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A publication for and about General Equipment & Supplies, Inc. customers • 2007 No. 1

Featured in this issue:

H&S CONTRACTING INC.

New dirt contractor is building a reputation for itself in Moorhead/Fargo area

See article inside...



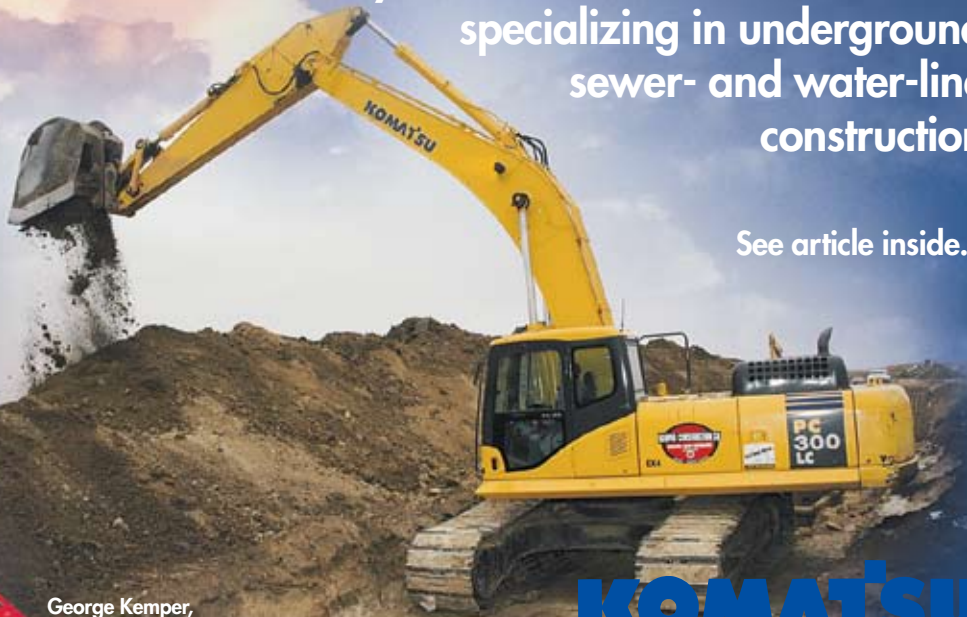
Tracy Hazelton,
President

Featured in this issue:

KEMPER CONSTRUCTION CO.

For a century, this Minot contractor has been specializing in underground sewer- and water-line construction

See article inside...



George Kemper,
President

KOMATSU

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KOMATSU & YOU

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A SALUTE TO A CUSTOMER

KEMPER CONSTRUCTION CO.

For a century, this Minot contractor has been specializing in underground sewer- and water-line construction



George Kemper,
 President

In 2007, Kemper Construction Co. of Minot, N.D., is marking an amazing milestone seldom seen by any other business in the construction industry — 100 years as a family-run company.

“There are not too many that have been around 100 years,” said Kemper Construction Owner and President George Kemper. “We’re very proud of our heritage, which makes us a little different from most companies.”

Now run by a third generation of the Kemper family, Kemper Construction Co. has been specializing in sewer- and water-line construction, both open-cut and trenchless, since 1907. That’s when George Kemper’s grandfather, George W. Kemper, moved to Minot and entered the contracting business.

“I think the first thing he bought was an old steam shovel and the first job was digging out the basement for St. Leo’s Catholic Church,” Kemper related. “I think the cornerstone of the church is dated 1907, so I’ve got a fairly good verification that was the first job.”

Early work

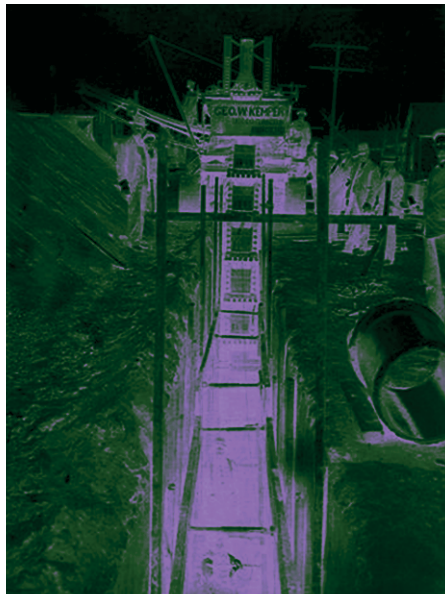
George W. Kemper eventually installed most of the original sewer and water lines for the city of Minot. But in 1923, he moved the business to Los Angeles where his sons, Max and Paul, eventually took over the company. Max’s son, Bruce Kemper, moved to Evansville, Ind., and helped form Frontier-Kemper Constructors, Inc., one of the largest tunnel contractors in the United States. Paul Kemper served with the Army Corps of Engineers during World War II, and after his discharge in 1946, returned Kemper Construction Co. to Minot.

“He was involved with the Minot and Grand Forks Air Force bases and all the big defense buildup,” said George Kemper, who is Paul’s Kemper’s son. “After the war, many small towns in North Dakota didn’t have sewer and water.”

George Kemper received a bachelor’s degree in civil engineering from the University of North Dakota in 1972, but after a brief stint as a safety officer for his father’s business, he had no desire to continue with Kemper Construction. Instead, he worked for consulting firms in Colorado and Idaho.

“I didn’t want to be in North Dakota at that time, I wanted to be out in Montana or Idaho in the mountains,” Kemper recalled. “But in 1976 I decided to give the family business a try again and came back to run a crew in the field.”

Kemper Construction’s founder George W. Kemper (third from right) with steam trencher on Main Street, Minot, N.D., in 1910





A Kemper Construction operator uses a Komatsu PC300LC-5 to lower 18-inch water line for the city of Minot. "It has a lot of power," Kemper Superintendent Rod Houle said of the excavator. "We don't have any problems with it and it's really good for lowering pipe down in the hole."



Kemper ran a crew for two years, then in 1978, returned to the office as Vice President and Estimator. In 1985, Paul Kemper retired and George assumed ownership and became President of the company.

Kemper Construction has performed numerous projects across the state of North Dakota and beyond, traveling as far as 300 miles from Minot. In 1987, Kemper Construction completed the first Southwest Pipeline project, installing 11 miles of 30-inch steel water line near Golden Valley, N.D. In 1998, Kemper Construction had a \$2 million subcontract in Mandan, N.D., that included replacing underground pipe on the First Street reconstruction.

Pipe bursting

In recent years, the company has found a niche in pipe bursting, the process of pulling new polyethylene pipe through old cast-iron piping without having to trench at the surface.

"It splits the old pipe and pulls in the new pipe at the same time," Kemper described. "So there's a lot less excavation. If you've got a pipe under a paved street, you can cut the restoration costs significantly."

In 2004, Kemper Construction performed the first large-scale, water-main pipe-bursting project in the state of North Dakota, installing 11,000 feet of six-inch and eight-inch polyethylene water main in the city of New Town. But Kemper said pipe bursting is not always the best option for every project. The piping is more expensive, and if a road needs to be resurfaced anyway, more traditional methods might make more sense.

Kemper estimates nearly half of the jobs performed by his company in the last three years have been pipe bursting. The rest is open-cut with some boring work, including a current \$1 million water-main extension job for the city of Minot. That project involves about 12,000 feet of 16- and 18-inch pipe.

Kemper and Komatsu

In order to get that work accomplished, Kemper Construction relies heavily on Komatsu equipment acquired from General Equipment and Supplies with the help of Minot Branch Manager Dave Solper. Kemper said all seven of his excavators are Komatsu, including two PC220LC-3s, a PC200-7, a PC128UU, two PC300-5s and a PC300-7.

"I remember when we got our first PC300-5, it was the 'cat's meow,' " Kemper recalled. "Then we got the PC300-7 a couple years ago and now it's the 'cat's meow.' Our operators think they're great. They don't bug me about getting other brands."

"The PC300 does a good job with our excavations and putting in our pipe," reported Kemper Superintendent Rod Houle. "It has a lot of power. We don't have any problems with it and it's really good for lowering pipe down in the hole."

Kemper Construction also uses a Komatsu WA350 wheel loader that has nearly 10,000 hours on it. "We've had almost no trouble at all with that loader," Kemper noted. "The guys like it. It still just goes and goes. It's good equipment."

Kemper said when a piece of equipment is in need of repair he can count on General

Continued . . .



Rod Houle,
Superintendent



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Equipment for assistance. "When we get into a major repair situation on an older machine, they try to find us used or rebuilt parts because it just really doesn't make sense to us to put all new parts into something that's pretty old," Kemper said. "They're good at finding those kind of parts. They seem to have good connections to find what we need."

Kemper Construction Co. President George Kemper (right) counts on General Equipment & Minot Branch Manager Dave Solper to assist him with all his equipment needs.



Kemper Operator Randy Williams works the Komatsu PC300LC-7 excavator on a water-line project for the city of Minot. "I remember when we got our first PC300-5, it was the 'cat's meow,'" Kemper President George Kemper recalled. "Then we got the PC300-7 a couple years ago and now it's 'the cat's meow.'"



Quality work force

Kemper said good people have also played an important role in the success of Kemper Construction. Rod Houle and Jordan Brown serve as lead Superintendents. Operator Randy Williams has been with Kemper since 1976, while Mechanic Galen Weltikol has been with the company since 1970.

Kemper said the longtime employees have been through both good and challenging times with Kemper Construction. A recession in the early 1980s and a drought in 1988 were difficult for the company, but Kemper said they were able to persevere.

"In 1990, things turned around and we really haven't had a bad year since then," Kemper recalled. "I can't believe I'm still waiting for the next big economic downturn, but it hasn't happened."

Most of the work Kemper Construction does is for municipalities and Kemper said he hopes government entities will continue to see the need to fund these projects. "Sewer and water work tends to be 'out of sight and out of mind' — that's our problem," Kemper said. "Whereas a chuck hole in the road is obvious; if you hit it, you know it's there and you want it fixed. No one can see when a pipe is corroding, getting paper thin, and is about to blow up."

The next century

When he's not at work laying pipe, Kemper is active in promoting the interests of contractors through the Associated General Contractors of North Dakota. He served as the organization's president in 2005. "I believe it is important for contractors to get involved and to have a voice in both state and national legislatures," he commented.

Kemper maintains that same proactive approach in his own business. Just because the company has been around for so long, he's not letting it coast on past success. "I plan to continue providing the service that my grandfather started a century ago. I'm having fun," he added. "It's a challenge and I'm kind of a warrior — I like the battle. As long as I have good people behind me, I'm going to keep at it." ■

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A SALUTE TO A CUSTOMER

H&S CONTRACTING INC.

New dirt contractor is building a reputation for itself in Moorhead/Fargo area



Tracy Hazelton,
 President

After more than a decade of experience in dirt contracting, Tracy Hazelton knew there was a niche he could fill as a medium-size contractor in the area of Moorhead, Minn., and Fargo, N.D.

"I saw a need for somebody to come in and help some of the larger contractors as a sub," said Hazelton, 33, who spent more than 10 years operating equipment for other companies. "There are so many small contractors and there are so many large contractors, but there aren't too many in the middle and that's where I'm finding business. We were busy all last summer."

The size of H&S Contracting Inc. is now at seven employees, who make up one crew doing site-preparation work, mainly in a 50-mile radius of its home in Moorhead. Hazelton said their work includes site development, demolition, smaller road construction and work for water districts, such as a riprap bank-stabilization project for the community of Breckenridge, Minn.

"We do jobs that nobody else wants to do," Hazelton declared. "We do a lot of work for farmers, too, such as rural ditch cleaning."

"We take on a huge variety of work. One week we're demolishing a house, the next week we're cleaning out ditches for the watershed for farmers, and the week after that we might be building ponds for the golf course at the country club."

Getting started

It's all part of a range of work Hazelton felt he could deliver when he made the decision to venture out on his own and launch H&S Contracting in June 2004.

"We started it with virtually nothing, just myself and one other guy," Hazelton said. "It was very, very nerve-racking. The first year it rained the first two months and it made me wonder, 'Did I make the right decision?' It was very scary. The second year I contemplated hanging it up, but we stuck it out."

"I befriended most of the larger contractors and we got our name out there. Now that everybody knows who we are, we've been bidding on some fairly big jobs," Hazelton continued. "Many contractors and customers are leery about working with a contractor without a well-known name and whose history they don't know. But we're in with a lot of them now, which is good."

Using their contacts with general contractors, Hazelton said business finally took off for H&S Contracting in the fall of 2005. Recent work included a three-mile ditch project in Harwood, N.D., in the summer of 2006, which involved digging out ditches and putting in a whole new drainage system.

More jobs, more machinery

With more work has come the need to invest in more machinery to accomplish those projects. Hazelton works with Sales Representative John Gromatka and Customer Service and Support Representative Aaron Brothen of General

An H&S Contracting operator pushes dirt with the company's Komatsu D61PX dozer. "The D61 is just a phenomenal piece," said H&S President Tracy Hazelton. "As far as fuel, visibility and operator comfort, it's been fantastic."





President Tracy Hazelton said Komatsu machinery is a good value. "Bottom line, when I make a purchase, it will be Komatsu because I get more for my money," he said. Here, an H&S Contracting operator works the company's Komatsu D65PX dozer.

Equipment and Supplies to meet much of his equipment needs.

Strictly renting at first, Hazelton eventually bought a Komatsu D41 dozer and a PC200LC excavator in the fall of 2005. H&S Contracting also uses a Komatsu D61 dozer and a WA200 wheel loader as part of a rent-to-purchase agreement.

"The D61 is just a phenomenal machine," Hazelton exclaimed. "As far as fuel, visibility and operator comfort, it's been fantastic.

"I personally hadn't run a new Komatsu dozer until we got the D61 and I love it," Hazelton continued. "It's great. One of my employees was in Vegas for an equipment show where he ran a D61 and he loved it. Same with the front-end loaders. I've been totally impressed with Komatsu's new line."

Hazelton had similar sentiments for the Komatsu PC200LC excavator. "With all of my years of experience I've run every brand," Hazelton said. "The Komatsu excavators, hands down, are superior to all."

Partners in business

Hazelton acknowledges a certain level of trust is needed between a distributor and a contractor trying to establish itself in the construction industry. He said General Equipment has been a willing partner from the very beginning.

"General is far more willing to work with me than anybody else," he said. "Because we're a new company, we're considered a risk. But if we need a piece of equipment on a certain specialty job, the guys at General will find it. They take care of us. If they don't have it in their yard, they'll find it somewhere. That's a huge factor for us starting out because we don't always have the finances to just go out and buy the piece.

"The service after the sale has been fantastic, too. There's never been one issue, ever."

H&S inspects its machinery daily but relies on General for regular maintenance. "It's a very



A Komatsu PC200LC excavator is part of the fleet at H&S Contracting. "With all of my years of experience I've run every brand there is," said President Tracy Hazelton. "The Komatsu excavators, hands down, are superior to all."



H&S Contracting Inc. President Tracy Hazelton (right) knows he can call on General Equipment & Supplies Customer Service & Support Representative Aaron Brothen when his equipment is in need of attention.

good 'insurance policy' because it gives us a qualified mechanic," Hazelton said. "They're more apt to catch a potential problem that we might miss. So the service we receive from General is very important to us. Other contractors have their own mechanics but we're not big enough to justify having a full-time mechanic."

H&S currently has two people in the office and five in the field. Hazelton serves as President, running equipment during the majority of a typical week and working on bids. With a decade of experience in the business, Justin Brasle serves as a Foreman.

Managing growth

Hazelton said he enjoys being hands-on in the management of the company. While he would like to see more growth for H&S Contracting, he said he doesn't want to lose that personal touch with the people he does business with.

"I would like to see the company double in size but I don't want to get too big," Hazelton stated. "I'd rather keep the company somewhat small, just to maintain control and keep it more of a tight-knit group. Ten years from now, maybe we'll be big, but I don't think I want that. I like being smaller because we're one-on-one with everybody." ■



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NEW CONGRESS

What does the Democratic takeover mean for the construction industry?

With Democrats in control of both the House and Senate for the next two years, there are bound to be some changes coming out of Washington that will impact the construction and equipment industries. Here is some of what we think might happen.

Our association (Associated Equipment Distributors or AED) has long been recognized as a leading advocate for increased highway, airport and water infrastructure investment. Generally, Democrats have been more willing than Republicans across-the-board to support infrastructure programs and the user-fee increases necessary to pay for them. Democratic control of Congress may present an opportunity for an honest debate on crafting a new user-fee structure to pay for the highway system and to develop a consistent funding mechanism for water infrastructure, among other things.

Additionally, Democrats have generally supported capital investment incentives such as the depreciation bonus. If there is a drop-off in business investment in the next two years, we may find Democratic support for accelerated depreciation.

However, one of AED's biggest issues, the death tax, doesn't face a bright future under the new regime. Democrats have by-and-large opposed efforts to permanently repeal the death tax. While it is possible that Democrats will accept scaled-back death-tax relief to take the issue off the table for the 2008 elections, this is highly speculative. Other industry-specific tax priorities are not generally as partisan and will likely depend on the desire of lawmakers to delve into broader tax and budget issues.

Watching the "Blue Dogs"

There is much speculation about the role the "Blue Dog" Democrats will play in the new Congress. Blue Dogs generally support pro-growth tax and regulatory policy, limited government, fiscal responsibility and infrastructure investment. During the last two years, AED has worked aggressively to build relationships with members of the Blue Dog coalition.

We're hopeful that given the relatively slim Democratic margin of control on Capitol Hill, Blue Dogs will be able to temper the Democratic agenda and remind their colleagues in leadership that policies that hurt America's family businesses ultimately wind up hurting the people those companies employ. ■



Christian A. Klein

*This Guest Opinion, which first appeared in the newsletter, **Washington Insights**, was prepared by Christian Klein, Vice President of Government Affairs for the Associated Equipment Distributors. Mr. Klein can be contacted at caklein@potomac-law.com.*

Associated Equipment Distributors says Democratic control of Capitol Hill might mean some good and some bad for the construction industry.



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EQUIPMENT DESIGN BENEFITS

TOP GRADES

Visibility, blade geometry and ease of operation help set Komatsu motor graders apart

When it comes to operating heavy construction equipment, proficiency does not happen overnight. According to many industry experts, that fact applies to motor graders more than any other machine.

While wheel loaders and dozers use essentially one control stick to manage all functions of the machine, motor graders have more than a dozen different controls to monitor while moving at different speeds in forward and reverse.

“That’s why, for many contractors and many government entities, getting a good blade man is so important,” said Jenkins Davis, Director of Sales & Marketing Development for Komatsu America. “Many times, they will cater to grader operators because they’re so valuable. It’s very hard to replace somebody who’s a good blade man, due to the operational skills it takes to do the job.”

Direct drive and torque converter

With skilled operators in such demand, it makes sense to reduce the complexity of motor grader operation. Davis said the unique dual transmission of Komatsu motor graders helps do just that. At the flip of a switch, operators can go from Mode One, which is the direct-drive transmission, to Mode Two, which utilizes Komatsu’s unique torque-converter transmission. The top four gears in Mode Two offer automatic shifting, making the machine easier to manage.

“It just simplifies the whole operating process,” Davis described. “The best comparison I could make would be the difference of going from a stick shift to an automatic transmission in a car. Using a clutch and shifting in a car is somewhat similar to Mode One, which is the direct-drive concept. Mode Two, which is a torque converter, is similar to a regular power-shift car. It’s easier

to operate and that’s especially beneficial for younger and less-experienced operators.”

The current dual-transmission line of Komatsu motor graders has been out for several years now and, according to Davis, is tested and proven. “We were very successful with our previous line of motor graders,” Davis noted, “but as we looked at the evolution of the product, we believed some major design changes would make the product even better. That’s really what led to the development of our current line of graders.”

Other Komatsu advantages

In addition to easier operation, Davis said Komatsu graders feature an advanced hydraulic system, excellent visibility and superior blade geometry, all of which combine to provide improved power and performance at a jobsite.

The hydraulics help maximize speed and responsiveness. A closed-center system of valves allows fluid to flow to each individual implement, providing outstanding operator “feel” and unmatched implement control.



Jenkins Davis,
 Director of Sales
 & Marketing
 Development,
 Komatsu America
 Corp.

Continued . . .

The GD555-3, with a 140- to160-variable-horsepower engine, is Komatsu’s smallest motor grader.



Grader design features help boost productivity

... continued

“Operators want an instantaneous response from the blade when they hit that lever,” Davis explained. “We think the hydraulics on our machine are superior to anything else on the market.”

The operator’s ability to clearly see the work underway is essential in grade work, too, and

the visibility of Komatsu graders sets them apart from competitors. The large front glass helps provide an unobstructed view of the moldboard and front tires. In addition, angled front and rear glass prevents dust buildup.

“The visibility to the blade is crucial,” concurred Bob Lessner, Product Manager, Motor Graders for Komatsu America. “That’s the working end of the machine and our visibility is probably equal to or better than any other manufacturer in the market today.”

Blade geometry is also an important design advantage of Komatsu motor graders. The unique blade-suspension system improves reach and allows a wide working range, including true 90-degree bank sloping.

Another design feature is parts commonality. “Many parts used in our excavators, wheel loaders and dozers are incorporated into Komatsu motor graders, so parts are readily available and technicians are knowledgeable about the product,” Davis pointed out. “That’s a tremendous benefit if a part needs to be replaced.”

Here’s another benefit of Komatsu motor graders: the GD655-3 and the GD675-3 machines are now equipped with a Tier 3 engine, which offers greater horsepower and improved fuel efficiency.

“We increased engine horsepower slightly by 10 horsepower,” Lessner said of the GD655. “It now has 180 to 200 horsepower with the Tier 3 engine. The other changes we made are in the cab. We have an electronic hand throttle now, whereas before it was a lever, so it’s more user-friendly.”

Operating options

Governmental work, including road maintenance and repair jobs, ditching and slope work, makes up 50 percent of motor grader sales in some areas of the country. “We have a motor grader to fit any job,” confirmed Davis. “Komatsu is very committed to the North American market and the motor graders are a big part of our product line, along with dozers, excavators and wheel loaders. We want to do everything we can to promote this product line because we think we’ve got something very special here.” ■

Brief specs on Komatsu Motor Graders

| Model | Operating weight | Output | Overall Length |
|---------------------|------------------|------------|----------------|
| GD555-3 (Tier 2) | 30,950 lbs. | 140-160 hp | 30’10” |
| GD655-3 (Tier 3) | 33,069 lbs. | 180-200 hp | 32’4” |
| GD675-3 (Tier 3) | 34,855 lbs. | 180-200 hp | 32’4” |



Bob Lessner, Product Manager, Motor Graders, Komatsu America Corp. (left) stands in front of a Komatsu GD555-3 motor grader with Komatsu Motor Grader Consultant Jim Terrell.

The GD655 is slightly larger than the GD555 and is the biggest seller in Komatsu’s grader line. The GD655 and the GD675 are now available with a Tier 3 engine.





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UTILITY MACHINES

WORKING A NEW ANGLE

How feedback from contractors helped improve these popular compact excavators

In the 21st century, compact excavators are what skid steer loaders were in the late 20th century: highly maneuverable and versatile tools for the construction and landscape trades.

As is typically the case when a new piece of machinery is introduced into the market, contractors provide manufacturers with feedback that makes the machines more user friendly and productive. Komatsu relies heavily on customer feedback to engineer machines that meet the ever-expanding requirements of its customers. The Komatsu compact excavator line is no exception.

The market for compact excavators has grown more than 250 percent since 2002, and has exceeded the market for backhoe loaders. Part of the increase is due to economics, but a big part of the growth for these powerful products is the recognition by contractors that compact excavators are for real; they're productive, flexible and can do jobs and go places that larger machines can't.

A vast assortment of features

Komatsu compact excavators continue to advance by introducing features that contractors appreciate. To meet the wide range of customer requirements, Komatsu offers 10 models ranging from the 1,960-pound PC09 to the nearly 18,000-pound PC78MR. Features include:

- Pilot proportional joystick controls and load-sensing hydraulics that make operation smooth and effortless;
- Control-pattern changer that allows either backhoe or excavator operators to use the operating pattern they're most comfortable with;
- Boom offset that permits machines to work in very tight spaces;

- Three track options that allow customers to choose what's right for their business — standard rubber tracks, optional steel tracks for work in abrasive conditions, or optional Komatsu Road-Liner tracks that are ideal for work on pavement;
- A four-way, power-angle backfill blade option on PC35MR-2 and PC50MR-2 models that improves flexibility and backfilling productivity;
- A standard thumb-mounting bracket on the dipper arm (available in early 2007) that allows installation of a hydraulic thumb attachment without the need to weld on the arm;
- A significantly expanded range of attachments through a cooperation with Werk-Brau, a major manufacturer of excavator and backhoe attachments, will also be available in 2007.

With everything they have to offer, there's another reason to check out the lineup of Komatsu compact excavators. Now is the time to take advantage of Komatsu's zero-percent retail finance plans. ■



In 2006, Komatsu introduced the four-way, power-angle blade option on its PC35MR-2 and PC50MR-2 compact excavators to improve flexibility and backfilling productivity. This year will see the introduction of a standard thumb-mounting bracket on the dipper arm, as well as an expanded range of attachments.



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PRODUCT SUPPORT

CUSTOMER SUPPORT PROGRAMS

Proactive product support can extend equipment life and save you money

If you're looking to get the most out of your equipment for the longest time, you might want to consider Komatsu Customer Support Programs (CSP). Komatsu distributors offer cost-effective CSPs to cover a full range of maintenance services, all designed to improve equipment productivity and reliability.

CSPs include Komatsu Oil & Wear Analysis (KOWA), which uses independent labs to test oil for wear metals and contaminants; PM-PRO, which is a planned maintenance program in which a distributor technician comes to your jobsite to perform all routine maintenance procedures including oil sampling; and Preventive Maintenance Inspections (PMI), which consist of a walk-around inspection and diagnostic tests to measure engine speed and hydraulic pressure to ensure your machine is working up to its capabilities.

Also offered is a repair and maintenance (R&M) program that uses machine histories and a proactive "before failure" approach to changing out parts and components. With an R&M agreement, you can schedule and budget all repair and maintenance items in advance.

Komatsu's Track Management System (TMS) helps you get the most out of your undercarriage. This CSP manages undercarriage wear to help you maximize usage and avoid costly downtime.

Also available is Komatsu ADVANTAGE Extended Coverage, which is a warranty that will take over when your initial new-machine warranty expires. It allows you to choose from full-machine or powertrain coverage, and select from among a number of options for the time period, hours and deductible.

Lower O&O costs

All Komatsu CSPs are designed to help you lower your owning and operating costs, improve equipment uptime and provide the longest productive life for your Komatsu machines. They also improve the resale value of your equipment by providing proof that the machine has been well maintained.

Feel free to talk to our service manager or a product support representative to learn more about Komatsu Customer Support Programs and how they can help you benefit your operation. ■

Oil sampling through the Komatsu Oil & Wear Analysis (KOWA) Customer Support Program is one of the best ways to reduce unexpected and costly equipment downtime and repairs.





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KOMATSU & YOU

REALISTIC BUT OPTIMISTIC

Komatsu America President believes 2007 could start another upturn in construction

QUESTION: Following three years of extraordinary growth in the construction economy, there are questions about 2007. What is Komatsu expecting this year?

ANSWER: I would say we're realistic but optimistic about what 2007 is going to bring. Certainly, demand for equipment leveled off in 2006, largely because of about a 25 percent decline in housing starts compared to 2005. Our hope and belief is that the bottom of the housing market has been reached and that a rebound could well begin this year.

Of course, much depends on what happens with interest rates. Our hope is that interest rates are through climbing and may actually start inching back down in 2007. If that happens, the current excess housing inventory should get used up, which means more houses will need to be built.

QUESTION: Beyond housing, what's the construction economy like?

ANSWER: Remarkably strong. Non-residential building, highway construction and mining all had excellent years in 2006 and we expect more of the same for 2007. As always, the level of activity will vary region by region, but overall we are optimistic about the construction economy and Komatsu's place in it.

QUESTION: What is Komatsu's place as an equipment manufacturer?

ANSWER: We are the world's second-largest manufacturer and supplier of utility, construction and mining equipment. In North America, my goal as president is to help Komatsu America achieve steady and sustainable growth each and every year, and so far, we've accomplished that.

When you look at where we started from — a sales and marketing company that simply

Continued . . .



**Ted Ohashi, President and COO,
 Komatsu America Corp.**

This is one of a series of articles based on interviews with key people at Komatsu discussing the company's commitment to its customers in the construction and mining industries — and their visions for the future.

Since graduating from the University of Tokyo in 1977, Ted Ohashi has worked for Komatsu in increasingly important positions. He's now beginning his fourth year as President and COO of Komatsu America Corp. and he's not looking to leave anytime soon.

"North America is the world's largest market for construction and mining equipment and as such, is very important to Komatsu," said Ohashi. "Being President of Komatsu America is certainly a challenge, but it's one I enjoy and I want to stay in the position as long as Komatsu wants me to be here."

With a strong background in engineering, including a master's degree from Stanford University, Ted understands the nuts and bolts of the equipment industry. He also understands what equipment users want and need. "Our customers want reliable equipment and they want outstanding support. Komatsu and our distributors are committed to providing both."

Ted's wife remains in Tokyo with their three sons, two of whom are in college, while the third is finishing high school. "It's an accepted part of life in Japan to go where your job takes you, so the long-distance marriage is not a major issue," said Ohashi. "Besides, I travel so much in my job that we would spend a lot of time apart even if she lived here in Chicago. As it is, she visits relatively frequently and I can plan my schedule to be home when she's here."

In his free time, Ted enjoys attending the Chicago Opera and playing golf. "On Christmas Day 2005, I hurt my back in a rather serious bicycle accident, so I wasn't able to play as much golf last year. But I hope to make up for it in 2007."

Komatsu focusing on solutions for customers

... continued

imported dozers to sell in the U.S. — our growth in and commitment to North America is remarkable. We now offer a full range of products and services, and have several manufacturing plants here. Significantly, we also recently added the important R&D function for mining trucks and many dozers, which, in essence, makes the U.S. the center of the Komatsu universe for those products. So, although we are a foreign company, we also consider ourselves to be increasingly American, and I think our North American customers see that and appreciate it.

Komatsu has four manufacturing plants in North America, including this one in Candiac, in the Canadian province of Quebec. "Although we are a foreign company, the fact that we have a large factory presence, and have even moved some product R&D functions to the U.S. and Canada, demonstrates that we are becoming increasingly American, and I think North American customers appreciate that," said Ohashi.



Komatsu is taking steps to improve product support by increasing service personnel to aid distributor technicians as necessary. Komatsu is also working to certify all distributor technicians.



A slowdown in housing starts impacted construction in 2006. Komatsu America President Ted Ohashi is cautiously optimistic that the bottom of the housing market has been hit and that 2007 could start a new upturn.



QUESTION: Speaking of customers, what are American equipment users looking for from Komatsu?

ANSWER: Equipment users are very smart. They know that the cheapest price doesn't necessarily mean the best value. At Komatsu, we've always emphasized the life cycle of a machine. What's important is the production you get compared to operating costs throughout the life of the machine, which takes into account repairs, downtime and resale value. Komatsu customers understand that concept and understand that Komatsu provides it as well as, if not better than, any other manufacturer.

QUESTION: What is Komatsu doing to improve customers' experience with Komatsu products?

ANSWER: Our products have always been well-received and well-accepted by customers. Much of what we're emphasizing now is support related.

For example, we've opened six regional parts depots to complement our national parts distribution center to help us get parts to customers more quickly. We're taking steps to help our dealers improve their service technicians by training and certifying them based on their level of expertise. We've also increased the number of Komatsu service personnel to help our dealers out as needed. And we've put our GPS-based KOMTRAX monitoring system on all Tier 3 machines, which we constantly track right here at Komatsu America headquarters to help us support our dealers and our customers much more proactively.

QUESTION: When an equipment user hears the name Komatsu, what do you want him to think?

ANSWER: Solution provider. More than just a manufacturer of equipment, we want our customers to think of us as a partner who can help them succeed in their business. Our Working Gear Group, with its focus on developing equipment and attachments for specific industries, such as material handling or demolition, is a good example of our commitment to being a solution provider. In conjunction with our excellent nationwide distributor network, we believe we can help customers solve their problems, and in turn help them be more productive and more profitable. ■

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FIELD NOTES

QUARRY DAYS

Large machines take the spotlight at Komatsu proving grounds in Cartersville, Ga.

More than 200 equipment users from across the U.S. and Canada got an up close and personal look at numerous Komatsu machines designed for quarry, large construction and small mining applications at Komatsu Quarry Days late last year. The Quarry Days show was

the first event to be held at Komatsu's new proving-ground site located at the Komatsu Training Center in Cartersville, Ga.

Similar to the former Komatsu Field Days, the manufacturer will now stage Quarry Days and similar shows in the future in order to provide equipment users with the opportunity to talk to product managers and field test the equipment. The difference from Field Days is that, rather than have machines of all sizes at the same show, Komatsu will now host smaller events that focus on a particular size class of equipment. Generally speaking, quarry machines range from the large end of the construction class of equipment to small mining-class machines.

Machines at Quarry Days consisted of dozers, (D85EX-15, D155AX-6, D275AX-5 and the new Tier 2-compliant D475A-5), excavators (PC400LC-7, PC600LC-8, PC800LC-8 and the new PC2000-8), wheel loaders (WA430-6, WA500-6 and WA600-6), rigid-frame trucks



This 100-ton HD785 haul truck breaks the ribbon at the at the grand opening of the new Komatsu demonstration site, which hosted its inaugural event, Quarry Days, late last year.

The Komatsu demo site is about a 12-acre area immediately behind the Komatsu Training Center in Cartersville, Ga. It easily accommodated 15 large machines for Quarry Days.



The Quarry Days event provided customers with an opportunity to speak directly with Komatsu personnel, such as Excavator Senior Product Manager Peter Robson.



The new D275A-3 dozer with a Tier 3 engine was one of four Komatsu dozers at the Quarry Days event.

(HD605-7 and HD785-7), the HM400-2 articulated dump truck and the GD655-3 motor grader.

Complete lineup

Among the new machines at Quarry Days were the PC800LC-8 and PC2000-8, which replace the PC750 and the PC1800 in the Komatsu excavator lineup. Also new is the WA430-6 wheel loader, which replaces the WA400. Dozers at the show ranged from 264 horsepower to 890 horsepower.

“We believe our quarry-size group of machines is the most complete lineup in the industry and includes a number of units we consider to be unique and unrivaled products,” said Komatsu Vice President of Product Marketing Erik Wilde. “We were pleased with the opportunity Quarry Days gave us to show these outstanding products to current and potential customers in a real-world environment.” ■



Tom Stedman, Komatsu marketing manager for mining trucks (far right) visits with a group of customers at Quarry Days.



The 956-horsepower PC2000-8 (above) is a new machine that replaces the PC1800 in the Komatsu excavator lineup. Similarly, the new PC800LC-8 (below), has more horsepower and greater stability than the PC750 it replaces.



The new WA600-6 wheel loader, which improves productivity while dramatically lowering fuel consumption, is a significant upgrade from the previous model and is considered to be one of Komatsu’s unique and unrivaled products.



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MILESTONES

CELEBRATING 20 YEARS

Chattanooga Manufacturing Operation marks anniversary

Dignitaries and employees gathered to celebrate the 20th anniversary of Komatsu's Chattanooga Manufacturing Operation (CMO) in early November. The achievement was honored with the planting of a ceremonial cherry tree similar to the one planted on the site when it opened.

Today, the operation has a payroll of more than 300 employees who work to manufacture hydraulic excavators and articulated dump trucks for the North American market. In 2007, the 488,000-square-foot plant will roll out its 34,000th machine.

"This anniversary underscores Komatsu's commitment to the North American market," said Dave Grzelak, Chairman and CEO of Komatsu America Corp. "Throughout the past 20 years, we have enjoyed a reputation built on an experienced work force; a strong allegiance to our supplier base and to the Chattanooga community; and a commitment to the area's economic growth. As we continue to expand Komatsu's presence throughout the United States, we remain loyal to these initial principles upon which the company was founded."

In addition to Grzelak, several Komatsu executives and local officials made remarks, including Masahiro Sakane, President and CEO of Komatsu Ltd.; Dennis Riddell, General Manager of the Chattanooga Manufacturing Operation; Chattanooga Mayor Ron Littlefield and Hamilton County Mayor Claude Ramsey.

"I believe Komatsu can be very proud of its place in the local community," said Riddell, who has been at the CMO for more than 19 years. "The community has really embraced us and given the CMO a lot of help over the years. In turn, we've provided well-paying jobs

with good benefits. It's been a great partnership between the CMO and the local community."

Throughout its two decades of history, the Komatsu CMO has seen several changes. The plant's first production models included wheel loaders, dump trucks and small crawler tractors. The plant also produced other machinery, including motor graders.

Continued . . .



**Dennis Riddell,
 General Manager**



The Chattanooga Manufacturing Operation's 20th anniversary celebration featured speakers Dave Grzelak, Chairman and CEO of Komatsu America Corp. (above left), and Masahiro Sakane, President and CEO of Komatsu Ltd.



Officials at the Chattanooga operation's 20th anniversary celebration planted a ceremonial cherry tree, similar to the one planted on the 53-acre site when it opened.

Komatsu's Chattanooga Manufacturing Operation produces hydraulic excavators and articulated trucks.



Partnership with community benefits both

... continued

'A natural fit'

Today, the chief focus of the CMO is production of hydraulic excavators — which began in 1990 — and articulated trucks, which started in January 2005. The plant builds five excavator models (PC200, PC220, PC270, PC300 and PC400) and three trucks: HM300, HM350 and HM400.

"It's really a natural fit to manufacture both of those machines here," said Riddell. "There's synergy between the articulated truck and the excavator because, typically, those machines are paired together as a work team. It also made sense to bring production of the articulated trucks here because North America is the largest market for those type of trucks globally."

Currently, the CMO is manufacturing an excavator in a little more than two days, but Riddell noted that the goal is to drop that to less than two days. For custom-order excavators, the plant employs a "4W1D" approach. "That stands for four weeks and one day," Riddell

explained. "Our goal is to have a custom machine built to the customer's specifications in that amount of time after we receive the order."

"Our lead time on articulated trucks is about two months," he continued, "but we expect to cut that down to one month soon. Our ultimate goal is to reduce it to a week."

Quality conscious

Riddell oversees a skilled and experienced staff whose focus is on ensuring that every product is of the highest quality. The plant runs one shift per day for assembly, and three shifts in fabrication, which includes welding and machining of components.

"Our philosophy is to build quality into the product," Riddell noted. "Each person is responsible for his or her work. Each machine goes through several stations as it's being built. The workers at each station assume the workers at the next one are their customers. By doing that, each step has a quality focus. The end result is our distributors and end users get a product that's been built with the highest standards in mind."

Quality is further ensured once a machine has been assembled. Experts thoroughly test and inspect machines before they're stored on the 53-acre site prior to delivery to distributors and customers.

"We have several quality-control checks throughout the manufacturing process, but after the machine is built, we go over it with a fine-tooth comb," Riddell said. "For instance, two people check over the excavators, conducting a 90-minute inspection. One examines all the operational functions, such as boom speed, travel speed, and up-and-down arm movement. The other checks what I call 'the frills' — items such as the windshield wiper, radio and cigarette lighter. If they don't believe a machine is right, it doesn't go out."

That will always be the philosophy, according to Riddell. "We're very proud of the machinery we produce here, and 20 years is a great testament to the dedication of both Komatsu as a company and the people who work here. Chattanooga and Komatsu have become great partners and it's a relationship that will carry forward for a long time." ■

General Manager Dennis Riddell (far right) often leads visitors on a guided tour of the plant.



Workers install a hose on an articulated truck at the Chattanooga Manufacturing Operation, which began producing HM300, HM350 and HM400s in January 2005.



Using an overhead crane, a worker installs the counterweight on a PC300LC-7 at the Chattanooga plant.

More than 300 employees work at the Chattanooga Manufacturing Operation. Many of those workers have been at the plant more than 15 years.



INDUSTRY NEWS

New alert for “gray market” machines

The U.S. Environmental Protection Agency (EPA) has issued a new “gray market” enforcement alert, according to Associated Equipment Distributors. Gray market machines are imported from other countries and may not meet U.S. emissions or safety standards.

Under the Clean Air Act, the manufacture or importation of any nonroad engine is prohibited, unless the EPA certifies it and the engine displays the required EPA emissions label.

In the late 1990s, a gray market enforcement program was established by EPA and the Customs Service to combat a flood of illegal equipment imports. The latest alert is the first such action since that time. It is in response to a recent increase in imports of smaller equipment from Asia with illegal engines.

Imported equipment with engines that fail to meet EPA requirements is subject to seizure and exportation. The importers of such illegal equipment or engines can be fined as much as \$32,500 per engine. ■



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DISTRIBUTOR CERTIFIED

QUALITY USED EQUIPMENT

How Komatsu Distributor Certified used machines have helped this utility contractor grow



Since starting an underground utility company in Fort Myers, Fla., about ten years ago, Jim Murphy has seen the firm grow from a handful of people to about 60 today. Certainly, some of that growth is attributable to a Gulf Coast economy that boomed during that period, but equally important is the quality of work that J.P. Murphy, Inc. is known for doing.

“Our philosophy is to get the work done fast and give the customer top quality for the dollar,” said Murphy. “Whether

Jim Murphy, Owner and Founder of J.P. Murphy, Inc., owns more than a dozen Komatsu Distributor Certified used machines, including numerous WA320 wheel loaders. “With Komatsu Distributor Certified Used equipment, we get high-quality used equipment that’s been inspected and certified, and we know our Komatsu distributor is going to back it up.”



Among J.P. Murphy’s Distributor Certified Used machines is this PC600LC-6, which is the company’s mainline utility machine.



it’s commercial work, residential work or municipal work, we believe in providing value for the developer or municipality that hires us.”

A perfect fit

As his company has grown, so has his equipment fleet, most of which consists of Komatsu Distributor Certified used machines.

“We probably have at least 15 Komatsu Distributor Certified used machines,” reported Murphy, whose fleet includes half a dozen Komatsu WA320 wheel loaders, numerous Komatsu excavators ranging up to a PC600, and a couple of small dozers. “I’ve always preferred to buy slightly used equipment to let somebody else pay for the initial depreciation, so the Komatsu Distributor Certified used program was a perfect fit for us. We get high-quality used equipment that’s been inspected and certified, and because of that, we know our Komatsu distributor is going to back it up.

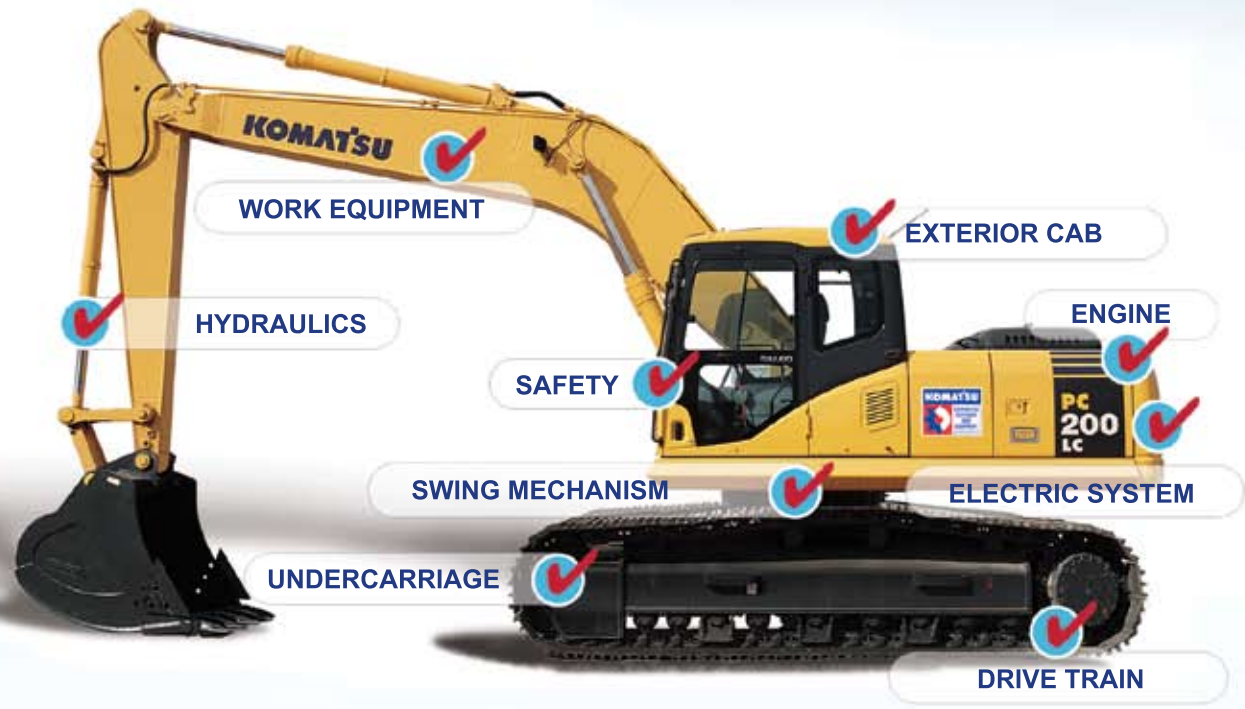
“The other thing that’s important to me is the Distributor Certified pieces we buy tend to be very good, low-hour machines, so they qualify for extended warranties and special rates from Komatsu Financial,” he added. “The low interest rates make an affordable machine even more affordable, and as a result, I’ve gotten some very good deals.”

Murphy says most of the Komatsu Distributor Certified machines he owns were less than a year old and had fewer than 3,000 hours when he bought them. “I believe in buying good machines, maintaining them well, and holding on to them for the long term. With these Komatsu Distributor Certified pieces, I expect to get five to eight years out of them, at least.” ■



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To learn more about Komatsu ReMarketing's Distributor Certified Used Equipment, contact your local Komatsu Distributor or go to our Web site at www.equipmentcentral.com and click on "used equipment."



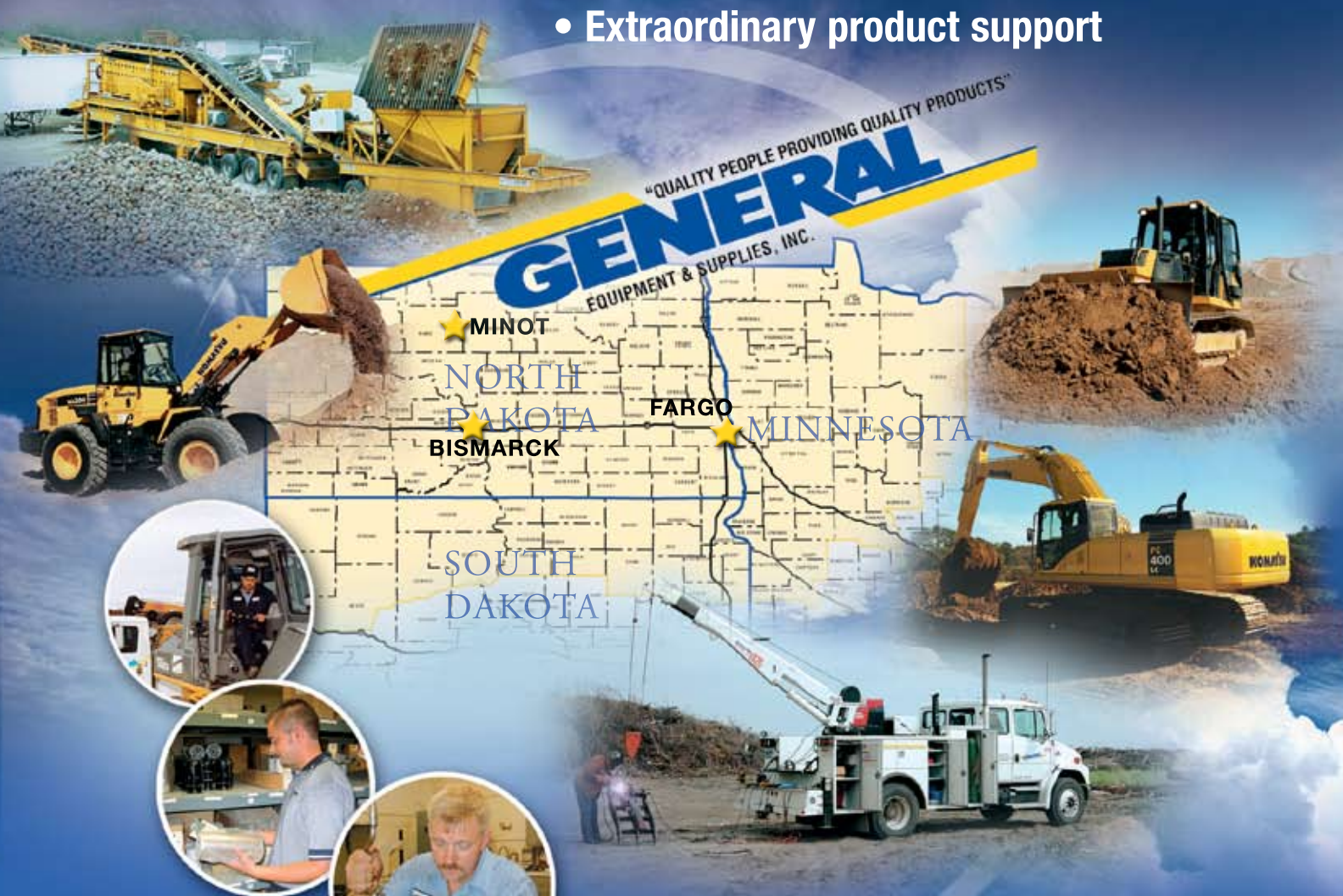
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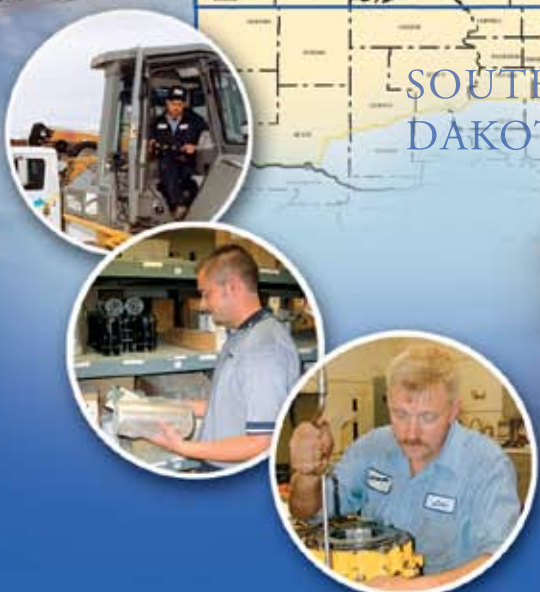


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