

Cigars International
Testimony for the Pennsylvania Senate Finance Committee
January 28, 2009

Good Morning. I would like to thank Committee Chairman, Senator Pat Browne for the opportunity to testify today. I am Keith Meier, President and CEO of Cigars International, one of the largest premium-brand cigar distributors in the United States. Our business is based in a 45,000 sf warehouse and office building in East Allen Township, Northampton County. We currently employ approximately 140 people in Pennsylvania. These jobs include Information Technology, Graphic Design, Distribution, Accounting, Sales & Marketing.

Cigars International also owns and operates two retail locations, one in Historic Bethlehem and the other in Bethlehem Township, Northampton County. Our store in Bethlehem Township is among the largest retail cigar stores in the country. In addition, each year in the Poconos we run a major weekend-long event dedicated solely to cigars, called CigarFest, which draws thousands of people from all 50 states.

Presently, we are considering building a new headquarters and warehouse in Bethlehem. We have picked our site and have been in discussions with a developer to build the facility. The new location will more than double our footprint, increasing our physical plant to 100,000+ sq ft and with expansion ability to an additional 100,000 sq ft on the same site. The building project will cost \$12 million total and with the expanded size we plan to add new employees. This is a major undertaking with significant risk. In spite of the negative economic picture, Cigars International is optimistic about the future and poised to continued and sizable new investments in Pennsylvania. The most important factor causing us to pause and delay making this new investment – and others – is the potential of a new Pennsylvania tax on cigars.

If Pennsylvania chooses to impose a new tax on cigars as part of this year's budget we will be forced to consider suspending this project and moving to Florida.

Pennsylvania is one of two states that does not tax cigars. The favorable tax treatment for cigars in Pennsylvania is what attracted Cigars International to Pennsylvania over a decade ago. It is also the main reason why 4 of the 8 largest cigar distributors in the country are located in Pennsylvania. In fact, I, along with fellow entrepreneur John De Marco, both hailed from New York State, and started this company out of a small apartment in 1996. At the time, New York and New Jersey had each imposed significant new cigar taxes and this decision forced us to seek other options. We moved to Bethlehem, Pennsylvania and our first space was an old garment manufacturing building in the shadows of the old Bethlehem Steel plant. From there, with countless 100-hour workweeks, we grew the company through continuous and ongoing reinvestment in our infrastructure, and built and continue to build a strong team of long-term employees. Each day from our facility in East Allen Township we send an average of 5,200 cigar shipments - packed in shipping boxes made by a Pennsylvania company - via common carriers such as UPS and via the postal service, to consumers across the country.

We help support a number of non-profit organizations annually. We have donated and shipped tens upon tens of thousands of cigars to troops overseas. I urge you to visit our website and view countless images of America's finest, in the most remote parts of the world, enjoying a deserving break with a cigar from Cigars International.

Last year alone, the company paid in excess of \$1 Million in state and local taxes. A breakdown of those taxes is attached to my testimony. In addition to the tax impact, through the jobs we have created and the wages we pay, not to mention the millions in ancillary purchases and building investments we make, our company has a substantial economic impact.

It would be very easy – and perhaps wise – for us to relocate our business. Florida has no cigar tax and with that state's rich cigar history, a Florida cigar tax is unlikely. Florida is very close to our manufacturing partners who are all located throughout the Caribbean Basin. Calling Florida our new home would significantly reduce travel time and the costs we now expend to manage our manufacturing network.

We have resisted moving south, because we like Pennsylvania – this is where we want to grow our business and raise our families. We have a significant investment in Pennsylvania and we want to add to it, but a new tax on cigars would force us, and I am sure most of the other cigar distributors to leave the state for advantageous tax treatment in Florida.

I have seen estimates of the anticipated revenues from a new cigar tax, ranging between \$5 and \$10 million. I believe those numbers greatly overstate the revenue that could be raised, because most of the revenue the state is counting would be lost when the distributors leave the state. In addition Pennsylvania would lose millions in other tax revenues that are generated from these businesses – from sales taxes, income taxes, payroll taxes, property taxes, and on and on.

I strongly urge you not to impose a new tax on cigars, and continue to maintain Pennsylvania's business-friendly treatment of small business and the cigar industry. In a climate where many industries are seeking bailouts and businesses are laying off employees – I simply ask that you leave us alone – and if left alone, we'll expand our tax base, we'll remain significant customers for countless local businesses, and we'll turn our 140 jobs into many more....as will no doubt many of the other companies in our industry. Don't send the signal that small business is not welcome in Pennsylvania.

Thank you for your time in listening to my remarks and I look forward to answering any questions you may have.