

American Numismatic Association
President's Report on the State of the Association
January 2009

This second annual State of the Association report provides information that should help ANA members understand this administration's accomplishments, its challenges and the direction we are taking to move the Association forward. I hope these reports encourage a healthy exchange of ideas and opinions, and that members understand their involvement in the Association creates a better future for all numismatists.

The ANA Today

We face a critical juncture in the 118-year history of our Association. Membership in other hobby organizations is in decline, the economy is suffering through a serious recession and the ANA faces ongoing budget deficits. The current leadership is working diligently to balance the budget, and refocus efforts on the Association's core mission: education and providing services to our membership.

Since my inaugural report one year ago, we have reduced expenditures by \$673,000, narrowing the projected 2008-09 budget deficit from \$1.4 million to less than \$800,000. While this is certainly progress, other factors have exacerbated our budget problems: the worst economic downturn in 70 years, mounting legal bills and a softening coin market. Our endowment, like all investments over the past year, has been seriously impacted by Wall Street's bear market as well as a need to withdraw funds to cover legal fees and certain operating costs. Legal fees have far exceeded our projected budgetary expenditures.

Cash flow has become a more serious problem due to the protracted deficits and past managerial practices. In fact, nearly all of the "restricted" funds or endowments that have been given to the ANA for specific purposes over the years, have been drained off in prior years, we have learned to pay for operating expenses or other purposes. This has caused our cash flow deficit to be even greater than our budget deficit. It will be a drain on budgets and fiscal performance for many years.

Through careful financial analysis, initiated by our Executive Director, we have also determined that permanent programs such as Summer Seminar have been operating at a significant loss because overhead costs – including staff time and resources – have never been factored into the tuition and fee equation. Extraordinary expenditures for catering, volunteer and exhibitor costs have significantly reduced the profitability of our conventions, and the cost of providing membership services far exceeds the annual membership dues.

While all of this information is somewhat sobering, it's important to emphasize that this venerable Association is better positioned for a full recovery than many organizations. Larry Shepherd, who has served as Executive Director for eight months, brings a wealth of leadership, financial and numismatic experience and knowledge to the ANA. I can think of no better person to lead us through these difficult times. He and his staff have done the analysis that should have been done years ago, so we now have a much better handle on where we stand with costs and revenues. This is the work that has to be done before anything can be fixed. Several other factors should give us reason for optimism: an experienced staff, a fiercely loyal membership, and tens-of-thousands of potential new members who we believe may be interested in joining if we offer better online resources, virtual communities and a robust web-based educational experience.

In addition to our mutual fund endowment of \$2,175,465 (12/22/08), our Ben E. Keith stock, while not easily liquidated, is currently valued at \$14.5 million – and is likely to increase as we receive more shares over the next 40 years. We also have a substantial capital base that does not show on our books, including rare and valuable books, and coins and paper money collections worth millions of dollars.

We've made significant strides since my first State of the Association report a year ago. We've established the Florence Schook School of Numismatics and placed all of our educational programs under its umbrella, thus signaling a renewed focus on education while enabling us to target our fundraising efforts. We've reduced the budget while the number of staff has declined from 36 to 29.5 – all as a result of retirements or people leaving for other opportunities. Exhaustive financial analyses are being undertaken, which will allow leadership to refocus our efforts to further reduce expenditures while identifying areas where revenues can be increased.

In short, your ANA is working toward recovery. We have a good vision for the future, a good staff, a good board and tremendous support from our members – all the elements necessary to restore the ANA to its rightful place as the premier numismatic hobby and educational organization in America.

TRACKING THE 2008-09 GOALS

FINANCES

- Work on developing a balanced budget. Although not balanced, expenditures have been reduced and new revenue opportunities identified for consideration in the 2009-10 budget. Unfortunately, mounting legal bills severely hamper budget balancing efforts.
- Clearly communicate all financials to the membership. Financial statements have been reformatted to be easier to read and understand. Financials are clearly posted on the website and hard copies will be provided upon request.
- Ensure that the budget is realistic. Decisions regarding the 2009-10 budget will be based on economic feasibility and fulfilling the ANA's core mission.
- Protect and build the endowment. Unfortunately, some of the endowment has been used to cover legal expenses and certain operating deficits. The ANA, however, is in the process of moving investments from managed accounts to mutual funds, thus saving significant fees. The Ben E. Keith stock, while separate from the endowment, is valued at approximately \$14.5 million.

The following chart is a summary of 2008-09 second quarter (ending Sept. 30) financials.

| Revenue | Actual | Budget | Variance | Same Period 2007 |
|--------------------|---------------------|-----------------------|---------------------|-----------------------|
| Total Revenue | \$3,025,502.00 | \$3,076,359.00 | (\$50,857.00) | \$2,951,796.00 |
| Expenses | \$2,577,547.00 | \$3,251,211.00 | (\$673,664.00) | \$3,336,305.00 |
| Net Income | \$447,954.00 | (\$174,851.00) | \$622,806.00 | (\$384,509.00) |
| <i>OTHER ITEMS</i> | | | | |
| Legal Fees | \$417,620.00 | \$178,500.00 | \$239,120.00 | \$275,056.00 |

It will take the ANA at least another full fiscal year to recover from the unrealistic budgets from the past, where some figures were inflated and some expenses understated. Legal fees continue to mount as a result of costs relating to the Cipoletti arbitration, and new lawsuits involving eBay policy regarding the listing of certified coins. Still, better fiscal management combined with new revenue opportunities and a focus on core functions should stabilize our finances.

MEMBERSHIP

The ANA does not currently make money on membership dues, but increasing the number of members is an important goal both for the health of the hobby and to ensure that the Association maintains its status as the premier organization in numismatics. By offering new membership options, the ANA can become more affordable and relevant to a larger audience – and increase its membership appeal to a broader range of collectors.

Management has worked very hard to simplify and create a series of member levels that offer a variety of different benefits and services with varying dues payments.

- The **Basic Membership** - Full Membership without the printed version of *the Numismatist* magazine
- The **Regular Membership** - Full Membership with the magazine.
- The **Premium Membership** - A value added membership with added services for those desiring and willing to pay for more. While not yet available, this option will be studied in future months.
- The **Professional Membership** - Full Membership with mailed magazine, listing on website and other services. (Targets dealers and professional numismatists). Higher dues is well justified by increased benefits and services. This option is being studied and may be introduced in future months also.

Allowing people to become members at different levels would bolster our membership levels, provide an inexpensive gateway into the Association for Internet-savvy collectors and provide the Association with opportunities to better package memberships to corporations and clubs, while giving a low-cost alternative to people in these difficult economic times. The Board will discuss specific proposals for membership structure as part of the 2009-10 budget development process. We encourage your input and comments.

COMMUNICATIONS

Quality working relationships have been reestablished with the numismatic press and a growing national news media program has resulted in placements in the Wall Street Journal, New York Times and several other major publications. Significant improvements have been made to the website, with much work remaining to be done including creating online communities to better engage our members.

EDUCATION

Significant strides have occurred in education, most significantly the establishment of the Florence Schook School of Numismatics. Named in honor of the late Florence Schook, the school allows the ANA to make a renewed commitment to provide the best numismatic educational programs and resources to collectors of any age or level. The School will encompass all ANA educational programs for young numismatists and adults, both online and in the classroom. Summer Seminar will be the flagship of educational effort, and we will improve our educational programs and focus on expanding educational materials on www.money.org.

The Florence Schook School of Numismatics will be accounted for as a separate entity, allowing donors to fund specific classes and certification programs with the assurance that the funds will be used for their intended purposes. Funding will be used to expand YN programs and develop internship and mentoring opportunities. Adult programs will be expanded to provide support and resources for new collectors, as well as intermediate and advanced programs to help attract new members and enrich the numismatic experience for all collectors.

The 2009 Summer Seminar will feature some new options, including two-day classes to allow students to take more than one course during a week-long session. Now students who attend can choose from a collection of week-long and two-day classes plus several evening mini-seminars and tours. Staff has also completed an analysis of Summer Seminar, which indicates that when overhead costs (staff hours and resources) are added in, the ANA has lost more than \$300 per student during the past several years. Tuition and fees will need to be raised, but we propose to gradually increase these fees. We will continue financial reviews of seminar expenses, along with offsetting costs as a result of continued financial support.

NGC Settlement Funds totaling more than \$400,000 were received by the ANA, and we plan to continue to utilize these funds to develop consumer awareness resources, online educational programs and Summer Seminar programs aimed at consumer protection.

A special “Double-Star Fundraiser” will be announced in February, allowing donors to the Florence Schook School of Numismatics to receive double the number of stars generally credited for gifts. These Stars help dealers receive better table locations at ANA conventions.

PUBLICATIONS

The full online edition of *The Numismatist* launched in May, and members have been offered the option of subscribing only to the online edition. As noted in the Membership Section of this report, the ANA also is exploring offering differing membership levels, including a basic membership that would not include the magazine.

Efforts to increase advertising sales have fallen short of projections, largely due to the state of the U.S. economy. Still, record advertising sales were recorded for the Baltimore convention program and several advertisers have upgraded to online links from their ads to their websites. Staff plans to conduct a readership survey later this year as an ongoing effort to better determine content that best meets the expectations of membership.

EDWARD C. ROCHETTE MONEY MUSEUM

We are considering admission charges to the Edward C. Rochette Museum, possibly as early as this summer. These admission fees would be waived for members, school groups and children under 12 – thus creating additional valuable member benefits and increasing revenue while remaining accessible for families and schools.

Of the many major attractions and museums in the Pikes Peak region, only the Money Museum and Pioneers Museum offer free admission. As a result of charging a nominal fee for adults while remaining free for school groups, children 12 and under and ANA members, the museum could generate more than \$35,000 annually.

We believe that by developing cooperative marketing efforts with the adjacent Colorado Springs Fine Arts Center, as well as similar attractions such as the Western Museum of Mining and Industry and Cripple Creek Museum, that we will be able to increase traffic to the museum. Since members would be admitted free, charging admission fees would add value to ANA membership. A patron program could be established to allow frequent visitors to purchase a year-round pass. In addition, the Fine Arts Center has indicated an interest in a combined pass.

Since last year’s report, the museum has created a new exhibit, “A House Divided: Money of the Civil War,” which opened in October. Two new docents have been trained, thus allowing the museum to begin to market more to school groups. Another new exhibit featuring Money of the New Deal will open in February, and the Colorado Springs Fine Arts Center has expressed an interest in displaying art from this period and helping to promote the Money Museum exhibit.

CONVENTIONS

The goal of the ANA’s conventions should be to provide an ultimate destination for all numismatists. To meet that goal, the following objectives were identified a year ago: enhance the visitor experience; develop automated online bourse applications; attract the best possible numismatic and world mint exhibits; and create exciting new activities that appeal to numismatists of all ages.

We’ve created new programs such as Artists and Authors Alley and a special Coin Collecting 101 class to help enhance the experience for convention attendees with an interest in literature or a need to learn the basics of coin collecting. And while the number of world mints has declined somewhat in recent years, we have found renewed interest for the Los Angeles World’s Fair of Money® – largely because the West Coast location. The project to complete an automated online bourse application should be completed later in 2009. A new partnership with the Smithsonian will bring dazzling rarities to our conventions, starting in Los Angeles this summer.

We've also addressed the issue of larger dealers with prime positions vacating the front of the bourse room on Sunday by instituting a new pricing policy with premium prices charged for prime locations. The Mint Promenade and Collector Gallery (exhibit area) continue to attract large crowds. The ANA's new All-Star program, which gives credit to dealers for service and volunteering, will launch early in 2009.

Finally, an extensive financial analysis has been instructive in helping the ANA reduce nonessential costs at conventions. At the same time, we are researching the possibility of charging non-members an admission fee at conventions. As with the museum, members and children 12 and under would be admitted free.

DWIGHT N. MANLEY NUMISMATIC LIBRARY

RyAnne Scott was appointed Library Manager last June and, already, circulation has increased by about 10 percent – largely attributable to a monthly column in the magazine, postings on Facebook and better informing members of the value of their library benefits. Significant progress has been made on the inventory process, accessioning the backlog of donations and batching and bar-coding auction catalogs. The transfer of audio-visual programs from VHS to DVD is ongoing as well as converting slide sets to digital format. The museum admission fees, as detailed above, would also apply to the library, with members granted free admission. Efforts will be made to increase online promotions and online book chats and blogs are being explored.

SPONSORSHIP AND FUNDRAISING

Sponsorship revenues are down somewhat from projections, but new sponsorship opportunities were sold for Summer Seminar and museum exhibits. While convention sponsorships are about 10% below projections, they generally reflect decreased marketing expenditures consistent with the downturn in the economy. Additional opportunities will be created for Summer Seminar and museum exhibit sponsorships this year.

The ANA has received some significant gifts this past year, including a \$75,000 Summer Seminar donation from the Central States Numismatic Society, which was matched by \$25,000 in funds from several member dealers and individuals. We have also had discussions with several potential donors interested in supporting the Florence School of Numismatics, plus Bowers and Merena has pledged to donate \$50 for each of the first 600 ANA members who participate in the company's annual auction survey.

BOARD OF GOVERNORS AND STAFF LEADERSHIP

The ANA leadership will need to closely evaluate and determine how to better focus resources on the ANA's core mission: serving its members and providing educational programs to the numismatic community.

Several difficult questions will need to be addressed concerning long-standing practices and privileges that may no longer be justifiable under our current financial climate. The Board must rely on the management expertise of its executive director and staff, and the input and guidance of its membership. We must always remember the ANA is a member-based Association and that the Board is elected to carry out your wishes. As your elected Board, we pledge that you – our members – will determine our future direction and that we will make every effort to measure your input.

One challenge, however, is almost entirely out of our hands: Legal fees are significantly impacting this Association's ability to operate with a balanced budget. Most recently, we have been hit with two new lawsuits involving the ANA and eBay. Essentially, the ANA has been subjected to significant legal expenditures for trying to do the right thing to help create a better experience for those who buy and sell on eBay. The ANA should carefully review its relationship with eBay considering the current litigation and eBay's policies pertaining to the online sale of numismatic items on eBay.

We challenge the numismatic media and all of our members to rally behind *their* ANA and help fight the frivolous lawsuits that have arisen as a direct result of Association efforts to educate and protect the collecting community. Our budget can be balanced by the 2010-11 budget year if it's based on balancing operating expenditures and revenues. With your help, we look forward to accomplishing that goal.

LEGAL ISSUE UPDATE FROM ANA GENERAL COUNSEL, A. RONALD SIRNA, JR.

1. ***Christopher Cipoletti and the American Numismatic Association v John Nebel, et al.***

This matter has been satisfactorily resolved between the ANA and all of the Defendants. The ANA believed that it was in the best interests of the Association to settle this case considering the risks and benefits of proceeding to trial. The mutual settlement reached by all of the named Defendants has served to heal the differences caused by the lawsuit itself. The ANA has been informed that Mr. Cipoletti dismissed all of his claims against the Defendants. Mr. Cipoletti's dismissal of his claims was independent from the mutual settlement between the ANA and the Defendants.

2. ***Davis Graham & Stubbs LLP v American Numismatic Association***

The former law firm that represented the ANA has filed suit for the balance of its fees and costs in an amount in excess of \$375,000 incurred in the Nebel suit. The ANA has already paid well over \$350,000 to its former Attorneys, Davis Graham & Stubbs LLP ("DGS"). The ANA has filed a counterclaim for legal malpractice against DGS, and has added claims for legal malpractice against its principal lawyer, Janet Savage and former Executive Director Christopher Cipoletti for their conduct in the former Nebel suit. The legal malpractice claims arise out of the undisclosed (to the ANA) and unwaived conflict in the joint representation of the ANA and Mr. Cipoletti in the Nebel case, which caused the ANA to incur excessive fees and costs. The El Paso County District Court has ruled that the ANA may proceed with its claims against Mr. Cipoletti in this pending case and not in the Arbitration case.

3. ***Cipoletti v American Numismatic Association***

Since Mr. Cipoletti was terminated for cause in October, 2007, he has requested arbitration against the ANA. Based on Mr. Cipoletti's contract, the ANA must resolve that dispute in Arbitration and pay for the mandatory arbitration fees. Discovery is ongoing and this case is scheduled to be arbitrated in April, 2009. The ANA has vigorously defended its termination of Mr. Cipoletti. Based on the valid reasons for termination, the ANA will not make any payment to Mr. Cipoletti unless ordered to do so by the Arbitrator.

4. ***Plaintiffs National Numismatic Certification, LLC, Centsles, Inc., ASA Accugrade, Inc. and Treasure Gallery, Inc. vs. Defendants Ebay, Inc., American Numismatic Association and Professional Numismatists Guild, Inc.***

This case involves claims that the ANA is alleged to have harmed the Plaintiffs as a result of a press release issued in September, 2007 which informed ANA members that the ANA felt that eBay's decision to preclude listing of coins as "certified" unless the coins were graded by specific companies that had been selected by eBay would be beneficial to ANA members. The ANA believes that there is no basis for the claims made by the Plaintiffs and further that the Plaintiffs have not sustained any damages attributable to any conduct by ANA. Discovery is ongoing and the ANA will vigorously defend against the claims made by the Plaintiffs.

5. ***Universal Grading Services, John Callandrello, Joseph Komito, and Vadim Kirichenko v EBay,, American Numismatic Association Professional Numismatic Guild and Barry Stuppler & Company.***

This case involves claims that the ANA is alleged to have harmed the Plaintiffs as a result of a press release issued in September, 2007 which informed ANA members that the ANA felt that eBay's decision to

preclude listing of coins as "certified" unless the coins were graded by specific companies that had been selected by eBay would be beneficial to ANA members. The ANA believes that there is no basis for the claims made by the Plaintiffs and further that the Plaintiffs have not sustained any damages attributable to any conduct by ANA. The ANA will vigorously defend against the claims made by the Plaintiffs.

IN CONCLUSION

Ours is a beautiful hobby, and one that has endured its share of challenges over the years. This past year, we've lost some truly great numismatists and hobby leaders: Lt. Col. Adna Wilde, Jr., Gov. Radford Stearns and Jack Lee, among others. Each had a profound influence on my life as a collector, dealer and leader of this Association. As with other great numismatists that have gone before them, each left a great legacy that will likely inspire many generations of numismatists in the future. My hope is that the Association they so loved, will continue to thrive long after I've served as your ANA President.

This annual State of the Association Report summarizes my position on the status of the ANA and its immediate future. Looking forward, this Board has a number of difficult choices to make; this document is produced as a means to generating ideas and discussion. Am I, as your president and are we, as your Board, moving the Association in the right direction?

We'll discuss this report during the Board's Town Hall meeting in January at the FUN Show in Orlando at 4 p.m. Jan. 9 in Room 329, and during an open forum at the National Money Show™ in Portland in March. It's your Association; as elected officials in a representative democracy, any policy or strategic plan we develop should reflect the desires of the majority of our members. I hope that encouraging an honest dialog and open discussion of ideas will help the ANA maintain its status as the premiere numismatic organization in the world.

Sincerely,

Barry Stuppler
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