ARNOLD MACHINERY COMPANY

THE FIRST 75 YEARS

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by Virginia Rainey

ARNOLD MACHINERY COMPANY
Salt Lake City, Utah
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FOREWORD

This company history highlights pivotal moments in the life of Arnold Machinery Company. Its purpose is threefold:

- To honor and commemorate Arnold's 75 Year Anniversary
- To present stories of interest to all associates, past and present, and to manufacturers, customers, and potential customers
- To reinforce the message that Arnold is built on a strong foundation, has longevity and is well-poised for the future

As such, it must appeal to a wide range of audiences, which is always a challenge. Some readers will be more interested in the company's early beginnings and its place in history, and some will be more interested in the recent past and the future; some will be interested in the operating philosophies and financial information. Hence, we included a balance of all.

The book includes reminiscences and quotes from a range of people who have been or are currently associated with Arnold Machinery in some way. Much of the early history, from 1929 to 1980 comes from detailed documents provided by Ray and Bob Arnold, both past company CEOs and sons of L.E. Arnold, the company's founder. The history of Tractor Implement, a past subsidiary of Arnold, is based on a document written by Al Byerline. Frank Seal, former president of General Implement Distributors (GID) provided additional written background for the early history of GID.

Material from the mid-1980s on was provided by chairman of the board Al Richer; CEO and president Russ Fleming; CFO and executive vice president Kayden Bell; Rex Mecham, president of Material Handling Division; Buz Nelson, president of General Implement Distributors, and Tom Younger, president of Construction and Mining Division, along with other current associates and board members. Thanks also goes to Ken Koehler, manager, advertising and corporate relations and Virginia Rainey, writer/editor.

We hope this book provides you with an understanding of our rich heritage. Special thanks to all associates, past and present, whose dedication, loyalty, and hard work have contributed to Arnold Machinery's success. We would also like to thank the customers and manufacturers who have contributed to our growth from the beginning to the present. In addition, there were and are many other people whose dedication and efforts, both large and small, have contributed to Arnold Machinery's status today. We appreciate you all. We hope the following pages give you a good snapshot of 75 incredible years, and that you will join us in looking forward to the next 75.

INTRODUCTION

Since its beginnings in 1929, Arnold Machinery Company has grown along with the Intermountain West. From the Great Depression to the ups and downs of the farming, building, mining and warehousing industries, and through a major change of ownership—from the founding Arnold family to chairman of the board Alvin Richer, it has survived and thrived. Today it is one of the few distribution businesses that can say it has made it to the 75-year mark—intact, and with a gleaming bright future.

The company's story is one based on integrity, respect for all, ingenuity and extreme flexibility, in both good times and bad. In today's business climate, the longevity of Arnold Machinery Company is a feat in and of itself, and we are justifiably proud of that. But that longevity hasn't come about effortlessly. Rather, it is the result of hard work, strategic partnerships and acquisitions, and deft moves within the company's internal structure.

Like the quality equipment lines it represents, Arnold Machinery Company has evolved and been fine-tuned over the years. Through it all, we have stuck to our core values—always willing to do what is right regardless of cost. As chairman Al Richer puts it, "Customer Satisfaction Is Our Only Policy®." Paradoxically, this is the most profitable course for us, and we have countless examples that bear that out. We hope the following pages will give you more insight to our past, present, future, and the Arnold Machinery Company way of doing business.

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WHO WE ARE

This history generally follows Arnold Machinery's progress year by year. However, because it sometimes references the past or the future when describing events, it is not completely linear (For chronological historical highlights, please see the Timeline on pages 49 to 52). Locations and equipment lines have come and gone, and over the years, the focus and structure of the company have changed, so the following outline of the organization is helpful in understanding the company's business as it stands at its 75th anniversary, in 2004.

Arnold Machinery consists of three operating entities: The Construction & Mining Equipment Division, Material Handling Equipment Division and General Implement Distributors Division, supported by financial services to provide its customers with the most comprehensive parts, equipment service, and product availability. Industries served and services provided by each entity are listed below.

Arnold Machinery's distribution coverage extends throughout the western United States. With headquarters and facilities in Salt Lake City, Utah, Arnold has full-service branches strategically located in: Boise, Idaho Falls, and Twin Falls, Idaho; Reno, Elko, and Las Vegas Nevada; Phoenix, Tucson, and Flagstaff Arizona; Woodburn, Oregon; and Billings, Montana. In addition, the Company has sales and service representatives in St. George, Utah.

ARNOLD'S THREE OPERATING DIVISIONS

CONSTRUCTION & MINING EQUIPMENT is a full service distributor. The division provides sales, service and parts throughout the western United States.

Industries Served

- Mining
- Aggregate Processing
- Landscaping
- Government Agencies
- Construction
- Environmental
- Agriculture
- Communication

Services Provided

- New and Used Equipment
- Repair and Maintenance
- Parts
- Rentals
- Rebuilt/Exchange Components

MATERIAL HANDLING EQUIPMENT is a full service distributor supplying equipment wherever moving or storing materials is required throughout the western United States.

Industries Served

- Warehousing
- Manufacturing
- Agriculture
- Mining
- Lumber
- Construction
- Fabrication
- Government Agencies

Services Provided

- New and Used Equipment
- Rentals
- Repair and Maintenance
- Parts and Tires
- Rebuilt/Exchange Components

GENERAL IMPLEMENT DISTRIBUTORS is a wholesale distributor of short-line farm implements supplying local farm implement dealers through the Intermountain Area and the Pacific Northwest.

Industries Served

- Farm Implement Dealers

Ag Areas Served

- Hay
- Beef
- Dairy
- Potato
- Grain
- Cotton

Services Provided

- Short-line Farm Implements
- Farm Implement Units
- Parts
- Maintenance Support
- Field Demonstrations
- Co-op Advertising
- Product Service Information

CHAPTER 1
Company Beginnings

As the nineteenth century gave way to the twentieth, mechanization was just beginning its transforming power on life in America. Henry Ford's first car rolled down the streets of Detroit in 1896. The Wright brothers began the age of air flight at Kitty Hawk in 1903; by 1908, people all over the country were behind the wheels of Model T's.

In the midst of it all, Louis Earl Arnold, founder of Arnold Machinery Company was beginning his life's adventure. Born in 1875, he graduated from Knox College in 1897 and from the Chicago Dental College in 1900. Then he decided to head west—before the states of Arizona and New Mexico had even been admitted to the Union. The rest, as they say, is history—spurred on by pure serendipity and then refined with business acumen and participation in a growing country.

Just after he graduated from dental college, "Doc" Arnold as he came to be known, took on the job of accompanying the body of a young boy who had been hit by a train in Galesburg to the boy's home in Hailey, Idaho. Since Doc was already heading that direction, Idaho seemed as good a place to start as any. Once he arrived in the small western outpost, Doc found a ready-made position as a dentist, stepping in for the town dentist while he went on vacation. Salt Lake City, a metropolis compared to Hailey, soon beckoned, however, and Doc moved there to set up his own practice. He continued it for 13 years. During that time he married his college sweetheart, Marie Raymond, also a Knox graduate. They had three sons: Ray, Frank, and Bob. Doc's youngest son, Bob Arnold, recalled, "Dad was raised on a farm and knew all about horses. When he came


Louis Earl "Doc" Arnold

out west, he rode all over the mountains. He loved it so much he never moved anywhere else."

Before Arnold Machinery was born, it happened that a couple of floors above Doc Arnold's office in the Walker Bank building on Salt Lake's Main Street, there was a gentleman named D.C. Dunbar who had a thriving factory agent's business selling cast iron pipes to small towns and cities throughout Utah and the Intermountain area. It was a time of growth and excitement everywhere, and the prospect of being a part of it intrigued Doc Arnold. He decided to go to work for D.C. Dunbar, taking a pay cut to work at $150 per month, as a salesman. "My dad certainly turned out to be more of a salesman and an entrepreneur than a dentist," said Bob Arnold. "He liked to get out and meet people. I learned a lot about that when he took me along on business trips. He always had a sense of adventure about him. He always wanted to see what was around the next corner and over the next hill." Around this time, the Public Works Association (PWA) was in the business of helping towns and cities finance water systems. Doc Arnold was right in the middle of it, selling everything from pipes and hydrants to water delivery systems. He traveled throughout Utah, eastern Nevada, and western Wyoming. He thrived on that life, earning around six thousand dollars a year. In 1920, B.F. Arnold, Doc's father, died and left a substantial estate, putting around $10,000 in Doc's hands. Meanwhile, D.C. Dunbar continued to thrive and Doc had acquired about 150 shares, approximately half of the stock of the corporation. As time and business marched on, Doc and other partners remained stockholders, continued to keep offices in the Walker Bank Building, and carried a small inventory in a local warehouse. On April 13, 1923, Doc signed a purchase agreement to buy the balance of Dunbar's stock and Dunbar was no longer active in the company.

Waterworks to Tractors

In February 1925, the charter of their corporation was amended and the name changed from D.C. Dunbar to Waterworks Equipment Company. The company moved to 149 West Second South in Salt Lake City (across from what is now the Salt Palace Convention Center). Doc Arnold owned the property and leased it to the corporation. By this time, communities were using cast iron pipes for water delivery systems, moving away from woodstave pipe. Dunbar Company was sales agent for the McWane Cast Iron Pipe Company and this line became a mainstay of the Waterworks Equipment Company. Shortly thereafter, Doc Arnold decided to expand operations by getting into the machinery field. His first lines were

Early Northwest Shovel

Northwest Shovels and Spears-Wells Road Graders, both integral to the growth of small towns, as woodstave pipes were continually being replaced with cast iron and there was always a need for construction equipment.

Joseph (J.W.) Plant joined Waterworks in 1928 to develop construction machinery sales. At that point, company principals decided that the machinery and waterworks supply businesses were entirely different from one another and should be separated. (This separation of equipment distribution entities carried on through Arnold's entire history). So, on January 6, 1929, the Stannard-Arnold Machinery Company was born, with L.E. "Doc" Arnold as president and F. C. Stannard as vice president.

STANNARD - ARNOLD'S FIRST YEAR SALES TOTALED
$137,243;
GROSS PROFIT WAS
$27,235;
NET INCOME WAS
$4,627

Ray Arnold Steps In

By 1930, Ray Arnold, Doc Arnold's oldest son, joined him in the business. Ray, who was born in 1907, and also graduated from Knox College (which was founded by the Arnold family), went to work for $75 a month. "Ray was always the manager and consensus builder, the one who took care of everything," recalled Bob Arnold. "What a lot of people may not realize is that dad suffered a heart attack three years after Ray came on board, and Ray ended up running most of the business for a while until dad recovered." It was a heavy responsibility for a young man just out of college. The company was suffering from losses on its line of Austin-Western rotary crushers, which required a substantial amount of service. America was, of course, in the midst of the Great Depression and its hold on the country affected every aspect of life. But farming was a critical, ongoing business, especially in the west, so the company was able to keep its head above water.

In August 1930, Stannard-Arnold took on the wholesale distribution

Ray Arnold

of Fordson Tractors throughout Utah and Idaho and parts of Wyoming and Nevada. This marked their entry into farm machinery at a time when farmers then were still using horses to pull their equipment. In fact, in the early days, horses were often traded for Fordson Tractors. In the beginning, the tractors were made in Cork, Ireland and imported by the Ford Motor Company of Detroit and sold to distributors throughout the U.S.

Other lines added that year included Electric Steel Foundry crusher jaws and manganese castings, Shunk Manufacturing Company Grader Blades, and Rowe Manufacturing Co.. They also included Standard Steel Works who made dump bodies, which were sold in connection with the Fordson Tractors to Ford car dealers. The company was becoming well positioned for more involvement in agriculture and construction, the lifeblood of the west at the time.

Still, the Great Depression became more serious day by day. The company had such a good start, but by now, sales were down and it was hard to collect on accounts. F.C. Stannard resigned on April 1, 1932 in an effort to cut down overhead.

Meanwhile, because of the Depression, sales were still declining and the only thing that kept the Arnold Company going was the credit worthiness of Waterworks Equipment Company and L.E. Arnold. Both had accumulated savings, net worth and long established, favorable credit records.

On January 1, 1933, the company name was officially changed to Arnold Machinery Company, Inc. That year, Austin-Western cancelled their contract with Arnold. By 1934, however, Arnold took on the Galion Manufacturing Company line of graders and rollers. The company represented that line until 1953.

Al Byerline, who was to become another key player in the company, joined Arnold as a salesman in 1936. Bob Arnold described him as "Kind of a polished guy who worked well with everybody. He was a natural executive and an excellent salesman. As such, he moved through the organization to any spot that required his talents." Al's main efforts in the early years of the Ferguson business involved working with dealers—setting them up, taking orders, helping them solve problems and working with the area salesmen. During the war he transferred to the construction and industrial side of the business and worked with companies such as Geneva Steel and Remington Arms. After the war Al went back to the farm machinery side of the business.

Ferguson Tractors

Though Arnold is not in the tractor business anymore, this era formed an integral part of the company's history, when farming equipment experienced major transitions, from manual to mechanical, and the right equipment made all of the difference.

Developed by Harry Ferguson in 1920 in Ireland, the Ferguson Tractor came about when the inventor created an integrated linkage to attach a plow to a tractor. It was so successful that Ferguson formed a company in the United States and sold several thousand of these plows. Arnold Machinery Company sold a number of the units. Later, the company signed up as a distributor for the new Ford tractor with the Ferguson implements.

The transition from horse power to tractor power created a big need for "conversion" and education of farmers, so Jack Horsley, the Arnold salesman with the greatest mechanical know-how at the time went to a service school to master the system. Arnold sold 126 tractors in 1939 and by 1940 had sold 550.

In 1946, Ford and Ferguson split up and by 1948 Ferguson was suing the Ford Motor Company. During this period of time, Arnold's Tractor Implement Company opted to stay with the Ferguson Company. Ferguson won its law suit against Ford Motor Company and was awarded over nine million dollars in damages. Ray Arnold played a great role in the case, testifying on Ferguson's behalf. The Harry Ferguson Company was eventually purchased by the Massey-Harris Company of Canada, resulting in Arnold Machinery moving out of the tractor distribution business and putting more emphasis on non-powered farm machinery.

2 CHAPTER 2
The War Years

"By 1940, the farm machinery division needed bodies," wrote Bob Arnold. "The day I

Bob Arnold

came to work, I was scheduled to take a trip to Twin Falls with Al Byerline to start a meeting with dealers and learn about the farm business. When the company treasurer gave me a $25 check to cover my expenses for three or four days, he admonished me that 'this stuff doesn't grow on trees, remember' I never forgot it." At the time, he noted, "Accommodations were of course not what they are today. Rates in Parowan were about $1.00 a night, and if you arrived late you just let yourself in and found a room. In the 'better' hotels like the Rogerson in Twin Falls, the rate was $2 a night."

As Bob Arnold went to work with the Farm Youth Foundation (a marketing scheme created by Ford-Ferguson to educate young farmers on its equipment) and became intimately acquainted with Ferguson tractors, the eventful decade marched on. On December 7, 1941, he was standing in the lift line at the bottom of the Collins ski lift at Alta, Utah when he heard of the bombing of Pearl Harbor. "Everybody thought it was impossible," he remembered. With the outbreak of hostilities and subsequent declaration of war by President Roosevelt, business changed dramatically. Northwest Engineering Company announced that 100 percent of its shovel, backhoe and drag line production would henceforth be sold to the United States Government for use in the war. That left Arnold without its major line.

Early Northwest Drag Line.

In order to stay in business, the company began to accumulate industrial lines—items such as table saws, files, twist drills, hoists, castings, anything that would sell in a wartime market and was available for distribution. Construction in the area boomed. The Remington

Arms Plant was built between 1300 South and 2100 South, west of Redwood Road in Salt Lake. It was a great source of industrial sales for Arnold Machinery. Al Byerline was transferred from the tractor division to the construction equipment division and led the group in industrial sales to Remington as well as Geneva Steel and other industries around the region.

Throughout World War II, the company continued to pay married employees who went to battle, making up the difference between their soldier's pay and their salaries at Arnold.

During the war, farm machinery was critical, as food production had to be increased. Tractors and all their implements were available, but because of the tremendous demand for steel to support the war effort, they were in short supply and dealers could sell anything they could get.

Arnold Machinery initiated profit sharing in the 1940s. At the time, it was an unusual move for a small company of around 15 people.

Arnold's Business Philosophy Takes Root in Early Years

Meanwhile, gas and food were rationed, but even during these times, the company followed L.E. Arnold's basic philosophy: "Take care of the people you work with and they will take care of you." Ray Arnold put this into action by adopting the first company pension plan at the end of 1942. It provided full benefits at age 65 with 15 years employment, or at any age after 25 years of continuous employment. It provided an annuity for life. The company's retirement plans have been changed several times over the years, but Arnold Machinery Company was one of the very few smaller companies to start such a plan in 1942.

Bob Arnold, Ray Arnold

At this point, diversification was the name of the game for Arnold Machinery. In 1943, Ray Arnold was appointed to develop a base for post war expansion. He pursued manufacturers of forklift trucks, both gasoline and electric. The company ended up signing on with Hyster Company in 1944. Today, Arnold is the oldest inde-

MAGIC BEANS

After the war the Hyster line needed a boost. In casting around to find an area with good potential for lift truck development, Arnold Machinery determined that the Magic Valley around Twin Falls, Idaho, was a tremendous bean farming area with potential as a key Hyster market. Beans were a good cash crop. But at the time, every step of getting the beans from the field to the warehouse involved hands-on labor. Given this situation, Bob Arnold worked throughout 1949 to convince the farmers in Magic Valley that the Hyster was the answer to their prayers of more efficient handling. "But if ever there existed a situation where 'we've always done it this way, why should we change?' this was it," Bob remembered. He finally prevailed, however, and convinced the farmers that mechanization with forklifts was ultimately a smart move From then on Hyster flourished in the Magic Valley.

pendent distributor of Hyster Forklifts in the United States. That same year, Arnold began its affiliation with what is now CIT Equipment Financing (CIT), devoted to industrial financing. This was also the first year in the company's history that it did over one million dollars in sales.

Formation of Tractor Implement and Post-War Transitions

On April 10, 1945 a committee consisting of Ray Arnold, company president; W.A. Beasley, CPA and auditor; and Dean F. Brayton, company attorney, was formed. Their purpose was to devise a plan that would separate the farm business from the construction machinery business as Harry Ferguson, Inc. had been putting "considerable pressure" on the company officers to set up a separate organization, devoted to selling only Ferguson machinery lines. They formed a "controlled subsidiary" called Tractor Implement, appointing Al Byerline as president. Under Tractor Implement they also sold the New Holland Machinery line, manufacturers of fully automatic hay balers, but those were the only two lines the company represented. They established Tractor Implement in its own building at 427 West 200 South, separate from Arnold Machinery Company. Arnold occupied the building at 433

West, a former railroad hotel. What that building had been used for between the demise of the hotel and purchase by the company is lost. But we do know that when Arnold Machinery moved in, they had to dispose of a complete still and a large quantity of mash from a basement room. Clark Arnold, Ray Arnold's son, recalled years later that one of his jobs was cleaning that old building during summer breaks from high school. "It was the most dusty old place you could imagine," he said. "You could never get it clean."

Post-War

After the war, the return to a peacetime economy was slow. New equipment was in short supply and war surplus equipment was everywhere. And of course Arnold Machinery's business had suffered during the war because of the unavailability of Northwest machines. But with the return of that business, the company was optimistic. Fortunately, Northwest had authorized Arnold to take future sales orders for their machines during the later war years as long as customers paid cash deposits. Joe Plant had done a great business selling the shovels. One day he returned to the office with an order for 12 machines, cash in hand, from Utah Construction Company.

Making the Best of Times

Overall, 1949 was not a good year for Arnold Machinery. In October, all of Arnold's officers and directors took a 10 percent pay cut. In those days, the company stuck its neck out and tried to make its mechanical know-how and ingenuity pay off. For instance, Arnold Machinery Company made use of surplus trucks to create shovels and front-end loaders that were affordable enough to enable many contractors to get into the excavation business. Two of the machines—one called a *Quick Way Shovel* and one called the *Scoopmobile*—were big volume sellers at the time, as they filled an important niche.

CHAPTER 3
Expansion & Changes

By 1951, Ray Arnold became the first of three Arnold Machinery CEOs who served as president of the national group, Associated Equipment Distributors (AED). Before he took on the responsibility, which entailed being away from the office on AED business for several months of the year, he gathered the company's officers and management group in his office and asked them if they would be comfortable with him taking on this assignment. The group agreed it was an excellent opportunity for Ray. He was installed as the thirty-second president of AED on January 15, 1951, at the annual meeting. (In later years, Arnold CEOs Bob Arnold and Al Richer would be honored with the same responsibility.)

1951 was eventful in other ways, too. With 80 employees, total sales reached $5,732,000, with Tractor Implement bringing in the most revenue.

The biggest sales news of 1951 was an order from Columbia Iron Mining Company of Cedar City, Utah, for 11 35-ton capacity Dart trucks. These were the largest off-highway, end-dump trucks available. It was the largest single order in the history of the company at that time, amounting to $470,000. That same year, Arnold officers decided to open a facility in Idaho Falls, as service and parts demands were increasing and many competitors were already in that market.

Louis E. Arnold died peacefully at home in September of 1952. His son Bob wrote, "The company lost a man whose integrity and guiding principals had been integrated into the business from the beginning. The same principles had been so firmly implanted in both his sons that the company has never deviated from them to this day. Dad's guiding admonition to salesmen was, 'A sale isn't a sale until the equipment is delivered, the money is in the bank, and the customer is satisfied.'" This philosophy preceded the official credos instituted later in the company's history, when then-CEO Al Richer registered Silver Service® and Customer Satisfaction is our Only Policy® in 1986 (explained in full in chapter 8).

> ***"A sale isn't a sale until the equipment is delivered, the money is in the bank, and the customer is satisfied."***
>
> *L.E. ARNOLD*

General Implement Distributors Formed

Arnold Machinery formed General Implement Distributors (GID) in 1952. According to a history by

Frank Seal, former president of GID, that company was created as a separate entity, apart from Tractor Implement (which sold only Ferguson and New Holland farm machinery lines.). This was necessary because, at the time, Arnold also sold farm machinery lines such as International, Case, and John Deere, through a separately managed arm of Tractor Implement. Even though the two farm implement sales organizations were completely independent, some of the Ferguson management was unhappy with the arrangement because some of the lines sold by the "other" arm of Tractor Implement were in direct competition to Ferguson's.

In order to keep the peace with Ferguson but continue to grow the farm machinery business, Arnold's board of directors separated the two arms. They bought property at 415 West 200 South in Salt Lake City and set up GID. At the time of the organization, Arnold Machinery Company owned about 51 percent of GID's stock. The balance was owned by the officers and by several employees of Arnold and GID.

GID adopted the straightforward motto, "Selling and Servicing the Finest in Farm Machinery" and operated out of that location until the summer of 1957. Ray Arnold served as chairman of the board and Al Byerline as president and general manager. Financially and growth wise, GID progressed continually.

L to R General Implement Distributors, Tractor Implement, Arnold Machinery

Frank Seal's history noted that the first year of operation yielded $615,000 in sales.

In 1957, Al Byerline became chairman of the board and Frank Seal assumed the presidential role at GID. That same year, Tractor Implement and Ferguson parted ways, the New Holland line was transferred to GID and Tractor Implement was dissolved. That made the building next to Arnold on 200 South available, and GID moved to that location.

Galion Goes, Hyster Grows

In May of 1955 Bob Arnold was elected to the Board of Directors of a new association called the Material Handling Equipment Dealers Association (MHEDA), an outgrowth of AED, which covers the material handling industry. In July of 1955, Galion Iron Works terminated its contract with

Bob Arnold, Ray Arnold & Joe Plant

Arnold Machinery after 21 years of representation. They had made a national deal with International Harvester to distribute their product through existing International dealers. (When Arnold acquired the International line in 1960, the company also reacquired Galion Iron Works.)

During this period, the Hyster line was rapidly growing within Arnold Machinery. The company had separate salesmen for the Hyster line and had begun to separate the shop service people into Hyster and Construction Equipment mechanics. Once Don Clark, who had joined the company in 1953, moved from his position in Idaho Falls to Salt Lake to take over the promotion and support of the Material Handling Division, there was a complete separation of the mechanics, though they still used the same building. As manager of the Hyster Division, Don was also very active in selling to a few major accounts. His colleagues recall one day when he strode joyfully into the office waving an order for five 5,000-pound Hyster forklifts from the Pillsbury plant in Ogden. This was the largest multiple machine order from a single customer the company had ever received for Hyster forklifts, and in those days, this type of order was scarce.

Don Clark progressed from Hyster Division Manager to general sales manager, to vice president and

Early Hyster Forklift

general manager and assumed the office of company president in September 1979. He retired in September of 1985, after 32 years.

Hyster Boosters

During the 1950s Hyster had an enthusiastic marketing team. When they announced a new lift model to their dealers, they did it with a flashy stage show. Lift trucks ran out between parted curtains in a spotlight, demonstrating their various features and making drama out of an otherwise dry presentation. The truck operators were decked out in white coveralls and they were all expert equipment operators. This was something new in the machinery business and the Hyster division loved it. More importantly, it was a huge success. Arnold's management team thought the promotion was such a good idea that it adopted the same plan. The company ordered trucks and equipment, rented a big, domed display hall at the state fairgrounds and went to work. Hyster sent backdrops, banners, and a slew of other promotional materials. Arnold hired and trained operators in their routines and even hired a caterer to put on a prime rib dinner before the show.

During the year, the company had arranged to lease property at 5024 Gage Street in Boise, Idaho to establish a physical presence in that market. Economics dictated that the space be shared between Arnold Machinery Company, General Implement Distributors, and Waterworks equipment Company.

CHAPTER 4
International Harvester

The 1960s ushered in circumstances that would prove to be the catalyst for one of Arnold's biggest turning points. The Lang Company, which had represented International Harvester for around 40 years, announced major losses and had to be liquidated. This was an industry tragedy, and it all stemmed from financial mismanagement. In March of 1960, Arnold Machinery Company was offered the International Harvester line for Utah, Idaho, western Wyoming, eastern Nevada, and eastern Oregon. The officers discussed it at some length because it meant almost doubling the company's size overnight. It was decided to make the move and pursue the line vigorously. The first move in Arnold's strategy was to rid the company of some 25 or 26 small supply lines on which they had been doing a fair job. This decision was made because management realized that they wouldn't have enough capital to handle the new line without utilizing every resource at their command.


International Crawler Dozer

Arnold then examined Lang's audit and actual sales figures and made up a list of capital requirements and pro formas for a three-year projection that they could use to get more outside financing. The officers went to Walker Bank & Trust Company where they had been doing business for 25 years and told them that they'd like to expand their line of credit by at least $250,000. To their surprise and disappointment, the bank advised Arnold that not only would they not increase the credit line, but also if Arnold took on the International Harvester distributorship they would seriously consider cutting the line that had been active for all those years. "We found out later that this unreasonable stance was taken because another customer of theirs, headquartered in Denver, Colorado, and much better financed than we were, was also competing for the International line. Walker Bank felt more secure with them having it than with us having it," Bob Arnold wrote. (Arnold later elected to leave Walker Bank and forged a strong relationship with Continental Bank.)

Ray and Bob toured the streets of Salt Lake calling on several banks with their capital requirements and pro formas. Several considered it, but in the end most of them turned them down. They didn't want any more construction machinery accounts.

Fortunately, Arnold had an excellent working arrangement with CIT, one that went back to 1944. "We asked Ed Thrower, western regional vice president, who was in Salt Lake trying to wind up the CIT part of Lang Company closure, for a conference," Bob Arnold wrote. "After hearing our predicament, Ed immediately offered us a $250,000 five-year capital loan at six percent simple interest. This would require personal guarantees of both Ray and myself, which we were happy to give because it was the key that opened the door for us. In addition to that loan, we made arrangements with International Harvester Company to advance us $100,000 of parts inventory, which we would pay out over the following year, in 12 equal payments. I distinctly remember a remark made by the vice president of finance at International as he approved this arrangement. He said, 'You boys are going to be operating so close you will be able to step on a dime and tell whether it's heads or tails.'"

A NEW DIRECTION

Bob Arnold recalled that first year of Arnold's association with International was a "Complete re-education of our whole organization. We had always had some heavy equipment, like the Northwest shovel, but most of our sales were in light equipment. Now we were embarked on the sales and service of a broad range of earth moving equipment: tractors, scrapers, front-end loaders, motor graders, and more. We had to change our service and parts organizations and embark on an expansion we had never before seen in our history. Our people were enthusiastic about the addition and pitched in with a determination that soon got us started properly in a new direction."

Over the next few months, Ray and Bob Arnold set about putting the International Harvester business into place, meeting with Lang employees and establishing their presence in Idaho Falls and Boise. Eventually the entire machine inventory from Lang Company was moved to Arnold Machinery locations. This completed the first phase in one of the biggest moves the company had made in the construction machinery area since its incorporation in 1929. Fortunately, almost the entire staffs of the old Lang Construction Equipment Company in both Idaho Falls and Boise moved over to Arnold Machinery Company without a hitch.

In 1967 Bob Arnold was installed as president of AED in Miami Beach, Florida, by his brother Ray. In 1998, CEO Al Richer served as AED president and Bob Arnold installed him. Arnold Machinery is the only company to have three of its officers serve in this nationally prominent position.

True, there was some skepticism and some honest questioning as to whether the company knew what it was doing and how long it was going to stay around. But all in all, it was a good move and the Lang employees came to work for Arnold's current managers. Gene Sandell in Idaho Falls, and Bob Nichols in Boise, took over the new organizations without a hitch. Many of the former Lang employees worked for Arnold Machinery until they retired.

As if 1960 was not eventful enough, that year, Bob Arnold, who had served on the MHEDA board since its inception became president of the group. He credited Ray and all of his other managers for making it possible for him to travel extensively on MHEDA business. And, since the association had no funds at the time, Arnold Machinery absorbed the cost of numerous trips to Denver, Kansas City, Washington, D.C., New York, Chicago, Oakland, and Los Angeles, all in an effort to increase MHEDA membership.

The early 1960s continued with a flurry of activity and business. Arnold was not only consolidating the International line and doubling its business, but General Implement was heavily involved in expanding its business under Al Byerline.

A Progressive Decade Draws to a Close

By 1965, as Arnold grew steadily with the acquisition of the International Harvester line and sales at General Implement also grew at a steady pace, the company was hard-pressed to fit into its 200 South headquarters. Al Byerline, Ray and Bob Arnold spent many

Service Pins & Awards

Since 1962, Arnold Machinery Co. has shown its appreciation for associates in a number of ways. One is through "five year awards," each embedded with a precious gem.

In order, beginning with five years service, the gems embedded in the awards are: sapphire, ruby, emerald, and then different size diamonds. The more years, the greater the value of the award. Associates are also given shares of stock at five year intervals in the same year as they receive their awards: ten shares at five years, fifteen shares at ten years, twenty shares at fifteen years, twenty five shares at twenty years, and then five shares each year thereafter.

By the end of 1965, Arnold Machinery sales had grown to a little over

$7,000,000

The after tax profit on this sales volume was about

$134,000

afternoons touring the outlying areas of Salt Lake trying to find a piece of ground for future expansion at a reasonable cost. They finally settled on 2100 South and 3000 West, an area without rail services. Since most of Arnold's inventory came in on trucks in those days, this wasn't a problem.

Although the practice of "purchasing" business from government, state and county entities was fairly common in the machinery business in the early years, the decision not to participate in these practices was easy for Bob Arnold who noted, "Integrity is earned over time but can be destroyed overnight. As a result of this hard-line position, political business never came easy for us. Due to some widely publicized prosecutions of distributors and public officials in the Midwest, this practice is not common today."

The land was priced about $5,000 an acre less than properties just north of 2100 South. The company finally bought the property for $146,000 and the building design began to take shape. A groundbreaking ceremony was held on August 18, 1969, as Arnold also acquired its first IBM computer and the decade drew to a close with an eye to the future.

By the mid-nineteen-sixties, when they were in search of new revenue sources, GID entered the business of representing recreational equipment, such as boats, for a while. They took on distribution of Kawasaki motorcycles in 1966. "At the time we took the line on, Kawasaki was in ninth place in national sales of motorcycles. By the time GID discontinued the line in 1975, we were in second place in our selling area," noted Frank Seal.

Over the years, the company also successfully sold Ferguson, New Holland, and Hesston lines, only to have those lines revert back to direct distribution from the manufacturers and this was always a difficult situation to accept. By 1975, GID merged with and became a division of Arnold Machinery Company.

5

CHAPTER 5
Turning Points: 1970's & Early 1980's

Spirits were high with the opening of Arnold Machinery's new headquarters in 1970. Employee Bill Jenkins was appointed as the "move manager" and coordinated the monumental task of getting everything moved out of the 200 South location and into 2100 South. Bob Arnold recalled that his planning helped the company accomplish this major move—all office personnel and the parts and service departments—from Thursday evening to Sunday. By Monday morning, March 29, 1970, Arnold was open for business in an area still considered "far out" there, pre-freeway.

Arnold Machinery hosted a very successful open house on May 22 and 23, attracting over 500 people, including Mayor J. Bracken Lee and Governor Calvin Rampton. In addition to the usual ribbon cutting, they had mounted a pine log in front of the doors, which was duly cut with a chainsaw.

Arnold Machinery Company opened a Twin Falls branch in 1971. At this juncture, the company went through some restructuring, creating separate profit centers at each branch. Overall, the 1970s, whose end marked the company's first 50 years, was a stable decade—productivity was high, returns were good. Ray Arnold retired in 1974 and Bob Arnold succeeded him as CEO. Al Byerline also retired, but retained his chairmanship of General Implement and Frank Seal became president. General Implement, which had been operating as a partially owned subsidiary of Arnold Machinery, was merged into Arnold and became a division in June 1975. Kawasaki cancelled GID's motorcycle franchise in October 1976.

That same year, the just-completed Teton Dam above Rexburg, Idaho, broke. This sent a wall of water through the whole sur-

Teton Dam disaster

rounding area of Sugar City and Rexburg. Bob Arnold visited the flood area and recalled that it was "A mess, with debris, washed out roads, houses toppled over and piles of machinery along with everything else that comes out of a farm yard." Bob Hammond, Idaho Falls branch manager, made a special deal with International Harvester. In the course of a very few weeks, the company put 30 major IH machines in the rental fleet and had them out clearing up the debris, dozing and loading the flood mud from everywhere.

In 1977 the Board authorized the officers to find a piece of property in Boise for future building. The company was subsequently awarded the Hyster franchise for Boise. Finally, in 1979 Arnold Machinery Company began its fiftieth year celebration. That same year, the new Material Handling building in Salt Lake City was completed and celebrations culminated in a dinner dance at the Hotel Utah.

Difficult Years

The nineteen eighties ushered in the biggest decade of change since the inception of Arnold Machinery Company. Everything shifted, from the economy to company ownership. It was the beginning of a new era that continued under the direction of Al Richer. Before launching into that new era, it is important to explain the state of circumstances at the beginning of that new decade.

The transition to a new IBM system 34 and Arnold's own programming in 1979 had created tremendous problems in billings and collection. Overall, though sales had increased, gross profit had gone down and expenses had gone up. The company experienced its first operating loss since 1964. The board subsequently made several changes to improve working capital and recover a half million dollars in taxes, but the situation was still tenuous. Interest rates were soaring at over 20 percent. There were also problems with finding a buyer for the Arnold property, which had to be sold. It had previously been owned by the company's profit sharing plan, but the ERISA Act had made that illegal and had given Arnold 10 years to sell the property. A few real estate deals fell through and the company ended up paying a fine and interest.

On the positive side, in 1981, CIT helped the company reduce its financing costs by arranging to give them one source—a $14 million line of credit, based on assets, at the prime rate of interest.

But at the end of 1981, Bob Arnold wrote that with a lowered net worth and the impacts of several lawsuits and repossessions, "These were some of our most difficult years since the Depression of the 1930s." By the end of 1982, Arnold had made a company-wide reduction of 60 people. And because of losses, CIT raised the interest rate on Arnold's asset base loan to prime plus one percent. Unfortunately, the prime was above 15 percent. Many of Arnold's customers had gone broke with outstanding contracts, and though CIT was very helpful, they were also concerned and raised Arnold's interest rate again. "Because of our broad diversification in Material Handling, Farm Machinery and Construction Equipment, we had always felt we could weather pretty much anything that came along. We didn't think there would ever be a time when all three segments of the

John Ragsdale and the Nevada Gold Rush

John Ragsdale (Rags), vice president of mining, joined Arnold Machinery Company in 1978. "I was always very aware of Arnold's presence in the market," he noted, " and I knew of and respected Bob Arnold, especially in his role as AED president and author of several articles." Frank Hammond, then-president of Construction and Mining contacted John in 1978 and recruited him as a major accounts manager. In that role, Rags called on companies such as Kennecott, Utah Power and Light, and Geneva Steel in Utah, as well as major accounts in Nevada, Idaho, Wyoming and Arizona.

In John's words: "The real beginning of our strong entry into the gold mining business was in early 1982. Getty Mining Company was opening a new mine on the west side of the Oquirrh Mountains in Utah. We ended up selling the Mercur Mine two

Hitachi UH-801 shovels, four International Harvester TD-25G crawler dozers, two H-400, 12-yard capacity wheel loaders and two 560B, seven cubic-yard wheel loaders. The order was for almost $2.75 million and was the largest one the Company had received to that time."

business would go down simultaneously," wrote Bob Arnold. "Unfortunately, I lived long enough to see that happen, because all three of our divisions were in trouble." Another blow involved an investment in a new type of hay harvesting machine—one that ended up failing. This impacted profits for the next three years.

A Bright Spot in Mining

The one bright spot in the business was the mining industry in Nevada, which began to see an upsurge in 1982. This happened to coincide with Arnold's acquisition of the Hitachi line of construction and mining equipment. According to John Ragsdale (known as Rags), vice president, mining, "Arnold Machinery moved into Elko in 1983 to support the first machine the company sold in that market. It was a Hitachi UH 801 hydraulic shovel, sold to Independence Gold. That same year Arnold sold a second machine to Round Mountain Gold. A service technician from Boise moved to Elko and the first shop was in the back of the Coors distributorship." (Realizing the importance of Elko and the mining industry, Al Richer and his management team later decided to establish a branch and build a facility there in 1988.) The mining industry turned out to be a "goldmine" for Arnold because of the company's representation of the Hitachi line of hydraulic shovels. As the business in Nevada increased and gold hovered around $400 an ounce, Hitachi sales increased to about $23 million at their peak in 1989—forty percent of Arnold's total sales volume. Frank Hammond (then president of Construction and Mining) and John Ragsdale, now vice president of mining, were key players in the development of this business.

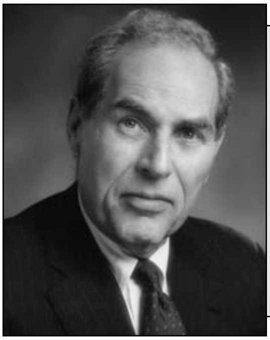
Hitachi EX3500

The big year for Hitachi hydraulic shovels (EX-3500s) was 1989. That year Arnold Machinery sold seven of these $3 million machines: two to Barrick Goldstrike Mine, two to Echo Bay Mines, two to Santa Fe Pacific Gold (now Newmont Gold) and one to Hycroft Resources. Those sales of course went down in Arnold history—totaling $21 million.

Rags recalled another interesting incident from the 1980s in Nevada, noting that FMC's Paradise Peak Mine near Gabbs had a unique problem. They could not find any rock or dirt to use to build their roads because everything they found had gold in it.

CHAPTER 6

Changing of the Guard: Al Richer Buys Controlling Interest in Arnold Machinery Company and Launches Turnaround



Al Richer

Through a mutual friend, Bob Arnold met Al Richer in the spring of 1983. Originally, Bob was thinking about finding a buyer for General Implement Distributors, so he was referred to Al. At the same time, Al, who had an investment firm, was looking for someone who wanted to buy a small equipment company. Of course, Bob was not in the market to buy. But he soon recognized Al's extraordinary business acumen and invited him to work as a consultant with Arnold, to examine and analyze the company's situation and to then recommend positive changes. "We had spent sixty years building Arnold's reputation," Bob recalled "I was the last one on the block and I had to do something about the situation we were in. My kids and Ray's kids didn't want to get into the family business, so I couldn't have done better than I did with Al. He is a genuine, ethical guy. It was a happy day when we got together—it resulted in a three-way win. The company won, the Arnold family won, and Al won."

Al Richer asked only for a percentage of the improvements he instituted at Arnold when he came on as a consultant. "I went for the challenge," he said. "Not for the money. But in the course of investigating the situation, I asked Bob who was going to take over, and as one thing led to another, I eventually said that I would like to buy Arnold Machinery Company. Our relationship was built on trust, from the very beginning. Because it was determined that I was going to run the company after then-president Don Clark retired, we signed a deal on October 1, 1984 and officially I was executive vice president and Don Clark was president, but not CEO. Until he retired, I spent most of my time fixing the farm division."

Buz Nelson, now president of General Implement Distributors, became GID's general manager in 1985. (His account of GID's history from 1978-1983 can be found on page 34). In essence, Buz credits Al with "Being akin to a professor—it's like I earned an MBA under his guidance. He helped me mold our company into a profitable entity." Today, in fact, GID is the premiere farm implement distributor in the western United States.

Share the Pain, Share the Gain

Al Richer made a deal with the Arnold family that, as he said, "Allowed both of us to share on the upside and on the downside. We agreed that whatever happened, we were both going to share in the gain or the loss in the value of the shares from that time forward. This established confidence on both sides. I had confidence on my side that I could make it happen and I paid cash up front. That also established trust on both our parts. Bob expressed confidence in me by saying that the Arnold family wanted to retain six percent of the company for investment purposes. We also made a deal that if ever I sold the company they would piggyback on whatever I did. I found out subsequently that our financing source, CIT, who had also financed and closed out a company called Foulger, just down the road, had Arnold Machinery next on its "close down" list. But, they decided to see what this new guy could do," noted Al Richer when recalling the early years. The relationship between Arnold Machinery Company and CIT has grown even stronger over ensuing years.

"Some people didn't take well to a retail merchandiser coming into the business," said Bob Arnold. "But I worked with Al and I found out all I needed to know—especially about his integrity. But some of the other long-time guys couldn't go along with it once Al took over. He had a very rigid management system, which if you went along with it, allowed you to make more money than ever, if you did the job. Al was and is generous. If you 'make it,' by George, you get paid for it."

Turnaround Launched in 1985

Once Al became president and CEO of Arnold in 1985, he was able to fully confront the brutal financial facts and take immediate action to overhaul the company's financial situation. In fiscal 1986, realizing that expenses were running high, he instituted a 10 percent pay cut across the board—from himself to the newest hire. This was a first (previously officers had taken pay cuts, but not all associates). He also reduced the number of associates from approximately 200 to 150. As of September 30, 1986, the company had a net income after taxes and adjustments of $470,335. By the end of fiscal year 1987 sales had increased by 17.6 percent and net income shot up over 21 percent to $596,473.

As Arnold found more solid financial footing, Al Richer's focus shifted to growth and creating economic stability within the company. He focused on discipline and strategy while creating a climate in which all associates had the opportunity to be heard. Details on many of his financial orchestrations are covered in Chapter 9. As a prelude to that, the next chapter details his business experience and management philosophies.

7

CHAPTER 7

Foundations of Al Richer's Business Philosophies

Before moving on through the "Al Richer era," it is important to know and understand his motivations, philosophies and their impact on Arnold Machinery Company. His background, the stories he is so fond of sharing, and the comments of his associates, sons and board members all paint a vivid picture.

One of Al Richer's favorite quotes involves a question a business student at Westminster College in Salt Lake City asked him during one of his visits as a guest lecturer at that prestigious school. As Richer tells it, "The question was, 'What does it take to be a successful CEO?' Well, I replied, the same things it takes to be a good person: integrity, discipline and empathy." That simple but profound stance forms the foundation of Richer's business philosophies.

'What does it take to be a successful CEO?' Well, I replied, the same things it takes to be a good person: integrity, discipline and empathy."

Al likes to say that he grew up being exposed to many different companies and industries and learned to keep and use the good things and readily discard the bad. That's putting it very simply, but it is the essence of his way of working. He learned the "good" lessons well and has never veered from "doing the right thing." The lessons began with his father, who as a wholesale distributor, "Bought apples from Yankee farmers" in upstate New York and in New England. "I will always remember going on a particular business call with my father," Al relates. "He had contracted to buy a crop from a farmer and when he went to pick it up the crop simply was not up to par. A third person who was there told my father that he didn't have to buy the apples since there was no formal contract. But my father said, "No, I don't. But I gave him my word and we shook hands, so I'm buying the apples." He held up his end. I never forgot that lesson. Later on, I remember my dad saying, 'As you get older, I'll get smarter.' And when times were tough, he said he didn't know how much he could leave me, but he said, 'I promise, I will leave you my good name.' That he did, and I've never forgotten it for a minute."

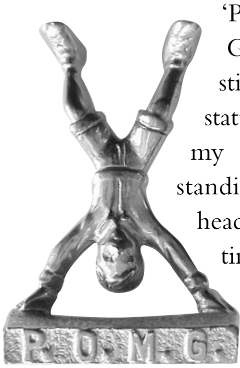
Fast forward a few years to 1961 and Al Richer was buying a new car. "It was a Buick convertible," he said. "I was excited about it, but when I went to pick it up, the side moldings were all wrong, they didn't match. When I expressed my disappointment to the salesman, he couldn't have cared less. He said I could take it the way it was, or leave it. Well, suffice it to say that though I did take it, I was never happy with that car. It bothers me to this day. I told this story to everyone I knew, and I never bought another Buick again, you can believe that. Years later, when I was forced to rent one, the whole incident came back to me—I could just never get over that lack of customer service and satisfaction. This was a lesson in a couple of things," he said. "First, at this time, after World War II, the U.S. was focused on production—above all else. We had lost our customer focus. Instead of asking what kinds of cars customers wanted to drive, manufacturers just made the kinds of cars they wanted to produce. The Japanese came along and when their 'Toyopet' model failed, they did some market research to find out just what would make potential customers happy. They found out, and they delivered it. We've never recovered. That was a lesson for this country. For me personally, the Buick story is one of many lessons I was fortunate to learn early on in life. If you want to succeed in any business, you must ask the customer—'What will it take to make you happy?' Then, you must make them happy, within ethical and legal parameters. I always tell people, you will never get fired for doing too much for the customer as long as it is ethical. But, you will be in big trouble if you do not leave the customer smiling!"

Al Richer came out of a polite, refined era in business, and in retailing in particular. One of his early jobs was with G. Fox & Co., a department store in Hartford Connecticut. "Then, back in the early 1960s, people addressed one another as Mr. or Mrs. We wore hats—straw or felt, depending on the season—and everything we did was customer-focused. We didn't take our lunch breaks in the store at noon, because that's when the customers needed us to be there, when they had their lunch breaks," he noted. "It was never a question—you just bent your schedule around the customer's—period."

One of his early mentors was Beatrice Fox Auerbach. She and her husband ran the G. Fox & Co. store, along with her father, Moses Fox. When both her father and husband died within a short period of each other she took on the store management. "Mrs. Auerbach was the nicest person you could ever hope to meet," Richer said. "But if you messed with her customers, you didn't last long. She knew how to treat them simply because she knew how she wanted to be treated, and she was a huge success."

POMG: Peace of Mind Guaranteed

Another influence on Al's early life was a neighbor in Hartford. "I remember this guy was, quite sim-



ply, a great promoter. You could even call him a huckster, but the guy knew how to sell. Bill Savitt was his name," Richer said. "He sold jewelry and watches. If you asked him what time it was, he'd pull up his sleeve and he'd be wearing ten watches, just for effect. Well, it was effective—it got attention. His slogan was POMG—'Peace of Mind Guaranteed.' I still have a little statue of him in my office. He's standing on his head, and every time I see it, it reminds me that that's sometimes what you have to do to make the customer happy, to give them peace of mind." I learned it over and over again in retail, but of course it translates to any business." That early training and indoctrination into the ways of customer service did indeed serve Al Richer well. Early in his career he went on to become president of the Florida division of May Department Stores Co. In the 1970s he purchased Auerbach's, a Salt Lake City department store that was a beloved institution. After the shopping malls were built on Main Street and South Temple, retail business moved to that end of town and the Auerbach's era ended. At that point, Al Richer and Walker Wallace (who is currently on Arnold Machinery's board of directors) started a small investment banking company in Salt Lake City. "Al always impressed me," said Wallace. He was also very helpful to me in some business dealings in the early 1980s. Through him, I learned a lot about mergers and selling companies. He was a terrific consultant, but he was happier, I think, being a hands-on manager. The opportunity to buy Arnold Machinery came up and it was one that fit his background and experience—managing people and assets," he said. "He took the company on at a challenging time. But of course Al's management style is very effective. In fact, he is one of the most successful managers I have ever observed. He brought disparate elements of the company together. His style is basically, 'Share the pain, share the gain,' and he means it. During times of economic stress, top management has taken cuts in salary and bonuses, along with everyone else. He has been able to make the company profitable during all of the downturns. There hasn't been a year since he took over when the company didn't make a profit, some smaller than others, but still, his solid management has made all the difference for Arnold," Wallace noted. "I'm also extremely impressed with the new president and CEO, Russ Fleming, and I'm definitely optimistic about Arnold Machinery's future."

8

CHAPTER 8

History of Silver Service® & Silver Service® in Action

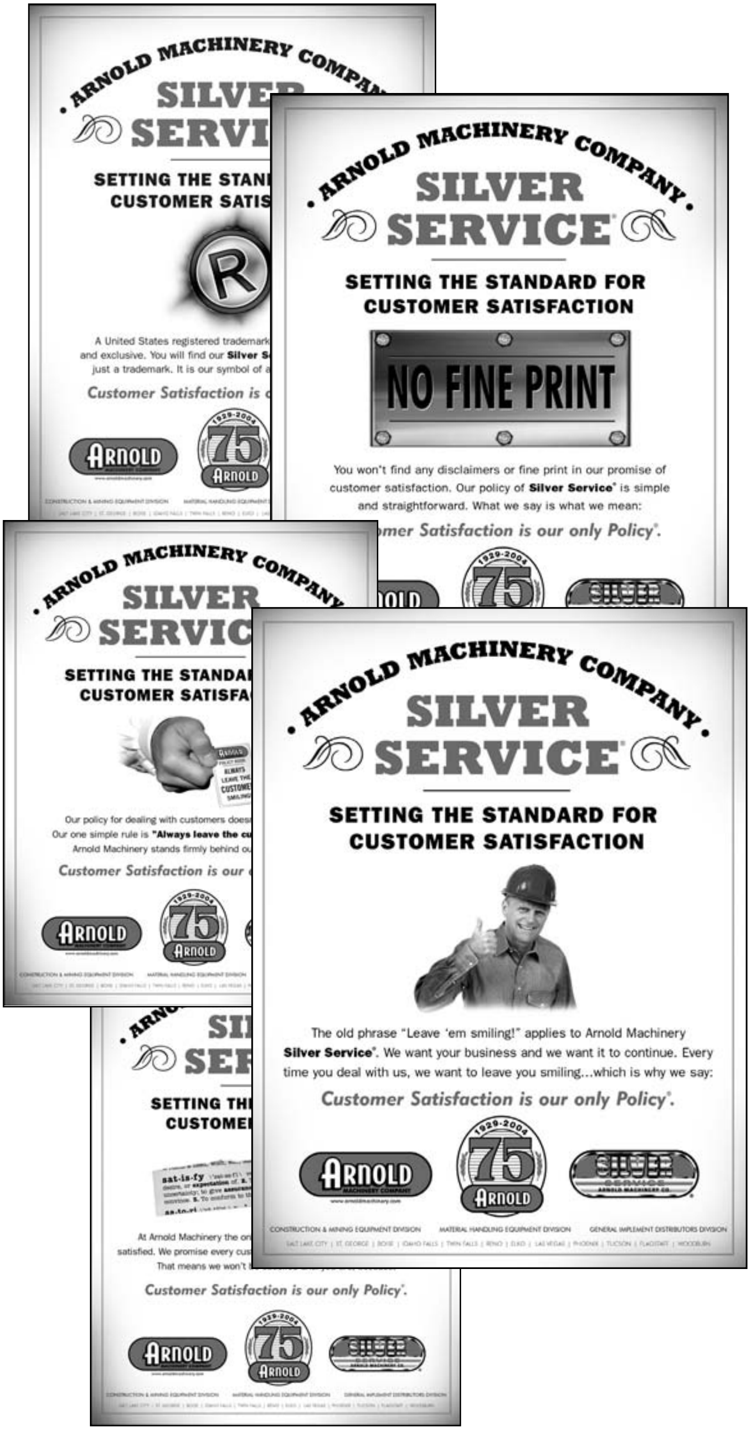
One of the most powerful and lasting legacies instituted by Al Richer is Arnold Machinery's own brand of customer service, registered and known industry-wide as Silver Service®. He announced the term and concept in 1986, at the annual strategic planning meeting at the Stein Eriksen Lodge in Deer Valley, Utah, but he has been practicing it throughout his career. That first meeting happened to be in the Silver Room of the Lodge. It was then and there that Al asked the division managers in the room, "What is it that makes us different from any other distributors?" They mentioned things like parts and trucks and other tangibles. Each time the associates mentioned something, Richer countered with: 'So do lots of other distributors, or that's not what sets us apart." Finally he got them to the point that he wanted them to reach at the outset. "They realized that what we were most committed to, what would really set us apart in the marketplace—was complete customer satisfaction." Richer, who had created the same type of operating style in two previous companies, made sure the associates understood the concept, without question—and that they would be committed to it. He called this Arnold difference Silver Service®.

"After that meeting, I recall someone coming up to me and saying, 'Well, that's a nice slogan for this month. What will it be next month?' That guy didn't get it. It is not a slogan!" he emphasized.

Arnold ran the first in an extensive series of Silver Service® ads in 1987 and continues to this day, running several versions of the ads in industry magazines.

Today, Silver Service® is "Woven into the fabric of our business, and it is the engine of our growth," says Richer. Our commitment to customer service, combined with strict financial management, has resulted in increasing sales—by five times since 1986." Silver Service® is not only painted on Arnold trucks. It is stamped on every piece of literature, framed on office walls, and still touted on buttons worn by Arnold associates. During the first year of Silver Service®, associates were often awarded a dollar to wear the button. Today, it is a matter of course for associates to wear it proudly.

Arnold Machinery Service Truck


ARNOLD MACHINERY COMPANY
SILVER
SERVICE®
SETTING THE STANDARD FOR
CUSTOMER SATISFACTION
NO FINE PRINT
You won't find any disclaimers or fine print in our promise of customer satisfaction. Our policy of Silver Service® is simple and straightforward. What we say is what we mean:
ARNOLD MACHINERY COMPANY
SILVER
SERVICE®
SETTING THE STANDARD FOR
CUSTOMER SATISFACTION
The old phrase "Leave 'em smiling!" applies to Arnold Machinery Silver Service®. We want your business and we want it to continue. Every time you deal with us, we want to leave you smiling...which is why we say:
Customer Satisfaction is our only Policy®.
1929-2004
75
ARNOLD
CONSTRUCTION & MINING EQUIPMENT DIVISION
MATERIAL HANDLING EQUIPMENT DIVISION
GENERAL IMPLEMENT DISTRIBUTORS DIVISION
Customer Satisfaction is our only Policy®.

Silver Service® may be described in a number of ways, but the most concise description comes directly from Al Richer. It starts with the phrase, "*Customer Satisfaction is our Only Policy®.*" From there, Al talks about the culture of Silver Service®: "We do whatever it takes to take care of the customer. Associates are not only empowered to do so, but they are obligated to do so. Basically, we tell them, do anything—and we mean anything, from taking equipment back without obligation to paying for mistakes—as long as it is ethical, to leave the customer happy." Add controls, incentives and communication, and Al Richer has proven that his management process works to everyone's advantage. "I look at Silver Service® as advertising that hits the mark," he is fond of saying. "With conventional advertising, you're never sure whom it's reaching and the impact it's having. It can even be misinterpreted. But with Silver Service®, we're building long-term relationships with customers. Also, in almost every instance, when you dig down deep enough to find out why the customer is unhappy, you find you did something wrong. Sometimes it's something as simple as not returning a phone call or getting back to him a day late. With a policy of total customer satisfaction, you're always finding out how to improve your business. Silver Service® is such a rallying cry for us that we use it as a verb. You'll often hear one of our associates say, 'I Silver Serviced the guy.'"

Bill Jenkins, a longtime Arnold associate who knew the company inside out, experienced the transition from Bob Arnold to Al Richer. Over the years, Bill was involved in everything from supervising the move to the current Salt Lake headquarters to advertising. He retired in 1991 and recalled both eras as being rewarding, "The company was always run by good, good people. Even though we had to take some pay cuts when Al took over, everyone in the company from the top down participated. The economy was bad and we had to do something. I remember Al's inserts in the quarterly newsletters. He was always full of pep and enthusiasm and he sure got people motivated—feeling good about what we were doing to survive. He didn't ever say one thing and do another. And when it came to Silver Service®, we stood behind our products. You just can't skimp on driving home that concept," he said. "By golly, if you look at the records, once Silver Service® got started, it stayed. I remember many times when we stood behind our products—more so than any company I've ever seen. Treat the customer right. That was made very clear."

4 Key Elements of Al Richer's Management Philosophy

<u>CUSTOMER SERVICE:</u>

Silver Service®.
Customer Satisfaction is our only policy®.

<u>CONTROLS:</u>

Inspect, don't expect.
You may delegate authority, but you do not abdicate responsibility.

<u>INCENTIVES:</u>

For all associates.
Entrepreneurial: "Share the pain, share the gain."
If I don't sleep, you don't sleep.

<u>COMMUNICATION:</u>

CEO.
Division Manager.
Department Manager.

Within the culture of Silver Service®, there are several compelling stories that illustrate the extent to which the company has gone to back it up. One of the most dramatic took place right after this policy was introduced—not as a "slogan of the month" but as part and parcel of Arnold's modus operandi. Al Richer received a letter from Echo Bay Mines in Nevada. As Al tells the story, "Basically, it said, No. 1, we're never going to buy anything from you again. No. 2, we're suing you. But other than that, have a nice day. It turned out that we had indeed sold and installed two stackers for this customer. The stackers collapsed, so obviously they weren't very happy. Well, I was in a dilemma. We were talking about $200,000 in equipment. But I thought, I need to walk the talk here, everyone is watching and this is a big test. So I went out there, with the manufacturer, to meet with the general manager of the mine. I got really worried when we were driving along and the manufacturer said, in essence, 'We built the machines to spec, so it's the customer's problem.' I said to the manufacturer, 'Look if you can't back me up in what I'm about to do, then don't say anything. If you do, I'm going to throw you out of the car right now and leave you in the Nevada desert.' He kept quiet during the meeting. We arrived and the customer seated me at the end of a long conference table. You could just tell that he was expecting a major confrontation. I pointed to the Silver Service® button on my jacket lapel and said 'Look, if I can't belly up to the table when things get tough, I'm going to take this stupid, hokey button off right now. So, if we can't resolve the problem, we will buy the machines back.' Well, there was utter silence at the table. Finally the general manager said, 'Oh come on, Al. Let's just fix it. So we spent somewhere between $25,000 and $30,000 to fix the machines. That customer went on to buy a $3 million shovel. And over the years, he bought four more $3 million shovels. That's why I ask my associates, who among you wouldn't spend $25,000 to sell $15 million to $20 million? That story is but one proof that Silver Service® is an investment."

Rex Mecham Talks About Silver Service®

Rex Mecham, appointed president of Material Handling Equipment Division in 1987, has seen Material Handling grow and change with the forces that affected Arnold as a whole throughout the 1970s and 1980s. "The whole management culture changed when Al Richer took over," he said. "The discipline has been incredible. Before Al, I remember sitting through budget meetings in Twin Falls, looking at our performance for the previous year and simply adding ten percent and saying that was our budget for the next year. Of course that changed completely. Other changes in Material Handling have involved acquisitions that have made us one of the larger distributors, both geographically and financially," he said. "The real strength there is the level of service we provide to customers."

When it comes to Silver Service®, Rex noted "We definitely step up to any mistakes, no matter who makes them. But just as important is overwhelming the customers in the first place—astounding them with our level of service so that they don't have problems. I believe in underselling and over delivering, right up front. But believe me, we have had some great experiences in terms of being able to deliver Silver Service®."

One story involved Arnold's Material Handling Division and Huish Detergent in Salt Lake. The company had originally ordered a fleet of gas-powered forklifts, but failed to take into account that they would be using them in a closed warehouse most months of the year and the emissions were of course a problem. Arnold took the machines back, all 13 of them, without any obligation on the part of the customer. They then asked if they could bid on replacing them with electrically powered lifts. They got the contract for over $1 million in forklifts. Subsequent to that, Huish made Arnold its forklift supplier for operations nationwide.

Associate Meetings

While he was the CEO, Mr. Richer reinforced Silver Service® on a one-to-one level during the course of each year. He met with every one of the company's approximately 350 associates in groups of 12 to 15, usually for lunch or breakfast. "There is a subliminal message of equality when management sits down to eat with associates," he explained. "The reasoning behind these meetings is based on that, and on creating a setting for open communication. The other part of that equation involves listening to, reacting and actually acting on the good suggestions as well as the complaints." Today, president and CEO Russ Fleming carries on with that tradition. The dialogue is open for questions and answers as well as suggestions. Anything is open for discussion and associates can be confident that whatever they say stays in the room. At the end of the meal, as Al Richer did, Russ Fleming asks every person to describe what Silver

Service® means to him or her. That then becomes the associates' personal commitment to that way of doing business. There is a constant drumbeat; customer service is always part of the culture.

Kayden Bell Talks About Al Richer

When he talks about Al Richer, Kayden Bell, CFO, executive vice president and treasurer, calls him "Extremely tough but fair. He has a lot more empathy than most people would imagine. On top of that he is disciplined, methodical and organized in his thinking and approach. In general, I think you find two kinds of corporations, both of which are paternalistic. One is emotional; one is unemotional. The unemotional companies base everything on standards, with no deviations. Al has a unique balance between the two. He listens and gives consideration, always. I think he will be remembered for his integrity and honesty, just as Arnold Machinery Company is known for those qualities."

INTEGRITY
Utter sincerity, honesty, and candor. Avoiding the appearance or act of deception, expediency, or artificiality of any kind.

DISCIPLINE
Self-control and self-restraint. One's systematic, willing, and purposeful attention to their performance of personal and Company objectives.

EMPATHY
The intellectual or emotional identification with another. The capacity for participating in or a vicarious experiencing of another's feelings or ideas.

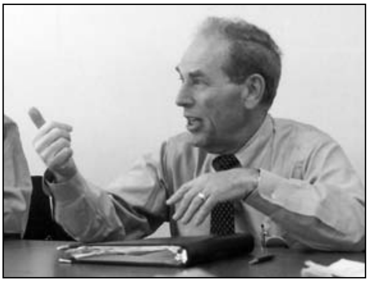
Controls

Al Richer has distilled the "controls" segment of his management philosophy into one effective statement: "You can delegate authority but you can't abdicate responsibility." He illustrates that by focusing on detailed budgeting and controls, Division managers have monthly review meetings with branch and department managers so everybody understands that they're responsible for the results. In turn, the division managers meet with the CEO who asks, if the results are disappointing, "How can we fix them?" And if they are good, "How can we make them better?

Incentives & Communication

Along with Silver Service® and Controls, Incentives and Communication are the cornerstones of Al's philosophy. Arnold associates become stock owners in the company, with stocks awarded based on years of service. "I'd rather have 400 people worrying about profits than doing it all by myself. Or—put it this way: If I don't sleep, you don't sleep," Richer has said more than once. "Everyone shares in a bonus arrangement based on return on assets as well as year-end discretionary bonuses.

We have structured our incentive program so that employees are focused on their own performances as well as corporate results."



Al Richer

Fixing GID

The turnaround of General Implement Distributors is one success story based on Al Richer's influence. Buz (Wendell) Nelson, who became president of GID in 2002, is in the best position to offer an overview of the company's past 30 years and to put this turnaround into perspective.

"From the late 1970s to 1985, our company was in the business of distributing not only farm equipment in the intermountain and northwest areas, but also recreational equipment in the Utah, western Colorado and Idaho areas, and Wisconsin engines in Utah and Idaho. At the time, branches were Salt Lake City, Boise, and Pasco. Sales were in the $7.5 million to $8.5 million area with marginal profits. Our staffing at all locations was between 35-42 associates. Frank Seal was division president and Scott Wallace was vice president. The high interest rates of 1979 hit us as hard as anyone and though we thought it might be a short-lived recession, it wasn't. By 1983-84 we were losing money; Frank Seal had retired in 1982 and Wallace had been named president. In January of 1985, he resigned and I returned to Salt Lake as general manager. This was the beginning of the turnaround.

Al Richer had been asked by Bob Arnold to analyze the problems in our division. He found them there, and throughout the company. I can remember him mentioning to me in the spring of that year, 'Did you know we're making a grand total of one-percent commission on the Arctic Cat rep commissions?' This was a subtle command to dump it, which we did. Or, 'Did you realize we're only generating 16% on lawn mowers and then giving the dealer six month terms.' This went on for several months and before the year was out, we had gotten rid of all our recreation, engines, lawn and garden lines, and every other unprofitable item. That year, our total sales dropped down to $2.8 million and our associate count dropped from 42 to nine. Al Richer, Frank Loeffler, vice president and operations manager, and I had to sit down and ask what our strengths were. We knew that non-powered farm implements had good margins. We had a reputation of selling ag sprayers, which also had good margins. Our competition was also struggling, so we felt we could exercise our strengths and survive. We had closed down Pasco and brought the strongest inside sales person to

Salt Lake—Al Anderson. He had been hired in the spring of 1979 and had transferred from Boise to Pasco. The dealer base respected him greatly. We also closed Boise and were back to the original scenario, selling all goods out of Salt Lake. We kept only two salesmen. By 1987, we eked out a profit. Our profit percentages have since led the company, a fact we are immensely proud of. This turnaround must be credited to Al Richer's tutoring and the discipline of monthly meetings that demand budgeting, reporting, inventory days, and a focus on return on assets; combined with a management style that emphasizes incentives, ethics and empathy for the customer and fellow associates. We owe our success from 1987 onward to Al. Also, Frank Loeffler, our current vice president and operations manager, has acted in concert with me to give this division stability for the past 18 years."

Communication is something that comes from the top down and from the ground up at Arnold. From the top comes a yearly satellite broadcast that lets every associate know exactly how the company did—division by division and location by location. Corporate newsletters fill in with progress reports during the year. As mentioned on previous pages, Al Richer also started the practice of meeting personally with associates in small groups to answer questions and to discuss Silver Service® during lunch or breakfast sessions. CEO Russ Fleming conducts those sessions today.

Under Al Richer and Russ Fleming's leadership, there is no need for a corporate manual or guidebook at Arnold. There is no fine print or policy book because the bottom line is Silver Service®.

"People, inventory and receivables are our assets," Richer has stated. And he frequently uses a term you don't often hear in the corporate world: empathy. Rarely has he ever spoken to his associates without driving this point home—"Whatever you have to do, whether it's letting an employee go or dealing with a customer problem, do it with empathy. Try to feel what that person is feeling and treat that person with respect."

> *"You will never get fired for doing too much for the customer as long as it is ethical! But, you will be in big trouble if you do not leave the customer smiling! How will you know what will make the customer smile? Ask the simple question: 'What will make you happy?' Also, if you make a commitment, keep it. If you can't, inform the customer about when you will be able to keep it—this includes issues large and small—from deliveries to appointments and returning phone calls."*
>
> Al Richer

First Quarterly Report of the "State Of Affairs" of our company.

December 2, 1985

DEAR ASSOCIATES:

This is the first of what will be a quarterly report as to the "state of affairs" of our company.

Last year (fiscal year ending 9/30/85) was a year of transition. It was a year of adjustment in which we chose to fully recognize our problems and take appropriate action to "clean-up" as much as possible.

This process particularly impacted our GID division where it was necessary to correct past practices that were unsound and untenable over the long term. GID has lost money for the last 3 years - hopefully the actions taken in 1985 will position us to make a profit in 1986 and future years, regardless of the vicissitudes of the farm economy. We owe a debt of gratitude to all those GID people who "endured the pain" and whose hard work and dedication made it happen.

As you know, we closed our branches in Missoula, Reno and Pasco. In addition, we converted our Material Handling branches in Twin Falls and Idaho Falls to "service only" locations. The reason for taking these actions were simple and straightforward - they were simply too small (in terms of dollar sales volume) to generate a profit. In fact these branches lost, in 1985 alone, $382,000 without counting or charging them with their share of divisional or corporate expense. This action alone should greatly enhance our ability to achieve our 1986 profit objectives.

Another problem that has plagued the corporation has been Bad Debt Expenses. Since 1981 our Bad Debt losses have ranged between $375,200 to $432,700 per year. Prior to 1980 our losses never exceeded $100,000. This was caused by lax credit analysis, bankruptcies and selling with "full recourse", which means we are ultimately responsible if a customer does not pay, even if a CIT or other finance company "takes the contract". We want to do everything we can to sell as much as we can - but, selling and not getting paid is a hollow victory.

The tough competition and the advent of the "Gray Market" has caused serious deterioration of our Gross Margins. This is very serious because these are the dollars that pay the bills - and salaries. The answer is obvious - we must either get more Gross Margin or pay out less. I am sure none of us wants to get paid less - so we must get more Gross Margin!

As a result of all of the above, I am sorry to report that we lost money in 1985. In fact the corporation has lost money the last 4 out of 6 years resulting in a cumulative loss since 1980. It wasn't always so - in fact up until 1979 the company had good growth and solid profits. The challenge for all of us is to re-capture "the Glory Days". I have the utmost confidence that we can and will do just that. Here's why I believe we can -

1 - We have taken appropriate actions to plug major "profit leaks" (Branches, A/R etc).
2 - Last year we cut our losses in Idaho by 50% and we look forward to Boise and Idaho Falls being profitable in 1986 after five long years.
3 - We have re-organized GID so that they have a shot at profitability in 1986 after 3 years of losses.
4 - For the first time in a long time our parts inventory shortage was minimal which indicates tighter control and greater concern in regards to our major financial asset. (By the way, congratulations to all those who participated in our year-end inventory taking - you did a great job.
5 - Our budgeting for 1986 was very well done - best ever. We have budgets which are realistic and most importantly - attainable.
6 - We have excellent Management Control Reports in place, which will bring to our attention any major deviations on a monthly basis. It is now up to us, all of us, to take immediate corrective actions, when necessary, so that we may achieve our objectives (budgets) on a monthly basis. If we pay attention to each month, the year will take care of itself.

In summary, we have a great future - a fine, solid company with a 56-year history of integrity, employee good will and ownership, customer service and a founding family that imbued us with all the good things that have epitomized our great country and free enterprise system. It is now up to us - "the next generation" to make Bob, Ray and "Doc" Arnold proud of us. Let's show them that their hard work, devotion, integrity and sincerity have built a foundation and platform which can catapult us to new heights. There aren't any short cuts - the same hard work, devotion, integrity and sincerity on the part of all of us will make it happen. I am proud to be part of this "family" and am counting on each of you to do your part in achieving our goals.

Sincerely,

Alvin Richer
President

CHAPTER 9

Milestones and Financial Highlights of the Al Richer Era

Once Al Richer had Arnold on a steady financial path, he began a series of acquisitions, furthering Arnold's vision of growth and diversity. "Our growth has been very strategic," he emphasized. "We have turned down a lot of offers, we have courted others. But it's all based on this: We are a distribution company of non-consumer products, headquartered and operating in the western part of the United States."

Today, Arnold Machinery is now stronger and more resilient as a result of these strategic moves. Since 1986, under Al Richer's leadership, the company has been profitable and paid dividends every year.

The Timeline on pages 49-52 outlines most of the events that have shaped the company, in chronological order. But it is the reasoning behind the many business decisions made between 1985 and the present that illustrates the impact Al Richer and his management team have had on the company's success. It takes strict discipline, and great self-knowledge to say "no thanks" to tempting opportunities, and Al Richer has done that with aplomb.

The following comments of Roy Keller, president of CIT, reflect the thoughts of many who know and have done business with Mr. Richer. Since Roy had the opportunity to work with and observe him from the mid-to late 1980s-on, he has witnessed the turnaround. He described Al Richer as having "The uncanny ability to be disciplined enough to make corrections in the company, even when the economy is good. Al observes what is going on and is courageous enough to pick the right opportunities for expansion and growth. He also knows when to pass on those that look good, yet still don't fit. He has also built a great team to carry Arnold into the future." Roy also noted, "I have been in this business for 26 years and Al is one of the few people I hold up as an example of someone who knows how to run a business. Al brought his management style to Arnold and introduced the concept of monitoring and statistical analysis. He applied his business savvy and made it his business to know the strengths and weaknesses of the company, down to every branch."

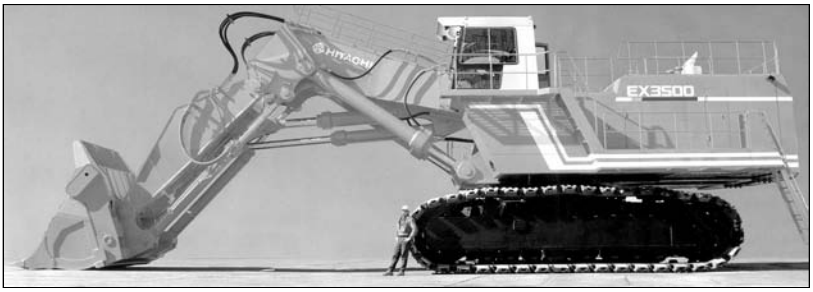
CIT, like any financial institution, is not inclined to extend credit on the spot, but Roy Keller recalled that his company's level of trust and respect for Al has always been so extraordinary, that we once gave him a "thumbs up," without question, when Al made a request for $10 million to finance an acquisition that had not yet been formally presented. CIT didn't hesitate to commit its resources. "We know that Al does due diligence," Keller stated. "He always makes sure that every acquisition is a strategic and financial fit, and that it is priced correctly. And as soon as he takes over, he engages the new operation in his type of financial discipline. I trust his judgment. Silver Service® has of course been his managerial cornerstone, and is essential to the company's survival, but combining it with the real financial discipline—analyzing data as history and as an indicator for the future—that's what has taken the company to its current level." That said, the following is a snapshot of the thinking behind Arnold's fiscal evolution—including acquisitions, closures and other milestones.

"I have been in this business for 26 years and Al is one of the few people I hold up as an example of someone who knows how to run a business.

Rapid Growth

By 1988, when Al Richer had Arnold Machinery moving on the road to financial strength and increased sales, he began to set his sights on strategic growth. Al's first attempted acquisition involved BayCal Equipment, a construction equipment dealer in northern California. The business was deemed to be a good fit and in line with Arnold's desire to expand its territory, so negotiations proceeded and the principals agreed on a deal. However, during the due diligence process, Arnold discovered various accounting errors and realized that the deal would not work as originally structured. So, Al Richer, Bob and Clark Arnold and Kayden Bell traveled to Sacramento to negotiate a revised deal. After a full day of discussions, they agreed on a price. But the next day the seller expressed second thoughts. With that, Al assessed the overall situation and chose to walk away from the deal, knowing it was not going to work out. He was soon on to the next opportunity. Meanwhile, with Al's financial disciplinary tools and the commitment to Silver Service® in place, things were looking up. At the end of fiscal year 1988 sales had increased 12.4 percent with a net income increase of 18.2 percent.

As detailed in Chapter Six, by 1989 the gold boom in Nevada was having a true impact on Arnold's bottom line. The company had already built a branch in Elko and was on its way to acquiring the Reno branch of Georges Equipment Company, who represented Volvo Equipment. Arnold's relationship with Volvo began with the Georges acquisition and continues to the present. The purchase would extend Arnold's reach to the western border of Nevada, giving Arnold the entire



Hitachi EX3500

northern portion of the state. The timing was certainly right, as shortly after that acquisition, which was finalized on March 20, Arnold sold seven Hitachi EX 3500 hydraulic mining shovels, priced at $3 million each. By June of 1989, nine months into Arnold's fiscal year, Arnold acquired Western Machinery Company of Arizona—a deal that principals remember as requiring much work and negotiation—but one that greatly expanded Arnold's reach, taking it into Phoenix, Tucson, and Flagstaff, Arizona. Western Machinery represented Volvo Construction equipment, Hitachi, and Grove Crane. At the time of the acquisition, this represented a potential $12 million in sales. Al Richer recalled that "One reason for the acquisition was to boost fiscal year 1990 sales so that they would keep pace or exceed those of fiscal year 1989."

However, things didn't go according to projections. Although Grove Crane had given Arnold a letter stating its intent to stay with Arnold, Grove ended up canceling after 6 months and going with an Arnold competitor. Since Grove represented about one-third of Western Machinery's sales, this definitely had an impact. So although 1989 net income for the company rang in at $1,830,189, sales and profits for the following year declined slightly. The acquisitions had to be brought into the fold and trained in the ways of Silver Service®, so that required some time as well.

1991 Recession

Fiscal year 1991 was rough. Not only was the country in the depths of a recession, Arnold's biggest revenue source, a manufacturer called Dresser Industries, announced plans to align itself with Komatsu Equipment Company. Al Richer tried in vain to convince the manufacturers to allow Arnold to represent them both—as a combined Dresser-Komatsu equipment company. He wanted to create a holding company that would then manage two product companies, one comprised of Dresser and Komatsu and the other of Volvo and Hitachi. Ultimately, Komatsu would not allow it, so the proposal was shelved, though Arnold retained Dresser for the time being.

The company's recent rapid growth resulted in a temporary loss of focus on expense control during this period. During the first four months of fiscal 1991 Arnold had lost more than $1 million. This resulted in another 10 percent pay cut for all company associates. Company landlords were also asked to reduce the building rents by 10 percent for the last six months of the fiscal year. In keeping with his open communications policy, Al visited every branch. He held meetings to explain the situation to the associates and to let them know exactly why the pay cut was required, and what it could accomplish. As a result of his openness, the overwhelming majority of the associates stayed on board through the temporary pay cut and the company ended the year with a profit. (The pay cut was rescinded as of October 1, the beginning of the next fiscal year.)

Also in November 1990, Arnold Machinery Company moved into a new building in Boise, Idaho. This allowed General Implement Distributors to have their first branch location outside of Salt Lake City since the mid-1980s. Construction and Mining Equipment and Material Handling also moved into the expanded branch facilities. In another cost-cutting move, the company chose to close the Flagstaff branch of CME at the end of fiscal 1991.

Growth Continues Through the 1990s

Because it has always had such a great relationship with Hyster Company, Hyster approached Arnold in early 1992 and asked the company to purchase American Material Handling, the Hyster distributor in Arizona. The existing distributor had conducted some questionable business practices and Hyster felt that Arnold was in a good position to better represent them, and to do it with integrity and dignity. It seems those qualities had been lacking, as evidenced by that distributor's quick exit when

Hyster forklifts

Al handed him the check that closed the deal. He grabbed it from Al's hand and literally ran out the door to deposit the check for immediate transfer to a Swiss bank account and out of the grasp of his ex-wife. The acquisition gave Arnold more efficient use of its facilities in Arizona, as the company was able to move Material Handling into the newly acquired Western Machinery facility. American Material Handling of Arizona and Western Machinery were combined to become Arnold Machinery Company in Arizona.

Arnold Machinery Company made its fourth major acquisition on October 1, 1992, when it bought Vickers Truck Equipment Company. Since Al owned fifty-percent of Vickers he asked the

Arnold board to have Bob Arnold negotiate for the company. Dick Bell, Al's partner in Vickers, negotiated for that company. The Vickers acquisition was a success and gave Arnold greater product diversification, a goal Al had set when he bought Arnold Machinery. Fiscal year 1993 concluded with an impressive 30.7 percent increase in sales. The recession was past and the future was looking good. Another of Al's early goals for the company was to achieve $100 million in gross sales with a five percent return on sales and a 10 percent return on assets, pre-tax.

By fiscal year 1994, the company exceeded the sales goals when it reached $109,552,700. Arnold set another profit record that year with net income at $1,835,919.

That year Hyster approached Arnold once again, asking the company to consider acquiring a Las Vegas distributorship. The company was uncertain about Las Vegas, feeling that the business community was not stable. But after going ahead with due diligence and encountering strong encouragement from Hyster, the deal was made on October 31, 1994. It gave Arnold coverage of southeast Nevada. The company now has Hyster in Utah, Idaho, Arizona, and all of Nevada (with the exception of Reno).

Ditch Witch

Arnold became the first multi-line distributor to represent Charles Machine Works, makers of Ditch Witch (trench-digging machines) when it bought the Utah Ditch Witch distributorship in January 1994. Concurrently, Arnold was awarded the Las Vegas trading area for Ditch Witch. On June 13, the company acquired the Idaho branch as well. Ditch Witch proved to be a profitable investment for the company for several years. But by 2003, because of deteriorating market conditions and sustained losses, the Ditch Witch product line was sold. Arnold simply does not tolerate losses and constantly tracks market conditions, so there was no hesitation about selling the unprofitable product line.

Arnold Replaces Dresser with Volvo in Utah

In early 1995, through a deal that took a considerable amount of finesse, Arnold replaced its distributorship of the Dresser line with the Volvo distributorship in Utah. This came about when the company suspected that the Dresser line was going to move to the Komatsu

Articulated truck and loader

dealer. Rather than wait around, Arnold made a pre-emptive move, acquiring Construction Equipment Associates, the Volvo distributor in Utah. Within a week Arnold also sold the Dresser Industries product line to Rocky Mountain Machinery and Komatsu, thus finalizing the long and profitable relationship. Dresser of course did not know about the Volvo deal. Less than two months later, Arnold expanded its representation of Volvo by buying the Volvo distributorship rights from Central Equipment in Idaho. That acquisition marked the completion of Arnold's transformation from a Dresser distributor to a Volvo distributor.

In 1996, Arnold Machinery Company devoted time to its recent acquisitions and paid strict attention to getting expenses under control. According to Russ Fleming, "Gold mining continued to be strong in Nevada and numerous hydraulic shovel and truck orders were out for quotation. Arnold and Hitachi faced strong competition from Caterpillar and DeMag and ultimately lost some unit sales to them. However, after the competition experienced some machine and support problems, Arnold's Silver Service® and the Hitachi product became the 'team of choice' and Arnold has had over 80 percent market share in the hydraulic shovel product line since that time."

By 1997, Al Richer had begun to consider retirement. Knowing this would affect the company considerably, Arnold explored the option of taking the company public. However, though initial price suggestions were high, the reality was that the actual price would be lower than desired. And, when Al Richer considered the rigors of public analysis, the option of going public didn't look so attractive. After careful consideration, the company determined that an IPO was not the answer. Arnold then considered a limited auction and met with several interested parties. Each party spent a day getting a feel for the company and meeting with the management team. However, through various meetings with potential buyers who didn't seem to really "get" the business—asking such questions as "What will the price of gold be next year?" it became apparent to Al Richer that he wasn't ready to retire just yet. He called the sale off in January 1998.

That same month, Al made history by becoming the third CEO from Arnold Machinery to be appointed president of AED. The role of AED president is demanding, requiring time and travel, so Al's involvement did take a toll on the company. While this was another profitable year, both sales and profits were down from the previous year. This was attributed to the fact that the management team had not been able to maintain Al's level of discipline in all financial areas. Also that year, the Construction Division closed its Tucson branch and left Material Handling alone in that area. This was also the year Russ Fleming became president of the Construction and Mining Equipment Division.

As 1999 drew to a close, Arnold,

like everyone else, was concerned about and getting ready for Y2K, the turn of the century. The company spent time and money converting to a new Y2K compliant computer system, but of course the general panic about a Y2K "bug" proved to be unfounded. Business, fortunately, went on as usual. By fiscal year-end, though sales were up, net income was down. Expenses were still not completely under control.

In December 2000, GID expanded its territory further into the Northwest when Arnold purchased S&W Farm Equipment in Portland. This added important new lines to the company's offerings, including T.G. Schmeiser and Demco. This was GID's first acquisition.

With the new century underway, Arnold placed the first Hitachi EX 5500 with Echo Bay Mines in

Hitachi EX5500

2001. It was a 40 cubic yard machine, Hitachi's newest and largest shovel. This opened the door to start replacing the older EX 3500s, which are still operating with over 70 thousand hours.

In May 2001, Arnold added Volvo to its Las Vegas territory by purchasing the inventory of CMI. This now meant that every Construction and Mining Equipment location in the company represented Volvo. That year, because of sustained losses and poor market conditions, Arnold closed Vickers Truck Equipment in Salt Lake.

By 2002 Construction and Mining Division had delivered its second EX 5500 to Glamis Gold who also ordered the third EX 5500 for delivery in January 2003.

2002-2003: Another Changing of the Guard

On December 1, 2002 (actually Fiscal Year 2003), Russ Fleming became the fifth president and CEO of the company.

That same year, Arnold sold the first EX 3600 (the updated version of the 3500) to Bald Mountain Mine. The other big event of the year was GID's acquisition of Countryside Marketing in Billings, Montana in March of 2003. This expanded GID's territory into the Dakotas, Montana, and Western Wyoming.

Chairman of the Board

Today, Al Richer remains hands-on, energetic and active in the operations of Arnold Machinery Company as chairman of the board. After turning a profit and paying dividends for 18 years running, he has passed the reins to a management team that is committed to his vision and philosophy.

CHAPTER 10

President & CEO Russ Fleming

Russ Fleming was named president and CEO of Arnold Machinery on December 1, 2002. "I've been exposed to the equipment business since I was old enough to crawl," he explained when talking about his background. "My father lost his left arm on the back of a bulldozer before I was born. He was an equipment operator and service technician. He repaired and operated all kinds of machinery, so when I was a kid, I had the opportunity to watch road building all over western Pennsylvania. I observed the way roads were built, how the equipment was used, and it fascinated me."

Russ Fleming

Russ's first job in the industry was with Westinghouse Air Brake Company where he worked in marketing and as a field sales rep. At Furnival Machinery Company he worked as a branch manager and eventually moved west to work on various mining jobs in Nevada with Le Tourneau. He joined Arnold Machinery Company as branch manager and mining sales manager in Reno in 1994 and says he "Got to know Al when I moved to Arizona and he taught me almost everything about how to run the business." According to Fleming, "The very foundation of our business is Silver Service®. I have never worked for a company where the owner empowers all associates to take care of their customers—no matter what it takes. Silver Service® is like a safety net for our customers, too. They know—we stand behind each and every piece of equipment. Everybody talks about doing that, but very few follow through."

Russ Fleming's vision for Arnold's next generation is perfectly aligned with Al Richer's. He explains it this way: "I want to grow the company in the type of industries we are already involved in and represent a diverse line of products. We would like to grow General Implement and Material Handling so that if one industry is down, another can prop it up. We want to keep Arnold and Silver Service® as our brand. The overriding goal is to keep on this path and continue to strive to be the best in our area. I am honored and humbled to be the coach of such a solid corporation."

Norm Tanner, who, along with his uncle, founded O.C. Tanner, was invited by Al Richer to join the board of directors in 1991. He is still one of the esteemed board members.

(continued, page 46)

(continued from page 45)

"I witnessed the transition from Bob Arnold to Al Richer and I know firsthand the phenomenal job Al has done. He is absolutely honest and fair, and he makes people toe the line," he said. Norm takes credit for urging Al to place his two sons, Arnie and Bob on the board of directors—which Richer eventually did.

Norm Tanner

More on the Board of Directors

Bob Arnold continued as chairman until 1989 and is still on the board of directors. Ray Arnold's son Clark Arnold, who practices law in Salt Lake City, is also a board member and handles the company's corporate law. Al Richer's sons, Arnie and Bob also sit on the board. Arnie is president of Richer, Swan and Overholt, a Salt Lake City-based law firm. He does the company's commercial law. "My dad is a straight shooter," he noted. "You can bank on what he says. Of course he is very intelligent and knows finance. Add that to his ability to lead people and it's easy to see how he had such an impact on Arnold Machinery Company. I feel the same way about Russ Fleming. He truly likes the people at Arnold and I feel very positive about the company's future."

Bob Richer is a county commissioner in Utah's Summit County and was also on the City Council in Park City. He has been involved in real estate and development since 1980 and founded Richer Development Services in April 1988. "My dad's command of integrity, discipline and empathy is exceptional," he said. " If you are doing business with Arnold Machinery, you can be assured—whatever you're told, it's the truth. And the company will follow through on any commitments or customer service issues." Bob and Arnie followed their parents to Utah, thinking it might be a short stint. More than 25 years later, they are all still actively involved in business in the state.

From left to right, Clark Arnold, Bob Arnold, Kayden Bell, Russ Fleming, Arnie Richer, Al Richer, Bob Richer, Norm Tanner and Walker Wallace.

The board is rounded out by Clark Arnold, Kayden Bell, Russ Fleming, Norm Tanner and Walker Wallace.

CHAPTER 11
Future Vision
By Al Richer & Russ Fleming

Our future vision is based on the foundations of our past. It should and must be predicated and built upon the principles, philosophies and integrity that have sustained us through depressions, recessions, wars (cold and hot), terrorists, droughts, floods, cold, heat, and the many other problems—manmade or natural—of the last 75 years.

There have been only four Arnold Machinery Company CEOs, from January 6, 1929 to December 1, 2002 (the current and fifth CEO being appointed on that date). That in itself has brought continuity and stability in management and ownership. It is essential that this be sustained with each succeeding generation of management, recruiting people with a shared vision and then training and inculcating them with the "Arnold way of doing business."

Arnold's Philosophy: Originally committed to writing in the 1950s, this philosophy was updated to be more inclusive and to add Silver Service® in the 1980s (see page 53).

Our Mission: Created in the mid-1980s it reiterated our commitment to fairness and honesty. It also foretold the creation of Silver Service® and the concept that we must "Satisfy the needs of our customers, which will generate rewards to our stockholders." The juxtaposition of these two phrases was deliberate, because we believe that without the former, you cannot have the latter. (see page 54).

MANAGEMENT PHILOSOPHY

1. Customer Satisfaction
2. Controls
3. Incentives
4. Communication

These four principles were instituted in the mid-1980s to help us maximize our profits during "good times" and to minimize our losses during "bad times." (see page 33).

PERSONAL CHARACTERISTICS

1. Integrity
2. Discipline
3. Empathy

These concepts have been formalized throughout the company since the mid-1990s.

Integral to our foundation, these are also the building blocks for the future.

Arnold will continue to operate and grow based on the Strategic Statement originally created in the mid-1980s:

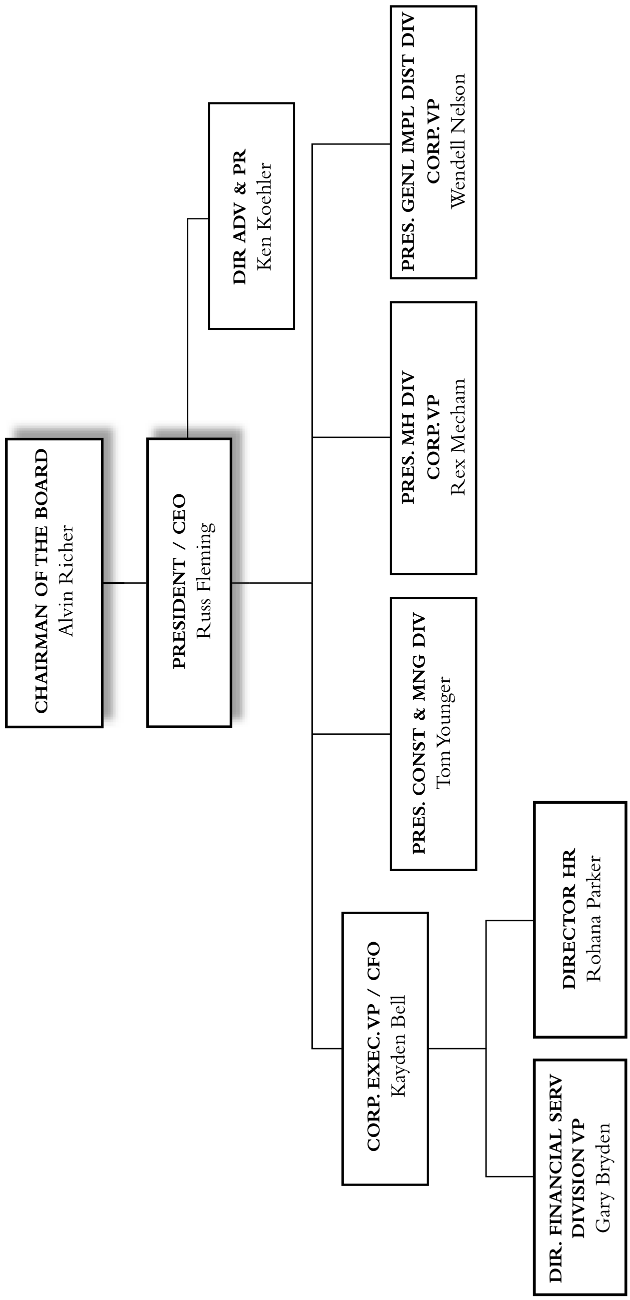
"We are a distribution company

of non-consumer products headquartered and operating in the western part of the United States." Based on these parameters we will continue to pursue acquisitions that will be accretive to our existing divisions or enter into new industries that meet our strategic and financial criteria.

Most importantly, however, is our ongoing and total commitment by all our associates to Customer Satisfaction is Our Only Policy®— in other words, Silver Service®! Since its inception in the fall of 1986 it has become woven into the fabric of our company and has been the engine of our growth. It is now our "brand." We pledge on the part of the current and future generations of associates that we will never do anything to diminish, dishonor or denigrate the "brand" – our heritage. How? By enforcing the one and only policy we have for our people: You will never get fired for doing too much for the customer (as long as it is ethical) but you will surely be in deep trouble if you don't make the customer happy. How do you do it? Just ask him, "What will make you happy?" And then do it.

In the final analysis, our customers do business with Arnold Machinery, not the particular product or manufacturer that we might represent at the time. This has been proven over the past 75 years. Manufacturers have come and gone, but we have endured, grown and prospered because we have been there to support our customers. We call it Silver Service®. Hopefully we will be here for another 75 years to continue to demonstrate that truly, Customer Satisfaction is our Only Policy®.

ARNOLD MACHINERY COMPANY ORGANIZATIONAL CHART 2004



ARNOLD MACHINERY COMPANY TIMELINE

1929
Louis E. "Doc" Arnold and Floyd C. Stannard incorporate Stannard-Arnold Machinery Company.

1930
Ray Arnold (Doc's son) joins him in the business.

Company takes on distribution of Fordson tractors.

1932
Floyd C. Stannard resigns.

1933
Official name was changed to Arnold Machinery Company.

1934
Arnold takes on Galion graders and rollers.

1940
Bob Arnold joins company.

1941
War declared and Northwest Engineering diverts supplies to U.S. Government, leaving Arnold without its major line.

1942
Arnold adopts first company pension plan.

1944
Arnold signs on with Hyster Company (today the company is the oldest independent distributor of Hyster equipment in the U.S.).

Arnold begins affiliation with CIT Equipment Financing.

Sales top $1 million.

1949
Company officers and directors take 10 percent pay cut.

Did not apply to other associates.

1951
Ray Arnold becomes first of three Arnold CEO's to serve as president of Associated Equipment Distributors (AED).

Arnold opens its first branch in Idaho Falls, Idaho.

1952
General Implement Distributors (GID) is formed to sell farm equipment lines other than Ferguson and New Holland.

1954
Arnold opens branch in Boise, Idaho.

1955
Galion is purchased by International Harvester and terminates its contract with Arnold.

1957
Tractor Implement dissolved, Ferguson moves on, and New Holland line moves to GID.

1960
Arnold acquires International Harvester line for Utah, Idaho, western Wyoming, eastern Nevada, and eastern Oregon - doubling the size of Arnold Machinery Company.

Bob Arnold becomes president of Material Handling Equipment Dealers Association (MHEDA).

1967
Bob Arnold installed as president of AED.

1968
Ray Arnold retires and Bob Arnold becomes president.

1970
Arnold moves into new and current headquarters facility.

1972
Arnold opens branch in Twin Falls, Idaho.

1974
Bob Arnold becomes CEO of Arnold Machinery Company.

GID becomes a division of Arnold Machinery Company.

1975
General Implement Distributors, Inc. merges into Arnold Machinery, Inc and becomes Arnold Machinery Company.

1979
Dedication of separate Material Handling headquarters in Salt Lake; and Arnold celebrates its 50th anniversary.

1982
Hitachi line of construction and mining equipment acquired - coinciding with growth of gold mining in northern Nevada.

1983
Arnold sets up shop in Elko, Nevada.

Al Richer was asked by Bob Arnold to review company.

1984
Al Richer buys controlling interest in Arnold Machinery and becomes executive vice president.

1985
Al Richer becomes president / CEO of Arnold Machinery Company and ushers in a new era.

Buz Nelson becomes general manager of GID.

(continued)

1986
Silver Service and Customer Satisfaction Is Our Only Policy introduced at annual strategic planning meeting.

Rex Mecham becomes president of Material Handling Division.

Kayden Bell joins the company as controller.

All Arnold associates, including executives and managers, take 10% pay cut.

1988
Al Richer elected to MHEDA board of directors.

Branch building built in Elko, Nevada to supply service and parts.

The first attempt at an acquisition was not consummated.

1989
Al Richer becomes chairman of the board of Arnold Machinery Company.

Arnold acquires Reno branch of Georges Equipment Company and begins its affiliation with Volvo Construction Equipment Company.

Western Machinery of Arizona (Volvo and Hitachi distributor) acquired as a wholly owned subsidiary with branches in Phoenix, Tucson, and Flagstaff, Arizona.

1990
Built new facility in Boise, Idaho – Construction and Mining Equipment, Material Handling, and GID.

1991
All Arnold associates, including executives and managers, take 10% pay cut.

1992
Arnold acquires American Material Handling (Hyster) in Phoenix and Tucson.

Arnold acquires Vickers Truck Equipment Company in Salt Lake City, Utah.

1993
Arnold acquires the Hyster distributorship in Las Vegas, Nevada.

Built new facility for Vickers Truck Equipment Company.

1994
Arnold reaches $100 million sales milestone.

Arnold acquires the Ditch Witch distributorship for Utah, Idaho, and southern Nevada.

1995
Al Richer elected to board of directors of AED.

Arnold acquires Construction Equipment Associates and Central Equipment, giving the company the Volvo distributorship for Utah and Idaho.

1997
Built new facility in North Las Vegas, Nevada, incorporating Construction and Mining Equipment, and Material Handling Divisions.

1998
Al Richer becomes third Arnold CEO to hold presidency of AED. Russ Fleming becomes president of Construction and Mining Equipment Division.

2000
Arnold acquires S&W Farm Equipment in Portland, Oregon as a branch of GID.

2001
Arnold acquires CMI, Volvo distributorship in Las Vegas, Nevada, completing representation of the Volvo line in all of Arnold's Construction and Mining Equipment territories.

Built new facility for Twin Falls, Idaho Material Handling Division Arnold closes Vickers Truck Equipment Company.

2002
Al Richer relinquishes position of president/CEO and retains chairman of the board.

Russ Fleming becomes president / CEO of the company.

Kayden Bell becomes executive vice president of the corporation and continues as CFO.

Buz Nelson becomes president of GID.

Tom Younger joins Arnold as president of Construction and Mining Equipment Division.

All Arnold associates, including executives and managers, take 10% pay cut.

2003
Arnold acquires Countryside Marketing in Billings, Montana as a branch of GID.

Arnold divests itself of the Ditch Witch product line.

2004
Arnold Machinery Company marks 75th year.

Arnold's Philosophy

Arnold Machinery Company states this philosophy to its customers and the general community:

At Arnold we believe in carrying our Silver Service® attitude and commitment into the general community. We believe in the free enterprise system and that we have a valuable stake in that system. Our reward for performance takes the form of success and the amount of success is directly related to how well we serve you. . . our customer.

We believe in equality. We believe that in a free marketplace no individual should be discriminated against regardless of race, creed, color, religion, sex, or disability.

We believe in the inherent dignity of the individual; that without exception everybody is entitled to courtesy, fairness, and respect.

We believe in compassion for the less fortunate. We believe in contributing and providing leadership in voluntary charity organizations that aim to relieve the plight of those less fortunate than we.

We believe in honesty. It is our integrity that has built and sustained our reputation and it is that enduring dedication to honoring commitments that will guarantee that all Arnold customers will continue to benefit from our Silver Service® performance far into the future.

Our Mission

We believe that our mission is to achieve business success through the superior performance of excellent people who. . .

. . . Demonstrate that fairness and honesty are the foundation of our business dealings;

. . . Build on the tradition and experience of those founders whose ingenuity, effort and ethics have provided us with a respected company in which to grow;

. . . Satisfy the needs of our customers, which will generate rewards to our stockholders;

. . . Consider quality of product to be essential; and

. . . Commit their talent and initiative to the attainment of priorities and objectives.

In these ways will we show that excellence is our standard.

SILVER
SERVICE
ARNOLD MACHINERY CO.®