbitz
doesn't have, and so on. Not only Expedia, but the very airlines
like American Airlines and United Airlines, who are owners in
Orbitz, do not give all their fares.

On to the next point our engine is, our technology
is unique also because it comes with a booking engine. We don't
send you to the site where the fare came from. We actually give
you our interface. See, it feels like you're just always using
our engine. And then our booking engine on the back end
interfaces with Orbitz, and so on, to complete the booking
engine.

So that's a very important distinction between Qixo
and other players. But we do make it clear to the customer that
we are searching the other sites, and that we are booking on
their behalf on these other sites. And the consumer has no
choice, because we don't tell them where we got the fare from.

And, lastly, well, this is actually a third point,
we actually started out as a consumer company, and we've had a
lot of success. But purely by demand from the travel agents we
launched a travel agency product. And we launched it two months
ago, you know, using the same search and booking engine capabilities. But, in addition, we have a lot of the back end integration features.

We allow an agent to book on our site and they can track all their bookings. You know, if they were to book as a consumer they would not be able to track all their bookings. But an agent can book through our system and they can have -- if it's a travel agency, the travel agency can create a 20-member profile so that all their agents' bookings can be captured into one database. So it's a complete tracking tool as well as a search and booking engine.

And I don't know if you've heard of a company called TRAMS, which is probably the most well-known company, a back end company, for the travel agency business. We are one of their -- probably the -- right at this point we have a product actually out with TRAMS' product that integrates TRAMS' profiling system with our engine. And also a company called Nexion, which has thousands of travel agencies as their members. Nexion is also a technology company. And there's also the similar kind of integration and partnership there.

So it seems like we're moving ahead in the travel agency arena as well, especially because of our new features. And we don't have a customized version for one or two travel agencies. We have a generic version that especially the small to mid-size travel agencies can use. And we've signed up in the
last two months hundreds of travel agencies already.

And, lastly, and this is -- I'm just kind of answering also the questions that came up so that, you know, you don't have to ask --

MS. SPEAKER: You'll save time.

MR. KO: Yes, exactly, save time and because those are very good question. And I wanted to answer the right there but, you know, it's not courteous.

Just about, you know, the vision of what all this means for the travel agencies, you know, Qixo will have to struggle with that, you know, theoretically, technologically and, you know, realistically. And we really think that the internet fares, the webfares will continue to thrive. There will be more and more of them. And we don't think that including Orbitz and the GDS itself will really cure for the problem, because more than 50 percent of the time the consumer will be able to find fares that are cheaper than what the travel agent finds, even if the travel agent has access to Orbitz' fares.

So what we think the answer is for the travel agents to slightly change their way of doing business. You know this is, based on our observation, the travel agents are used to getting the access to those itineraries and prices within seconds through Sabre. And we've seen how it's done. I mean, it's very fast. They're very good at it. With a few keystrokes, they can search, you know, a lot of fares that are within the GDS.
And it's not as the American Express VP pointed out, it's not -- technology, yes. It does take time with even -- when we perfect our technology and dot search every 27 sites, and do it really fast, it will still be about a good two minutes until you get all fares.

And the travel agents don't seem to understand that, don't want to understand that. And we think that's the problem. And it's our duty to educate the travel agents, but I think the real solution is for travel agents to adopt technology like SideStep, Qixo, and AgentWare and understand that it takes a minute or two and that is valuable to the customer to be this way. And as a result they will earn the respect, because they're taking the time, and they're using new technology to really save fares. Just by waiting that extra minute they could really save some time, hundreds of dollars, for their customers. And the customers will appreciate that.

And as a result of doing that, the experience that the consumers will get from the travel agency is that, okay, travel agents may take a few minutes, but consistently they'll find that, wow, the travel agent always has either beaten what I found or has always matched it. And that's the experience I believe that travel agents can create once they change their habit a little bit.

And, yes, the webfares are going to continue to -- I think the internet bookings are something like 20 percent right
now. But, you know, the industry analysts say it's going to go up to 40 percent. So I think that's going to happen, regardless.

But I don't think the travel agents will be wiped out entirely. I think there'll be still a huge market for the travel agents, just because there will be a lot of people who just don't want to go to the internet. And I think the travel agents can, you know, potentially thrive in that market by using the appropriate technology.

Thank you.

CHAIRMAN WINSTEAD: Well, Dan, thank you. With your indulgence, you mentioned that answered, responded not only to testimony, which we had, but to a lot of the questions that were raised.

MR. KO: Right.

CHAIRMAN WINSTEAD: With your indulgence, I'd like, Les, if you could present your testimony?

MR. OTTOLENGHI: Sure.

CHAIRMAN WINSTEAD: And then if there are questions we can come back to the panel.

Thanks. If you could just state your name for the record?

MR. OTTOLENGHI: Certainly, absolutely.

CHAIRMAN WINSTEAD: And thanks for your testimony. We got it earlier this week. Appreciate it.

MR. OTTOLENGHI: Good morning, ladies and
gentlemen. My name is Les Ottolenghi. And I am President of AgentWare, which is a travel software company based in Atlanta, Georgia.

It's an honor and privilege to appear before the Commission. Therefore, on behalf of my company and myself, thank you for this opportunity.

In respect to the time allotted and wanting to have lunch and look out the windows here -- it's a very nice room -- I'll abbreviate my written text. And I have some printed copies for any members of the press or other interested parties that are back on the table here at the entrance.

In my remarks, therefore, I'll just address really high-level concepts and our specific point of view with regard to your questions. Hopefully we can get a little bit more specific on to the topics you're most interested in.

To provide context and background, AgentWare was founded by myself and Mr. Glenn Martin, who is also here today, four years ago. And our activity is really the sale of a software application called Travel Console directly to travel agencies, travel managers, and the businesses they serve.

My collective experience, along with Mr. Martin, includes the launching of the first travel website to take travel reservations. That was in 1995 while we worked at Holiday Inn Worldwide.

In addition, while I was CEO for Carlson Wagonlit
Travel, and Mr. Martin was head of technology, we developed in 1996 the very first web-based reservation system for travel agents. And this system integrated into Galileo and into WorldSpan.

Today, outside of AgentWare, I teach at Emory University's Business School and I teach very specifically electronic commerce and IT strategies. And along with Mr. Martin we serve on the Board of Marketing Studies at Cal Berkeley University and at Harvard University.

So our latest activities, aside from AgentWare, include two books and some articles written about electronic commerce and travel.

As for AgentWare, the company is now the leading provider of the webfare search technology for the travel retail market. Our customer list includes our earlier testimony from American Express. So American Express is one of our customers; along with AAA; the Carlson Leisure Group, which is different than the group that SideStep serves. This is the franchise organization for Carlson. And Metropolitan Travel, UniGlobe, Radius, CI Travel, BTI, and now Galileo GDS.

We are also licensing our technology now to IBM. And as well we have become endorsed by ASTA, ARTA, and LSSN. And we are co-marketing our product through ASTA. We're also a member of OTA.

Therefore, thinking about the talk today, it's
clear from simple market observations and our own experience that
the travel suppliers, major airlines in particular, believe that
their costs for distributing inventory are too costly,
specifically through the GDS. And that these airlines also
believe that the connection to the GDS on a technical level is
not as advanced as it should be, reflecting the remarks of my two
colleagues here.

As a result, airlines claim a necessity to develop
their own and alternative methods of distribution like Orbitz or
their own websites.

The bottom line for the travel agent, which is our
market, appears that it is the airlines' belief that their
reaching the travel agent distribution channel, via the GDS, is
too costly, or cost prohibitive.

Therefore, the airlines state that they are left no
choice but to sell their lowest fares on their own websites or
Orbitz and not placed these fares in other systems for
distribution.

Second point: At odds with the travel supplier's
disposition are GDS claims that they have the most efficient
distribution network available and are being denied, along with
travel agents, the opportunity to access and integrate all travel
fares into their systems.

Consequently, the GDS state that by denying travel
agents a fair competitive playing field consumers suffer. GDSs
alternatively, however, have opened up or support significantly online travel retail sites such as Travelocity and Expedia.

For their part and until recently, travel agents have correctly stated that it is not possible for them to compete with webfares that are being offered to the consumers, specifically the ability to search the multitude of sites in less than several hours to ensure any kind of consumer choice, and not to mention the ability to actually book these webfares and integrate these webfares, or reservations, into their back office and front office systems.

The travel agents have stated they feel that this situation exacerbates the already dire circumstances in which they are no longer paid commissions. Yet, because they are not able to keep records of bookings and webfares, they're not able to now change their business model and charge service fees.

Travel agents have correctly concluded that the lack of easy access and integration severely limits consumer choice and the opportunity for consumers to get the best possible travel choices and reservations.

From these different points of view, it is clear that the travel industry in various segments, suppliers, distributors, and the agents, are starting to fragment into multiple channels of distribution and are starting to openly oppose each other.

In sum, the consumer is starting to lose out,
losing out because they have not been able to choose travel products from their favorite source or their favorite channel, which is the travel agent, who often acts as the only unbiased broker of travel products, the only full service for all choices of travel products and, for that matter, the best service agent for the consumer, a service agent who understands all the rules, all the regulations, and all the different problems associated with buying travel and servicing a travel consumer.

Therefore, this has been a problem at least until now. At the consumer level there are clear choices. There's SideStep and there is the Qixo Technology. But for the travel agent there's really only one type of technology. And we happened to have put the first type of that technology into the marketplace.

If you'll turn to -- in the documents that I handed out -- your PowerPoint presentation and look at slides 15 through 18, you'll see a little bit more of what I mean.

Specifically on those slides are screen shots of the Travel Console product that we offer for the travel agency community. If you'll look at slide 15 you'll see that a travel agency using Travel Console can access the application from any computer with internet access.

So all that an agency has to have is internet access.

Is that slide the correct number for you, Maryles?
MS. CASTO: They're --

CHAIRMAN WINSTEAD: The numbers are --

MR. OTTOLENGHI: Oh, I'm sorry.

CHAIRMAN WINSTEAD: No problem.

MR. OTTOLENGHI: This is the problem with the printout.

My apologies. When these were printed out, they didn't print the numbers.

MS. ROGGE: The search screen, you're talking about the search screen?

MR. OTTOLENGHI: The search screen is the first one you want to look at, the very first picture on there.

My apologies for those of you in the audience trying to follow along.

Everybody there?

COMMISSION MEMBERS: Yes.

MR. OTTOLENGHI: Okay. If you look at that very first screen, --

MS. CASTO: Yes.

MR. OTTOLENGHI: That's perfect. That's exactly it.

Yes. And your second document is the PowerPoint slides, and it should be the picture of our travel search screen.

If you look at that screen, very simply a travel agent only needs to enter in the city pair and date, and they can
search at least 35 airline sites and 47 air consolidators, along with hotel and car rental companies and, of course, their own GDS session, that is the GDS line that they have pulled into their offices. And they will get as a result a comparison of all those various rates.

If you flip over to the next two slides, you'll see that there is, for the travel agent, the ability to choose which of the suppliers they would like to search. And then on that third page you'll see a results page or a results screen which shows a summary table of all the various rates available.

By being able to conduct this search across multiple sites with one input and as well to search the GDS, the travel agent is given the capability to fairly compete with what is on the internet and also provide the consumer with a broad range in choice.

On the very last slide you will see a series of tabs. When the travel agent would like to actually book travel on behalf of a consumer, our technology provides a means by which the travel agent can actually look at the data as it is naturally represented on websites by just clicking at each one of those tabs.

That means that clicking the tab that says, say, Delta, for instance, or Southwest Airlines, they can actually look at the Southwest Airlines or the Delta website. And then they can push a "make booking" button, and they can actually book
directly from that website on behalf of the consumer.

The AgentWare Travel Console technology further enables the travel agent to service the consumer by actually recording that reservation directly into the back office systems of any travel agency using any of the major travel back offices or front office systems.

So like Qixo, AgentWare integrates into TRAMS, TravCom, and several other of the back office technologies. We also integrate at the front office level, thereby allowing a travel agent to utilize the customer profiles that they have stored in their GDS or in their own separate front office system and automatically populate the reservation forms on those websites in order to make a reservation booking.

Of course, the process is better illustrated by an actual demonstration, but given our format today that isn't possible. But I would invite any of the Commission members that if you would like to have an account with AgentWare and have that set up, please just email or give us a call, and feel free to use it as long as you wish.

In summary, AgentWare's Travel Console allows the travel agency or even a business to search all the major travel websites, major airlines included, in approximately 10 to 15 seconds.

Furthermore, AgentWare enables full back office and front office integration, thereby equipping travel agents with
full services for refunds and exchanges as they are available and offered to various websites.

Moreover, Travel Console is fully integrated with GDS systems and can be accessed from within a GDS, like Galileo, for example, if an agency wishes to do so.

No charges are made to suppliers from webfares driven through Travel Console. The only money that AgentWare receives for the use of this technology is a monthly licensing fee from the travel agency itself, which is approximately $40 on average per travel agent desktop.

Thus, the complete unbiased view of travel products and the channel is available for travel agents through AgentWare and therefore the world of travel webfares is not limited for consumers to buy through travel agents.

In conclusion, supply issues, that is, the ability to reduce distribution costs are addressed in a technology like AgentWare. And for the GDS it's a means by which to also include webfares where they are being denied access. And, of course, for the travel agent it is a way to make them more competitive in the marketplace and, of course, able to better serve the consumer and the consumer's broad choices.

Thus, it is clear to see that, while major sectors of the travel market are working out their new economics, it is essential that no single or group of travel suppliers be allowed to unfairly control the distribution channels and that the new
technologies be nurtured and supported by all sectors of the
travel industry by providing full access to travel information
and supporting wide adoption of the advanced lower-cost
technologies that both my colleagues have described.

Thank you for your time this morning.

CHAIRMAN WINSTEAD: Great. Les, thank you and, Dan, both, for your presentation. Also I think for me a lot of these charts are very helpful in sort of breaking down the distribution chain and providing some flowcharts.

I'd like to just open it up for questions for the Commissioners. On page 9, Les, you mentioned that, you know, the airlines are kind of going about blocking agencies from marketing reservations on their websites. Can you elaborate a little bit more on that? I think that was in your...

MR. OTTOLENGHI: Yes. I believe my statement there is that they're not interested in seeing agencies get a full view of this by making it easy to access the data. In other words, without a tool like AgentWare, you really have to have a tool like SideStep or Qixo.

And in the absence of our three companies, the alternative is to surf for a number of hours across the internet and see if you can actually find that fare from Atlanta to LAX that was $49, or something, you know, just something significant.

And I think that's where we're finding that the rub is, that the travel agents aren't given these tools that make it
easy for them to do this type of searching and then integrate in
their back office or front office systems since the fares are not
loaded in the GDS.

CHAIRMAN WINSTEAD: Yes. You just mentioned about
the objective of limiting the search process to like 15 seconds.

MR. OTTOLENGHI: Right.

CHAIRMAN WINSTEAD: Yesterday when we had my
education at Casto on this equipment and we had the screens that
gave us access to both the web and the CRS, I was told it was
like 10 or 15 minutes, or it could be as long as that. Is
that...?

MR. OTTOLENGHI: Well, I mean there's always a
better technology to be found out there. I mean I don't know
which technology you were looking at very specifically.

CHAIRMAN WINSTEAD: Right. This was in the
booking.

MS. CASTO: It was --

CHAIRMAN WINSTEAD: Yes. This is for the whole
booking function, not just the clicking.

MR. OTTOLENGHI: Right. Oh, okay. I was going to
say 10 or 15 minutes for search, there's certainly more advanced
technologies.

CHAIRMAN WINSTEAD: That's true.

MR. OTTOLENGHI: The booking process, it depends on
the automation function of: Can you take the customer profile
and actually populate those forms on the website automatically, or do you have to do a lot of navigation between the moment you find a fare, then you step to the process accepting that's the fare and those are the correct, you know, parts of the itinerary that you want to book on behalf of your customer, and then ultimately filling in the screen with their information, and getting back a reservation number, and so on.

And early on we faced that issue and came up with the means by which to automate that process so that it isn't 10 or 15 minutes; it's anywhere between two and three.

CHAIRMAN WINSTEAD: Interesting. Let me open it up to the Commissioners, because I know that both you and Dan have generated some questions.

Yes, Ann.

MS. MITCHELL: Les, you mentioned that you had recently made an agreement with Galileo, I believe you said.

MR. OTTOLENGHI: Yes.

MS. MITCHELL: Do you see a future where the GDS would take this kind of technology and make it possible for the GDS system to be more functional for the travel agent and less expensive for the airline?

MR. OTTOLENGHI: I believe that is -- I mean I think that's the crux of the matter. It's an excellent question, because Brian made mention of this and so did Dan.

If the argument of: Is this the most
cost-effective distribution method, meaning going through the GDS and to the travel agent, if that is really a problem, then there has to be a shift to lower-cost platforms of technology.

And, in essence, if you're at GDS you've got the issue of trying to cannibalize your present technology platform and, therefore, the way you operate your business and move over to this lower-cost platform. This is an incremental step.

And I think the GDS has recognized they have to make that incremental step today. And the first part being incorporating webfares on a lower-cost platform and then start to open up their system to a lower-cost platform of technology. Lower cost not only to the supplier, but lower cost to the travel agent who has to hit productivity hurdles and all sorts of thresholds in order to get this information and equipment in other types of technology.

So, yes, I do see that GDS is incorporating this and starting to make that move.

MS. MITCHELL: Based on your wide experience with different suppliers, including the airlines, do you have a view on what the airlines really want?

MR. OTTOLENGHI: That's an excellent question.

I think it depends on the airline. We've received, you know, letters, and we've talked with several of the airlines, major airlines, and then some of the regional or smaller carriers.
And we found that with the major airlines their interest really is toward the customer ownership relationship and regardless of costs, no matter how low we might be, in fact, even if we offer in some cases an airline to pay them for the actual reservation, us to pay them out of our own pocket, they'll say, "No, I just don't want this going through a travel agent distribution channel. I want consumer direct. And, moreover, it's not a matter of your technology costing me anything; you don't charge me anything. And you've even offered to host my fares on your system. So that's not the issue. It's not cost. It's just that I want that relationship in place."

Some of the other airlines, however, who have had very successful website programs and who've done very well on the internet, for instance, don't feel the same way, I think. And they recognize that the internet is a channel distribution, that open systems are a better way for them to get their product out into the marketplace. And I think they take a more progressive view.

MS. MITCHELL: Thank you.

MS. ROGGE: I had a question.

CHAIRMAN WINSTEAD: Sure.

MS. ROGGE: I got confused a little bit.

When the agent picks in your example, Delta, do they actually book that through the GDS and then pay a GDS fee, or do they go directly to the Delta website?
MR. OTTOLENGHI: No. They go directly to the website.

MS. ROGGE: And so the GDS is basically cut out of that transaction and so they're not going to get their productivity credits, or whatever?

MR. OTTOLENGHI: Well, the GDS isn't utilized for the transaction now.

MS. ROGGE: So it wouldn't count towards what I've learned as the productivity model?

MR. OTTOLENGHI: No.

MS. ROGGE: And in the process of doing that, do you -- and I guess this is for both you and Daniel -- when the searching is going on are you actually on the airline's site for the searching, in other words, using the airline's computer engine to kind of being looking around?

MR. OTTOLENGHI: The only time that the airline's engine is used is only when a request is made for a search. In other words, there isn't a bot that goes and scrapes the site and keeps storing data on a constant basis to keep it updated.

It's only when actually a consumer makes a request with a travel agent that a search is performed. And that data then is -- all the rest of it is directed directly to the website of the airline, meaning that the airline is getting a full view or is providing a full view of itself to a travel agent as if they were opening up a browser and looking at that website.
MS. ROGGE: So it's as if the travel agency had just gone to Delta.com or Southwest.com or AA.com.

MR. OTTOLENGHI: In fact, the way the technology works, and I know that it's somewhat similar for both of these gentlemen, is that we're not trying to obscure, you know, this, the website necessarily. It's for -- at least for us, you're able to metabrowse or open up multiple browsers at one time. So it's essentially Microsoft and AgentWare enabling this process.

MS. ROGGE: And, Daniel, do you want to answer that as well?

MR. KO: Yes. We actually also search the site when the user makes the request. But we do -- maybe unlike AgentWare, we don't show where we got the fare from, because if we do that, then, -- you know, we make our money on the transaction, whether it be for the travel agencies or for consumers. We make money when they book through us, so that's why we don't show the name of the source of the fare.

MS. ROGGE: So from the consumer's standpoint they've gone to your website to begin with --

MR. KO: Right.

MS. ROGGE: -- as their travel source.

MR. KO: I guess their -- I guess sort of a mall. They come to our site; they do a search. And they see all of these fares.

MS. ROGGE: So their search just consists of -- I'm
not trying to interrupt, but just so I can get it straight, --

MR. KO: Sure, sure.

MS. ROGGE: -- because there's -- even though I go out and look at all the stuff, it's changing all the time.

MR. KO: Right.

MS. ROGGE: But they're going out there saying, "I want to go from" -- I forget what the example was, but -- Atlanta to Chicago.

MR. KO: Right.

MS. ROGGE: That's their search.

MR. KO: Right.

MS. ROGGE: Okay. So they're not saying, "I want to look at X Airline, Y Airline, Z Airline"?

MR. KO: Right. They can't do that at this point.

CHAIRMAN WINSTEAD: Yes. Paul.

MR. RUDEN: I used to think I was hard to confuse, but I think I've gotten confused now. Maybe I'm not hearing it all right. I'm hearing Mr. Barth say that he's paid by the suppliers, and they're working with him and cooperating with him.

And I hear you two gentlemen saying that you're being paid by somebody else and you're running into airlines blocking you from doing what it is you're trying to do, which is distribute their product to consumers at no cost to them.

Now if I'm hearing that right, that doesn't make sense to me. Have I misunderstood? Is Mr. Barth just an
optimist, or how do you explain this?

MR. BARTH: Well, one thing, of course, is that we don't have everything in our system. You know, we have -- I would say 99 percent of suppliers that we deal are great to work with and cooperative. And I think also touching on one of the important differences is that our system really does share the customer.

So, you know, a lot of people have, you know, whether it'd be rational or not, all kinds of ideas about CRM and all the wonderful things they're going to do. We really do support that, as opposed to trying to, you know, hang on to and maintain the customer.

And if you really think about it, I think the way a lot of people view -- our partners view our system is we probably have one of the lowest cost ways of getting customers to your site and acquiring new customers, too. So that's probably one of the reasons why we get pretty good support.

You know, we aren't the main browser window. We are this guy on the side who is helping take people to useful, credible places to buy travel and making it easy for them.

MR. RUDEN: But at the end of the day you've delivered a customer, a booking has been made in the supplier's site in the customer's name. They now have that name. But that's also true --

MR. BARTH: Right.
MR. RUDEN: -- with respect to Qixo and AgentWare, that a booking is made on behalf of the consumer in the consumer's name. They've got the name now. They can, you know, drown you with emails, or do whatever they wish to do in the way of future marketing. And yet I still hear, I still have this problem, that they seem to like what you're doing and they don't seem to like, in every case, what these gentlemen are doing.

Mr. Ko.

MR. KO: My guess is that maybe -- it's not all the airlines in our case, either.

MR. RUDEN: I understand.

MR. KO: And maybe -- you know, we know for sure that AmericanAirlines.com made a big fuss about what we're doing. And maybe -- I'm not sure if SideStep's got the same issues. Maybe they have certain airlines that they do have issues with. I don't know. But it might be more airline specific.

But, you know, we do get support from the smaller airlines, like SideStep does. But the bigger airlines, for example, you know, AA.com and maybe some of the bigger ones like United tend to be not fond of Qixo or AgentWare and maybe SideStep as well. I don't know.

MR. RUDEN: While I have you, I understood you to say that American has not given Orbitz all its webfares --

MR. KO: Right.

MR. RUDEN: -- based upon what your searching
shows.

MR. KO: The same with United.

MR. RUDEN: Do you understand the most favored nation clause that permeates the Orbitz' relationship? Do you know how that works?

MR. KO: Can you explain that to me?

MR. RUDEN: It basically says that if an airline puts a webfare on its website it must give that webfare to Orbitz.

MR. KO: I see.

MR. RUDEN: And so if I understand you right, you're saying that your searches suggest that the members of what I will call the "cartel" -- they take offense of that. I'm sorry. But that's the way it looks like to me --

MR. KO: Right.

MR. RUDEN: -- are cheating on the cartel?

MR. KO: Yes. I mean they must be, because our engine doesn't lie. We actually do a weekly test to see, you know, which sites are worth searching. And it's showing over and over again it's worth it to search the sites because you just can get these random fares sometimes.

And it's also not intentionally. Sometimes technology. You know, American Airlines has its own booking engine, search engine. Orbitz has its own. So the technology is imperfect.
For example, Orbitz uses ITA Software. American Airlines, I understand, paid another company to develop its own engine. So because the algorithm is so different by accident one ends up with much cheaper fares than the other.

MR. RUDEN: By accident?

MR. KO: It may be. Maybe not. I don't know.

(Laughter.)

MR. KO: But all I know is that, yes, the airlines themselves do not always get the fares to Orbitz.

MR. RUDEN: All right. Mr. Ko, you indicated that you don't search three major websites.

MR. KO: Right.

MR. RUDEN: Is that disclosed? When a consumer is using this, there's a disclosure upfront that those are not being searched?

MR. KO: What we disclose is the sites that we do search.

MR. RUDEN: Ah, okay.

MR. KO: We disclose 23 sites. We list it right there, so the same sites.

MR. RUDEN: Les, I see on page 9 of at least a version of your testimony, a printout of a results screen. And it says in one of the notes that, "Travelocity, Expedia, and Orbitz have been excluded from the summary table on the left."

Why, what is that all about?
MR. OTTOLENGHI: They prefer not to be placed in the summary table.

MR. RUDEN: Does it mean you can't search them?

MR. OTTOLENGHI: No, no, we can search them. And if you look in the tab area at the bottom those results from Travelocity, Orbitz, and Expedia are available.

The reason that is, is that our search is not conducted on our computer systems. It's actually conducted on the individual travel agent's computer system. So they would need to -- using the terms earlier -- "block" every travel agent. And then we would have to ask questions about competitive fairness, I'm sure.

MS. ROGGE: You know, just to make sure I understood that while they're conferring, you do search them.

MR. OTTOLENGHI: For the summary table, we search them to aggregate a set of results. On the bottom there, we actually enable the computer of the travel agent to turn their computer into a metabrowser, which is basic advanced technology that can look at multiple browsers open at the same time.

MS. ROGGE: Interesting.

MR. OTTOLENGHI: What's that?

MS. ROGGE: Interesting.

MR. RUDEN: I gather there's a difference between -- in the case of AgentWare, there's really two different products. One is a small business kind of travel agent product
which doesn't search at the same magnitude, if you will, or with
the same scope that the full version does, in my opinion?

MR. OTTOLENGHI: No. For the small, home office,
there is the limitation of how you do the profile integration and
the PNR integration or the back office integration. In those,
the option for the SOHO market, or the small office, or the small
travel agency, they don't need as much functionality for that
type of integration. They may be willing to cut and paste and do
other things into whatever fulfillment system they're using or
agency they're using for fulfillment.

So we limit it really to search functionality in
that case, and then the booking capability, but not the full
integration.

MR. RUDEN: Well, the reason I ask it is that one
of these attachments to the testimony says that there's a search
of 20 internet-based webfare suppliers, but the written testimony
says 96 publicly-available websites --

MR. OTTOLENGHI: Right.

MR. RUDEN: -- and 47 consolidator sources.

MR. OTTOLENGHI: That's an old graphic that you
have there.

MR. RUDEN: Okay. I think that's all the confusion
that I can solve in one day.

CHAIRMAN WINSTEAD: Okay. Pat.

MR. MURPHY: Yes. I have one question for Mr. Ko
who, by the way, I very much appreciated your anticipating the
questions, and I appreciated your answers.

MR. KO: Sure.

MR. MURPHY: Are you an internet travel agency? Do
you...

MR. KO: Well, we actually didn't want to be one,
but we ended up having to do a lot of the functionalities, for
example, customer service.

MR. MURPHY: Yes.

MR. KO: We offer 24-hour live chat on bookings.
And if a customer wants to cancel or change, modifications, if we
can do it, we actually do it for them. Otherwise, we tell them
to call the airline directly. But we have a lot of interaction
with the customers. And that may be one of the reasons why we've
also grown.

MR. MURPHY: Okay. And that's with the telephone?

MR. KO: It's become more and more live chat. We
do have a 1-800 number.

MR. MURPHY: Okay. The only thing I have, Mr.
Chairman, I just thought this was a really outstanding panel. I
was very much involved with working on the original CRS
regulations ten years ago when they were last revised. And I can
just say that every time some group asks for the government to
intervene, you're really trying to intervene at a point in time
as things sit at that point.
And when you hear a group like this today you understand trying to develop government policies on anything while we're dealing with metabrowsers and people like this is a very challenging task. And I thank you very much.

MR. RUDEN: I think the Standard Oil Trust made that same argument when the Sherman Act was being considered.

(Laughter.)

MS. MITCHELL: Based on that comment, would any of you care to comment about whether or not there should be, could be some kind of addressing of the internet involvement and still protect the customer and the opportunity to provide them what they really need in the way of service?

MR. OTTOLENGHI: Certainly. I think the most evident activity that this Commission is probably being engaged in is the thought around: How can we make sure that information is widely available to all the participants in the industry.

And I think anything that prohibits information, the flow of information freely, is just anticompetitive and goes against the basic foundations of what we do in this country.

And anything that would block that or stop that I think is a mistake. It will not allow the industry to progress to a more advanced state. It will prevent the very people who provide value, which are all of the participants, the suppliers, the distributors, and the retailers, from actually conducting business. They'll get into a war with each other, and little
technology companies will go do something else. We don't like being cats in a dog fight.

MS. MITCHELL: What about little travel agencies?

MR. OTTOLENGHI: Little travel agencies really do serve their customers very well. I mean I am an advocate there. And --

MS. MITCHELL: But if they're not allowed access?

MR. OTTOLENGHI: If they're not allowed there, they're going to be forced out of the market I think in an unfair and uncompetitive way.

MS. MITCHELL: Thank you.

MR. RUDEN: Your view of that whole situation might change, wouldn't it, if the five founders of Orbitz, for example, decided to block all three of you across the board, separately, mind you --

MR. KO: Yes.

MR. RUDEN: -- if they made separate decisions.

(Laughter.)

MR. RUDEN: I'm not suggesting, I'm not suggesting that they would conspire, but that they might see their destiny the same way at some point and decide that you, like the small travel agents, are interfering with their yield management, for example. You'd have a concern if that were to happen.

MR. OTTOLENGHI: Well, I mean I don't think I've disagreed with that statement at all. I mean I think that's what
I'm saying, is I don't think that's a healthy thing for any mistake.

I mean I can't imagine why in any market you would say, "Sorry, you can't bring your taxi or your bus to my mall. I'm not going to actually service these people because I don't like their color, I don't like their race, I don't like their religion; I don't like who they are. So they can't buy when you bring them on your bus. They're not allowed to enter here."

That's antiAmerican. I'm not trying to get on a platform. But, I mean, think about it. That doesn't make any sense.

MR. KO: Actually by the way, when it comes to blocking, we are fairly confident that technology can never prevent a website from being searched, and booked, and so forth. So we're very confident about that.

And our biggest concern, and maybe this is where the government can really be involved, is when -- you know, we do believe that all three will grow very big and be very successful and potentially be the main, bigger than Orbitz put together.

MR. OTTOLENGHI: I look forward to that day.

MR. KO: But when that day happens the problem is -- we really believe that the airlines will at that point really get together and say, "Let's sue these guys."

So I would actually like to see maybe the government at that point getting involved and making it not
illegal to search these sites.

But on the technology front it is really impossible. We figured out so many ways around the block.

And as for the just division for the travel, the small travel agents and consumers -- I mean, I said this earlier -- but I think really the healthy outcome for everybody is, okay, let the consumers go more and more to the internet. That is happening. So let's not try to stop that. But, you know, how do we address the remaining travel agents who can't do business at all because the internet is doing so much better.

And I think an agency maybe like ARTA, ASTA, and companies like us should really do a better job of making travel agents understand that using this technology for 40 bucks a month or, you know, $10 per transaction will really save their business and make them very successful. I think that might be a healthier outcome, in travel agents really adopting this technology and really providing a lot of value to their customers.

CHAIRMAN WINSTEAD: Okay. Maryles, do you have something?

MS. CASTO: Yes, just one question.

Do you have any comments on the American Express testimony regarding extra burden on agents and the technology patch? What are your comments to that, all of you, actually, the three of you if you could give us your comments.

MR. KO: Now I think the burden that the American
Express VP mentioned was, number one, the time it takes, right, to search all these sites and to book on these sites and, number two, is the cost of technology.

I think the cost of the technology is fairly reasonable: $40 per month for us -- actually for travel agents we charge -- we started out with $15 per ticket to the travel agent. And they can put on their markup on top of that. And we run all the merchant account fees, so they don't have to worry about the merchant account fees. But it's a very minimal cost.

And when the volume grows, we actually cut it down to $5 or sometimes $3 per ticket. So we believe that the technology is very cost effective.

Now on the time, the whole amount of time it takes to do all this, on the searching end I think we've come to a point where we've cut it down to less than two minutes for all of us. And the booking process maybe another minute.

To be honest, I don't think it can be really faster than that, because the internet itself is not that fast. And that's something that agents will just have to accept and work around.

MR. OTTOLENGHI: I believe the gentleman from American Express, to add to Daniel's comment, is that search process has probably been regulated a little bit better within our technology so that it's faster and it's easier to do.

But he mentioned, and Brian mentioned, you know,
EML, OTA, those types of standards, as well as improvement in the speed of websites that a travel supplier has or, for that matter, a travel supplier opening up their system so that it's not just a website. There's actually a reservation system interface that is open to their system which would get rid of a lot of the problems that he described, including what they consider substantial costs, technically the substantial costs of distribution. That'll eliminate or get rid of them.

MR. BARTH: Actually let me touch on that element of speed, because I think it's a really important one of, you know, are people really inherently disadvantaged because they're accessing information over the internet.

And speed is actually something that we've put a lot of effort into. And if you actually try our system, you'll see we actually bring back results sort of whenever they're ready.

And we've actually done a lot of work to even study a lot of -- at least in our system, I mean you have to understand that most of the delay or essentially almost all of the delay that you'll ever see in getting an answer back is actually from the other system. So we have some partner out there. And it's sort of at whatever speed that operates is actually how fast a person can get it back.

And the amount of time that our system adds -- we've actually done some measurements of this -- is about two-
tenths of a second. So basically it's all waiting.

So it's kind of good to know that these systems ultimately can be made very fast, you know, when you do things like these XML and Web Service connections. They're extraordinarily fast.

And one of the things that a lot of people may not realize is that it's actually even a little bit faster to use a system like ours than it is even to go there manually by yourself, because there's a lot of pieces of the webpage, for example, like all these big graphics and, you know, pictures of a sunset, or something like this that, look, I mean, you know, the person actually really doesn't need this to try to get a summary of the information. So it's actually less load on our partners so we can make it faster for all the systems involved.

Inherently, I mean in the future these can be very, very quick.

MS. CASTO: Good. Well, I, too, make my home in Silicon Valley. So it's nice to know that there are some successful companies. And I hope you guys grow.

(Laughter.)

MR. KO: Thank you.

CHAIRMAN WINSTEAD: Any other pressing questions?

Again, thank you all for testifying. And there may be questions that we might want to submit to you. Dick will get back to you on that. But best of luck, continued success in your
business. And thanks for your input.

MR. BARTH: Thank you.

MR. KO: Thank you.

MR. OTTOLENGHI: Thank you.

CHAIRMAN WINSTEAD: We're going to come back at two o'clock for the second panel for this afternoon. So we'll break until 2:00.

(Luncheon recess taken from 12:28 p.m. to 2:05 p.m.)

CHAIRMAN WINSTEAD: Good afternoon, and thank you all for reconvening. We appreciate you staying with us from this morning to this afternoon.

And, Robert and David, thank you for joining us. I thought we would do the afternoon session in two panels. If you all could start off, we'd appreciate it. Again, we certainly look forward. We've got copies of your testimony and had opportunity to review it. And I'm sure we may have some questions.

But do you want to start off maybe, David, and then we'll switch it around to Robert.

MR. ROJAHN: Sure.

CHAIRMAN WINSTEAD: But if you could state your name for the record?

MR. ROJAHN: Great. My name is David Rojahn. I'm the president of DTR Travel in Englewood, Colorado. I'll refer
to my prepared talk today, too. I'll keep it very short and simple.

Mr. Chairman, members of the Commission: Again, my name is David Rojahn. I'm the president of DTR Travel located in Englewood, Colorado, a suburb of Denver. We're a small agency that my wife and I opened in 1993. Prior to that I was a programmer actually for United Airlines, now Galileo, and had been a programmer for System One and Sabre. I started in the industry in 1978 as a reservation agent with, you remember, Eastern Airlines. I feel my travel agency, airline, technical, and small business experience is very valuable to this Commission.

DTR Travel has three agents. We've generated in year 2000 $237,000 in gross commission revenues; 209,000 in year 2001; and 115,000 as of year-to-date. In year 2000, 86,000 of that or 37 percent was generated from airline ticket sales; 54,000 or 26 percent in year 2001; and 19,000, now 17 percent year-to-date.

And I quote these figures rather than saying: We're a two-to-three-million-dollar gross agency, because in today's environment gross sales is a meaningless number. It's really commissions that really drive revenues in an agency model. Our business mix is primarily leisure and small corporate accounts. It's what I consider the everyday customer just trying to make a living, just like myself.
As you can see in the past two and a half years the airlines have reduced what amounted to almost 40 percent of our revenues to zero, not because of our inability to serve the consumer or the consumer demanding to be able to purchase on the internet, but because they can, pure and simple. As with any small business, we have quickly adapted by charging service fees and refocusing on other products and other services other than airline tickets.

But today I don't really want to focus on my business issues, for those are for me to work out and to work through, or to really focus on airline practices. I think you have a fair understanding of how business is conducted.

What I do want to focus on today is the impact of internet distribution of airline tickets on the consumer. I think this is the real issue before you.

I would also like to put on the record that I am a proponent of the internet. With other ventures and my own agency I've spent the last two years probably making more internet bookings than, other than the technical people in the room, anybody else in this room.

I understand from an airline perspective that they must look at alternatives to the GDS systems in order to cut costs. And travel agencies, including myself, must now recognize that the internet will probably be the distribution channel of choice for all airlines. My agents just don't rely on the GDS
systems anymore. They must also be experts at navigating the multitude of web booking sites. If we are to charge for our services, we must be faster, better, and smarter than somebody who does this once or twice a year.

Having spent much time on making online bookings, this is where my concern really lies. And hopefully after this morning, I thought I knew what I was doing, and I get confused.

The marketing tactics of the airlines and Orbitz have inferred that if you want a cheaper airfare the internet is the easiest and only place to get it. The underlying message is: Why pay a travel agent a fee when you can do it yourself online. With the click of a mouse, look at all the money you can save.

Knowing the complexities of fares and inventory management, -- I'm going to repeat that -- knowing the complexities of fares and inventory management, I know things aren't quite as simple as they are touted.

Remember, I used to work on the other side of the fence, so I know a little bit more about what's going on behind the scenes than maybe some others. And this, more than anything else, concerns me.

I equate this a little bit to Las Vegas where the odds are all stacked in favor of the house. People flock to Las Vegas in hopes of striking it big. Everyone's heard of somebody that's come back from Vegas winning, but in reality most people end up or don't win money. Professionals there have a much
better chance but ultimately the odds are still stacked in the
house's favor.

Let's bring this analogy to the world of
distributing airline tickets directly to the consumer on the
internet. Consumers have always been able to buy direct,
directly from the airlines, but there's a big difference now.

The fact is that if you listen to the on-hold
messages with the airlines themselves, they basically say:
You'll be able to possibly find a better fare on our website.

Well, doesn't this strategy encourage the consumer
to not even call, but to go directly to the online for the best
value. So if call volumes to reservation offices decrease, why
not reduce head count? The real cost savings is reduction of
salaries and benefits. And I think if I were a reservation
agent, which I used to be, working for an airline, I'd be a
little more concerned in some respects than I as a travel agency
owner.

I hope you can see the strategy in driving
consumers away from the most expensive cost of business:
Employees; salaries; benefits; and the third most expensive cost,
distribution over the GDS and agent commissions.

I can't blame the airlines for taking this
strategy. It makes perfect sense through their eyes. But, as in
the Las Vegas analogy, it stacks the cards in their favor, not
the consumer's.
On average, who can generate more profit for the airlines, an amateur customer who thinks they know what they're doing and are encouraged to buy through one distribution channel, or a professional who understands the market, price points, inventory management, and alternative sources of distribution?

If I'm in their shoes, I'd put the odds -- I lay my odds on the amateurs.

The internet and webfares, in my opinion, are not the issue. The real issue is allowing major competitors to own and drive one distribution channel. There's a reason why railroad companies cannot own the whole track, and there's a reason why telecommunication companies must now allow competitors access to their fiber networks and infrastructure. Is not public air space the railroad tracks of today and the future?

Commerce is driven by access to air transportation. And he who controls and limits the distribution channel for their product ultimately wins, not the consumer. The odds will always be continued to be stacked in favor of the house.

Consumer confidence is not really high right now with Corporate America. It's hard to open the paper anymore without a story about a large corporation's questionable business practices.

Taxpayers are also questioning the amounts of taxpayer money being spent to salvage some large corporations. Don't get me wrong. I'm a business owner. I'm very pro-
business, as long as the playing field is at least somewhat level and we have the consumer's interest in mind.

    In conclusion, I ask this Commission to look beyond the surface of what is happening. Your job is not to solve or care about my business problems or, for that matter, the business problems the airlines face.

    In a free capitalistic society the market will determine who survives or who doesn't survive in the business world. Yes, the market will decide. So I ask you now to put your consumer hat on and make the decisions based on what's the best interest of the consumer.

    See, we forget to realize consumers are very, very intelligent people. Given accurate information, they're very capable of making prudent decisions. Educating the consumer should be a key component for this Commission with respect to informing the public of the various distribution channels and how they work.

    Given all the facts, the consumer can make the best choice for themselves. I believe it's in the consumer's best interest that the hard questions are asked now rather than finding them out in the newspaper in the future.

    All I ask is you make your decisions and you come forth with recommendations remembering one simple fact. There's a reason why the railroad companies cannot own all of the track.

    I appreciate your time today in allowing me to
address my concerns and answer any questions you have.

    Thank you.

CHAIRMAN WINSTEAD: All right. Thank you, David.

Robert, why don't we go to your testimony and then
open it up for questions, if we could. Thank you.

MR. KERN: Great. Well, my name is Bob Kern. I'm
the president of PNR Travel. We're located in Los Angeles,
California. PNR Travel opened its office in 1991. We are
full-service travel agency that deals with all consumer travel
needs. We're one of the travel agencies that everybody's been
talking about all day as a small agency. That's what we are. I
personally have been a travel agent for more than 30 years.

I'd like to open my statement by saying that I do
not have a problem with the airlines looking for or finding a
better way to distribute their product. What I have a problem
with is the way that they have set out to do it.

Over the years the travel agency industry has
earned the respect and trust of the consumer. The consumer knows
that a travel agent is their only source of unbiased information
when it comes to travel. There are not many industries left
today that have their main focus as a consumer advocate. We live
every day trying hard to make the consumer's life easier and more
efficient. Being a travel agent is a very enjoyable occupation.

The airlines have done everything in their power
over the last few years to set policies and procedures to make
the travel agent's job more difficult. The following are examples of how the airlines have changed in their everyday dealings with PNR Travel.

The most obvious way that the airlines have changed policies is the lowering of commissions. This commission that was once paid at a rate of ten percent has now been lowered to zero percent.

PNR Travel during the year 1995 brought in $106,000 of airline commissions off of the total airline sales of 1.2 million.

During 2001 PNR Travel sold a total of 1.1 million in airline sales. And as you are well aware, the commission is now zero.

We have tried to pass this loss of earnings to the travelers as best as we can. Our service fees for airline tickets are averaging $4400 per month. This is nowhere near the amount that we have lost over the last few years.

It is next to impossible to recoup that loss of commission by passing it on to the consumer. If we were to do that we would drive the business into the waiting arms of the airlines.

What instead has happened at PNR Travel is that we have lowered our expenses to compensate for the amount that service fees do not cover. Some examples of our cost-cutting have been the lowering of employee pay from what was already
known as a low-paying job.

We have 11 employees in our office with 907 square feet of space. When you add all of the office furniture and equipment along with clients we do tend to be very uncomfortable.

Our employees work more hours now than ever before. We have not purchased any new office furniture since the airlines began their strategy of lowering commissions. All of our money goes into employee pay, basic expenses, and new technology.

PNR Travel has not made a profit since the beginning of 1995. I, personally, have not been paid a salary since 1995. My acceptance of not receiving pay and my constant loans has kept PNR Travel afloat.

The fear that I have, as time goes along, is the morale of employees and the less time everyone is spending at home with their families. In the longterm it will affect the quality of work, the quality of employees, and the consumer's well being.

It is very difficult for PNR Travel to work for someone with no pay. I cannot believe how an entity believes that they should not compensate for someone's work.

Debit memos have been another force the travel agents have had to endure. There are many ways that a travel agency can receive a debit memo that they do not owe. Some
examples are as follows:

Airline employee misinforms agent on how to do a particular ticketing situation; a discount code is put in the wrong ticketing box on the ticket; procedure is followed according to the ARC Handbook, but airlines think otherwise; overinflated penalty fees for doing something in error; and ignoring of airline-generated approvals for overwriting fare rules to give someone a lower price.

When this happens we know that we are in it for a long haul. It's just next to impossible to get someone to talk to you about it. They always tell you that you need to do it in writing. They do not even have a phone number on the debit memo itself.

Once you have thoroughly researched it and found out that you do not owe it, you then proceed to copy all pertaining documents and send it to the airline. One of two things will then happen: You will never receive a reply or you will receive a reply stating something that absolutely makes no sense and does not even pertain to what you are stating. In the majority of the cases we will never hear back in response to our dispute letter.

However, they will continue to send one invoice after another requesting payment. Every time we get one of these invoices we have to reply with our original dispute letter.

Sometimes we get a letter that states that if you
do not pay the debit memo they will pull your plate and not allow
you to sell them anymore. Usually what happens then is the
travel agent will go ahead and reluctantly pay the debit memo,
knowing full well that they did not owe the payment. PNR Travel
has done this on many occasions.

    Usually these debit memos are very complicated and
most small travel agencies only have one person that really
understands how to reply to them. This causes the best agent in
the office to be spending a large amount of time dealing with
debit memos. This agent's time would be better spent on dealing
with the consumer's needs.

    Travel agents should have some sort of recourse,
whether it is through the legal system or an arbitration system
to say their side of the story on a particular dispute. The
travel agent always has the burden of proof. We are guilty until
proven innocent. The way that it works now is that it's very
difficult to prove innocence.

    The airlines are riddled with consumer complaints.
I have on many occasions, as other travel agents have, received
clients' phone calls from the airport telling us that the reason
that something is not going the way it should be is because a
travel agent made an error. Nearly all the time this is not
true. A person working for the airline is making us out as the
fall guy for not having the correct seat, a reservation, not
knowing about a scheduled change in upgrade, or many other
situations that arise in an airport.

The good that usually comes from this is that we are given the opportunity to fix the problem and become the good guy. The bad thing about it is that we are always given a black eye when we do not deserve it. That is not right. Whether you're a company or an individual, when you make a mistake be a good citizen and admit it.

As the airlines started their joint efforts in lowering commission payments to us, I kept asking myself, "Why? Why? Why are they destroying such a great system that they themselves helped cultivate?"

I personally believe that it's because they want more control over their pricing. The travel agent is a very creative force when we develop many ways for the consumer to be more efficient and cost-effective in their travel needs.

Because we are a small business, we have the ability to spend more time and energy on these travel arrangements. We are able to take the time that is needed to locate the best deals for them.

This was just recently proven in the Topaz Survey that stated that travel agents compared with some of the top internet sites have the best airfares 93 percent of the time. The airlines are not happy with this statistic. They would much rather be receiving the control that the internet offers. The internet is the travel agent's best friend. It has helped us
help our clients in so many ways.

The problem that we have with the internet is the fares offered are sometimes better than we have access to in our GDS. When this happens we are forced to purchase through the internet site for our client. Many difficulties arise because of this.

The internet sites take a lot more time to book than our GDS; future changes are very difficult and expensive; upgrades cannot be done; and many other items are undoable.

When the internet offers a better price for the client, we inform them of all the negative items. If they are willing to accept those negatives, we proceed to book in that fashion.

People ask me all the time, "Why do you keep working so hard with all the problems that you face?"

I tell them that, "I believe in the system and that someone needs to carry on the battle of getting someone to listen and help us and that consumers become whole again."

I believe that the pendulum will swing back. And after going through all that I have, I want to be there ready for it. With all of the options available in the marketplace, the professional travel agent is needed more now than ever before.

I just want to have a level playing field. We need access to all fares. We need to be compensated for our work. The consumer needs that and the travel agency industry needs
that. I will be there to see that, the day that the travel agency industry is profitable again.

I thank you for giving me, the small guy, an opportunity to explain my side of the story. Thank you.

CHAIRMAN WINSTEAD: Robert, thank you.

David, I appreciate it.

I think both your perspectives on your businesses and the impacts that recent developments have had are very helpful.

David, in your testimony you dealt with from the revenue side on the air side has decreased from 37 percent in 2000 to 17 percent. By any chance can you share with us the service charge revenues decreased based on that, or can you give us some sense of what that is?

MR. ROJAHN: Yes. We basically started with a $10 per-itinerary service fee. We increased that to $20. And then the beginning of this year, we actually anticipated the airline commissions going to zero. So we raised that before January. We actually raised it coming into January of this year to $25.

So those revenues are not even keeping up with the amount of money that we lost in lost commissions.

CHAIRMAN WINSTEAD: Yes.

MR. ROJAHN: And at some point the market won't bear much more. There are some agencies that are charging upwards of 40 to $50 per ticket in our market. That's not the
norm; that's the exception.

And at some point they're still probably just breaking even as far as what those service fees cost. Again, from a consumer standpoint there's a threshold of what you'll pay in perceived value, especially when you're inundated with marketees that say the best place to go is the internet. So it's very hard to compete in that arena.

CHAIRMAN WINSTEAD: Your company seems to have been, before last fall with the economic impact of 9-11 and then obviously the commission action in March, fairly diversified.

Would you say that was typical of agencies your size or atypical, and how far back did you sort of start purposely diversifying then?

MR. ROJAHN: We started back in -- was it '94 -- the first commission cuts?

MR. KERN: '95.

MR. ROJAHN: '95. We knew that this -- this wasn't the first round. So we started purposely trying to evolve a way from dependence on airline ticket revenue. So I don't know if we were smarter or not quite as smart than somebody else. There's a lot of agencies that were impacted even more so than ours, because they didn't choose to make that business decision. There are still agencies today that were very, very dependent on airline ticket revenue, agencies my size.

So I don't know if we're typical or atypical. We
just chose to take that path. Again, I've worked on the other side of the fence. So I could -- maybe not predict -- but I could make my best, best guess that this is where it was going.

CHAIRMAN WINSTEAD: Interesting.

How about on your side, Bob? In terms of the revenue per ticket; what happened? I know that, you know, you've certainly gave us in the testimony the revenue side. But on a per-ticket basis can you give us some sense of that?

MR. KERN: Yes, I sure can.

What basically happened, we were the type of agency pre-'95 where we had built our whole agency on deluxe-type travel, corporate travel, where we did nothing but like firstclass and full coach. So that was our forte. Ninety percent of our business was airline tickets. And so we were into that little niche, or whatever.

So when the first cut came it dropped our revenues by 60 percent, which was just a real -- that was the biggest cut we had throughout all the years.

CHAIRMAN WINSTEAD: Yes.

MR. KERN: That first one was really tough.

We immediately starting charging $15 per ticket at that time. And since then we're now doing $25 per ticket.

CHAIRMAN WINSTEAD: Yes.

MR. KERN: So over those five years -- but, you know, we've had to go in other directions. There's a lot of
other areas where we can increase service fee, such as changing
tickets or, you know, doing frequent-flier miles. And we've had
to increase our revenue and service fees in a lot of different
areas over the years. But the per-ticket, 15 to 25 over the
years.

CHAIRMAN WINSTEAD: Twenty-five. And what percent
again is your split now, or maybe between air versus nonair?

MR. KERN: Right now we probably do about 40
percent, 30; high 30s, 40 percent air. We've changed a lot since
'95.

CHAIRMAN WINSTEAD: All right. Let me give some
opportunity to some of the other Commissioners. I appreciate
your response and testimony.

CHAIRMAN WINSTEAD: Do you have any? Yes, Joyce.

MS. ROGGE: I'll start.

In your testimony you were talking about that you
saw the need for the internet and that your agency is very
proactive in booking on the internet. And I was just wondering,
after we heard the testimony this morning about the different
products that are out there, what you used or how you went about
doing that?

MR. ROJAHN: We pretty much -- well, to answer your
first question, the reason why we were -- we were forced into
that situation. We were forced because in our market, price
points, we were losing business because we could not compete in a
GDS world with a particular airline in our market.

   I mean it wasn't five percent less. It was 50 to $200 less. And you can't go back to your customer and justify a $200 per ticket difference because we're good people. So that's what drove us to starting to really seriously considering booking on the internet.

   Booking on the internet cost me upwards of three to four times more work because it takes longer; I have to now replug that into different systems; and I have to sometimes repackage it for presentation purposes, meaning the itinerary.

   So we were forced into that situation. Not only did we start looking at tools to help us -- and you're seeing tools come to the market --

   MS. ROGGE: Yes.

   MR. ROJAHN: -- which will help us, but ultimately we're missing one key component with all the tools for the internet booking, and that's the ability to observe inventory.

   I missed the testimony this morning, but I think that came up a little bit. That's where the value of our services really come into play, that when we understand inventory management and we can see that's part of the equation webfares mean nothing if the inventory isn't there. I can get the best price at my retail store, but if I don't have product on the shelf, what difference is that?

   And if I can't -- I don't understand how inventory
is allocated, that's the piece that I'm most concerned about from a customer standpoint, because if you take that out of the equation, it's what's ever there when you walk in the store, so...

MS. ROGGE: If AgentWare, for example, which was one of the products they talked about this morning -- and, you know, we didn't ask that question about the inventory, but I got the impression they were only bringing back what was available at the time.

MR. ROJAHN: Right.

MS. ROGGE: You aren't currently using any off-the-shelf product? You're just doing it through what systems you put in place yourself. Am I correct in that?

MR. ROJAHN: Correct. We've actually written systems ourselves to be able to help us manage our cost. But even with the world of internet booking to make it easy, again I'm missing half the equation. And that's what people really pay for my services for is to be able to make a prudent decision to say, "You know, that flight's pretty much sold out. You're probably not going to get the lowest fare. So if you really have to go, let's not wait until the bitter end."

MS. ROGGE: Yes.

MR. ROJAHN: Some consumers end up not going because they perceive that if I wait until the bitter end I'm going to get bargain-basement price. So they end up not going or
they make a different purchase decision because they think they
know what they're doing versus somebody making a professional
recommendation to say, "My gut's telling me you probably, even
though the fare might not be the lowest, now's the time to
purchase. If I'm in your shoes, this is what I would do."

MS. ROGGE: Yes.

MR. ROJAHN: The consumer doesn't see that side of
the equation, where traditionally we've been able to see it.

MS. ROGGE: Yes.

MR. ROJAHN: I believe the suppliers, the airlines,
would prefer us not seeing the inventory side, because then we
become much better shoppers on behalf of our consumers.

So if you're in their shoes, do you want a
professional shopper or somebody that just randomly comes in and
thinks they're getting good value?

MS. ROGGE: And, Robert, could you answer that, as
well, if you do use the internet and how you go about doing that?

MR. KERN: Yes. David said it very well.

We also use the internet quite a bit, and we're
moving so much of our business away from the GDS to the internet.
It's going very rapidly in that direction. But it goes back to
that same thing. It's the inventory that we look at; we read so
much in that inventory it's unreal on an everyday basis.

MS. ROGGE: Yes.

MR. KERN: And when we can't see it, we can't do
our job for the consumer that we think we need to be doing for
the consumer. There's so many issues. It's like every time a
client books something or wants to book something, we're reading
something out of that inventory for them. When we can't do that,
they're not getting the best value for it.

An example that I was thinking of, that I was
talking earlier today on, is if somebody is flying to New York
and it's a businessman that's needing an early-morning meeting,
he'll come to me and say, "You know, book me on the flight. I
don't care which airlines it is, which flight it is, that I can
be assured of getting three seats across that I can crash on the
plane and sleep all the way."

And we have the ability and the tricks of knowing
how to do that.

MS. ROGGE: Yes.

MR. KERN: And when you take that away from us we
don't fulfill that need for that client. The next time the need
might be something completely different. But we're constantly
looking at that inventory and working it. And we're also
salespeople there. And there's so many times when we can sell
something to somebody if we see that inventory.

And like David said, you know, if we don't see it,
sometimes we'll lose a sale. And that hurts both the airlines
and us, and all travel, you know, all parts of the travel
industry.
MS. ROGGE: And when you take that sale that you do make on the internet and book it directly and not through whoever your GDS partner is, are there penalties that you suffer from that?

MR. ROJAHN: There's penalties on two parts. There's penalties because I'm under a contract to produce segments. And I believe you understand that concept as far as the booking thresholds. So I pay the penalty because I potentially cannot meet those thresholds.

The other penalty is I've just used the airline's internet booking site and I've just created a passive segment in their GDS system, and guess who ends up paying the booking fee? I've just used their most-cost effective system for booking. And in order for me to manage my business I've created something in the GDS that they now have to pay a booking fee on. They're not real happy with that.

MS. ROGGE: When you go back and do it in the back room, you mean?

MR. ROJAHN: Well, we basically put the itinerary fees into our GDS system to drive our back office and to drive our itinerary. And the airlines get dinged with the booking fee to do that.

MS. ROGGE: Thanks. That's all I have. Thank you.

CHAIRMAN WINSTEAD: Other questions?

MS. MITCHELL: Yes, there are.
CHAIRMAN WINSTEAD: Ann.

MS. MITCHELL: Do you think the airlines are banking on the fact that if you booked an internet fare and then charged a service fee for it this time with the customer that the next time they'll go just directly to that internet site?

MR. ROJAHN: Would you?

MS. MITCHELL: I would.

(Laughter.)

MR. ROJAHN: Right. I'm sure that's in somebody's mind that, you know, if you perceive you could do it yourself, why pay me to do it for you?

MS. MITCHELL: Yes.

MR. ROJAHN: If all the perception is, is I'm doing a booking for you.

MS. MITCHELL: Yes.

MR. ROJAHN: Yes. And, in fact, if I'm in their shoes, I would perceive that why use DTR Travel; you can do it yourself.

MS. MITCHELL: Some of what you were saying certainly was what many of us feel about the consumer, that we would like to do whatever is best for the consumer.

Do you think there might be some criticism that you're just trying to save the consumer from himself and that, you know, let the buyer beware, that if he just doesn't know any better, and he does it the wrong way, or does it the most...?
MR. ROJAHN: My fear is the consumer doesn't know what they don't know. And I don't mind that they book direct, if they want to choose to do it themselves. Let's just make sure they understand what they're doing when they make that decision, because right now they're not very educated and they perceive it's a very easy transaction.

And anybody who's been in this industry for any length of time understands an airline fare is not an easy -- you're not buying salsa on the internet. It's actually very complex. But the consumer is led to believe it's like going out and buying a jar of salsa and how simple it is.

And sometimes you're paying more than you should if you don't understand the complexities of fares and why the airlines -- for very good reasons, for very good business reasons -- price their products and their inventory and why there's 40 prices for one Point A to Point B for that set of inventory. There's not just one price.

MS. MITCHELL: Of course, there have always been people who book direct in any case.

MR. ROJAHN: Sure. There always has.

MS. MITCHELL: Bob, you had mentioned a rather bleak description of the business you own for the last five years. I had been wanting to ask one of the airlines how they can operate in the red for years. I guess you're the closest person I know to ask. You know, why do you continue a business
that is obviously not making its way?

MR. KERN: I have to explain that to my wife every
day also.

MS. MITCHELL: Oh.

MR. KERN: It's just, it's an investment for the
future. And I think there's a good future for the travel agent.
And I'm just waiting for it. And I'm preparing myself for it
and I'm building my business that will be strong when it gets to
that point. And that's exactly what I'm doing with all my income
and such that I have. I try to rebuild and build it bigger and
better. I just believe that there's something in our future for
us. And I'm going to darn well be there. I'm not going to allow
myself to go down the tubes.

But I didn't mean to be saying it's a bleak
picture, per se. I just wanted to give an honest opinion to this
Commission of what us regular-type travel agencies are
experiencing out there. That's what I wanted to basically show
to you. It wasn't that I, you know, feel down, or depressed, or
whatever.

I feel very excited about some of the opportunities
that I see in the future. And I see some good things out there,
but income is just not one of them. I'm sorry. I hope that
someday it'll come around and it'll be better.

But I think anybody that sits here and says that
they're making good money as a travel agency owner, they're
liars. It's just not happening, not to any of us.

MS. MITCHELL: Do you have a rich uncle, or something?

MR. KERN: Well, --

MS. MITCHELL: I'm just kidding.

MR. KERN: No.

MS. MITCHELL: Thank you.

MR. KERN: You're welcome.

CHAIRMAN WINSTEAD: All right. Paul.

MR. RUDEN: I want to be sure that we understand, all of us here on the Commission understand what you said about yield management and inventory management.

Is it possible, using your GDS system, to look at the array of fares and seats available at each fare level in a single display?

MR. ROJAHN: On average, yes. On a single display?

MR. RUDEN: Yes.

MR. ROJAHN: Yes.

MR. RUDEN: So at any moment in time you can look and see that -- whatever labels they go buy, the Q fare, the Y fare, the ABC fare, the GRX fare, there's this many seats available at this fare, and so forth, at your GDS display?

MR. KERN: That's correct.

MR. ROJAHN: That's correct.

MR. RUDEN: And you cannot do that on any known
website; is that correct?

MR. KERN: As far as I know that's correct.

MR. ROJAHN: I haven't found one yet.

MR. RUDEN: Well, that's all I wanted to know, because I've seen that display myself, but I'm not testifying here. And I want to be sure that it's understood that you have that capacity only through that tool.

MR. KERN: That's true.

MR. ROJAHN: It's a very, very important tool for the consumer and for the travel agent, very important.

MR. RUDEN: Thank you.

CHAIRMAN WINSTEAD: Maryles.

MS. CASTO: I don't have anything.

CHAIRMAN WINSTEAD: Okay. Pat.

MR. MURPHY: I guess I really don't have a question. But, first of all, I very much appreciate your being here. And hearing your testimony brings home how difficult it is for the small travel agent.

And this morning -- I don't know if you were here for the testimony of American Express, but --

MR. KERN: Yes.

MR. MURPHY: -- he made a statement that the trend -- he talked about how "14 percent" of all the retail travel agents stopped operating last year and "This trend will no doubt continue, and over time, it is inevitable that travel agencies
that without the large breadth and scope of a mega-agency and
without the resources or ability to provide customers the lowest
fares will not survive."

And your feeling, through optimism, is that you can
beat those odds or beat his opinion, anyhow, and survive as a
small specialty travel agency, as well.

Would you care to comment on that? I mean you're
here today. That says it all. But that's his view, operating
the largest travel agency.

MR. ROJAHN: We still believe we provide value add
in the distribution chain. Ultimately the consumer is going to
determine where we fit in there and what we end up selling.

It's unfortunate, though, we don't have control
sometimes on what we sell, because things, not just economic
reasons, but activities and decisions that are made that we have
no choice. You just come in one morning, and all of a sudden
your revenue is cut by X percent.

But I, like Bob, am very optimistic about the
future of the industry. I'm not so optimistic about, from a
consumer point of view, that they're being given all the
information. And that's the part I think -- I'm not, I'm not
worried about me personally. We'll figure it out, or we'll go do
something else.

The reason why I got back into the retail side of
the industry is because I didn't think there were enough people
looking out for Joe Consumer on the street. That's the reason
why I opened up the agency. It wasn't for monetary reasons;
that's for sure. And it concerns me more today than it did in
1993.

MR. RUDEN: Well, --

CHAIRMAN WINSTEAD: Paul, go ahead.

MR. RUDEN: I don't want to interrupt Pat. I
thought he was done.

CHAIRMAN WINSTEAD: Pat, have you got some more?

MR. MURPHY: No, that's all I had. Thank you.

CHAIRMAN WINSTEAD: All right. Go ahead.

MR. RUDEN: This is -- I have to ask this, then,
because I hear all this optimism. But if -- and ASTA has advised
you all and all travel agents in the face of what's been going on
to curtail their sales of air transportation in favor of other
more, at least for the moment, lucrative lines of business.

And we heard American Express say today that if
things don't go well with respect to webfare access, for example,
there comes a point when people simply don't do the business
anymore.

And, Bob, you know, I appreciate your optimism. I
think it's a great thing to see, but you can't keep borrowing
forever. And you've already reduced significantly, I gather, the
portion of your business devoted to air transportation.

It's theoretically possible, I suppose, that small
travel agents around the country can do what other kinds of
animal life do when they're threatened environmentally. They
find little places to hide away from the water or away from the
wind. And you can sell other stuff on that scaled-down basis,
but air travel still is a central part of what you do.

MR. KERN: That's correct.

MR. RUDEN: And I guess if the airlines -- my
question really is -- if the airlines find a way to shut you out
of the webfares and they continue advertising and promoting the
existence of those fares as the cheapest product in the market,
which cannot be purchased through you, does that alter your view
about the future, or are you still optimistic in the face of that
scenario?

MR. KERN: Well, I believe that if it keeps
continuing down the road that is continuing down now, I'm going
to eventually throw in the towel. There's no doubt about that.

I just hope that -- and I keep banking on that it
won't go down that road, that the pendulum is going to swing
back, and travel agents are going to be looked at a little bit
differently than they are right now. And I keep banking on that.

You have to understand, I've got 30 years in this
industry and you've got to understand that I've put a lot of
money and investment and time into this situation. And I'm not
going to throw in the towel just because somebody cut back my
commission, or whatever. I'm not going to allow what's happened
in the last few years to be the instigator of my throwing in the towel.

But I can guarantee you if it kept going down the road it's going now, I would. And I believe also, out of all of the agencies that are left, I'm going to probably be one of the last ones to throw in the towel. There's going to be a heck of a lot of others that'll throw in the towel before I do. Maybe they're smarter than I am.

And it's going to be a sad day when that happens, because the travel industry as a whole is going to get hurt tremendously so by it, because the marketing that we do as salesmen is unbelievable. Hotels, tour companies, everything. And I can't imagine that happening, but it sure could.

MR. ROJAHN: Paul, I want to comment on that, too, that my optimism is that some market condition out there will help level the playing field. I haven't given up on that yet. But if it continues the way it goes, I have to agree with Bob, that my wife will not allow me to continue this business venture, nor do I want to spend the time and effort.

At some point you got to say, "Look, I need to make a good, honest living and I'm working too darn hard for too little on behalf of the consumer when the playing field just continues to be tipped, tilted not in our direction."

So I guess my optimism is that I'm hoping from a consumer standpoint that either they smarten up or somebody
educates them, which we're trying to do in our own little way, but we don't have the horsepower to say: This is reality; we don't have those types of resources.

So if it continues the way it is, there is no economic reason, because I have to believe that if this all fits very well in the airline model, the cruise model will come next, the hotel model, the car model, the tours.

Everyone will have a better way than using us as a salesforce for them out there. So at that point, you're correct. I'm not to that point yet, but it's -- the road isn't always as rosy as I try to make it. But I'm hoping the market conditions will change that.

MR. KERN: And you've got to understand, we try to stay as optimistic as we can. I mean we mentally prepare ourselves in that direction because nothing else is going to help us. I mean, why do we want to think pessimistically. We battle in those grounds, and we battle those issues, but we try to stay optimistic and stay mentally in shape. And that's why I say those things.

MR. ROJAHN: And kind of just to opine a thought to that, our position within ASTA almost requires us to keep a positive face.

MR. KERN: Yes.

MR. ROJAHN: If I'm a leader within my association, and I'm painting a gloom-and-doom picture, am I not sending a
message to our fellow travel agencies out there? But you don't want to be Pollyanna about it either. You want to have a realistic business view of the world. But I think that's part of the optimism, too, is I have to be. I've got people that look to both Bob and my leadership to say, "Let's hang in there." That's part of that.

MS. CASTO: David, can I just ask a question?

CHAIRMAN WINSTEAD: Absolutely.

MS. CASTO: Just a question. What do you want us to recommend, this Commission? Both David and Robert.

MR. ROJAHN: What I'd like this Commission to recommend -- and I don't know the "how," but I think the "what" is that the consumer is better educated on, when they make an internet purchase, what that really means.

And I think you have had enough testimony to be able to know what that really means. And I'll go back to my statement. You need to put the consumer hat on. I think you're a much better educated consumer today than you were before these hearings started, especially for -- there are people that are in the industry, that if you put your consumer hat on, is this all goodness out there?

That's what I recommend, for you to really look through their eyes and say: Do they need more information to make that decision whether or not, or which is the right place to make that purchase. Maybe I'm not the right place. That's okay.
Let them make that decision based on good, solid, valid information versus conditions that are skewing me to one or potentially one or two choices that -- I go back to the railroad analogy.

I own the toys; I own the airways; and I own the only way to purchase my product. I'm not so sure that's good enough.

MR. MURPHY: Could I ask also a follow-up?

CHAIRMAN WINSTEAD: Yes.

MR. MURPHY: You had mentioned that some of the other products that you sell may begin to shave their arrangements with you as the airlines have: Hotels, car rentals? Have you seen any of that yet? Are they shifting their business models also?

MR. ROJAHN: Yes, sir. We've seen that, not only in the cruise market because of what's happened in the airline arena, that they've cut commissions as far as if we deal with an air-inclusive cruise. We've seen it happen in the car rental arena with corporate accounts. You see webfares.

Again, I deal in the world of internet booking, not just from an airline standpoint. You see noncommissionable webfares being offered on hotel sites that if I were to earn income by booking that I, of course, will have to sell or charge a fee to do it. But significant differences in those arenas, too.
MR. MURPHY: All of them, then cruises, car rentals, hotels?

MR. ROJAHN: It's hard to say as from a pricing standpoint, because inventory changes, and market conditions changes, and specials changed to where it's hard to say that just because it's on the web it's a lower price. I don't think I can say that. I've seen enough cases of it where I've gone to the internet and seen better pricing than maybe some of the more traditional channels, though.

MR. MURPHY: Thank you.

CHAIRMAN WINSTEAD: Paul's got a question, but I've got one.

On this level playing field, the access issues to fares that we've heard so much about, what -- as you all look from your business size and client base at the tools that, for example, this morning we heard about -- I don't know whether you were here, David. I don't know.

Okay. In that optimism where do you match these developing tools and these entrepreneurs that are out there trying to be a part of this and provide access to fare? Where do you see those tools helping you to get to this level playing field you keep referring to, in terms of what you know now and what we've heard this morning, that is, that there are a lot of innovative people out there that know the market side, the internet side, the computer software programming side and seem to
be able to get the money to interject some innovation into a
niche. Where do you see those tools helping you to get to that
level playing field? I guess that's the question.

MR. KERN: Well, I see the more things that are out
there, the more reason that a travel agent is needed. So I see
those as kind of good things. It's just that we just need easier
access to those situations, because right now, like David said
earlier, it's taken us three, four, five times as much to sell an
airline ticket in time than it ever did before, because there's
so many sources now that we have to check out.

And before we used to be able to sit there on the
phone while the client was listening to us and be able to get
everything done, and set, and confirmed, and ticketed. Now it's
like sometimes we have to wait until tomorrow. I mean, "Is this
okay if we call you back in the morning. We'll get it squared
away."

I mean this is major time consumption, and there's
a lot of delays, because it starts piling up on you, the workload
does. So I see these tools that are coming out as good things in
a sense that it helps us sift through all those situations and
access all those different sites and stuff in a much more rapid
fashion. But it's got to tie back into, you know, our systems,
too. And it's got to get better, and better, and better.

CHAIRMAN WINSTEAD: Yes. And both of you all feel
-- you're fairly comfortable. ASTA was our first witness in
Washington about a month ago. And, you know, they had extensive
testimony. Maybe they've shared it with you through their
website or you've read it. And charts to support the economic
condition of agencies, and that sort of thing.

MR. ROJAHN: Sure.

CHAIRMAN WINSTEAD: Are you pretty comfortable with
their testimony and some of the things they've certainly
indicated that they would like to see this Commission consider in
terms of recommendations? Are you pretty much onboard?

MR. KERN: Yes.

MR. ROJAHN: Oh, definitely, definitely so.

MR. KERN: I mean, you know, the charts and stuff
that I was looking at are just so true. And there's a lot of
good value there.

MR. ROJAHN: David, if I -- I'm sorry.

CHAIRMAN WINSTEAD: That's all right.

MR. ROJAHN: I wanted to answer the question, too,
as far as --

CHAIRMAN WINSTEAD: Sure.

MR. ROJAHN: -- these tools. The tools definitely
will help us reduce costs as far as on the back-end side, meaning
to help manage a web booking after the booking is made.

And you heard it this morning. It was very
interesting to see one entity the airlines are very eager to work
with, two other entities not so eager. You have to start asking
those questions why.

That's the part where those tools aren't going to help me run my operation. Yes, they're going to reduce costs on the back side. But if some entities are being blocked out of access to information, because of your entity that you're selling to, meaning AgentWare, "I'm the customer."

SideStep, the consumer's the customer. It's interesting how some things are blocked; some things aren't blocked. And I've got a real problem what that.

CHAIRMAN WINSTEAD: One other question. I think it was in a discussion Paul and I've had at one point, is I've never been to an ASTA meeting, although I'd love to. And I think the last one I tried to get ahold of Paul, you were in Jamaica, as I recall, like a great spot.

This educating the agent is a part of what you all talked about. And I'm just curious. I know that nonprofit, professional trade associations have limited resources. And certainly since 9-11 you all have suffered losses in your business. I'm sure that's reflected in the association.

But do you see the ability, collectively as a profession, as these tools develop and as you all individually share, I know you compete, but business plans and diversification and support services, like travel books and things I've heard from some of the people that, you know, they actually are selling travel books as well as putting together a package -- is the
industry -- do you feel that you can continue to learn through your profession ways and models to get you to where you need to be clearly, you know, economic duress in Bob's case in terms of what's happened?

Is that a part of this equation? I mean we've talked about access to fares; we've talked about you know what's happened certainly in terms of the airline revenue drop. But is a part of it again trying to get better business model plans through sort of association-type programs and training? How do you view that as a part of this? I know it's not your major concern, but I was just curious.

MR. KERN: Well, you know, we in Southern California have established a lot of different situations to help out our fellow members. We've developed some like Saturday seminars to where we bring people in to teach the agents how to do different situations and such. So we're really big in that area. I know I spend a lot of time on trying to train my fellow members on how to do different issues. It's a constant battle that we do.

And we have many, many meetings throughout the year that we do different educational-type issues. But our Saturday seminars that we've just recently set up over the last year have been a very big help. And we train people.

And ASTA, you know, National ASTA does a lot of issues like that in their different seminars and conferences and
such.

CHAIRMAN WINSTEAD: Okay.

MR. ROJAHN: And I would agree with Bob. Education, yes, we can all help each other and teach as far as better ways of doing business. But you have to remember, there's a lot of small agencies that are under contract that they cannot change their business model tomorrow.

CHAIRMAN WINSTEAD: Right. Right.

MR. ROJAHN: And a year from now they might not be in business at the time that they can change their business model.

This dilemma with the vendors and the GDSs where the GDSs want us there, the vendors don't want us there, and then you've got this whole array of web stuff out there that people are still trying to figure out. Even the techies are still trying to figure out what you can have access to and what you can't.

So it's just this is conglomerate of forces that at some point some people are going to say, "You can educate me all you want, but the conditions are such that I need to go do something else."

CHAIRMAN WINSTEAD: Thank you.

Paul, you had a question.

MR. RUDEN: Yes. Just one final inquiry that is not really on the subject of access to the webfares, but rather
addresses a very interesting development that took place not too long ago in which SAS announced a completely different pricing structure for their tickets.

They created a wholesale price, in effect, for themselves, as well as for travel agents in Scandinavia and permit or provide for differentiated add-ons, depending upon their judgment about the cost of different channels.

In English it means that they mark up an e-ticket differently than they would mark up an online ticket differently than they would mark up a full coach ticket sold through a traditional method.

And they would add these mark-ups or have these mark-ups provided for on their own sales as well as having a wholesale price for travel agents. Now that's a very, very different concept of how to price than the system we have now, which leaves you with the retail price to mark up.

MR. KERN: Yes.

MR. RUDEN: And my question is: Recognizing that there are cost differences between the channels, would you think that you could work effectively and efficiently with the wholesale-retail price structure similar to -- it doesn't have to be identical to SAS; interestingly, no other airline on the planet has chosen to follow what they've done so far -- but could that work for you -- that's my question -- rather than what you've got now?
MR. KERN: Without a doubt. I mean that's something that we are really hungry for. We should be the ones that are driving the price or setting the price for our consumers and let supply and demand take its course. And I would give anything to have a system like that. And it would be a great answer to all of our problems. That's my opinion.

MR. RUDEN: Do you agree with that?

MR. ROJAHN: Well, as long as my cost, because of what I bring to the equation, is better than what the consumer can get itself. I mean it's hard to mark up something that I'm getting charged more for than somebody purchasing through another channel anyway or direct.

It depends on how the model is as far as what those costs, depending on distribution.

MR. RUDEN: The question I'm asking is predicated on the assumption, which might not prove true in reality, but the assumption that the wholesale price is the same for everyone that, in effect, the carrier has pulled out what it judges its own distribution costs to be and says: Beat that if you can.

MR. ROJAHN: If that's the assumption, then, yes. That's a model I could work under because then agencies can determine do they want to be a K-Mart or a Nordstrom's.

MR. RUDEN: That's right.

MR. ROJAHN: And you add your value add-in and your pricing includes whatever services we want to bundle in. That
model I would embrace and actually could utilize, because that
would distinguish me from somebody down the street if I choose to
bundle in other services.

MR. KERN: I've never seen an industry where it's
like Sears selling a TV set and saying, you know, Magnavox has
given it to us for $200 and our service fee on top of that is 75
bucks; we're going to sell you the TV for 275. I mean who's ever
heard of that. And that's the environment that we're under. And
it's very hard to work under that.

And we cannot be, like David said, the K-Marts or
the Nordstrom's. We don't have that ability in that sense. You
know if we had deluxe, deluxe service, we should be able to get a
higher price than if we had no service.

MR. RUDEN: Okay. Thank you. That's it.

CHAIRMAN WINSTEAD: Great. Do we have any other
questions?

David and Bob, thank you very much for taking your
time.

MR. KERN: You're welcome.

MR. ROJAHN: You're welcome.

CHAIRMAN WINSTEAD: And if there are any other
questions we think of, we'll send them to you in writing.

MS. ROGGE: Thanks for coming.

CHAIRMAN WINSTEAD: But thanks again. I really
appreciate it.
MR. KERN: Thank you.

MR. ROJAHN: Thank you.

MS. CASTO: Thank you.

CHAIRMAN WINSTEAD: Good luck to you.

We have our last two witnesses.

Steve Hewins, welcome.

George, nice to see you.

(Pause in the proceedings.)

CHAIRMAN WINSTEAD: Steve, why don't we start with you. I think you were listed first on the agenda.

MR. HEWINS: Okay.

CHAIRMAN WINSTEAD: Thanks again for waiting. I don't know whether you were here this morning for the testimony, --

MR. HEWINS: Yes.

CHAIRMAN WINSTEAD: -- but we appreciate you waiting until this after and --

MS. ROGGE: Hanging in there.

CHAIRMAN WINSTEAD: -- hanging in there with us.

MR. HEWINS: And it was very interesting, so it was worth it.

CHAIRMAN WINSTEAD: Great.

MR. HEWINS: Yes, thanks.

CHAIRMAN WINSTEAD: So why don't you go ahead and state your name --
MR. HEWINS: Okay.

CHAIRMAN WINSTEAD: -- and title and company for the record?

MR. HEWINS: Certainly. My name is Steve Hewins, and I am the president and founder of Hewins Travel Consultants, Incorporated from Portland, Maine. I've been a travel agent for 24 years. My business will be 20 this November. In addition to our Portland Headquarters we operate seven branch locations in small cities and towns in the State of Maine. We also operate our own website, too. We actually generate quite a few bookings online as well.

We employ 60 people currently and have a business mix of about 55 percent business travel and about 45 percent that's made up of leisure travel groups and meetings.

We are also a franchisee of Carlson Wagonlit Travel and have been since about 1990. I guess I would say I come to you today from the front lines of the travel industry, as some of my compatriots have been up here today as well.

My objectives are to represent the interest of the traveling public and by extension the future of travel agencies in America.

While Hewins Travel is a fairly large company by travel agency standards, we're actually a small business as classified by the SBA. In fact, we recently received a disaster relief loan because of our revenues which are slightly under the
$3 million ceiling, just under. But we were able to secure
disaster relief money based on the unfortunate events of last
fall. Although I will say that the airlines received billions in
federal grants. But unlike them I'll be paying back the
government for the next 30 years. I'm grateful for that help.
But obviously I have a vested interest in the survival of this
industry as well.

I have read the testimony and heard today, and
while I would like to respond in great detail to the rosy
pictures painted by the airlines and primarily their partners,
such as Orbitz, I know my time before this Committee is short.

That said, I can assure you that all is not rosy
with travel agencies and the traveling public from my
perspective.

Our air business, similar to what American Express
talked about this morning, is down about 22 percent year over
year. We've laid off about ten percent of our staff since last
year. We've closed an office and we've consolidated two others.

Overall my message I think is fairly simple, that I
believe the airlines cannot be allowed to mandate that a traveler
receive a lower fare through any particular channel. By not
allowing webfares to travel agencies through their GDSs,
companies that they themselves created many years ago, of course,
the airlines are manipulating the sale of air transportation in
America to the utter detriment of the traveling public in my
view.

In his testimony in Chicago, which I read, Mr. Doernhoefer of Orbitz recommends that the Commission, "be on the side of technology innovation and consumer choice."

He goes on to assert that, "Consumers should be free to decide how and where they want to purchase travel."

While this represents the wordsmithing of lawyers, it seems amazing to me that I'm using the exact same words today in hopes that you'll reach the exact opposite conclusion.

In a nutshell this explains what a difficult task I think this Commission has separating the truth from the hype.

Contrary to how we've been portrayed, agencies like Hewins Travel have never been opposed to technology and have actually embraced all new technology since we were first wired to the original computer systems back in the 1970s.

More importantly, travel agencies have always been the last bastion of consumers' choice in transportation and travel. I believe the exponential growth of agencies throughout the '80s and '90s, when I built my business, was directly related to the confidence that the public placed in us for advice and counsel.

In 1982 I incorporated my business as Hewins Travel Consultants. And I did that because I recognized then, as I do today, that most of the public needs independent consulting when it comes to arranging their travel plans wisely.
As the airlines began cutting commissions in 1995 and culminating in a zero commission just over three months ago, travel agents were employed to reinvent themselves and become "information providers."

We were told by the airlines that the traveling public would have to pay for this service because they would not. Presumably, they felt we were worth nothing to them because we steered the public to the best combinations of price and schedule regardless of the airline and contrary to their own objectives.

Yet I'm concerned because I don't know how we're supposed to assume that agreed-upon role as travel information providers if we're not provided with all the information. How can we fulfill this or meet the responsibility if the airlines share rates through Orbitz and their own internet websites.

If selling webfares is so important to the airlines, why do they not make them available to the largest nonpaid sales distribution system in the world?

I've submitted examples of two itineraries which I just passed to the Commission just now, better than the ones that came across in the fax I think that was in my prepared remarks.

They show identical schedules. They were produced by one of our senior corporate travel agents, by the way, someone with 15 years experience who has been dealing with nothing but corporate travel for the last almost 15 years. They were produced within minutes of each other. One was off our GDS and
the other was off the Orbitz website.

The price and schedule were for a U.S. Airways trip from Portland, Maine to Memphis, Tennessee. The result was $253 on Orbitz and 415 on our system.

You'll notice that I've highlighted the itinerary. It's exactly the same. It's not like what was seen I guess at Ms. Casto's agency by the Commission yesterday where there was an unusual fare return or a different schedule. This is apples to apples.

U.S. Airways isn't the only culprit. And given the time we probably could have come up with similar examples from United, American, Delta, or any of the majors.

My point is that travel agents need the same access to these fares through our GDS, because we don't want to be positioned as selling tickets for a higher price than people should pay.

Ironically, while the airlines complain about poor yields and low revenues -- and I guess U.S. Airways is an excellent example. They just received federal government bail-out money or conditionally I believe today it was announced.

But at the same time they compete against themselves by offering a price $162 lower than what our agency to Hewins Travel, is this worth the 10 or $15 they would have saved through their "high-cost GDS fees"? I think the answer is
no.

Our business clients -- and we serve over 130 companies and organizations within the state -- pay us a transaction fee to find the lowest fare and the best schedule for each trip. Like most of American business, they prefer to out-source travel while focusing on their core competencies. Occasionally, as in the above example, a traveler would report a webfare on an airline-owned site lower than what we have in our GDS.

Yes, as I heard this morning, there are band-aid fixes available. Incidentally, I'll make comment on one thing, is we're actually investigating the Agent- --

MS. CASTO: -Ware.

MR. HEWINS: AgentWare. Thank you.

The cost of that is quite expensive for someone like me. That would be 1600 bucks a month for us to adopt that system, which wouldn't be bad if we were getting paid to absorb that fee. But obviously we're struggling to break even, even now.

That said, I will say the other system, SideStep, in particular, is -- there are other systems out there like FairChase and others that will search and find fares, and you can book them on the airline website. That defeats the purpose of the cost of the transaction for us, because we're not really interested in going and booking something on an airline's website.
and then try to enter in as -- I think Bob mentioned -- back into
the GDS creating a passive segment in our system.

And at the same time the other system, Qixo there,
which I'm not that familiar with, but again that's booking it on
another site outside of our system. This creates inherent
problems, especially with corporate travel. And it drives up the
cost of travel management, both for us and for the companies that
pay us, and for the travelers within those companies that feel
compelled to search around for fares when they should be doing
their work that they're paid to do in their company.

Moreover, our new online booking system, we use a
system called HighWire by Galileo. We have several companies
with that system. We have a larger setup for all of our
corporate clients that don't have their own unique setup. They
can't find these fares. That's an internet booking system, but
they don't have access to webfares through that because it's
searching our GDS for the fares. That's a big problem with
corporate travel that utilize online booking systems.

I and thousands of my travel agent counterparts
across the country that I'm aware of and many people I've talked
to -- I've been on advisory boards within Carlson Wagonlit Travel
for quite some time and I have a chance to talk to many agencies
across the country, I think we want to sell travel effectively
for both consumers and our suppliers. And that includes selling
airline tickets in all price ranges.
Hewins Travel, as I said earlier, has its own web booking site for business and vacation travel, in addition to brick-and-mortar offices. And similar to the airlines, Hewins Travel continues to make difficult decisions involving laying off valued employees, closing offices, consolidating businesses, acquiring businesses as I do, and using new technology to improve efficiencies.

But I don't expect this Commission will be swayed by the airlines making those same claims, as we're all involved in the same cost-cutting processes.

The most important need we have in order to fill our ongoing and future role as travel consultants is a level playing field, as several people have said. We have no problem competing against other sales outlets online or offline, but we can't compete against the airlines that produce themselves.

This is like the manufacturer Sony telling the retailer Sears, you may sell our TVs, but we're going to sell some of them cheaper on our website, and then we're going to get together with Toshiba and Hitachi and put our own site together and sell TVs there. This wouldn't happen in America. But why is it only happening in the sale of air transportation in United States of America?

The best interests of the traveling public require that all airline webfares be available to all outlets, not simply airline or airline-owned websites. The traveler doesn't have
internet access, or doesn't have a credit card, or is too busy to
purchase their business or vacation trip online, or is elderly,
or simply wants to do business with humans, then let them call
Hewins Travel, receive the same webfare, pay a relatively small
transaction fee. It's fairly simple if that was all the issue
was.

According to their testimony in Chicago, Orbitz
aspires to be the next GDS. I think that was the first time I've
ever seen that in print. And if their FairSearch technology is
comparable, let them compete immediately for our business. And I
look forward to speaking with them.

However, the Orbitz GDS must operate under the same
DOT rules that all the GDSs adhere to and make their fares
available in all our GDSs now. Otherwise, the field is not level
and customers still do not have access to all fares through
Hewins Travel.

Finally, according to studies that I've read in
preparation for this presentation, a webfare booked through my
GDS costs about $6. And I have no idea what it cost to
distribute those tickets outside of our GDS, but if that's the
only issue involved in making these webfares available at Hewins
Travel, then I'll gladly pay the difference in the cost to access
those webfares if I'm able to professionally serve the traveling
public.

I believe this Commission is committed to the
public's right, not the airlines, to choose where and how people want to buy travel. And the evidence is becoming clear that the travel agent's role is simply not to sell high-margin airline tickets as conveyed to you by several airlines, but to do our job effectively for the consumers we need access to all fares.

I implore you to send a strong message to Congress, to the DOT and the DOJ. Those of us on the front lines with the traveling public need your support. Thanks very much.

CHAIRMAN WINSTEAD: Great, Steve. Thank you. I'm sure we have some questions.

But, George, do you want to...?

MR. DELANOY: Yes.

CHAIRMAN WINSTEAD: Thank you, sir.

MR. DELANOY: I'm not sure whether I'm batting eighth today. I'd like to think I'm batting fourth. So I'll move forward with that.

Chairman Winstead and Committee members, thanks for giving me this opportunity.

The objective of this Commission, as you all know, is to ensure consumer information and choice in the airline industry. What I'd like to present today is the unique role of the brick-and-mortar travel agency in reaching this objective.

As a matter of fact, I believe it's the greatest conduit in the distribution system for achieving this objective. And even beyond this, the brick-and-mortar travel agency could
play a significant role in the turnaround of this industry under
the right operating conditions.

The perspective which I bring to this issue is
perhaps different than most people you've heard, since I've been
involved in both big business and small business. In the big
business world, I've been the president of a $20 million division
of a food processing company and also the head of marketing for a
$500 million entertainment company. That's one extreme.

The other extreme is now in the small business
world I've been the owner of Brea Travel since 1985. Our agency,
Brea Travel, is in the City of Brea with a population of 36,000,
about ten miles north of Disney. Our agency was started in 1960
and currently has annual revenues in the range of 1.5 million.
We have 19 full-time employees. Our business has three distinct
operating units. Leisure accounts for about 55 percent of our
revenues, corporate about 30, and group 15.

Our business, like other retail travel agencies
you've heard from, has changed substantially in the past few
years, specifically as related to the reduction in airline
commissions. In our fiscal year ending March 2000, that's the
fiscal year 2000, our airline commissions were almost $375,000,
or 25 percent of our total revenues.

Two years later, fiscal year 2002, this had dropped
to 147,000. And as you know that 147,- will probably virtually
disappear this year.
Our AOL sales, on the other hand, are still close to three million, but with about 150,000 in fee income which, in essence, is a price increase we passed on to our customers.

But you can't survive a 25-percent reduction in revenues without making significant changes in your business. In addition to higher fees, we have offset the lost revenues with cost cutting and a change in our business mix. The current results are a lower bottom-line profit, but I still say "profit"; a salary freeze; limited capital expenditures; and less, I'm sorry to say, compensation for the owners. So much for our travel agency background.

Throughout my business career, I've been involved in marketing, which means that I've been concerned with and studied the consumer. I've talked with them about everything from bar soap to king crabs to rollercoasters, not all at the same time.

In one case research on lunchbox desserts led to my conceiving and developing a nationally-accepted product called "Snack Pack." You can understand, therefore, that my travel business has been built on trying to understand and satisfy that consumer. And this is the context for virtually everything else I have to say today.

The consumer has spoken most loudly and clearly with the use of the internet for booking air travel. This is a tremendous tool and a great example of how technology has
improved on what choices consumers have. You've heard many times
internet bookings through online agencies and air websites
probably are now 20 to 25 percent of airline reservations.

However, offline agencies or brick-and-mortar
operations, even with higher prices due to fees, still account
for 70 percent of such reservations. There must be a good
reason. And that reason is that only these offline agencies
provide service and value which the client is willing to pay for.

In the few minutes left, I'd like to discuss the
importance to the consumer of the much maligned brick-and-mortar
travel agency, and why it is the greatest conduit in our travel
system for providing consumer information and choice.

At Brea Travel, for example, within any given year
we have quarterly mailings of a newsletter, like this (showing
brochure), "Surf on us," where we're talking about the internet
like everyone else is. That goes out to 7500
demographically-selected homeowners.

We have a three-times-a-year travel catalogue,
which is done through our consortium. That goes out to 5,000 of
our best customers.

We send about 30 postcard mailings and 10 to 15
other specialty mailings, all of which adds up to more than
75,000 pieces of mail sent to our clients each year. We get
feedback from our clients with follow-up phone calls to them
after their trip. We meet with them at our annual travel fair.
We talk with them at about six promotional events we have each year.

Our one-on-one personal contacts through telephone calls and in the selling process add countless thousands of other opportunities for developing strong client relations.

We use technology as well to service these clients.

There was a recent article in Travel Agent magazine titled, "Technically an Agent's Success Story," talking about Brea Travel. It's saying in one line down here, "Delanoy also empowers his agents to use internet sites that will help client, whether it's an airline's own site or a travel portal such as Orbitz." And we'll come back to that later on, I'm sure.

So we're constantly communicating with the consumer. That's what we're talking about here today. Communications with them relating to airline travel is so much more than just booking tickets or providing flight options.

These person-to-person contacts become more meaningful when our clients have problems or questions to discuss. On an everyday basis, as some of you know, we will handle changes in airline schedules, refunds to the clients when prices are lowered, phone calls from clients at airports who have missed connections, on and on.

You've heard many examples of what travel agencies did after the 9-11 crisis. In our case we had 100 women golfers stranded in Calgary, Canada for four days. We made special hotel
arrangements for them. We used our entire staff to call their relatives every day to let them know what was going on. We negotiated with their insurance carrier to arrange a reimbursement of some of these extra expenses that they had.

As we all know, such service is impractical and, therefore, absent from the operations of an airline or an online agency. But our client communications role is proactive as well as reactive to the demands of our clients, because everyone here knows the travel environment has changed dramatically in the past ten months. Clients are not sure about being away from family. They're not so sure about security and hassles of travel, about the potential of another terrorist attack.

These days we see this most clearly in booking patterns. People are booking closer in, less of a commitment to far-away destinations. So who can and who will these clients talk to about their travel questions and dilemmas. The airlines? The online booking agency?

No. They talk with their local travel agency with whom they have built a lasting relationship over the years. They value our opinions and they trust our judgments.

While on the subject of influencing positive attitudes toward travel, I'd like to mention the role of the brick-and-mortar travel agency in the community, or the 10,000 communities, or whatever we operate in around this country. This is an area which big business is unable to reach. I know. I've
been there, the difficulty of reaching down into the community. But this is where travel agencies come to the fore.

Most travel agents and these people like you're meeting here today are very active community leaders. This comes about through membership in the local Chamber of Commerce. I've been president for one year. Church and service club involvement. Support through travel goodies of an endless number of great causes, including high school Grad Nights, Scouts, Boys' and Girls' Clubs, Little League, Senior Citizens, and so on. Some agencies even host their own TV or radio show.

Among all the retail businesses in town, we probably have some of the highest awareness because of this constant contact with community leaders. And so many ask, "What's the latest in the travel business"; "Any suggestions for my next trip"; or "Are the airlines going to make it?"

The significance of all this for this Commission is that a brick-and-mortar travel agency is much more than a place to purchase travel. We do influence attitudes toward travel. We can be a major factor in helping the airlines in their Herculean task of turning around their business.

By now you've heard detailed testimony from three critical components of the industry: Airlines, GDSs, and travel agencies. Despite important and expressed differences in our respective businesses, we are inextricably linked by one common goal: To provide information and services to the consumer to
enable and encourage him or her to travel. Without that single positive decision, none of us are in business. That's where our collective focus should be.

    So what is the greatest implement -- impediment -- excuse me -- to achieving mutual support of these three industry components? To me it's not CRS fees. It's no longer the lost agency commissions from the airlines. That's over. It's not Orbitz.

    It is the basic difference between big business, as I have come to understand it, and small business. Big business, in this case airlines -- and you've heard this before -- are concerned about control. That's what this is all about. Small businesses virtually across the board are concerned about service. And so we have control on the one hand and service on the other.

    The "control" I refer to is "control" of the consumer through control of information, which the consumer receives.

    You mentioned, Mr. Chairman, a few minutes ago Bill Maloney's testimony. In his opening comments he gave numerous examples of the airlines' ongoing attempts to usurp the relationship of the travel agency and its clients in order to control the client's travel patterns and decisions.

    Such attempted airline control runs counter to the agency objective of providing the service its clients expect.
The same holds true in such simple things as being able to provide our customers with the lowest fares possible.

You've already heard enough about Orbitz, but my comments again are from the perspective of the consumer. Logic says to me that if more than 70 percent of consumers still purchase their airfare through brick-and-mortar travel agencies and these companies have the trust of their clients, then why should they not be able to offer their clients the lowest available fare without enormous hassle and productivity.

And you've heard a little bit about that this morning in terms of how much time it takes to book on Orbitz versus other ways of booking.

In conclusion, I recommend that airlines consider a 180-degree turn in their current strategy and begin rebuilding their relationships with travel agencies with an objective first of sharing information, which can be disseminated by agencies as well as the airlines themselves and, second, to begin a new partnership with a shared goal of stimulating the airline business. This would mean the availability of current Orbitz fares to the offline and online travel community as well.

To me this Commission has a wonderful opportunity to go even beyond your original charge of ensuring consumer information and choice in the airline industry by cutting through the vested interests exhibited in these hearings and providing a future operating platform for the industry that is built on
mutual trust and support.

We all need and are dependent upon a healthy airline industry. And this is more likely to be realized if we do the following:

One, recognize our interdependence and the critical roles by each component of our industry, including certainly the brick-and-mortar travel agency;

Two, provide an information system for the consumer which allows maximum freedom of selection from different retailers, but which also allows maximum freedom of information to these retailers, the level playing field you've heard so much about; and

Three, to Paul's point a minute ago, rise above past restrictions, constraints, and partisan interest to allow airlines, travel agencies, and CRS systems to meet together, as in Scandinavia, to consider a net price system which allows each segment to collect fees for their service and to cover all their costs.

Finally, in closing, I'd like to paraphrase some remarks from one of Joel Abels' recent columns in Travel Trade magazine.

"America needs a profitable airline system and the airline industry needs travel agency support. By working together travel agencies and airlines could make each other's dreams come true."
I sure hope both sides will forget the past nightmares and give dreams a chance. Thank you.

CHAIRMAN WINSTEAD: George, thank you, and Steve. It was excellent testimony and a wonderful vision of the way I think we need to go.

I'm sure we've got a number of questions. Back to Steve. I've been trying to understand the economics. You've got a fairly big agency. I guess 60 is pretty high up there.

In terms of service fees, how have you adjusted again as you shifted from airline percentage to nonair, and also in terms of the reduction in commission; what's happened with the service fees?

MR. HEWINS: Well, beginning when the -- excuse me -- when the commission cuts, as they went sequentially down over time, I made a constant decision to charge fees only on airline tickets. We charge no fees for anything else. We do charge sort of a plan-to-go fee to build a vacation package, but that's applied to the cost of the trip. But other than that, we don't charge fees for anything else. So it's strictly on air. And right now we charge $30 a ticket for leisure and 38 for corporate.

And we've got some volume discounts for very large clients, but that's, you know, the bulk of our fee structure. Online bookings are 15 on our website.

CHAIRMAN WINSTEAD: All right. George, again I
thought both your testimonies were excellent, and I think that, you know the experience you've had in dealing with huge marketing products nationwide down to your community in the threshold that your company obviously has in that community is very interesting.

You talked on page 2 about the consumer has spoken loud and clear about internet booking, --

MR. DELANOY: Right.

CHAIRMAN WINSTEAD: -- and, you know, with the increase we've seen there. And obviously the 70 percent threshold, again, on page 6 you're still talking about the 70 percent of consumers that go through the travel agency. I think the partnership you're describing is what this Commission needs to try to strive. We need to come to conclusions that bring the partners back together for everybody's benefit.

In terms of, again, the tool question -- we heard a lot about new tools this morning -- where do you see, from your perspective, your size of agency and your market, those tools taking your business to that objective?

MR. DELANOY: Well, I talked this morning --

CHAIRMAN WINSTEAD: I mean I'm quite aware of the fare issue in your recommendation, but I'm wondering about what's happening with all these innovative new approaches and access points.

MR. DELANOY: Well, in terms of the discussion this morning about AgentWare and the other, which I don't remember how
to pronounce, but I think that's the kind of thing we need, but it comes down to a cost-benefit kind of analysis. That is, you know, I talked to each of them afterwards. And as Steve commented a minute ago about $40 per work station, that's a prohibitive kind of cost.

I also talked to David about his costs of $10 per booking. And if an agency is charging anywhere from 25 to $35 for a fee and they're paying 10 of that back in terms of that kind of cost, that's 40 percent of that income from fee income, so it's not going to work.

I think that's a great concept. I think it's going to come along, or one of them will, as a tool that agencies can use, but it's got to be in the sense to the economics of the agency.

CHAIRMAN WINSTEAD: Steve, in your testimony you stated from the standpoint of AgentWare, it's $1600 a month, right?

MR. HEWINS: Yes.

CHAIRMAN WINSTEAD: That's a lot of money.

MR. HEWINS: That's a lot of money.

CHAIRMAN WINSTEAD: You have to be fairly big to -- I mean, you're saying that you can't afford that and you had 60 people, right?

MR. HEWINS: Yes. Well, it's 40 work stations for me. So that's -- some people, you know, may only book one of
those a month, or something like that. I don't really know how many it would be, but that's the issue.

CHAIRMAN WINSTEAD: Right.

MR. HEWINS: You need training, too. There's a big training issue on using new systems.

CHAIRMAN WINSTEAD: Right, right. One thing, I think the reason Congress set up this Commission is to reach out and listen to the consumer. And, you know, you reflect that obviously you all are the most in touch with the consumer and the percentage of airline tickets that move through you all substantiates that.

Help us a little bit. I mean it has to obviously appeal to Congress and say, "Look, all these things are happening, and we have to really look at this because this is a vital industry and the consumer needs it."

In your mind, you do, George, in your explanation about what you do in the community in sponsoring events and, you know, charities and all that, you've clearly got a control of your market focus.

MR. DELANOY: I don't know.

CHAIRMAN WINSTEAD: I mean I don't know what more a marketer can do than what you're doing.

Again, the thing that puzzles me a little bit is that how that 70 percent of consuming public can be better heard. I mean this Commission has a role in that. But what other
thoughts do you have? You all are out front. ASTA is out front.

Because, very frankly, you know, if you look at what we've heard from three hearings now in terms of small agencies and what's happening economically, the panel before you, you're going to have, if things don't change, if tools are developed or you have access to fares, you're going to continue to have attrition. And as you have that attrition, you're going to have more of that 70 percent of public --

MR. DELANOY: Sure.

CHAIRMAN WINSTEAD: -- that use you concerned.

Well, what's happened?

MR. DELANOY: I think that --

CHAIRMAN WINSTEAD: And I guess I'm just wondering where you think the communication issue is.

MR. DELANOY: I'm sorry. I was going to answer another question.

CHAIRMAN WINSTEAD: Okay.

MR. DELANOY: We're hearing the consumer through what the consumer is doing, of course. And everyone's talked about that, everyone we've heard from, which says there are new tools out there which they're using and enjoying, some people. Now others are not.

As I said here, we do provide value. And that's the essence of the travel agency, providing value that that consumer recognizes and is willing to pay for. And that's what
happened since the demise of commissions.

A lot of agencies were worried about that. In 1995 I was the president of a consortium in Southern California. And the first week after it was announced, I called a meeting called, "Recognizing reality," and said, "This is, indeed, the new reality that we're in of having to charge fees and in a sense having to justify the value that we -- or the fees would justify what we're bringing to our people."

So I think that's what's happening. But I'm not sure I'm getting to the essence of what you want to hear.

CHAIRMAN WINSTEAD: Again, it strikes me that, you know, these hearings, we've -- like in a lot of public forums where you have specific groups that have an interest and concern. And the figure and the attrition in the industry is what I'm still concerned about and trying to figure out what you're hearing.

MR. DELANOY: Well, what you do --

CHAIRMAN WINSTEAD: I mean for your customers you do newsletters, and I assume you inform them about what the outlooks are, what ASTA is doing, and that sort of thing. Is that correct?

MR. DELANOY: Sure. And what all we do still, as we've said, we've got to have a competitive price.

CHAIRMAN WINSTEAD: Right.

MR. DELANOY: And that's what the essence of the
Commission is: Are we, indeed, after all these things we've done to build consumer confidence and trust, that's all great except if our price is $50 more, that's out the window.

CHAIRMAN WINSTEAD: Right.

MR. DELANONY: And if we're unable to compete because of that, we're out the window.

MR. HEWINS: You know, a big part of that 70 percent is in corporate travel, which hasn't been widely heard, I don't think, before the Commission. And my particular view on that is that corporate travelers are not flocking to websites to book their tickets. Not at least in most companies.

Individual, small businesses of one or two people, maybe some are or are not. But we don't see, I don't see great attrition of our business from the business side of travel.

CHAIRMAN WINSTEAD: We did hear in Washington, MBTA, I believe, testified, for Turner, corporate manager of travel for Turner Broadcasting. So we did hear one or two.

Well, let me open it here, but I'm sure we've got some other questions.

MS. CASTO: Steve, we also use HighWire for our online booking, and we're very happy with it. Just a few questions.

You had said that it cost about $40 for the AgentWare, and that's prohibitive for you. If you make just two more bookings per month, you can cover the cost; isn't that
right?

MR. HEWINS: Two more bookings on?

MS. CASTO: AgentWare. I mean --

MR. HEWINS: Versus, versus what? Versus not having AgentWare? I guess I don't follow the question. If I made two more books a month?

MS. CASTO: Well, you're saying that it cost $40.

MR. HEWINS: Forty dollars per work station per month, right.

MS. CASTO: Yes. And how would you cover that cost? If you did more booking in it, how many bookings do you have to make to cover the cost at $40?

MR. HEWINS: Well, 1600. I mean I also charge what, $30 a ticket on top of that. So I'm charging 30, but paying whatever I am on that. I guess I don't really know what that would be because I haven't really analyzed it the way that you're asking the question. I'm just trying to, you know, keep my cost down for transacting tickets.

MS. CASTO: Another question. Are you losing bookings now because you can't find the low fare?

MR. HEWINS: Some.

MS. CASTO: Both of you. George, are you?

MR. HEWINS: Yes, definitely. You see, I'm not too concerned about Travelocity, and Expedia, and those types of sites. I'm only concerned about airlines and airline-owned
sites, because I've got fares, too, that are lower than what's on Travelocity and Expedia, as well. I know that.

MS. CASTO: Yes.

MR. HEWINS: But the illustration I gave the Commission here is the crux of the problem I think from my perspective.

MS. CASTO: Okay. Thank you.

CHAIRMAN WINSTEAD: Pat.

MR. MURPHY: I have a question for Steve. I'm fairly familiar with the Portland, Maine area. As a matter of fact I just bought a ticket for my wife to travel up there in a few weeks. And I booked her out of state through Manchester on Southwest Airlines, --

MR. HEWINS: Correct.

MR. MURPHY: -- which, of course, many people in Maine now drive out of state --

MR. HEWINS: That's correct.

MR. MURPHY: -- to get on Southwest. How has that affected your business since Southwest --

MR. HEWINS: That's affected it a lot. And, of course, the Southwest effect is clearly known to Joyce and everybody else in the industry and that generally fares drop with the other airlines as well.

That's another interesting factor about the web search, because our agents check Portland, Maine; Manchester; and
Boston on every single itinerary. That is policy at Hewins Travel. So if you go to a website, many websites you're not going to be able to shop different cities and different departure points. So the traveler may book out of Portland, Maine and buy something online when they could have gone to Manchester and spent $300 less. So that's an issue.

MR. MURPHY: Well, if they come to you and ask you to book them through Manchester, do you still charge them $30 for that Southwest ticket?

MR. HEWINS: Yes. The same fee for everything, yes.

MR. MURPHY: Okay.

CHAIRMAN WINSTEAD: Other? Paul.

MR. RUDEN: Yes, just a couple. I want to be clear, because I heard Steve say you would pay a cost-base differential related to CRS fees to get those fares, to get the low internet fares.

MR. HEWINS: Yes.

MR. RUDEN: George, how do you feel about that?

MR. DELANOY: Ask the question again, Paul.

MR. RUDEN: The question is: Would you be better off than you are today if you got access to all those internet fares on your CRS, but you were, in effect, surcharged $12 or some number that is the average cost to the carriers of bookings made through CRS?
MR. DELANOY: Do you mean that we would pick up the CRS fees?

MR. RUDEN: Yes.

MR. DELANOY: I don't know. I'd have to look at that. And from the standpoint --

MR. RUDEN: You'd pick it up or pass it on, one or the other, but you'd get access to all the fares.

MR. DELANOY: Well, the question is: How much can we pass on with increased fees.

MR. RUDEN: Yes.

MR. DELANOY: And I think we may be reaching a limit based upon, you know, some of the fall-off we've seen when we increased the fees for the leisure side from 25 to $35. Okay.

I would love the idea of the CRSs or having access to these fares through the CRS system at some nominal cost, which is what I don't think that is.

MR. HEWINS: Well, I think it is nominal, though. That's what I believe it to be. You know, George may not have seen the same statistics I've seen, but supposedly it's roughly $6 a booking fee for a web-type fare. And --

MR. RUDEN: The airlines are saying it's more like 12 to $15.

MR. HEWINS: Yes. Galileo says six, so the perspective is different. But even if it was 12, I don't know
what it cost to put it through Orbitz, or to their own websites, or anything else. But I would pay the difference if that is the issue.

CHAIRMAN WINSTEAD: Compared to today, where you're marking up the real retail price?

MR. HEWINS: Correct.

CHAIRMAN WINSTEAD: And that's the question I'm posing to you, too, George.

MR. DELANOY: That question comes down somewhat I think to agent productivity. If we're doing it now, that is, we're checking Orbitz, which we are; we're checking the airline website, which we have to do; we're checking our Galileo. So for these bookings I've said to the agents working there, I want to know at least -- we can't check them all, Paul -- but I want to know at least for those big three how are we looking? And so that's, indeed, lower productivity as you've already heard.

Now the question would come: Is the offsetting cost for paying those fees more than that lower productivity? And I don't know the answer to that.

MR. RUDEN: Fair enough.

How about the other question then. You heard me ask it before about putting aside the internet fares now, just speaking about fares in a general sense. And the concept is that you would get the equivalent of a wholesale price and the airlines would also, in effect, charge themselves a wholesale
price and mark it up. They would mark up their sales through their websites one level; they would mark up the price for someone who called the res system on a 800 number another level; and you would get that same wholesale price and would have to compete on your cost of distributing. Better off than today or worse off?

MR. DELANOY: Definitely better off. As I said here, I'd like to see the airlines do something like that.

CHAIRMAN WINSTEAD: Do you agree with that, Steve?

MR. HEWINS: I agree with that, but I tend to be more skeptical of the airline industry in that, you know, without -- what you say at its face, yes.

MR. RUDEN: It's a hypothetical. I understand that there are --

MR. HEWINS: True, but I'd be concerned about how many costs get buried into that wholesale price so pretty soon they're -- they're costs above that are pretty low, because within that wholesale that they themselves have set are costs that we have.

But in your example, absolutely, we'd be better off.

MR. RUDEN: Thank you. Thank you.

CHAIRMAN WINSTEAD: Thank you, Paul.

Joyce.

MS. ROGGE: I don't have anything.
CHAIRMAN WINSTEAD: Ann.

MS. MITCHELL: Both of you have indicated that the travel agent is very active and helpful to the consumer in purchasing air products and that we now still service 70 percent of the flying public.

It's already been suggested that that could be going down if the perception and reality to the consumer is that we can no longer provide the kind of information to them that we have provided in the past.

Would it be your view and, if so, would you commit that if we were again in a better position with the airlines as partners in promoting air travel that it would be in the airline's best interest as well as, of course, the agency's best interest to work together to stimulate the somewhat deflated airline travel at this point?

MR. DELANOY: What I think of when you asked the question is -- I don't know how many travel agencies there are, maybe there's 17,000 or something, Paul, and there's maybe an average of ten people on each agency, that's maybe 107-- five people average, so that's 85,000 people or a hundred thousand -- would you rather have people representing you who love you or hate you in terms of 85,000 people around the country. And could they perhaps in some small measure help you out if they really felt you were a partner. And I think, indeed, they could.

MR. HEWINS: I actually think George said it well
when he was showing the examples of all the marketing and stuff
that he'd done, that all travel agencies do. And we're out there
marketing travel that involves the airlines. And if that all
goes away -- or if we're more encouraged to do more of that,
would that then stimulate travel more than simply airlines
putting fares on the web. I think that's a very important role
we have, is bringing all these things together with air as the
core of what we sell.

MR. DELANOY: And there were times, as you
remember, when we had -- or the airlines -- maybe they still do,
but I don't know of any -- advisory boards that they had where
there was dialogue going on. I was on one of those advisory
boards. And I felt they were very worthwhile sessions that we
had. Each side was listening as well as contributing. And so
that's just a small example of what can start in as working
together.

MR. HEWINS: If this Commission could encourage the
parties to get together in a constructive way as part of its
results, that would be a very positive, I think, conclusion.

MS. MITCHELL: One thing that has been pointed out
just in the last few minutes is that we've heard from the agency
community, the CRS community, the online people, the
entrepreneurs, and we've not heard directly from the consumer.
Do you think we should and, if so, do you have any suggestions
about how we might do that?
MR. DELANOY: Well, the normal thing is to either — one of the easy ways is so-called consumer focus groups where you just bring some consumers together, as you do in your business and I did in our businesses, and just sit down and talk about what their perception is and what's going on with the airlines, and travel agencies, and so on.

Those are relatively quick and relatively easy and you can at least develop some hypotheses from them, if not conclusive evidence of what you're going to do. So that's a beginning.

And I would say that that's something you could consider. Something longer that, quantitative surveys, you don't have time for that.

CHAIRMAN WINSTEAD: That's very helpful. I'm sure you did that when you were marketing those big brand products.

MR. DELANOY: That's right.

MR. RUDEN: Mr. Chairman, I think we have a new assignment, which is divorce counseling. I have some personal experience with that. And this is what this sounds like here if we're going to try to patch things up with these unwilling -- at least one party seems unwilling.

CHAIRMAN WINSTEAD: Well, you know, I think both of your testimonies were very, very helpful, and you had solid recommendations. And that's very helpful to the Commission. We really appreciate it.
Do you have any -- I think the Commission is fairly satisfied, or are there any pressing questions?

Do you have any closing comments? I mean you've reflected --

MR. RUDEN: I think Ann may have a question.

CHAIRMAN WINSTEAD: Oh, Ann, I'm sorry.

MS. MITCHELL: Well, actually one of our learned helpful people with our Commission has had a great deal of experience with DOT, and the airlines, and so forth. He was wondering, that the law says that, and DOT has ruled, that you agents are the agents of the airline, how can you be its competitor?

MR. HEWINS: That's a good question. Normally in an agent relationship there should be some compensation taking place, I would think. But it's heard to be an agent for someone when there's no, you know, money being transacted between the two parties. But I guess the question is -- is the question a rhetorical question?

Obviously, I would want to be adversarial.

MR. RUDEN: In fairness, it's a legal question.

I can suggest answers to it, but I don't know that they're competent to do so.

(Aside comments and laughter.)

MR. HEWINS: I need legal counsel I think to advise me on a response to that, I'm afraid.
CHAIRMAN WINSTEAD: Let me ask, Steve, again on the tool side. I mean you all live with the CRS and GDSs and all.

You know, your comment about not being able to afford that 1400 a month, you know, we saw this morning, that these innovators are out there providing these tools to get into gaps and get information that they get blocked from occasionally, but don't you think that the level playing field issue, the partnering issue, that may be a concept of a net fare issue that would be considered. Certain people have recommended that for the Commission.

But don't you think again that the tools will continue to develop to the point where both the cost and the time it takes to use them will begin to aid you all in overcoming that confusion that's -- not confusion but the search that you have to do for your clients?

I mean yesterday we saw at Casto the Orbitz fares and the GDS -- I mean CRS fares on this side on the same screen, and they were punching back and forth. And I know that that is a hybrid. I mean apparently this program that I saw has only been around for a year, but they're continuing to try to fund it and develop it.

Won't that help a lot?

MR. HEWINS: I think --

CHAIRMAN WINSTEAD: When you have the efficient tools and you have the time it takes to get the information to
the customer, it will improve your competitiveness.

MR. HEWINS: I think that's a fair statement. I think the things that though inhibit that that have to be said is that, number one, there are training issues involved in running -

CHAIRMAN WINSTEAD: Right.

MR. HEWINS: -- a separate set of things around, because as you can see from looking at Casto Travel running these systems is not an easy thing to do.

CHAIRMAN WINSTEAD: Right.

MR. HEWINS: It's not like MicrosoftWord or something. It's very nonintuitive for many people. So just learning that is an issue. And then adding another layer to it makes it more time-consuming in training, and that sort of thing.

But one of the big issues for me -- yes, I could afford $1600 a month. That's why I was having a hard time answering your question, because I'm negotiating with them, no question about it.

MS. CASTO: Sure.

MR. HEWINS: But at the same time what is an issue to me is that those books do not get counted against my segment requirements with Galileo. And that is a very real issue for me and for a lot of others, because I've got those thresholds to meet.

So my preference would be -- those systems aren't
even needed because it all ought to be in the GDS for my purposes. Then serving customers would be simpler. But, like you say, it may develop the way you're describing.

CHAIRMAN WINSTEAD: Right.

MS. MITCHELL: Would you have any recommendations to us in our deliberations to make recommendations to the GDS people about that very issue?

MR. HEWINs: Well, I don't think they would be -- they might be in a position to acquiesce on segments that are booked through one of their sponsored systems like AgentWare, you know, so that they count those segments in some way offsetting our exposure to them. That would be an interesting thing.

But I think the only thing I could say is what I sort of said earlier is that to implore the airlines to allow those fares into the system is the larger point and then the ability for us to pay the differential to offset the cost. Removing the cost issue for the airlines is the big thing, because then it gets to the core of the issue. It goes from a cost thing to a control-a-customer, which was said earlier.

And if it is about the control of the customer, then that becomes a difficult thing for the parties to resolve. If it's a cost issue and we can deal with it, then that would be the conclusion, I would think, that it would be good reach. Otherwise, I don't know.

MR. RUDEN: Do you think it's a cost issue, or
something --

MR. HEWINS: No, I don't think it's a cost issue. And that pains me to say that. Having done this for so long and wanting to sell air tickets -- I mean I know ASTA tells many travel agencies to focus on other products. But we focus on other products and we sell airline tickets. And airline tickets in corporate travel obviously is a big component of what we do. And I don't ascribe to that. I want to grow in all directions. And I think air travel is an important component of everything we do in the travel agency business.

So I'm for simplifying and streamlining all those connections to air. And anything that goes beyond that becomes an added expense, a layer, a nonorganic problem that's created by people that don't want to see travel agents be involved with customers, in my view.

MR. DELANOY: I'd just like to make a comment about cost cutting. And, again, you're listening to a marketing guy.

But I don't know of any companies that ever survived just by cutting costs. They had to do something to the top line. They had to do something to their market, to their revenues. And so the focus of the airlines on a $12 CRS fee, or $8, or whatever it is, they cut out already what, $5 billion of agency commissions. And did it help, or are they in the same spot?

Now they're still focusing on costs' cost, and
that's not the -- as I've already said here, to me that's not the essence of the problems the airlines have, but that's what they keep banging away on.

MR. HEWINS: We're about generating demand.

MR. DELANOY: That's right.

CHAIRMAN WINSTEAD: All right. Well, if we don't have any more questions again, Steve and George, thank you very much. I thought your testimony was well thought out and it had some solid recommendations for us. And we appreciate you're taking the time.

MR. DELANOY: Thank you.

MR. HEWINS: Thanks very much.

MS. ROGGE: Thank you.

CHAIRMAN WINSTEAD: Just in conclusion, Dick, do you have any...?

We do have a hearing -- I guess that's our final schedule -- on July 31st in Washington. And if there are additional people that would be interested, we do have some people already signed up, but please let us know. And we again thank everything for coming.

MS. CASTO: Thank you.

MS. MITCHELL: Thank you.

(The Commission hearing adjourned at 3:56 o'clock p.m.)