



UNITED STATES MINT

Implementation of the United States Mint Public Enterprise Fund, P.L. 104-52 Through December 30, 1999

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INTRODUCTION

Public Law 104-52 created the United States Mint Public Enterprise Fund and requires the Mint to report quarterly on its implementation. This sixteenth quarterly report covers the first quarter of FY 2000.

Since the inception of the PEF in FY 1996 through FY 1999, our revenues have grown at a 21 percent annual average rate, net income has risen an average 19 percent annually, seigniorage has increased an average of 17 percent yearly, and deposits to the general fund have averaged 20 percent yearly increases. The first quarter of FY 2000 sustained that record of achievement. We continued to capitalize on all the funding and procurement flexibilities available to us to address extraordinary demand for circulating and numismatic products; promote public acceptance of the 50 State Quarters™ (Q50) and the new Sacagawea Golden Dollar; create exciting new collector

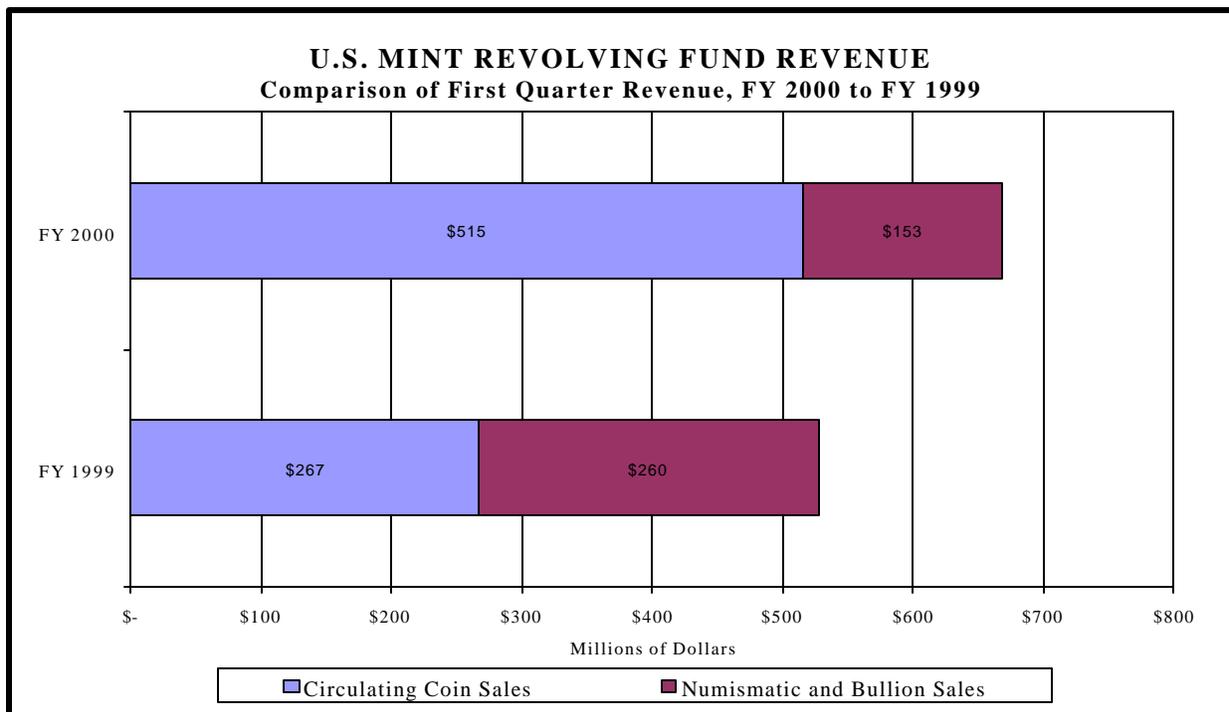
products; and embrace the Internet for e-commerce, communication and education. Also during the quarter, we added to our awards and recognitions for the operational achievements of the integrated public sector enterprise we have become.

FINANCIAL PERFORMANCE

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

Consolidated first quarter revenues of \$668 million exceeded the first quarter of 1999 by 27 percent and were more than double first quarter revenues for 1998. Consolidated net income for the quarter was \$386 million.

Although a strong economy continues to stimulate demand for all denominations of coinage, thereby boosting our revenues from sales to the Federal Reserve, the major engine that has propelled our revenues and reinvigorated national interest in America's coinage has been the extraordinarily popular 50 State Quarters™ Program. Based on recent studies, we estimate 112 million Americans now collect Q50 quarters from their pocket change.



Revenues from Circulating Coinage

Robust economic growth and extraordinary public demand for 50 State Quarters™ drove revenues from the sale of circulating coinage to \$515 million, nearly 93 percent above first quarter 1999 and 178 percent above 1998.

Unit sales of quarter dollars to FRB Banks increased nearly 137 percent between October 1 and December 30 over year ago levels, driving CY 1999 sales almost 119 percent above CY 1998. We now are producing quarters at a rate of 7.4 billion annually (double FY 1999) and expect demand to reach 8 billion. We are operating seven days per week to meet demand. A point made in previous PEF reports bears repeating: for the first time in our history, the Mint is creating demand for circulating coinage instead of merely accommodating it. The American people will continue to benefit from our improving performance as the amount of our profits to the Treasury General Fund increases.

Revenues from Numismatic and Bullion Products

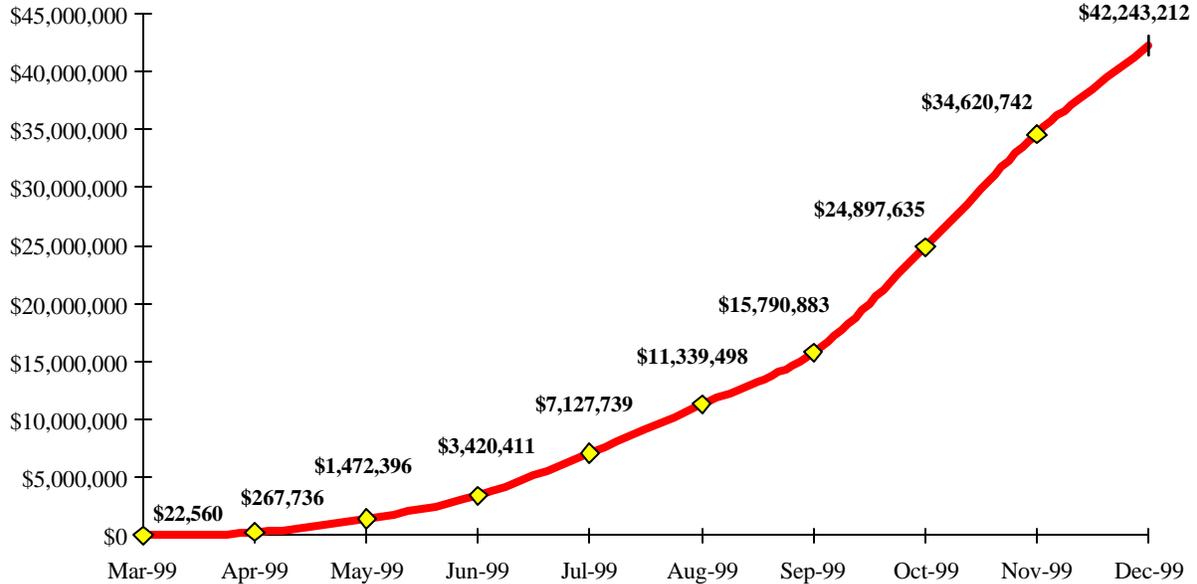
First quarter revenues from the sale of bullion and numismatic coins reached \$153 million, a 41 percent decrease over 1999's exceptional first quarter (\$260 million). Strong sales of Q50 collector products, 1999 SBA numismatic offerings and 1999 proof and uncirculated coin sets -- including Holiday catalog revenues of \$25.8 million -- were unable to overcome a sharp drop in sales of gold, silver, and platinum bullion coins from their unprecedented FY 1999 levels, which reached their highest peak in the first quarter. Bullion sales revenues for the first quarter of FY 2000 were nearly 69 percent lower than FY 1999's comparable first quarter.

E-COMMERCE

By the end of December 1999, online sales had reached a cumulative \$42.2 million, with 37 percent of those sales -- \$26.5 million -- occurring in the first quarter FY 2000. This is a conservative number, representing only those sales transactions completed over the Web site and not those completed through downloaded order forms mailed or faxed to the Mint. Sales have taken off since we first launched online sales in late March 1999, from a \$1 million plus month in May to a \$2 million day in October.

The chart on the following page shows the dramatic climb. The final month of the quarter was not even the highest revenue month as catalog and popular program availabilities were announced in October and November, and customers placed orders during those months to avoid disappointment and sellouts as the holidays approached. Many of our 50 State Quarters specialty items experienced sellouts by December 1. For the quarter, 11.5 percent of online sales could be attributed to the combined sales of 50 State Quarter bags and 1999 Susan B. Anthony dollars.

U.S. Mint Cumulative Online Net Revenue March 1999 - December 1999



Based on Monthly Online Orders Received by the U.S. Mint (Data Source: MACS)

NOTE: The online net revenue figures in this chart differ slightly from those reported in the third quarter FY 1999 PEF report. The figures reported this quarter have been refined to reflect online Internet sales *only*, and do not include as before, sales initially generated from the Mint Web site but ordered via traditional methods (i.e., by telephone, facsimile or mail.)

NEW MINT WEB SITE FOR KIDS -- H.I.P. POCKET CHANGE™



With a grant from the Department of Education (see fourth quarter 1998 report) plus our own substantial investment, our cross-disciplinary project team has launched a highly commended interactive Web site, *H.I.P. Pocket Change™*, short for

History In your Pocket. A collaborative educational environment using coins to teach history, mathematics, and language, the site is geared to grades K through 8, ages when many lifelong numismatists take up collecting. It offers coin-based classroom and project ideas and soon will offer interactive lesson plans, virtual tours of coin production, games involving Q50 quarters and the Golden Dollar, and forums for students to interact with coin experts, Mint staff, and students throughout the country. Our site was profiled in *USA TODAY* and will appear in an upcoming Nickelodeon broadcast. Also, GovSpot.com, a private sector portal that provides government information, named our H.I.P. Pocket Change™ one of its sites of the week, and we received

indications that Learning in Motion, a Web site focused on educational programs, will be naming the Mint as one of the top 10 educational Web sites in its January update.

NEW DOLLAR COIN

On November 18, 1999, we introduced the Golden Dollar and began mass production. We struck 6.3 million between November 18 and December 31, and we expect to strike at least 5 million per day at the height of production in the second quarter. Our float in the Macy's Thanksgiving Day Parade presaged an integrated, nationwide, multi-media public awareness and business-to-business marketing campaign. That campaign has already scored two impressive coups as we extend awareness beyond banks, stores, and coin-accepting industries (vending, the Postal Service, public transit, parking facilities) to the public.



First, we have joined with General Mills in a far-reaching public campaign, starting in January 2000, to place one newly struck, protectively wrapped penny in 11 million boxes of Cheerios. Every 2000th box also will contain a Golden Dollar, and every 4,400th box will hold a certificate redeemable for 100 Golden Dollars. Our link to one of America's most recognized consumer brands has incalculable value in building public awareness and interest in this new coin.

Second, in one of our most innovative strokes, we sold 100 million Golden Dollars to Wal-Mart, the world's largest retailer, at the exact same time we shipped Golden Dollars to the Federal Reserve. Wal-Mart will distribute the coins throughout its retail outlets nationwide and begin making change with them on January 30. This bold combination of public sector and private sector distribution will increase the base of awareness for the coin.

To guarantee no interruption in dollar coinage during transition to the Golden Dollar, we have struck nearly 37 million Susan B. Anthony dollars and issued them to the Federal Reserve.

50 STATE QUARTERS™ PROGRAM

On October 7, 1999, Kermit the Frog, the official spokesfrog for the 50 States Quarters™ Program, assisted the Mint in unveiling the fifth state quarter, the Connecticut Charter Oak. This completed the first year of the ten-year 50 State Quarters™ Program. Kermit has raised public awareness of Q50 via an extensive print and broadcast campaign to educate Americans about the new quarters.

Each of the quarters has been so overwhelmingly popular that we are projecting we will have to produce at nearly four times the normal level of circulating quarters. The designs for the next five states to be honored and the anticipated release dates are as follows:

**2000 Circulating Commemorative Quarters
Date Available in Federal Reserve Banks**



January 3



March



May



July



October

Overall public awareness for the 50 States Quarters Program is extraordinarily high. A December consumer survey shows that a resounding 77 percent of adults now know of Q50 quarters, 48 percent of the respondents presently are saving them, and 61 percent say they intend to save them.

During the first quarter FY 2000, we entered into an exclusive partnership with Hallmark to produce the American Spirit Collection™ -- one-of-a-kind products featuring the 50 State Quarters. The collection, which debuted in November, includes ornaments, coin and figurine sets, coin sets, and a unique metal lunchbox collector's kit. It will be offered for the 10 years of the Q50 program in over 5,000 Hallmark Gold Crown Stores and Mint retail stores.

COPYRIGHT AND TRADEMARK INFRINGEMENT

The need for heightened copyright protection for Mint coin designs is best illustrated by recent litigation initiated by the Department of Justice, on behalf of the United States Mint against the Washington Mint, LLC, a private mint. On August 3, 1999, just a few months after we announced the winning designs for the new dollar coin, the Washington Mint began marketing its replica of the new dollar coin. Shortly thereafter, we requested the Washington Mint to cease and desist its production and marketing of such products as we have a copyright on the obverse design, a design submitted by and assigned to us during a design competition. The Washington Mint blatantly ignored our request and continues to do so today. Full-page advertisements of the infringing product continue to appear in newspapers and other periodicals throughout the country. Copies of a sampling of such articles are attached.

Inadequate copyright protection of our coin designs is further exacerbated by the fact that private companies—including the Washington Mint—are embellishing authentic United States Mint coins by colorizing them or gold plating them. Such practices are creating significant confusion in the marketplace; for example, 90% of recent calls to our Customer Care Center expressing consumer confusion stem from the marketing and sales of embellished United States Mint products. Consumers routinely believe that the embellished products are originating from the United States Mint. Additionally, these firms are packaging their own products with ours, creating the impression that their products are Mint products

We are determined to preserve the artistic integrity and commercial rewards of our product designs. The success of our products is jeopardized when competitors can pirate our designs and brand equity. For these reasons, we continue to explore available options with respect to obtaining increased copyright protection for our coin and medal designs. In addition, this situation compels us to note that we and the Citizens Commemorative Coin Advisory Committee (CCCAC) have made repeated formal requests asking Congress to remedy this problem legislatively. Clearly, the need to extend copyright and trademark protections to Mint coin designs is an issue of growing urgency.

AWARDS AND RECOGNITIONS

Web Site

GovExec.com, part of *Government Executive Magazine*, named our Web site among 16 “Best Feds on the Web” for its technological know-how, business savvy, and customer service.

Customer Service

For the fourth consecutive year, our customer satisfaction rating stood beside the foremost corporations in the American Customer Satisfaction Index prepared by the National Quality Research Center at the University of Michigan School of Business.

Energy

The Federal Energy Management Program presented our Energy Performance Team with an exceptional service award for reducing energy costs and consumption at the Philadelphia Mint, which is the first Federal civilian facility to sign an energy savings performance contract with a private sector firm.

Consolidated Information Systems (COINS) Team

The Mint-wide team that implemented our enterprise resource planning system earned a Government Technology Leadership Award, one of the Federal sector's highest awards for technological advancement. It is presented by *Government Executive Magazine* and the Federal Technology Service of the General Services Administration.

Partnership Agreement Signed

The Mint and American Federal of Government Employees (AFGE) signed a sixth national partnership agreement—the first national agreement negotiated under Partnership in the Federal Government. This first follows the third Sturdivant National Partnership Award in five years we have earned for our partnership with AFGE.

FastCompany Magazine Feature

FastCompany, the premier new e-economy business magazine that highlights fast-paced, high performance organizations, featured the Mint in its December 1999 issue. The article highlighted how the Mint has transformed from an old-line bureaucracy to a cutting edge public enterprise. A copy of the article is attached.

CONCLUSION

In the first quarter of FY 2000, we amplified and extended the string of product, marketing, and promotional successes that have made us a more profitable national mint for the American people. On the strength of economic growth and popularity of 50 State Quarters™, our circulating business is quite literally working constantly to meet coin demand. In our numismatic business, lackluster bullion sales may have dimmed the quarter's results, but exciting new ventures with General Mills, Wal-Mart, Hallmark, and the Internet show that our resolve and responsiveness are brighter than ever. We are pleased to report that our long string of awards and recognition got longer during the first quarter of FY 2000. But we are most pleased that our customers, colleagues in government, and the American people now find more of everything they expect at the U.S. Mint.