



UNITED STATES MINT

Implementation of the United States Mint Public Enterprise Fund, P.L. 104-52 Through June 30, 2001

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INTRODUCTION

Public Law 104-52, enacted November 19, 1995, created the United States Mint Public Enterprise Fund (PEF), consolidating the circulating coin and numismatic operations of the United States Mint into one revolving fund. Additionally, the Act waived Mint operations and programs from the provisions of law and regulation governing procurement and public contracts and granted the Mint gift and bequest authority. Effective FY 1996, the sole source of funding for the Mint has been revenue generating programs rather than an annual appropriation. In its conference report to the legislation, Congress directed the Mint to report quarterly on implementation of the PEF. Since that time we have reported on PEF implementation and how we have used these flexibilities to transform the Mint into a market-driven public enterprise. This twenty-second quarterly report covers the third quarter of FY 2001.

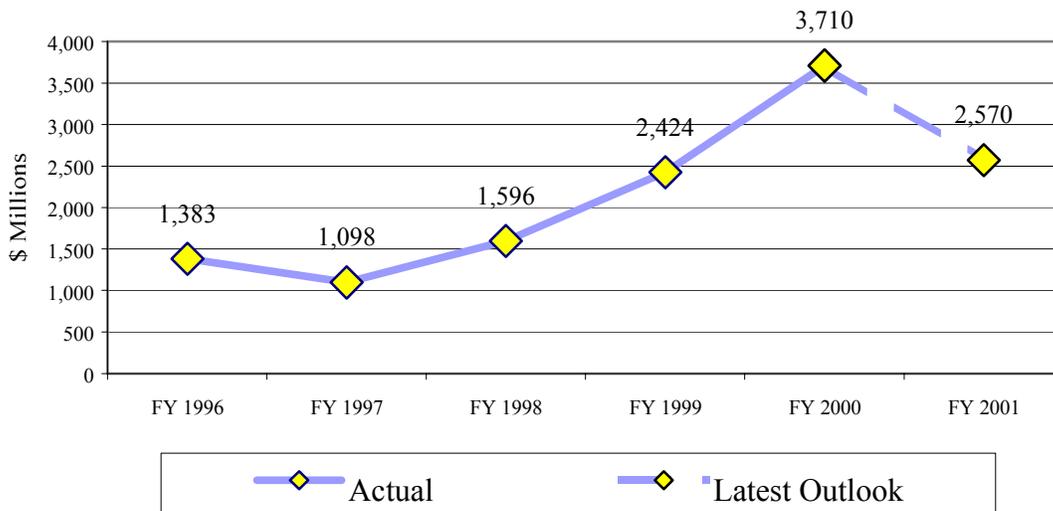
During the third quarter of FY 2001, we continued developing ways to increase use of the Golden Dollars in everyday commercial transactions. We expanded our implementation of an improved means for shipping circulating coin that will reduce costs and injuries. We initiated further functional and technical enhancements to our enterprise resource planning system. We established an online community for educators to develop innovative ways to teach about coins and the history they portray. We continued preparations for our future visitor center. And yet again, we earned recognition for our employees and products.

FINANCIAL PERFORMANCE, THIRD QUARTER FY 2001

The Mint's three lines of business are producing circulating coinage; manufacturing and marketing numismatic and bullion coins; and safeguarding bullion reserves at Fort Knox and elsewhere. The revolving fund is financed by the sale of circulating coins to the Federal Reserve Bank (FRB) and the sale of numismatic and bullion coins and products worldwide.

FY 2001 is shaping up as our second strongest year for revenues and profits after our record-setting FY 2000. Even with the slowing economy, we expect to produce approximately 3 billion more coins than our 1999 levels, which is our current second best year. We are presently forecasting revenues of \$2.6 billion which, while lower than FY 2000 results (\$3.7 billion), would still make FY 2001 the second best fiscal year ever for shipments and revenues.

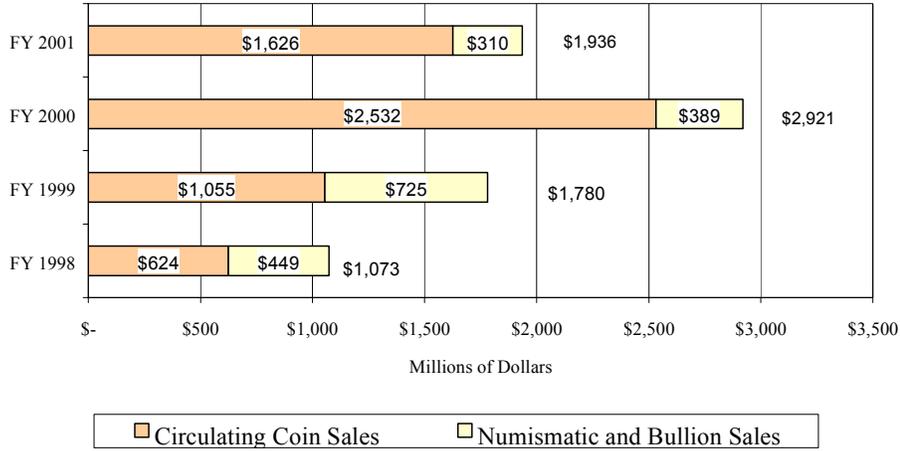
U. S. Mint - Gross Sales Revenues



NOTE: 50 State Quarters™ Program began in the 2nd quarter of FY 1999; Golden Dollar launched 2nd quarter of FY 2000

Consolidated third quarter FY 2001 revenues of \$592 million were below the third quarter of FY 2000 by 55 percent, and cumulative FY 2001 revenues were almost 35 percent below FY 2000's extraordinary levels (see chart). Nevertheless, cumulative FY 2001 is 7 percent above FY 1999 for the same period and 178 percent of FY 1998's level.

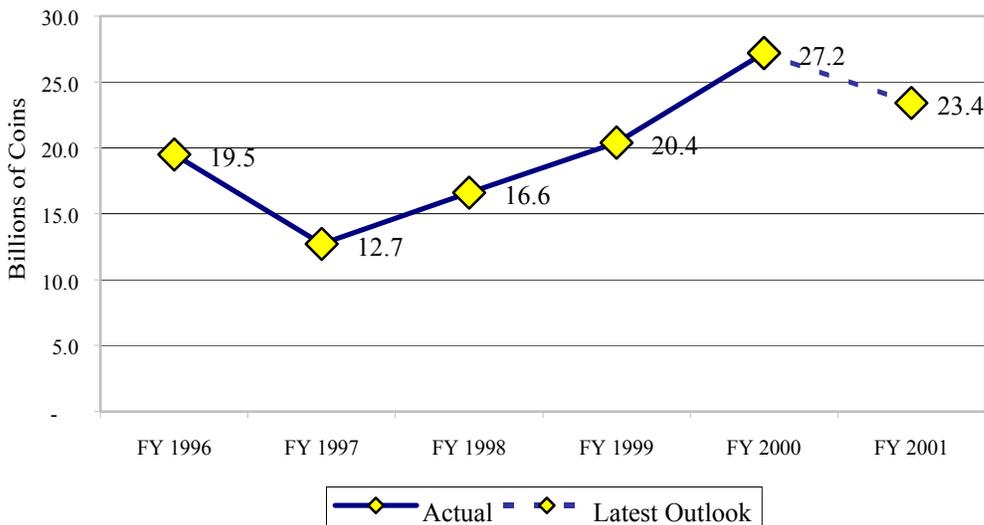
U.S. Mint Revolving Fund Revenue
 Comparison of FY 2001 to FY 1998 - FY 2000
 (Cumulative through 3rd Quarter)



Revenues from Circulating Coinage

While the slowing economy has significantly affected the Federal Reserve’s orders for circulating coinage from an initial plan in excess of 27 billion coins at the beginning of the fiscal year to a projected approximate 23.4 billion coins for the year now, the lower level will still result in exceptionally strong revenues. Although down from our all time record high in FY 2000 of 27.2 billion coins when the economy was much stronger and we introduced the Golden Dollar, FY 2001 will be the **second highest year** in our 209-year history!

U.S. Mint - Circulating Coin Shipments



In the third quarter FY 2001, circulating coinage revenues were \$477 million, 59 percent lower than FY 2000 third-quarter revenues of \$1.1 billion which were at record levels, but slightly ahead of third-quarter FY 1999 revenues of \$475 million when the 50 State Quarters™ program was in its inaugural year. Cumulative FY 2001 third quarter circulating coinage revenues were \$1.6 billion, 36 percent lower than FY 2000 same period revenues of \$2.5 billion, but 53 percent higher than cumulative FY 1999 third quarter revenues of \$1.06 billion.

Coin demand from the Federal Reserve System for the third quarter FY 2001 was reduced for all denominations as the overall economy continues to slow. Demand for the 50 State Quarters™ Program coins has eased to FY 1999 levels, which is still 150 percent or more of the FY 1996 – FY 1998 average, as we move into the second half of the third year of the ten-year program, with the Rhode Island quarter-dollar “setting sail” during this period. Also, as we mentioned in last quarter’s report, orders for Golden Dollars have lessened as expected from the exceptional FY 2000 levels of nearly 980 million experienced during the coin’s inception year, and we continue to implement strategies for increasing Golden Dollar usage in circulation through targeted marketing in eight business sectors. (See the “Golden Dollar Update” section for more detail.)

Revenues from Numismatic and Bullion Products

Total revenue on sales of bullion and numismatic coins for the third quarter FY 2001 was \$115 million, down from \$128 million in the third quarter FY 2000. Bullion sales for the third quarter FY 2001 and for the third quarter FY 2000 were identical at \$23 million. Non-bullion sales for the third quarter FY 2001 were \$92 million, a 12 percent decline from the \$105 million posted in the third quarter FY 2000. Commemorative coin sales were \$10 million for the third quarter FY 2001 versus \$14 million in the third quarter FY 2000. While the Buffalo Commemorative Silver Dollar was a huge success -- selling the legislated maximum mintage of 500,000 coins in just two weeks – most revenues for this program will not be realized until the fourth quarter of FY 2001 because only a small number of the coins were actually shipped to customers. (Collections received in advance of the coin’s shipment are treated as unearned revenues.)

Year-to-date revenue through the third quarter FY 2001 of \$310 million was also lower in comparison to revenue of \$389 million for cumulative third quarter FY 2000. Silver and gold bullion sales decreased \$57 million from historic highs in FY 2000 which resulted from “2000” mint mark and concerns about Y2K’s potential disruption to the economy. Platinum sales increased \$2 million for the same period. Sales of numismatic coins also decreased \$24 million comparing FY 2001 with FY 2000. The key drivers in FY 2000 for the non-traditional products were the SBA and Sacagawea/Golden Dollar products. Together they accounted for over 70 percent of the non-traditional products \$26 million revenue generated in third quarter of FY 2000. Still, we are expecting FY 2001 to be one of the most profitable years ever for numismatics. As we mentioned last quarter, historically the second half of the fiscal year is more heavily weighted with new products/programs, and FY 2001 is no exception.

GOLDEN DOLLAR UPDATE

During the 2000 launch year for the Golden Dollar, our goal was to raise public awareness. The result of this effort has been phenomenal. As of March 2001, 87 percent of Americans are aware of the Golden Dollar, and nearly 72 percent support its issuance. In addition, 55 percent of American adults have received a Golden Dollar, and 67 percent of consumers agree that the Golden Dollar is something they want to save as a collector's item.

Our second year goal is to increase usage of the Golden Dollar in commerce. We have identified eight business sectors as target markets: financial institutions, retailers, grocery stores, fast food (chain) restaurants, the vending industry, transit authorities, government agencies, and the entertainment industry. To further this goal, we formed partnerships with six companies in both the fast food and entertainment sectors during the third quarter of FY 2001.

On May 1, 2001, the International House of Pancakes (IHOP) began distributing the Golden Dollar from 922 restaurant locations. As a part of this promotion, IHOP kicked off a new Golden Dollar television commercial advertising their new Golden Dollar breakfast deal in which they changed the name of their Silver Dollar pancakes to Golden Dollar pancakes for a two-month period. IHOP hosted events in Alexandria, VA; Miami, FL; Ft. Worth, TX; and Los Angeles, CA to publicize the partnership and the Golden Dollar. The IHOP promotion ordered through their normal channels and distributed approximately 3 million Golden Dollar coins over the two-month period, and they continue to utilize the Golden Dollar as change in many of their 922 locations.

Also during the third quarter, we developed and finalized partnerships with four minor league baseball teams -- the Erie Sea Wolves, Mahoning Valley Scrappers, South Bend Silver Hawks and Trenton Thunder Baseball Club -- and Paramount's Kings Dominion, a Richmond, VA amusement park. All five of these partners committed to ordering through their normal financial institutions and dispensing Golden Dollars throughout their seasons. Each has posted signs within their venues to promote the coin. Radio advertisements promoting the Golden Dollar also are being aired during the broadcast of baseball teams' games. Trenton Thunder has been distributing over 8,000 coins per week since the promotion began with the beginning of their season in April. Many more minor league baseball teams are expected to sign on shortly, and outreach to major league teams is underway. In addition, Paramount's Kings Dominion distributed approximately 100,000 Golden Dollars since they began utilizing the coin in April.

These partnerships are successfully contributing to wider usage of Golden Dollars in everyday transactions. We continue to aggressively convert commercial entities in the eight different sectors to utilizing the Golden Dollar in standard cash transactions and will continue to cover these efforts in future reports. Much more remains to be done, but we're aggressively pursuing it. Our measure of success is that the coin be used regularly in everyday commerce, a goal yet to be achieved.

BULK BAG PROGRAM UPDATE

As discussed in last quarter's report, we have been implementing a bulk bag prototype program in both the Denver and Philadelphia Mints for shipment of circulating coin to Federal Reserve Banks and other coin terminals. Bulk bags are large, heavy-duty, durable bags capable of containing an entire pallet's volume of coins (e.g. 400,000 pennies, 240,000 nickels, 500,000 dimes, etc.) in lieu of numerous small bags. The objectives of this program are to increase productivity of the coin counting and packaging operation, eliminate the safety concerns involved with manually handling bags of coins, and reduce costs associated with the overall bagging operation. This will be accomplished by automating the counting of coins into bulk bags by the bulk bag filling stations, with a minimum amount of operator intervention.

During the last 12 months, we have been working collaboratively with the FRBs, the coin processing industry, equipment suppliers, and many other stakeholders to implement the bulk bag packaging of coins for shipment. In a joint effort with the FRB, we conducted demonstrations on how the new bulk bag works at numerous coin processing terminals throughout each of the FRB districts. This proactive approach to launching the new method of shipping coins proved to be very successful, as coin terminals realized the efficiencies gained from processing many small bags on a pallet to emptying just one large bag of coins into their wrapping system.

By the beginning of the fourth quarter, we will be shipping 100 percent of all pennies in bulk bags to the FRB coin terminals. During May, we began shipping limited numbers of nickels in bulk bags and will fully transition to shipping 100 percent of nickels in bulk by September 2001. Between now and March 2002, we will gradually transition to shipping all denominations in bulk bags based on our capability to package coins in this manner and the industry's capability to accept different denominations in bulk.

After full implementation of this program, we will improve operating efficiencies significantly and reduce costs associated with counting, bagging, and handling coins. In addition, the implementation of this program will eliminate an OSHA citation associated with manually filling and handling small bags of coins.

INFORMATION TECHNOLOGY IMPROVEMENTS

As stated in previous quarterly reports, we implemented our enterprise resource planning system – **C**onsolidated **I**nformation **S**ystem (COINS 1) in October 1998 – and have continued to build upon and upgrade the system to improve its functionality. One of the main objectives was to provide senior management with more timely and accurate information related to mission critical activities. The COINS 1 implementation consisted of: fifteen PeopleSoft finance, distribution and manufacturing modules, a maintenance management system called Maximo, a mail order and cataloging system called MACS, and a marketing customer database called MARCUS. The entire COINS system was subsequently upgraded (COINS 2) in December 2000, and included a new implementation of an Automated Data Collection System.

Through the third quarter, we continued work on two innovative programs, one, **PayMint**, to enhance business performance data and workforce information, the other, **e-business Solution Project**, or **eSP**, to enhance our relationship with our Numismatic customers and expand our customer base. The two programs, taken together, are designated **COINS 2.5**.

PayMint

In support of our strategic objective of improving information technology management and systems, significant progress has been made in the PayMint project, which builds on Treasury's HR Connect Program, by adding time and labor and payroll functionality. PayMint will allow us to move away from antiquated, non-integrated personnel and payroll systems to an integrated HR, benefits, time and labor and payroll system. PayMint will be integrated with COINS. PayMint will provide us with timely and accurate business performance data and workforce information.

During the third quarter, work needed to bring the commercial-off-the-shelf (COTS) package into full federal compliance was substantially completed, and testing was initiated. A comprehensive and customized change management and training program is underway to ensure all Mint personnel are prepared for the changes that will result from the implementation of PayMint. A major focus of activity was building the relationship with the payroll service provider to ensure a smooth transition to the new system.

The PayMint system is targeted for a Spring 2002 implementation.

eSP

The **e-business Solution Project**, or **eSP**, will transform the Numismatic side of the Mint into a totally customer-centered, market-responsive, twenty-first century enterprise. **eSP** aims to expand, diversify, and satisfy our customer base through exceptional customer service, product development and innovative marketing. **eSP** includes a new online catalog, new Customer Relationship Management (CRM) software, a Customer Value Assessment (CVA) data management system, a retail e-Commerce system, and centralized order fulfillment capability. The CRM software will provide customer purchase histories and preferences, and real-time product information to our customer service representatives to enable them to provide excellent customer service. The CVA system will store and analyze data to enable us to forecast based on historical trends so we can efficiently interpret and forecast customer wants and needs. **eSP** empowers our employees by giving them the tools they need to satisfy their customers. **eSP** is on track for an August, 2001, implementation and will provide us the efficient, flexible business processes we require to "turn on a dime" to meet customer needs.

H.I.P. POCKET CHANGE™ "TEACHERS' NETWORK"

In previous reports, we discussed how we developed our Web site for kids -- H.I.P. Pocket Change™ -- in collaboration with educators, the Smithsonian Institution, and the American Numismatic Association, and using a Department of Education grant award together with our own substantial investment. Our site is dedicated to promoting life-long pleasure in coins and

coin collecting and showcases the connection between our country's coins and people for grades K through 8. Our highly interactive Web site has been well received and highly commended.

Recently, we renewed our commitment to education by establishing The Teachers' Network as part of our H.I.P. Pocket Change™ Web site. This online community for educators helps teachers develop innovative ways to instruct about coins, and the history that surrounds them.

The Teachers' Network offers a variety of options. Participants may choose to receive email notification of educational opportunities new to the site. Also, teachers can submit lesson plans and educational units for potential posting on H.I.P. Pocket Change™. Members are informed whenever new lessons are added to the site; they can even specify the subjects and grade levels in which they are interested. Finally, several nationwide classroom projects will be made available through The Teachers' Network, merging government, technology and curriculum in a new and exciting way.

VISITOR CENTER

Preparations are underway for the future opening of a Mint Visitor Center in downtown Washington, DC at our 801 9th Street, NW headquarters facility. This location is in the heart of Washington, DC, just a few minutes from the attractions on the Mall, the Museum of American Art and the FBI Building. As a bureau of the Department of the Treasury, we obtained approval for this project from the Department as well as the Office of Management and Budget. Mint officials also appeared before the Senate Banking and Appropriations Committee staff to answer questions, and provided information to House Appropriations Subcommittee staff. We will continue to work closely with Congress as this project moves forward. The Visitor Center has full support from the District of Columbia, the local business/museum community and is in compliance with the zoning regulations requiring that 50 percent of the first floor be dedicated to retail and arts uses.

The opening, scheduled for fall 2002, will be the first time we will have such an extensive public presence in the Nation's capital. The 12,500 square foot Visitor Center will illustrate the history of the Mint and coinage in America through traditional museum displays, interactive exhibits and special features on coinage and related subjects. It will also include a theatre, virtual tours of Mint facilities, interaction with Mint engravers, and the hands on experience of producing various souvenirs.

The highlight of the museum displays will be the Octagon Exhibit, which will feature U.S. coins from the National Numismatic Collection at the Smithsonian National Museum of American History. The Octagon Exhibit will follow American coinage starting with Pre-Colonial and Early American (1600-1800) through current times. We're working with curators from the Smithsonian on the numismatic selections as well as other artifacts from their vast collection.

The Visitor Center will entertain and educate the casual visitor as well as the serious coin collector. The Smithsonian and other museums have expressed great interest in working with us on exhibitions, seminars and workshops. The theatre and interactive area will offer a great venue for such events and will for the first time give us needed public space for all future promotions.

Estimated yearly attendance is 275,000. The Visitor Center will welcome students and other groups for self-guided tours. It will have a gift shop featuring our numismatic products and collectibles, as well as souvenir items from Washington, DC. The Mint Visitor Center will be self-supporting.

AWARDS AND RECOGNITION

SABRE Awards

During the third quarter, we were awarded the Silver SABRE Award for the best communications campaign by any federal, state, or local government agency in 2000. The Silver SABRE recognized our work to introduce and market the Golden Dollar. SABRE Awards were established by the Holmes Group -- a resource organization for public relations professionals -- to recognize Superior Achievement in Branding and Reputation.

This is the third public relations award the Mint has received for the Golden Dollar program. Earlier this year we received the prestigious PR Week Award and an Iron SABRE for best use of research in any government or corporate public relations campaign in 2000. The Iron SABRE recognized our research efforts on gauging public acceptance and use of the Golden Dollar. We were competing against ourselves when we won the Silver SABRE this year because our work on promoting the 50 State Quarters™ Program was also nominated. Other nominees included the United States Census Bureau, the Office of National Drug Control Policy, and the State of Georgia.

Eight Advertising Awards for 50 State Quarters™ Legacy Campaign

The 50 State Quarters™ advertising campaign has been instrumental in sustaining and enhancing the popularity of the quarters and the profits that demand subsequently generated. During the third quarter, in addition to profits, we collected eight prestigious advertising industry awards for our 50 State Quarters™ campaign, which featured a Legacy theme in which Mint employees involved in the engraving, production and other aspects of the program promote the quarters through discussing their craftsmanship and pride in creating our nation's coinage. These included three Aegis Awards, three Telly Awards and two awards at the WorldFest-Houston International Film Festival. The advertising campaign included one 60-second spot, two 30-second spots, two 15-second spots; corresponding print advertisements; a video chronicling the production of the broadcast campaign titled "Making of Legacy"; and a specially-designed 60-second advertisement for the ABC Jumbotron screen in New York City's Time Square district to celebrate the New York quarter launch.

The Aegis Awards recognized the Legacy campaign with three awards in the TV Commercial category – one for the 60-second spot and one for each of the two 30-second spots. The Aegis Awards are the video industry's premier competition for peer recognition of outstanding video productions and non-network TV commercials.

The 21st annual Telly Awards lauded our Legacy campaign by awarding the 60-second Legacy, the "Making of Legacy" video and the New York Quarter Jumbotron spot as winners. The

Legacy advertisement prevailed in the regional TV and multi-market cable category; the New York Jumbotron in the miscellaneous category. Founded in 1980, the Tellys showcase and give recognition to outstanding non-network, cable, film, and production work.

The WorldFest-Houston International Film Festival awarded two entries from the Legacy campaign. “The Making of Legacy” video won in the public relations category and the New York quarter Jumbotron spot took the honors in the local commercial category. Launched in 1968, WorldFest-Houston is dedicated to the independent feature and short film. Representative winners at past WorldFest festivals include the Coen brothers, Jonathan Demme, Brian De Palma, John Frankenheimer, George Lucas, Ridley Scott, Steven Spielberg, Oliver Stone and Robert Townsend.

Other Recognition

Readers of Europe’s most popular coin magazine — *Deutsches Münzen Magazin* — selected the Golden Dollar as one of the finest coins produced in the world in 2000.

CONCLUSION

In the third quarter of FY 2001, we searched for additional innovative approaches to enhance the use of Golden Dollars in everyday commerce, and partnered with the nationwide restaurant chain, IHOP, four minor league baseball teams, and Paramount’s Kings Dominion amusement park as the means to target additional business sectors. We shipped 100 percent of pennies in bulk bags and began the shipment of nickels to reduce costs and injuries. We initiated another phase of information technology improvements to our enterprise resource planning system, COINS. We established an online community to aid educators with teaching history, geography and mathematics through coins. We continued preparations for our future visitor center. And yet again, our employees and products were honored. These are just a few examples of our commitment to excellence and continuing improvement in Mint operations.