How would you like to have one of the world’s most successful businessmen as your mentor?

Imagine what it would be like to sit down, face to face, and candidly discuss anything and everything – especially the ins and outs of Market-Based Management®.

For many Koch company employees, that mentoring is a reality, thanks to a new intranet video series called “Conversations with Charles Koch.”

In each of these brief “conversations,” Charles Koch, chairman and CEO of Koch Industries, explains an aspect of MBM®.

Koch draws upon a lifetime of personal experience and historical knowledge to explain the concepts and principles that led to KII’s success.

In talking about the role of business in society, for example, Koch’s analysis ranges from the Transcontinental railroad of 1869 to the collapse of Freddie Mac and Fannie Mae in 2008.

From Frankfurt

The idea for this video series originated during Charles Koch’s 2008 tour of Georgia-Pacific facilities in Europe, where he gave a seminar in Brussels to employees anxious to learn more about MBM.

After further discussion and extensive planning, Koch agreed to be interviewed at the GP studios in Atlanta several months later.

The MBM team, GP communications, and production staff then worked together to edit two-and-a-half hours of footage into a series of streaming video modules.

Other Koch executives, including KII president and COO Dave Robertson, are recording similar modules on a variety of business-related topics.

Also in the works is an edited version of an interactive mentoring session that Koch videotaped with members of GP’s consumer products team in Atlanta.

Response

When “Conversations With Charles Koch” debuted on MyGP (Georgia-Pacific’s intranet site) in February, there were almost 2,000 downloads the first day. Since then, more than 70 different GP locations have tapped into the site.

So far, the most-viewed module has been “All Decisions Benefit From Challenge.”

“Thats not really surprising,” noted Julie Brehm, GP’s senior vice president for human resources, “because most employees – especially new ones – are anxious to find out if we really mean it when we say anybody at any level of the organization can and should challenge a decision.”

The series appeared on D-Net (the intranet for all Koch companies except GP and INVISTA) in early March. To date, the most popular video on D-Net has been “Lessons From My Father.”

The real deal

“When they watch these conversations, one of the things most employees comment about is how genuine Charles is,” said Ben Pratt, the MBM leader who helped originate the series.

Regardless of where they work, they begin to get a real sense that it’s possible to apply MBM in their role. They’re also very impressed with his humility.”

Unlike most CEOs, Charles Koch talks openly and often about his mistakes and the lessons he’s learned the hard way. He’s also candid about the negative feedback he’s received over the years.

“That kind of honesty and integrity is something you just can’t script,” Pratt said. “It has to be real, not something you read off a teleprompter.”

www.kochind.com
INVISTA helped make history when Barack Obama was sworn in as the U.S.A.’s 44th president.

The red and blue carpet cascading down the steps of the U.S. Capitol and underneath the presidential podium was Bentley Prince Streets King’s Road™ carpet, made from INVISTA’s Antron® Legacy™ fiber.

Several thousand yards of Bentley carpet (the same type used for the inauguration) have been purchased for installation in the Koch Tower in Wichita.

As I read Charles Koch’s book, *The Science of Success*, I kept thinking not about a company, but about my country, Chile.

Market-Based Management® principles work for building up a company but also for turning a whole country around.

In a generation we have transitioned from a state-run, state-owned, state-wasted, centralized economy (fixed prices, forced unions and bankrupt social security included) to an open, export-oriented, no deficit, free market country.

This is a book to keep on your desk, because it contains the lessons to keep in mind both in the task of governing and leading people, as well as to guide the substance of the policies that allow a nation to prosper.

While probably intended as a business book, there is wisdom in it that will reach and contribute far beyond. We should be thankful Charles Koch decided to share his experience with us.

Dario Paya
Member of Congress
Santiago, Chile

*The Science of Success* has already been translated into several languages. A Chinese version is scheduled for publication later this year.

On behalf of the people of Texas, I would like to thank you for your donation of $600,000 to the Texas Disaster Relief Fund in the wake of Hurricane Ike.

Your donation will help fuel the rebirth of the areas hardest hit, particularly along the Texas coast.

Yet again, Texans and Americans have demonstrated their unflagging dedication to helping their neighbors during a time of crisis.

Rick Perry
Governor
Austin, Texas

I read the quarterly newsletter *Discovery* with great interest. January’s issue was very informative.

One thing that struck me was that I didn’t know Angel Soft® was a Koch or GP product. I have asked my family to switch from Charmin to Angel Soft.

Now I am wondering how many other brands of Koch products are out there that I don’t know about.

I think if Koch company employees know about these products, they will buy them, thereby increasing sales. Do you think the company can produce something showing these brands?

Vijay M. Nadgir
INVISTA R&D leader
Wilmington, N.C.

Included in this month’s *Discovery* is a listing of some of the most popular brand names among Koch company products. The list emphasizes consumer products sold in North America as well as Europe, the Middle East and Africa.

Having been a scouter for many years, I want to express my thanks to Koch Industries for the generous land donation made to the Quivira Council of the Boy Scouts of America.

The old scout office and shop downtown is long overdue for upgrade or replacement. This gift from KII will have a positive effect on countless boys, their families and their leaders for decades to come.

Vance Klager
Flint Hills Resources
Wichita, Kan.

KII recently donated a total of nearly 16 acres in northeast Wichita to both the Boy Scouts and Rainbows United. Over the years, KII also donated land for the adjoining K-96 highway and nearby Stucky Middle School.
Brussels – Ten years ago, Georgia-Pacific introduced Lotus brand two-ply bathroom tissue in Belgium. Since then, Lotus and Moltonel (another GP brand) have become Belgium’s top sellers in the bathroom tissue category.

After re-launching Lotus last summer, sales jumped by 40 percent compared to the previous six-month period.

That’s the good news. But for 10 long years, there has also been some bad news.

Despite its popularity – and the earnest efforts of GP’s Belux sales team – Lotus was missing from the store shelves of Delhaize-le-Lion, one of the top three retailers in Belgium (and owner of Food Lion supermarkets in the U.S.).

That gap in store shelves was finally filled in February, when Delhaize agreed to begin offering Lotus tissue.

Perseverance and a popular product, it seems, are a tough combination to resist.

What did GP learn from this 10-year struggle?

“Never give up,” said Philippe Defacqz, general manager for GP - Belux, “and always believe that winning is possible.”

Kingston, Ontario – When your job is making a commodity, it can be easy to forget how much your attention to detail and product quality means to others. In some cases, it may mean the difference between life and death.

On Jan. 15, newscasts around the world focused on the emergency landing of a U.S. Airways jet in New York’s frigid Hudson River.

Thanks to the skillful landing by a veteran pilot, a well-trained crew and well-designed inflatable escape slides, all 155 passengers and crew members were able to escape and survive the crash.

“The inflatable escape slide on that aircraft was made from nylon yarn we produced at our plant in Kingston,” said Mark Delaplane, INVISTA’s global business director for nylon industrial specialties.

“The tubes were made from our 235-749 fiber, and our 940-715 was in the floor.”

Fibers from the Kingston plant have also been used in airbags for countless automobiles produced worldwide. Chances are, INVISTA fibers have helped save hundreds, if not thousands, of lives.

“Our team flies a lot, and you never want to see those slides deployed on your own flight,” added Delaplane.

“But it’s reassuring to know that INVISTA fibers, and our culture of quality, are there if we ever need them.”

Milan – The man famous for painting the Mona Lisa was much more than just an artist. He was also an accomplished philosopher, scientist and inventor.

Leonardo might be astonished to see what’s on display in his namesake museum at 21 Via San Vittore in Milano.

The Museo Nazionale della Scienza e della Tecnologia - Leonardo da Vinci is a world-class science museum. It not only displays functioning models based on Leonardo’s historic designs, but galleries devoted to modern technologies.

The museum recently opened an interactive gallery with examples of petroleum technology provided by Koch-Glitsch Italia, S.r.l.

This exhibit includes fractionation trays, packed tower internals and structured/random packing – vital components for petrochemical and refining plants – manufactured at Koch-Glitsch sites around the world.

“Chances are, thousands of schoolchildren, not just from Italy but from around the world, who visit this museum each year,” said Alessandro Attura, president of Koch-Glitsch Global.

“It was an honor to provide this display. But even more important is the contribution we are making to the education of future generations, a goal always supported by the Koch family.

“Who knows? The Koch name may inspire a future genius who just happens to become a petroleum engineer.”

Koch-Glitsch technology is now on permanent display in Milan.

WWW.MUSEOSCIENTIA.ORG

The Galleria Leonardo da Vinci in Milan, Italy.
Wet and Wild
Koch efforts to preserve wetlands and promote wildlife

Most people think of Kansas as a dry, wind-blown state where the buffalo roam amid amber waves of grain.

This is exactly the sort of place you wouldn’t expect to find shore birds, such as pelicans or cranes.

But, as a famous song says, “It ain’t necessarily so.”

Cheyenne Bottoms
Spread out over the middle of Kansas are 41,000 acres of wetlands that provide an important resting place for enormous flocks of birds as they migrate across the Great Plains.

And shorebirds stop to take a much-needed break during their trip south.

The area is also home for a variety of year-round inhabitants, such as fish, reptiles, amphibians and many mammals.

In addition to providing important habitat for a wide variety of species, Cheyenne Bottoms acts as a natural water filtration system. It purifies storm runoff by trapping silt and filtering out pollutants.

Time to learn
To help educate visitors about the significance of this natural resource, the Fred C. and Mary R. Koch Foundation has donated $500,000 to underwrite the new Koch Wetlands Exhibit at Cheyenne Bottoms.

This 2,000-square-foot exhibit hall, which opened April 24, includes a variety of displays explaining the history and significance of Kansas’ largest ecosystem. These displays integrate history, hunting, birding and farming.

Wildlife viewing areas are also provided.

The exhibit hall is part of the $4 million Kansas Wetlands Education Center operated by Ft. Hays State University.

The architectural plans for the Center incorporate an arc shape, echoing the circular encampments built by Plains Indians who once inhabited the site.

Numerous state, county and city governments, educational groups and non-profit environmental organizations have collaborated on this wetlands project, which has been in development for several years.

“This is a signature environmental project for Kansas,” said Liz Koch, president of the Fred C. and Mary R. Koch Foundation, “and one in which we are proud to play a role.

“As word spreads about the Center, we think our state will enjoy economic benefits that result from increased tourism and use of the Cheyenne Bottoms area.”

Continuing a tradition
Among Koch company employees, the Fred C. and Mary R. Koch Foundation is perhaps best known for providing hundreds of college scholarships to dependents.

But the foundation has also made millions in contributions toward environmental projects across Kansas – a tradition that reflects the environmental awareness of its founders, Fred and Mary Koch.

In addition to sponsoring the Koch Wetlands Exhibit, the Foundation has, in recent years, given $1 million to the Kansas Nature Conservancy.

That donation, the largest such gift in the state’s history, helped establish the Tallgrass Prairie National Preserve in the Flint Hills, Kansas’ first and only National Park Service site.

The foundation also provided a $300,000 grant for Koch Habitat Hall at Wichita’s Great Plains Nature Center, a popular field trip location for thousands of Kansas students.

At the grand opening of that facility, Charles and Liz Koch watched as a golden eagle did the honors during a ribbon-cutting ceremony.

Flying south
About 400 miles south of Cheyenne Bottoms (as the eagle flies), a different sort of environmental project is unfolding at Koch’s Matador Ranch.

Incorporated in 1882, the Matador Land and Cattle Company was owned by a group of Scottish investors for almost 70 years.

Fred Koch bought prime portions of this Texas ranch
“Just like you have to incorporate all five dimensions of MBM® to make it work, we measure our decisions based on the benefit they create for the ranch as a whole. “You don’t just look at the land, or the cattle, or the wildlife. You consider the whole thing. “Judging from our environmental awards and the smiles I’m seeing on hunters’ faces, we’re doing alright.”
Going Greener

If you’ve been in a Walmart recently, you’ve probably seen plenty of special displays celebrating Earth Month. As part of an effort by the world’s largest retailer to promote products with environmentally focused benefits for consumers and the world, Georgia-Pacific has provided Walmart with special packaging for GP’s Recycled Copy and Print paper.

GP is Walmart’s sole paper supplier in the office products category and provides the retailer with a recycled paper offering.

GP expects to sell at least 756,000 reams (378 million sheets) of this Recycled Copy and Print paper during Walmart’s Earth Month promotion, which began April 12 and ends May 13.

GP’s entire office papers line is certified by the Sustainable Forestry Initiative®.

To qualify as an SFI product, the wood fiber used has to meet several sourcing requirements. These include supporting family forest landowners, protecting threatened and endangered species, promoting reforestation and protecting water quality.

Although GP does not own timberland, it is a major processor of forest products.

“We are absolutely committed to helping ensure the future of plentiful and healthy forests,” said Scott Light, GP’s president of communication papers and office products.

“Sustainability is an important business focus for Walmart and Georgia-Pacific, and we both have strong stories to tell.”

Counting STARs

When 2008 came to an end, there were more VPP STAR-certified Koch company sites than ever before: 105 in all.

Optimized Process Designs rounded out the year with its first-ever VPP STAR certification in December. OPD is part of the Koch Chemical Technology Group, which has six other VPP STAR sites in four states.

VPP STAR certification is the U.S. Occupational Health and Safety Administration’s highest safety designation. To earn the award, a site must submit to months of in-depth investigation and review.

“Earning the VPP STAR requires hard work and real dedication on the part of the company and its personnel,” said Edward Garner, Region VI OSHA VPP coordinator. “We congratulate OPD and its employees.”

OPD provides design, engineering, fabrication, procurement and construction services for clients in the natural gas and gas liquids processing industries. It employs about 100 people at its facility in Katy, Texas.

Another ChemTech company, Cardinal Pumps in Salem, Ohio, is applying for its first-ever VPP STAR certification this year.

Georgia-Pacific's special packaging for Walmart helps educate consumers about the Sustainable Forestry Initiative®.

Noteworthy

Pride, Prejudice and Politics: Roosevelt vs. Recovery, 1933-1938 by Gary Dean Best

During the eight peacetime years of Franklin D. Roosevelt’s presidency, there was an absolute explosion of New Deal policies and programs, fueled by deficit spending.

Those who opposed these ideas were called “reactionary,” “unenlightened” or worse.

Clearly, F.D.R. was intent on “doing something” about the economic crisis that gripped the U.S. and much of the world.

The problem is, most of what he did, didn’t work.

Eight years after he was elected, U.S. unemployment stood at 14.5 percent, the nation had record deficits (unheard of since 1877) and one of the lowest industrial production rates in the developed world.

After analyzing why the New Deal didn’t work (ever-changing regulations, deficit spending, sharply higher taxes, loss of personal freedoms), how does Best suggest dealing with tough times?

“A wise president, entering the White House in the midst of a crippling depression, should do everything possible to stimulate enterprise.

“In a free economy, economic recovery means business recovery.”

Too True

“Government spenders create the very problem of unemployment that they profess to solve.”

– Henry Hazlitt
Making Headlines

These are tough times for the newspaper industry. In the U.S., scores of newspapers have cut staff and salaries. Some have reduced home delivery, become online only, filed for bankruptcy or just given up.

In Europe, struggling French papers have already received a government bailout. Local papers in the U.K. are disappearing at a rapid rate and recent predictions that Asian newspapers will grow steadily for the next 10 years now seem like wishful thinking.

Few people know that Koch Industries’ co-founder, Fred C. Koch, was the son of a newspaperman with more than 50 years of printing experience on both sides of the Atlantic.

Even fewer know that his mother was once the secretary of a newspaper publisher in Galveston, Texas, or that he was named after a newspaperman.

All that exposure to the newspaper business had a marked effect on Fred — but not in the way you might think.

**Family business**

Fred’s father, Harry Koch, was 21 years old when he immigrated from the Netherlands to the U.S. in 1888. It took his steamer 18 days to make the Atlantic crossing.

Harry found work at Dutch language newspapers in Grand Rapids, Michigan, and Chicago, Illinois, before migrating south to New Orleans. Along the way, he taught himself English.

Harry then worked at newspapers in Trinity, Austin and Galveston, Texas, before settling in the panhandle town of Quanah. (Koch was unhappy with the climate of East Texas, which he considered “malarial.”)

**The Chief**

In 1891, Harry bought the Quanah Chief, a weekly newspaper, from Fred Chase. Three years later, Harry sold the Chief and bought a competing paper, the Quanah Tribune. In time, the two papers merged.

Throughout his life, Harry was fond of technology. He reportedly installed the first “motive” printing press west of Ft. Worth. It was powered by steam.

Koch was president of the Texas Press Association in 1919, and also served as president of the North West Texas Press.

By his own calculation, he outlasted 50 competitors during his 52 years as Quanah’s primary newspaper publisher and editor.

**Rest of the story**

Although Harry’s newspaper succeeded in attracting people (and railroads) to Quanah, he never really prospered as a publisher.

During the drought years of 1902-1904, Harry Koch nearly went bankrupt. At one point he had just $3 to his name.

“The whole area was very poor,” recalls Charles Koch, “and people didn’t have the money to pay for their subscriptions. So they would pay in produce or chickens or eggs.”

Harry was 31 when he married Margaret Mixon of Eddy, Texas. They had two sons: John Anton Koch, born in 1898, and Fred Chase Koch, born in 1900.

Not long after his sons went off to college, Harry convinced the oldest, John Anton, to come back and help with the newspaper.

Fred, on the other hand, had no interest in joining the family business.

**Happy ending**

In 1932, 10 years after earning an engineering degree from M.I.T. and fresh from his success in building cracking units in Europe, Fred Koch decided to surprise his parents.

When Harry and Margaret returned from an extended trip, Fred picked them up at the train depot. But instead of driving to their old home, Fred pulled up in front of a stately brick house.

“Welcome to your new home, folks,” he announced.

While they were away, Fred had bought his parents a new house — the largest of its kind in Quanah — and moved in all their possessions.
For most of this decade, our business development group worked overtime to help various Koch companies make more than $32 billion in acquisitions and investments. But now, given the global economic crisis, we are rethinking everything – especially new acquisitions.

Unlike Koch Industries, many acquiring companies are now so overleveraged (debt-ridden) and undercapitalized (short of cash) that they cannot grow and may not even survive.

The challenge for KII’s business development group is to help our businesses find the best alternatives for investing capital in this extremely challenging environment.

Bye-bye bubble
What happened in the housing market also happened in the world of industry. That is, asset values and demand inflated at a phenomenal pace, fueled by government policies promoting cheap and plentiful debt.

“We are rethinking everything.”

Countless business acquisitions were made using extremely high leverage, even though higher debt levels involve significantly higher risk.

When the credit bubble burst, values began plummeting, leaving thousands of businesses (and millions of homeowners) owing far more for their recent purchases than they are worth.

You might think this devaluation represents an enormous buying opportunity. The problem is, even at today’s lower prices, most assets are still vastly overpriced.

It may take years to fully resolve this situation and absorb the excesses in our economy. Meanwhile, a flood of interventionist policies is making it even more difficult to find solid ground.

Three-step process
We believe our first priority is to ensure that existing Koch companies are on sound financial footing with optimized balance sheets.

We’ve made great progress in this area, but still have work to do. Second, we want to rethink our activities to ensure that we focus on existing or “organic” business activities that can be profitable now.

When capital is scarce, as it is in the market today, it is even more important to direct it toward those activities that create the most value for our customers.

Only after we have accomplished these first two steps can we begin to focus on the third: finding and making profitable acquisitions.

Unpredictable
There are plenty of “for sale” signs on assets these days, but predicting which assets will strengthen the competitive position of our existing businesses has become trickier than ever.

Faced with struggling economies and civil unrest, governments around the world are proposing an astonishing array of new monetary policies, taxes and regulations on top of far-reaching environmental and energy legislation.

Today, our biggest challenge is trying to understand this flood of new policies and the implications for all of us.

Aside from creating profound uncertainty for businesses, at least one thing is clear: it is now governments – rather than markets – that are determining which businesses and industries will be winners or losers.

Bigger government, decreasing property rights and fewer incentives to produce (because of higher taxes and other regulations) can only lower our level of prosperity and economic freedom.

Public sector partners
Because of this, a big part of our business development strategy is to work much more closely with the Koch Companies Public Sector team.

KCPS includes many of the public policy experts we need as we navigate these uncharted waters.

By working closely with KCPS, we hope to identify opportunities, defend against threats and avoid becoming competitively disadvantaged.

Together, we have to understand the long-term ramifications of government policy if we want to avoid making poor choices.

Given the current regime change in Washington (as well as changes in Europe and elsewhere), this is a daunting task. The more governments interfere in markets, the more prolonged our recovery will be.

What’s more, when governments end up taking over businesses and entire industries, then our own governments become – in effect – our competitors.

To not only prosper but survive in such an environment, we must be involved in the development and application of public policy.

Even though the rules seem to change daily, we will – as always – commit to 10,000 percent compliance, regardless of whether we agree with the policies in effect.

Staying competitive
As innovative problem-solvers, we still want to grow, experiment and try new things in hopes of delivering greater value for our customers and society.

I’m convinced there are likely to be tremendous opportunities at the end of this dark economic tunnel.

When this crisis ends, other businesses will likely be cash-constrained. We won’t be.

Until then, we’re happy to spend our capital strengthening our existing businesses.

We think that’s a great way to create value as principled entrepreneurs.
Koch companies’ products are everywhere we look - in our offices, homes and backyards. We walk on them. Wear them. Eat off them. We use them to clean spills or to keep spills from staining. Chances are, nearly every store you walk into sells a Koch company product. Next time you shop, look for these familiar brands.

Matador Ranch is launching a new online store, and employees of all Koch companies are invited to save 25% on apparel. Go to www.matadorranch.com/merchandise for a variety of camouflage clothing, ranging from lightweight nylon to heavy waterproof coats. Our selection also includes shirts for men, women and children.

Enter the code MATADOR01 at checkout to receive a discount, or bring this coupon on your next visit to the ranch. Limit one coupon per customer. Valid through July 31, 2009.