



THE QUARTERLY NEWSLETTER OF KOCH COMPANIES

JANUARY 2009

Dealing with Difficulty

The global economic downturn that began in 2008 is now affecting all Koch companies.

Few seem to think things will get better very soon, and many are convinced things could get much worse.

This negative environment has caused what some economists believe to be “demand destruction” — a long-term reduction in the overall demand for products or services.

Whether it is long-term or not, there has certainly been a reduction in the demand for many Koch company products, such as gasoline, wallboard and specialty chemicals, among others.

The worldwide economic slump has led to a reduction in not only volumes but margins. In fact, some Koch company products, such as gasoline and lumber, have actually been produced at a loss in recent months.

Misconceptions

In an era when many of the media seldom seem to do their homework, there are several

misconceptions about Koch companies that have the potential to compound our problems during these tough economic times.

For example, many people think of Koch Industries as an “oil company” that pumps crude. They also assume Georgia Pacific owns large swaths of timberland. In reality, neither is true.

Most Koch companies produce intermediate or finished goods, not basic raw materials such as crude oil or trees. That’s just one reason why last year’s record crude prices did not mean record profits for Koch Industries.

In fact, with so many large manufacturing sites and process-oriented companies, record-high energy prices were far from beneficial.

Declining energy and raw material prices in recent months have provided some relief to KII and its customers, but it would also be a mistake to assume KII’s profits are up because energy prices are down.

Perspectives

In this issue of *Discovery*, two of Koch Industries’ top executives, Charles Koch and Dave Robertson, weigh in on the crisis from both historical and practical perspectives.

As Charles Koch observes

in his editorial (pg. 12), there are some striking similarities between today’s crisis and the difficulties of the early 1930s. For Koch, the central question is: What did we really learn from the Great Depression?

Robertson, KII’s president and COO, believes there are several things we can do — at home and at work — to address these challenging times. His article (pg. 9) also looks into the significant opportunities that may result from today’s troubles.

The performance of Koch Supply & Trading actually grew stronger last year as the global economy worsened. Having a unique perspective and philosophical framework made all the difference for KS&T (pg. 3), which bodes well for other Koch companies.

Ultimate goal

The leadership of Koch Industries remains confident and even optimistic about the long-term prospects for Koch companies.

But there is also a firm conviction that we have no choice but to address our short-term challenges aggressively. Every business needs to make adjustments now if it is to be successful later.

The ultimate goal is to position every Koch company to take advantage of the opportunities that will likely emerge from these difficult times. ■



Since its founding in 1940, Koch Industries has encountered — and endured — plenty of tough times.

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It is my privilege to thank you for your compassion and willingness to help those whose lives were devastated during the grueling 2008 hurricane season.

Through your generous gift, our legion of volunteers mounted a significant relief effort in Texas, Louisiana and surrounding states to feed, shelter and counsel those affected by the storms.

Thank you for supporting our hurricane relief efforts and for being an integral part of a much larger cause.

Gail McGovern
President and CEO
American Red Cross
Washington, DC

Koch companies and employees donated more than \$1 million for relief efforts following Hurricanes Gustav and Ike.



What an amazing day we had at Koch Industries as we viewed the many toys that had been purchased for the children of Wichita.

In these difficult times, as the need increases, it is most heartwarming to see how Koch employees stepped up to meet those needs, setting a new record for giving with 1,035 angels helped!

May God bless you richly throughout the New Year.

Maj. Douglas S. Rowland
City Commander
Salvation Army
Wichita, Kan.

Georgia-Pacific's Angel Tree campaign in Atlanta served an additional 412 angels, bringing the total for all Koch companies to nearly 1,500 angels served.

In a true Adam Smith/Ayn Rand/Bastiat/Ricardo/Hayek world, Charles Koch would be our next President.

Koch understands that "a market economy functions best when governments do not attempt to influence outcomes with a political agenda."

This generation is entering an era of social and political unknowns not conducive to a free market. The consequences to our economy are yet to be defined.

James Schmitt
Westcountry
Investments
Charlotte, N.C.



Thanks for including me on the mailing list to receive your *Discovery* newsletter.

This afternoon I finally got an opportunity to read the October edition. While all of the articles provided worthwhile reading, I was particularly impressed with Steve Feilmeier's analysis of the global economic crisis.

Jim Graham
President, Kansas Council on
Economic Education
Wichita, Kan.



For those not on our mailing list, recent issues of *Discovery* are available online at www.kochind.com.

Steve Feilmeier's article is available at that site under newsroom, publications.

Vicki Truman (below), of INVISTA's tax department in Wichita, and her husband, Jet, pose before the 2008 White House Christmas tree.



Truman was selected by U.S. Rep. Todd Tiahrt to create an ornament (above) representing Kansas' 4th Congressional District.

The theme for the 2008 tree was "Red White and Blue."



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KOCH INDUSTRIES INC



Koch Supply & Trading



Former Georgia-Pacific chairman and CEO Pete Correll once said Koch Industries “could possibly be one of the largest and best-managed companies you’ve never heard of.”

Steve Mawer, the Houston-based president of Koch Supply & Trading, faces a similar challenge when introducing people to KS&T.

“At best,” joked Mawer, “most people – including a lot of Koch company employees – assume we’re just trying to buy low and sell high.”

Many also assume that most of KS&T’s work supports asset-based Koch companies, such as Flint Hills Resources, which operates refineries and chemical plants.

“That’s a very important part of our business, but by no means all. We work with hundreds of customers outside Koch companies’ asset base.”

Mawer believes it’s important for other Koch company employees to be aware of what KS&T does and why.

“If employees aren’t aware of or don’t understand us, we may miss opportunities to create value or, even worse, we may destroy value.”

Threefold focus

Charles Koch, KII’s chairman and CEO, includes trading among the six core capabilities that represent KII’s greatest competitive advantages.

Trading – which Koch says encompasses “point of view, strategy development, buying and selling assets, optionality, risk management [and] execu-

tion” – is considered essential for creating superior value.

“Because trading is a core capability of Koch Industries, it is exercised across all Koch companies in a variety of ways,” said Mawer.

“Here at KS&T, we apply our trading mentality to do three things: The first is to work with other Koch companies, especially Flint Hills Resources.

“Our specialized knowledge can help FHR optimize the purchase of certain feedstocks and help market some of FHR’s products. We also provide them with our point of view about national and global markets.

“Our second focus is providing risk management solutions for various customers,” ranging from small producers who want to hedge their metals production to multinational giants such as General Electric.

KS&T created the first jet fuel hedge/swap for a major airline and has done similar work for several U.S. trucking companies. Hedging allows these firms to lock in future fuel costs. That can be a huge benefit, especially in environments – like last year’s – with unprecedented price swings.

Inside the black box

Proprietary trading, KS&T’s third focus area, “is essentially an intellectual pursuit,” said Mawer. “So it can be difficult to describe verbally. For many, it’s ‘black box’ stuff and sometimes difficult to understand.”

Proprietary trading comprises both physical trading and paper trading.

Physical trading involves the purchase and transportation of commodities such as crude oil or gasoline. “For example, in 2002, we arranged the first-ever delivery of Russian crude oil to the U.S. Strategic Petroleum Reserve.”

KS&T often purchases Rus-

sian fuel oil, which is then shipped to other facilities for blending. “We’ve leased storage tanks near Houston that allow us to custom-mix components for our customers.”

Blending is a big business for KS&T. “We are probably the largest merchant gasoline blender in the United States,” said Mawer, “and one of the largest incremental suppliers of gasoline.”



Koch Shipping, Inc., charters an average of 400 tanker ships per year.

Mawer estimates at least half of KS&T’s physical trading business is international. “We not only have blending tanks in Houston, we lease tanks in Scandinavia, Singapore, the Netherlands and elsewhere.”

International growth

Many people assume that energy markets are heavily weighted toward the U.S. In reality, only one-fourth of the world’s energy business is in North America. Half is split between Europe and the Far East, with the remainder spread across the rest of the world.

“The globalization of energy markets has been a big driver in moving us to participate everywhere, not just the United States,” said Mawer. “Having global offices is key to our ability to watch the world and gain knowledge.”

Doug Beach, head of trading for Europe, calls KS&T’s recently opened Geneva office “a great success” that is already expanding. “The gas, power and emissions trading experiments of our London office have been very successful, too,



so there's great growth potential there as well.

"In general, we're seeing more growth in Europe than Asia because European markets are more open."

KII's chief risk officer, Michael Hofmann, contends that "KS&T is effective because its employees constantly interact in a way that allows all of them to make globally informed decisions.

"They act as a global team, not just a group of regional offices.

"By looking at global supply and demand trends – rather than just local or regional markets – they can do a better job of trading for KS&T and contributing to KII's knowledge."

What's more, explained Hofmann, "KS&T benefits global markets by providing price signals that help others make decisions. Those price signals help direct commodities toward their highest-value use.

"Price discovery (through signals) and liquidity are essential for markets. The breakdown of those factors contributed to the collapse of financial markets last year," Hofmann said.

Paper trades

KS&T's "paper" or non-physical trading involves financial products tied to a wide variety of commodities as well as emissions credits.

"The paper side of what we do is very analytical," said Mawer, "but it's hardly ever 'Gee, oil is going up so let's buy some.' Less than 10 percent of all the risk we take is tied to commodity prices going up or down."

Instead, KS&T tries to understand the relationships of commodity prices between locations, time frames, product types or differences in prices – such as those between crude oil and refined products.

In keeping with Market-Based Management®, KS&T applies specific mental models

and strategies to its trading operations. "We have a unique opinion about how the world works," said Beach, "and how members of a value chain want to interact."

Even in an age when information is transparent and readily available, Beach believes different customers will have different behaviors. "We try to anticipate those individual behaviors so we can help those companies meet their needs.

"Our competitive advantage is that we have a specific understanding, built through research and experience, that gives us above-average knowledge of how commodity value chains work."

Mawer and Beach point to BP and Goldman Sachs as a way to compare and contrast trading strategies.

"BP," said Mawer, "built some of its advantages over time by owning dozens of refineries. Their point of view has been formed by broad-based and direct participation in refining markets.

"Rather than buying dozens of physical assets, we take a more intellectual approach. We try to assess how markets and customers need things, which leads to a tighter focus."

"Companies such as Goldman Sachs," added Beach, "put a lot of effort into building large workforces to cover entire markets for customers. Our approach is to understand just a few critical parts of the process."

How does it work?

If there's a serious shortage of fuel oil in a certain location, one way to address that issue is for a supply company to send a shipment of fuel oil. This may take several days or even weeks.

As Mawer explains, KS&T's approach is more proactive.

"In the paper market, you can

look two months out and sometimes see a high probability of a shortage in a particular location. If we believe there won't be enough product, we may buy futures for delivery there.

"This sends a market signal that actually increases the flow of product to that location now, which helps prevent a crisis in two months."

"We create value in ways that are often less obvious but just as real."

– Steve Mawer

Regulators who want to restrict or ban paper trading often overlook such benefits.

"For example," said Mawer, "we work with many ethanol producers that can't borrow enough money in today's credit markets. They want to sell forward (a paper trade involving future production) as a way to help raise capital.

"If the U.S. government takes away that option, it will severely limit an industry they say they want to promote."

Awareness

Although KS&T is seldom in the news, it did gain notice last year for its decision to buy surplus crude oil and store it on tanker ships.

"As the market became gridlocked because of capital requirements," explained Mawer, "there was a surplus of oil because fewer firms were buying. We became a market for that surplus oil, because we were willing to store it until a time when it will be more attractive.

"What that did was provide a cushion to the market that helped ensure a continued flow of product. That's a lot of what we do. We keep systems – and money – flowing.

"Our goal," said Mawer, "is to create a lot of real, long-term value – not just for Koch companies, but for our customers and communities." ■



Jan.2

Crude oil trades at \$100/bbl for the first time.



Jan.23

Koch Carbon's Bay Area facility is awarded California VPP Star status.

Feb.6

Charles Koch speaks to a gathering of GP employees in Brussels, Belgium.



Feb.7

Start-up of a new \$350 million paper machine at GP's Wauna, Ore., mill to make new Brawny® paper towels.



Mar.7

INVISTA sells its North American polyester tire cord/filament business.



Mar.13

Gold trades for \$1,000/oz.

Apr.9

Koch Pipeline receives the American Petroleum Institute's top safety award for an injury-free year in 2007.



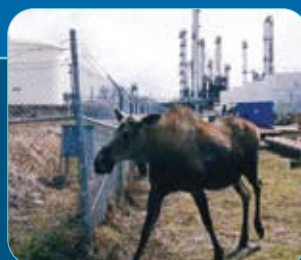
Apr.23

KII's office tower building in Wichita earns an Energy Star award from the U.S. EPA.



May.12

Following a devastating earthquake in China's Sichuan province, INVISTA and its employees donate 1.7 million RMB (\$258,000) toward relief efforts.



May.12

FHR announces plans to review strategic options for its North Pole, Alaska, refinery.

Jun.3

Barack Obama clinches the Democratic nomination for President of the United States.



Jun.10

FHR's terminals earn the International Liquid Terminals Association's highest safety honor.



YEAR IN RE

FRED C. MARY R. KOCH FOUNDATION



Jan.25

Online applications for Fred C. and Mary R. Koch Foundation scholarships are accepted for the first time.



Jan.30

FHR's Corpus Christi team sponsors Fiesta de los Niños (a fundraiser for Driscoll Children's hospital), helping raise a record \$585,000.

Feb.14

Announcement of a \$400,000 grant from the Fred C. and Mary R. Koch Foundation for Kansas State Univ.'s Project Impact diversity initiative.



Feb.21

John Zink Institute's flare and burner courses become the first (and only) such training to receive API certification.



Mar.26



Koch Nitrogen announces sponsorship of a Habitat for Humanity home in tornado-ravaged Greensburg, Kan. Products for the home were donated by GP.



Mar.31

John Zink's Ultra Low Emission flare, designed for use in landfills, becomes the first to meet exceptionally stringent California emission requirements for biogas applications.

Apr.24

Koch Nitrogen enters into a UAN production agreement with Dyno Nobel.



Apr.25

Koch Membrane Systems announces plans to double its production capacity in Massachusetts.



May.13



Pine Bend refinery receives the Minnesota Governor's Award for excellence in workplace health and safety.



May.29

Koch-Glitsch is awarded OSHA VPP Star status for its Houston facility.

Jun.15

The London Journal of the Institute of Economic Affairs publishes its review of Charles Koch's *Science of Success*.



Jun.26

GP volunteers in Atlanta complete their 18th Habitat for Humanity home. GP employees have donated more than 41,000 hours of labor for such projects.



VIEW 2008



Jul.7

Average U.S. retail gasoline prices peak at \$4.108 gal.



Jul.11

Crude oil prices reach a record high of \$147.27/bbl.

Aug.5

FHR announces more than \$250 million in new construction projects at its Corpus Christi refinery complex.



Aug.15

Announcement of the formation of Koch Asset Management in Scottsdale, Ariz.



Sept.7

The world's biggest-ever nationalization: the U.S. government seizes control of Fannie Mae and Freddie Mac, the country's largest mortgage associations.



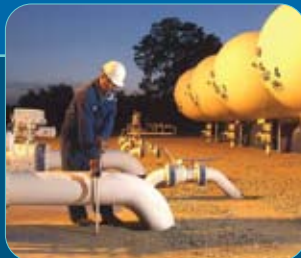
Sept.9

Koch Specialty Plant Services becomes the first in its industry to earn VPP Star certification for a mobile workforce.



Oct.1

Koch Pipeline Co. is named one of the United States' safest companies by Occupational Hazards magazine.



Oct.3

U.S. President George W. Bush signs a \$700 billion bailout plan in hopes of easing the credit crisis.



Nov.3

FHR's Pine Bend Refinery is recertified as a Minn\$TAR worksite, Minnesota's highest safety designation.



Nov.4

Barack Obama is elected 44th President of the United States.



Dec.16

The U.S. Fed cuts its key lending rate to the lowest level ever: 0.00 - 0.25%.



Dec.19

Despite OPEC's decision to cut production (again), crude prices drop to the lowest level of the year: \$33.87/bbl.



Jul.15

Exchange rate for the euro reaches a record \$1.6038.

Jul.16

INVISTA's Victoria, Texas, intermediates facility earns VPP Star status.

Aug.24

Closing ceremonies of the 2008 Summer Olympics in Beijing. Several gold medalists competed in garments made from INVISTA fibers.



Aug.29

John McCain introduces Alaska Governor Sarah Palin as his Vice-Presidential running mate.



Sept.14

Hurricane Ike strikes Texas, damaging several Koch company plants, temporarily closing some offices and destroying at least 80 employee homes. Koch companies donate \$1.1 million in disaster relief.

Sept.24

Koch Fertilizer acquires assets of Usborne Fertiliser Ltd. in the U.K.

Oct.29

The Matador Ranch welcomes the first guests at its new 10,000-sq. ft. hunting lodge.



Oct.31

The MinnCann Project's 300-mile pipeline expansion becomes operational.



Nov.5

FHR announces the 2009 closing of its Odessa, Texas, chemical plant.

Nov.26

The Beaverhead Ranch and GP's Savannah River mill receive international recognition for wildlife habitat conservation from the Wildlife Habitat Council.

Dec.19

U.S. automakers GM and Chrysler get a \$17.4 billion government bailout.



Dec.31

The Dow Jones Industrial Average closes at 8,776.39, down nearly 34% for the year.



Maintaining balance



By Dave Robertson
President and COO
Koch Industries, Inc.

Nine years ago this month, my predecessor, Joe Moeller, sent an important e-mail to all Koch company employees. It was a “Call to Action” that talked about the urgent need to get our affairs in order at a time when many of our businesses were suffering.

Back then, we had created many of our own problems. Too many of our businesses were overstaffed or unconcerned about costs. We were funding experiments as if they were proven winners instead of pure speculation.

Today, the primary source of our problems is external rather than internal, as in 2000. We now face a global economic crisis that is affecting all of our businesses.

Ripple effects

Koch Fertilizer was our most-improved business last year, turning in record results. It was a shining star throughout most of 2008.

But what happened toward the end of the year? Fertilizer prices dropped by 85 percent in less than a month. Demand

disappeared, in some cases, pushing market prices below the cost of production.

Of all Koch companies, it’s fair to say that Georgia-Pacific has been forced to deal with lower demand longer than any other.

As GP employees know all too well, housing construction began declining two years ago and recovery for that market is still nowhere in sight. Consequently, demand for GP’s building products is down by double digits.

Over at INVISTA, demand for certain nylon products dropped by more than half in 2008.

With auto, clothing and housing sales down, is it any wonder that demand for the fiber used to make airbags, apparel and carpeting has plummeted?

Flint Hills Resources endured a year of dwindling refining margins in 2008 and has already announced plans to shut down a chemical plant this year.

Even Koch Chemical Technology Group, which had a record 2008, is seeing fewer new orders and some cancellations of existing orders.

To be clear, Koch Industries is still a profitable and healthy company. But there can be no doubt that the challenges of today’s struggling economy are affecting all of us.

Who knew?

One year ago, who knew that U.S. retail gasoline prices would hit \$4 per gallon and then drop to less than \$1.50 per gallon in just five months?

How about global crude prices dropping from more than \$145 per barrel in July to less than \$34 before Christmas?

Who knew that some of the world’s biggest banks and insurance companies would implode, or that a single scam artist could cause losses that exceed those of Enron or MCI?

As Charles Koch has often reminded us, the future is unknown and unknowable. The only constant is change.

So, how do we deal with

such traumatic and unexpected change?

Perhaps the simplest answer is to do many of the same things at work that you’re already doing at home.

Home and work

At home, you’re probably spending less and saving more. These are two of the most common, and prudent, responses to our challenging times.

That may mean eating out less often or less expensively, downscaling or postponing vacation plans, avoiding new debt or waiting a little bit longer before making any expensive new purchases.

It’s important to note you’re not giving up any necessities, such as food, clothing and shelter. But you’re probably a lot more careful about what you spend and how you spend it.

At work, the same is true across all Koch companies. We are avoiding unnecessary expenses, postponing major projects and trying to keep our inventories and workforce in line with customer demand.

This is not a pleasant or easy process, but it is an essential one.

Speaking of essentials, we refuse to cut corners on safety or compliance. But we’re more than willing to cut capital spending for optional projects – especially those with questionable prospects.

All of a sudden, living within your means has become fashionable.

I know from experience that it doesn’t take many plant closings, idling announcements or headcount reductions before everyone seems to be asking the same questions: Is my job at risk? Will my role change? What is the future for my company?

I cannot predict the future, but I can share some specifics about how we’re applying our market-based framework to deal with these challenging times.

Specifics

First, it's important that we all maintain a balanced view of our circumstances. Tough times do not have to mean total gloom and doom.

However, because the external economy is so bad, our internal discipline has to be sharper than ever. The severity of what we do internally is driven by the severity of external markets.

For example, in today's economic environment, re-investing in assets to improve their reliability doesn't make as much sense as it used to make.

When the demand and margins for a product are high, we want our plants making that product to run as close to capacity as is safely possible, because we don't want to miss any sales.

But, if demand or margins drop, it's no longer as important to run at 98 percent capacity 24/7. We may choose to run at 90 percent or less, or even incur some additional down time.

Working capital

Similarly, because liquidity has become such an issue, we have to think differently about how or when to spend. In today's markets, we need to conserve capital, so we're rethinking our entire approach to inventory levels.

In the past, we may have carried extra inventory so we could always say "yes" when a customer asked for immediate delivery. Today, we cannot afford to carry excess inventory in the hopes that someone might order it soon.

Most customers would love to be given extended payment terms. When you're short on cash, it's always more appealing to pay in 60 or 90 days rather than 30.

But we can't make those kinds of changes unless we are compensated for them. In fact, we may need stricter payment terms for some customers.

Since we are customers ourselves, we also need to be

aware of the financial health of our vendors and suppliers. If we are relying on just one vendor to supply a critical product, what happens if that vendor goes under?

Today's challenge is to be better than ever at evaluating risks – internally and externally – in light of today's turbulent economy. We must also scrutinize every cost and be better than ever at relentlessly eliminating waste wherever possible.

Changes

By taking this approach, we are likely to travel less often, hire fewer people and acquire fewer assets. Salaries and wages are now much less likely to rise.

As a private company, we have always focused on creating real, long-term value. We don't have to play the game of trying to meet analysts' quarterly expectations.

Even so, we are adjusting our time preference during these tough times. This means we must focus on driving benefits and profits sooner rather than later.

Because of the lack of liquidity in the marketplace, we're postponing projects that require several years to achieve a payout.

We are not giving up on innovation or the need for new product development, but we are giving priority to those innovations and investments that will provide a quicker payback.

Expectations

As an employee, you need to be intellectually honest in assessing your activities. Make sure what you're doing really contributes to our current priorities.

If you are part of a team that was built to support a growth strategy for a particular product, and there is no longer much of a market for that product, you need to be thinking about other ways to contribute.

If you are an administrative



assistant or hourly line worker, don't be afraid to challenge your boss by asking: What can I do more of? What else needs to be done?

If you're a leader, you must know your customers, stay connected with your suppliers and develop even better market knowledge. Creative destruction pretty much guarantees that you've got to be constantly rethinking what your team is doing and how it is done.

A note of caution about making adjustments to account for the times...

When margins are squeezed and plants are facing overcapacity, compliance becomes more important than ever. Far too many companies succumb to stress by trying to cut corners or colluding with others during tough times.

For us, such actions are absolutely unacceptable. Principles one and two, integrity and compliance, cannot be compromised, ever, for any reason.

Until then

Perhaps the most important thing I can share with you today is my firm belief that the opportunities of a lifetime await us at the end of these tough times.

When we emerge from this struggle, I suspect bargain prices for assets will abound. We will have chances to expand like never before.

By making difficult but necessary decisions today, we will be ahead of the curve in capturing the opportunities of tomorrow. ■





Noteworthy

We The People

A giant screen film.

It's hard to say what the United States' founding fathers would have thought about an IMAX movie screen 75 feet wide and five stories tall.

But thanks to that giant screen, it will soon be easy to see what those same patriots had to say about life, liberty and the pursuit of happiness.

"We the People" is a 40-minute IMAX film devoted to the lasting importance of the United States' founding documents. It is scheduled to debut this summer at the Kansas Cosmosphere.

In this documentary, the Declaration of Independence, Constitution and Bill of Rights are brought to life through reenactments, archival images and narration (by Morgan Freeman).

The movie is part of a comprehensive educational program being offered to teachers by the Bill of Rights Institute. The Charles G. Koch Foundation is one of several sponsors of the film.

"We the People" will play several times daily (probably for years to come) at the Smithsonian Institution's IMAX theater in Washington, D.C., as well as at other IMAX theaters across the nation.

DVD and standard-sized theatrical versions will also be available for educators.



"I cannot undertake to lay my finger on that article of the Constitution which granted a right to Congress of expending, on the objects of benevolence, the money of their constituents."

- James Madison

Billion-dollar brand

When Georgia-Pacific launched Angel Soft® bathroom tissue in 1986, it was hard to find the brand anywhere but at a Walmart store.

Today, Angel Soft is not only a top seller for Walmart, it is one of America's most popular brands, available at dozens of different retailers.

Thanks to its widespread popularity, Angel Soft is the first GP brand to ring up one billion dollars' worth of retail sales in a 52-week period.



The 24-pack of Angel Soft is Dollar General's top-selling item.

Demand is so strong that it took eight plants in as many states to make the more than 46 million cases of Angel Soft sold last year.

Earning its wings

There were two milestones in the development of Angel Soft that proved to be crucial in GP's efforts to build the brand.

The first milestone came a year after the product was launched, when GP succeeded in getting the product placed in the Food Lion grocery store chain. This helped establish Angel Soft as a legitimate brand in grocery stores.

Thanks in part to that strategy, Angel Soft was able to capture an impressive 6 percent of the \$2 billion U.S. tissue market in less than two years.

The second milestone came in 1988, when GP debuted television commercials featuring



This ad campaign made Angel Soft a household name.

cloudscapes of cherubic babies with miniature wings. That ad campaign helped establish Angel Soft as an affordable brand of premium bathroom tissue.

The soft-spoken voiceover talent for those memorable TV commercials was Sterling Holloway. Holloway, a Georgia native, is best known as the original voice for Walt Disney's animated version of Winnie-the-Pooh.

Soft tissue, hard work

The original Angel Soft production sites were in Crossett, Ark., Palatka, Fla., Plattsburgh, N.Y. and Bellingham, Wash.

Today, the production of GP's most popular bath tissue requires 35 production lines at eight different facilities, including three of the original four.

One customer – the Dollar General chain, with more than 8,000 stores in the U.S. – accounts for 11 percent of all Angel Soft sales. The 24-pack of Angel Soft is Dollar General's top-selling item.

In addition to high-tech production facilities, GP is using high-tech advertising options, such as an Angel Soft Web site with print-on-demand coupons. That site includes a "Toilet Tissue through the Ages" feature.

According to GP, the Bureau of Imperial Supplies in China was making toilet paper more than 600 years ago. Back then, the average sheet measured about two feet by three feet. ■



By Charles Koch
Chairman and CEO
Koch Industries, Inc.

One year ago on this page, I wrote “we could be facing the greatest loss of liberty and prosperity since the 1930s.”

Sad to say, that prediction is coming true.

We now know the U.S. economy has been in recession for more than a year. Most of the world’s economies are suffering too, with no end in sight.

When trying to overcome such dire economic circumstances, it is essential to learn from what has and has not worked in similar circumstances in the past. And we need to not only remember, but to understand the past.

History lesson

The closest parallel to our situation today, both economically and politically, is the early 1930s. Although there are differences, there are striking similarities.

In both instances, free markets were blamed for problems caused by misguided government policies, which led to additional interventions. This ratcheting up of interventions led to long-term economic decline.

For example, the U.S. Federal Reserve began a monetary expansion in 1927. This led to a stock market bubble, which the Fed, in 1928, felt it needed to pop.

The resulting deflation, combined with the anticipation of other interventions, caused the stock market to drop nearly 50 percent in just two months.

If these interventions had been avoided, there is no reason to believe we wouldn’t have escaped with a short-term, if severe, market adjustment rather than an historic depression.

Instead, having caused a crash, the government quickly began looking for others to blame – especially bankers, brokers and businessmen.

Sound familiar?

Getting it wrong

Far from being a champion of minimal government intervention in markets, as is commonly believed, President Herbert

Hoover launched the most interventionist economic program in U.S. history.

Hoover supported record income tax hikes and devastating import tariffs. He also initiated an explosion in government power by creating massive new programs.

Far from helping, these programs created a destructive uncertainty that discouraged investment and entrepreneurship and contributed to the decline.

Unfortunately, most of us (and our children) have been told or taught just the opposite – that Hoover was a *laissez faire* President who let unregulated markets get out of control. Nothing could be farther from the truth.

Making matters worse

When Franklin D. Roosevelt came to power after Hoover, he compounded the uncertainty by pursuing a change policy of “bold, persistent experimentation” to end the Depression.

This approach, instead, extended and amplified Hoover’s mistakes. FDR’s actions fundamentally changed the government’s role in the economy, and prolonged and deepened the decline.

Rather than following the philosophy that government “can only exercise the powers granted to it” by the U.S. Constitution (as expressed by Chief Justice John Marshall in 1819), Roosevelt changed it to one in which the government has all powers not expressly forbidden by the Constitution.

Prior to 1936, U.S. federal regulations covered 2,600 pages. By adopting Roosevelt’s philosophy, they have since mushroomed to 72,000 pages. Non-defense spending skyrocketed as dozens of new government agencies (many of them still with us today) were created.

Personal income tax rates increased and new taxes, including corporate “excess profits” taxes as high as 90 percent,

were imposed.

The Great Depression saw the most far-reaching and abusive use of executive privilege in U.S. history. FDR issued 3,466 executive orders, nearly as many as the combined total for all his successors.

What did all that spending, regulation and intervention accomplish?

None of it, including Roosevelt’s massive public works programs – solved the problem. In fact, under FDR, unemployment was still more than 23 percent at the end of 1934, and remained at double-digit levels until World War II.

Businesses, faced with the uncertainty created by invasive and ever-changing government policies, curtailed investment. Thus, share prices remained low. (The stock market did not recover to pre-crash levels until 1954.)

Tough lessons

The responses we’ve seen to today’s economic crisis make me wonder if we have learned anything at all from the sobering lessons of the past.

Once again, our government has allowed a yo-yo monetary policy to distort economic reality and wreak havoc on the stock market.

Once again, massive government interventions – including bailouts, takeovers and make-work programs – are being offered as the “solution” to our economic problems.

Once again, leaders are suggesting we can solve the problem by creating even more government agencies while piling on even more regulations.

Once again, the government – rather than the market – is picking who wins or loses.

It is markets, not government, that can provide the strongest engine for growth, lifting us out of these troubling times.

If we are foolish enough to ignore some of the most painful lessons of history, then we will almost certainly make the same mistakes on a devastating scale.