

HARMON INDUSTRIES, INC.

1995 ANNUAL REPORT



Harmon is a leading supplier of sophisticated signal and train control products and systems to three railroad markets — North American freight railroads, domestic rail transit systems, and the international market, which includes both freight railroads and rail transit systems.

Harmon's design focus is microprocessor based and aimed towards systems and products that improve the operating efficiency and safety performance of its customers. These include railroad signal and train control equipment, train inspection systems, rail/highway grade crossing hardware and related components.

Harmon emphasizes engineering innovation and rapid response to customer needs. Many of its products provide sophisticated and timely solutions to signal and control problems that impact the railroad industry.

Harmon is headquartered in Blue Springs, Missouri, a suburb of Kansas City. It operates from 15 facilities: seven in Missouri, two in Riverside, California, and one each in Atlanta, Georgia; Jacksonville, Florida; Louisville, Kentucky; Omaha, Nebraska; Hauppauge, New York, and Lausanne, Switzerland.

The Company's common stock trades on The Nasdaq Stock Market under the symbol: HRMN. ■

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Financial Highlights

Nineteen ninety-five was a mixed year for Harmon. Sales were up over 14%, but earnings were down almost 10%. Sales and incoming orders were particularly strong for its signal and control systems, which are the products of the future. Earnings were adversely affected last year by two nonrecurring issues: production inefficiencies that followed its acquisition of the hot box detector product line from Servo Corporation of America and from disruption of production schedules that resulted from railroad consolidation activity.

The Company entered 1996 on an optimistic note. Its finances were strong; its core business was solid; and its year-end backlog was a record \$49.1 million.

<i>Years ended December 31,</i>	<i>1995</i>	<i>1994</i>
Operational data:		
Net sales	\$ 136,780,000	\$ 119,703,000
Pre-tax income	11,180,000	12,685,000
Income taxes	4,294,000	5,046,000
Net earnings	6,886,000	7,639,000
Earnings per share	1.01	1.16
Return on sales (pre-tax)	8.2%	10.6%
Return on year-end equity	14.0%	17.7%
Return on capital employed ¹	21.7%	34.2%

<i>At December 31,</i>	<i>1995</i>	<i>1994</i>
Year-end data:		
Working capital	\$ 35,014,000	\$ 21,670,000
Interest-bearing long-term debt	12,090,000	733,000
Approximate number of shareholders ²	675	700
Number of employees	1,075	985
Outstanding shares	6,805,626	6,728,252

¹ Return on capital employed is a measurement that encourages management to operate as efficiently as possible. It promotes reduced asset values relative to sales, and measures how effective it is (for example) to borrow money to purchase capital goods to reduce manufacturing costs. The formula is: the sum of pre-tax earnings plus interest expense divided by the sum of average total assets minus non-interest bearing liabilities.

² Includes only registered shareholders. Since many shareholders hold their shares in "street name," the number of individual shareholders is larger than the number shown.

Market Overview

Domestic Freight Railroads are Harmon's core customers and comprise the majority of its business. The market consists of Class I and short line railroads. The Class I railroads are the mainline carriers that transport freight across the U.S. and Canada. The short line railroads are smaller. They carry freight to and from smaller communities, interchanging it with the Class I railroads.

The short line railroads play a vital role in America's distribution system as they can pick up and deliver to a customer's doorstep

Domestic Rail Transit represents Harmon's newest growth market. The Company has long serviced a portion of this market, supplying it with compatible components from its standard product lines. Harmon accelerated its presence in this market in 1991 when it was awarded a contract to supply signal and train control systems for St. Louis Metro Link. This system established a new benchmark for microprocessor applications in the

International. The market for signal, train control and inspection systems worldwide is at least ten times larger than the U.S. market, and it offers Harmon a good opportunity for sustained, long-term growth.

Moreover, the international market is growing rapidly. The drive for standardization within the European common market is fueling major upgrades to railroads, and lesser developed nations are seeking to upgrade their rail systems in order to compete more effectively in the export markets.

extremely heavy or bulky loads, which exceed the capacity of the largest trucks.

Harmon supplies these freight haulers with a wide variety of signal and train control products, many of which have become industry standards. In recent years the railroads have tended to purchase complete signal systems rather than individual products. In 1995, sales of systems exceeded those of individual products for the first time in Harmon's history.

Microprocessor-based signal, train

domestic rail transit industry. In 1994, the Company scored a major breakthrough when it was awarded its first prime contract – from the Chicago Transit Authority – to design, build and install a signal and train control system on one of the busiest transit systems in the United States. Rail transit affords Harmon the opportunity to expand its sales substantially as many of its products built for the Class I railroads are adaptable to rail transit systems. To date,

Although the international market presents formidable challenges, Harmon is making a concerted effort to materially expand its overseas presence. It has a three-pronged strategy: to expand its own sales force, to link up with well-established international distributors, and to develop collaborative relationships with major international railroad equipment suppliers.

The acquisition of the hot box detector line from Servo is part of this effort as this product line is well-established in Europe.

control and inspection systems are Harmon's core strengths and represent a vital, growing part of its overall business.

Railroads are experiencing continued growth. Their emphasis on stringent cost controls and improved customer service has recaptured much business that was once carried by trucks. The industry is sound financially and thus has the capacity to make major capital investments in products that improve safety and productivity, and reduce cost. ■

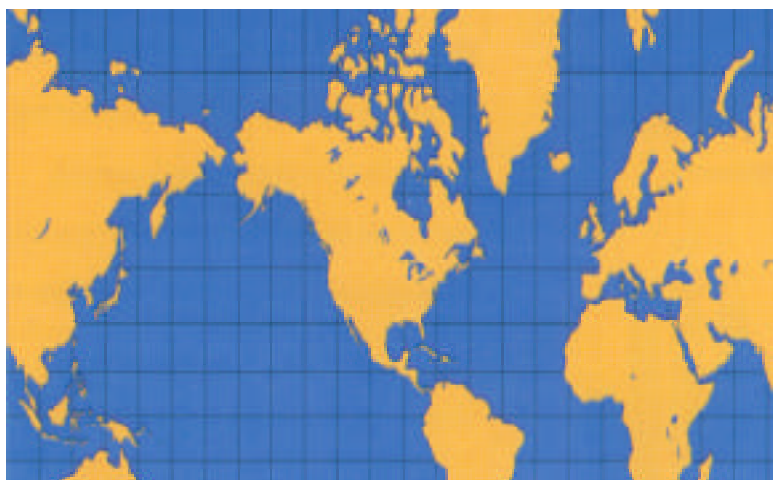


Harmon has received contracts for rail-transit systems in excess of \$60 million.

Expansion of rail transit has enjoyed broad support. Concern over air quality and the need to relieve urban traffic congestion are the major driving forces behind its increasing popularity and recent growth. Federal funding for rail transit projects in 1996 is expected to remain consistent with that of 1995. ■



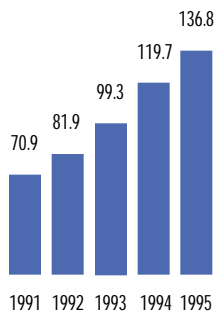
Harmon's international approach will be similar to its domestic strategy – to find niches and subsequently broaden them. Presently, Harmon's international business, which is done primarily with the freight hauling railroads, approximates five percent of its total sales. ■



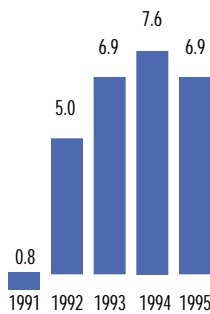
Report to Shareholders

In 1995, Harmon began its 50th year as a supplier to the railroad industry. It was the brain child of one engineer, Robert C. Harmon, who started it all in a small building close to his residence. In the intervening years, the Company has become a major supplier of systems and components to freight railroads and rail transit systems throughout North America. The Company is now expanding into international markets.

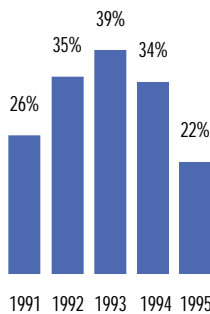
Net Sales
(in millions of dollars)



Net Earnings
(in millions of dollars)



Return on Capital Employed



Incoming orders were strong throughout 1995, increasing six percent over those of 1994. Shipments for 1995 were \$136.8 million, an increase of 14% over 1994. Our backlog improved to nearly \$50 million, which is 10% higher than it was a year ago.

Our pre-tax earnings were a disappointment, decreasing to \$11.2 million. This decline was caused chiefly by difficulties encountered in integrating our acquired hot box detector line and by postponement of shipments, which was due to the ongoing consolidations within the railroad industry.

Integrating the hot box detector line was an internal performance issue. We have made the changes that were necessary to resolve this matter, and we expect to soon attain the performance levels we anticipated when we made that acquisition in December, 1994.

Our return on capital employed declined from 34% to 22% last year. This was a result of having less earnings in 1995 than in 1994 and using more assets to operate our business in 1995. The increase in assets in 1995 primarily relates to the capital investments made to acquire the Servo hot box detector product line and Serrmi Services, Inc. and to gains in inventory levels.

Railroad consolidations are an important issue. They impact us negatively in their initial phase and positively in the second phase. During the first phase, the merging railroads tend to reduce capital

expenditures as much as possible. Phase two commences when the combined railroads assess what to do to achieve the efficiencies that the consolidation promised. Invariably they make physical improvements that involve control systems and signals. This means opportunities for us, which became evident in the latter months of 1995 when we experienced an increased order intake.

Our orders from freight railroads increased 17% over 1994 – a noteworthy gain when measured against the overall industry, which reported a negative order trend. This strong performance was primarily due to our technology leadership.

Orders for our grade crossing warning line increased 11% last year with our new HXP crossing predictor showing exceptional strength. Its increased sales gave us increased market share by year-end.

Our control systems groups booked orders at a rate similar to last year's. Our interlocking equipment, HLC and VHLC, has enabled us to maintain a strong market position, which is increasing as these solid state products continue to replace old electromechanical interlockings.

Orders for our cab signalling products were particularly strong last year. Our advanced technology enabled us to capture virtually all of the orders placed by manufacturers of AC Traction locomotives in the 4,000 to 6,000 horsepower range. We were able to win a major new customer and overcome a competitor's entrenched position, consequently increasing our market share in this product line as well.

Despite a very weak start for our asset management services business due to railroad consolidations, it nearly managed to

attain the same order level of the year before and finished 1995 with a very encouraging order rate.

Gross orders from the transit market were down 38% to \$15.1 million. However, when the "pass through" portion of orders received in 1994 are considered, orders booked in 1995 for our products approximated those of 1994.

We received our second and third orders for speed control equipment from New York City Transit. These orders reinforce our reputation as a high quality, responsive supplier of solid state solutions to the most concentrated rail transit system in the nation.

The recent completion of our work for the Chicago Transit Authority marked a major milestone for Harmon. It was our largest transit project, and it was the only major contract for this project delivered on time.

Orders for our international business increased last year to \$6.5 million, which represents nearly five percent of our total business. For 1996, we will focus our efforts on gradually expanding our presence in the international market as well as adjusting our products to the different specifications around the world.

To maintain our technology leadership, we are investing heavily in tomorrow's technologies, such as communication-based train control systems, so that these product families are ready when that market opens.

One example of the new technologies is our Incremental Train Control System (ITCS), which is intended for mainline railroads. The ITCS will be installed this year on Amtrak's Chicago to Detroit corridor as part of an FRA funded project with the State

of Michigan and Amtrak. It will be the first new generation high speed train control system in the nation.

In Toronto we will unveil our UltraBlock System, which is designed for transit applications. This is a moving block system that will allow trains to operate closer together with enhanced safety.

We are continuing our efforts to improve our product quality, obtaining ISO 9000 certifications for three plants within the last year.

For 1995, our systems business was well over half of our total business, establishing a milestone in Harmon's history. While the growth in our systems business was gratifying, it strained the capacity of our present organization. As a result, we are planning a major reorganization this year to increase productivity, particularly in handling systems and project control.

We entered 1996 with a stronger backlog than we had a year ago. Federal funding for grade crossing warning installations and transit business seems assured for 1996. Product-wise, we are in very good shape. With the organizational changes now underway, the fundamentals for improved performance are in place. On balance, I look forward to a good year for Harmon in 1996.

We completed a year that tested our limits in many ways, and I would like to thank all our employees for a job well done.



Blue Springs, Missouri
March 20, 1996



Björn Olsson, President and
Chief Executive Officer

Harmon Products

Harmon achieved a 14 percent gain in sales last year in markets that were generally soft industry-wide. Its success is due to the forward thinking of management, which stresses the future in all its research and development efforts. Its strategy has been to develop complete systems rather than individual components. These development efforts are now paying off as the railroads are increasingly turning to systems purchases, placing their operating reliability on fewer vendors rather than dividing it among many component sellers.

The movement toward the “electronic railroad” gained significant momentum last year. And Harmon remains at the forefront of this new communication-based train control technology. The Company will install its Incremental Train Control System (ITCS) later this year on a 50-mile stretch of Amtrak’s rail line running between Chicago and Detroit. Harmon’s ITCS is part of a Federal Railroad Administration (FRA) funded project with the Michigan Department of Transportation (MDOT) and Amtrak.

Harmon’s ITCS is designed to enhance the efficiency and safety of mainline train operations. Harmon began developing ITCS in early 1994, and demonstrated an early engineering model on Conrail later that year. Its principal feature is to permit trains to operate safely at speeds well in excess of the present 79 MPH limit imposed by the FRA on all domestic rail operations without some form of automatic enforcement system in place.

Currently, cab signal systems are being used in some parts of the U.S. to meet the FRA’s automatic enforcement rule. Harmon’s ITCS

project with Amtrak is intended to demonstrate that substantially greater benefits can be obtained at materially lower costs than are presently being realized with conventional cab signal systems.

The overall project involves a number of different component products. Many are established Harmon products, such as the Vital Harmon Logic Controller (VHLC) and the Ultra Cab cab signal system. However, integrating these basic products into an entirely new system is a very complex process, and continues to absorb a major portion of our product engineering team.

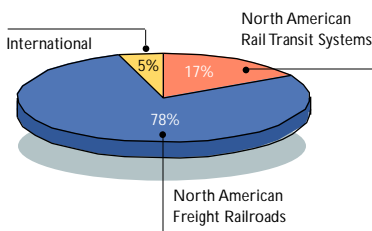
The investment in ITCS illustrates Harmon’s commitment to railroading safety and operating efficiency and the effectiveness of its research and development (R&D) team. When placed in service in early 1997, ITCS will be the first operational new-generation train control system in the U.S.

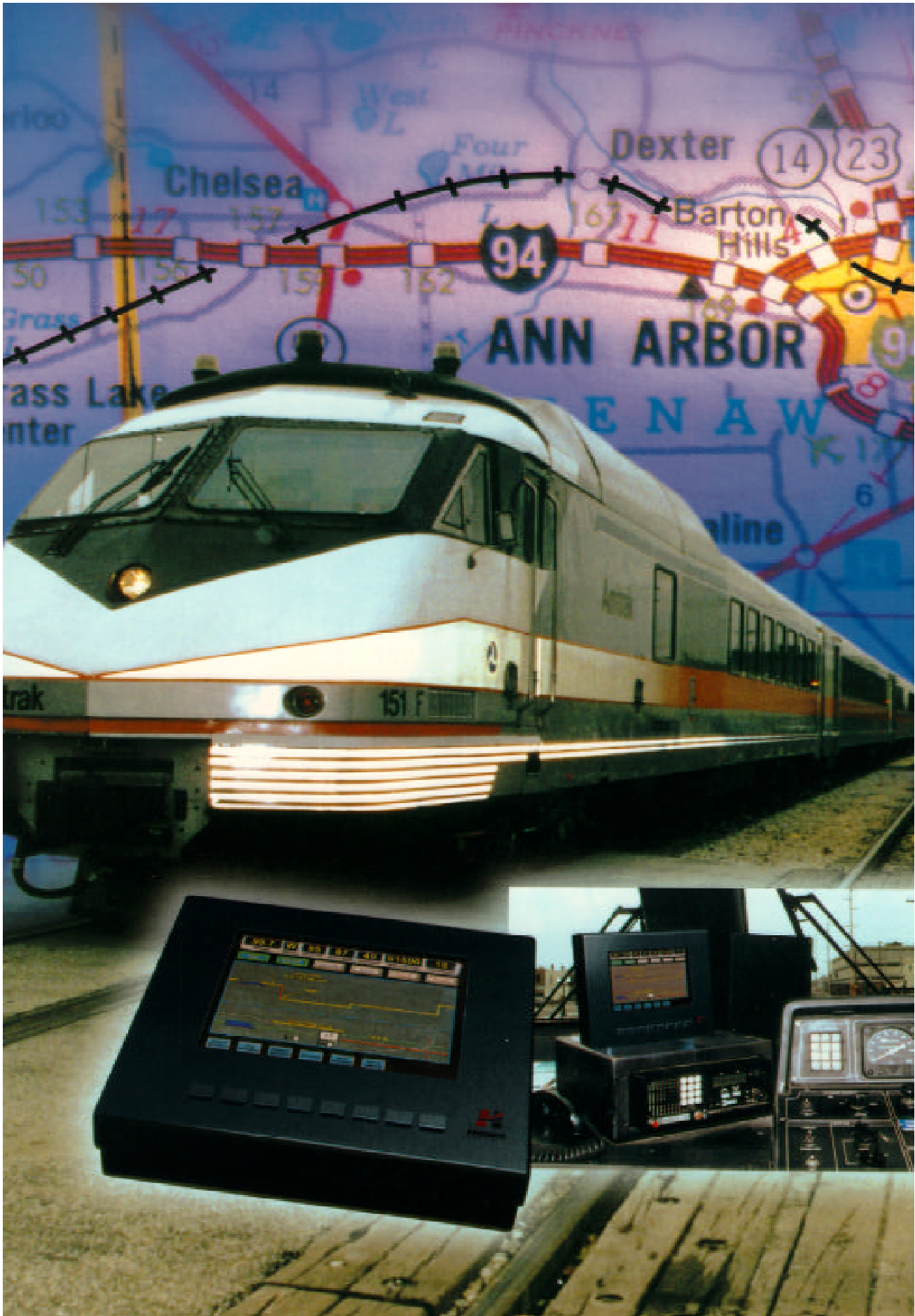
In addition, Harmon took a very practical approach to designing its ITCS system, fully cognizant of budget considerations that impact any railroad’s decision to forge ahead with capital improvements. Harmon’s ITCS, a positive communications-based train control approach, enables the railroads to use their *existing* wayside signal facilities as a basis for enhanced safety and performance of communication-based control.

By using a railroad’s current signal system as a base, ITCS gets the job done without the need for a specialized central control facility

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**Harmon Sales
by Market – 1995**





Continued development of Harmon's Incremental Train Control System (ITCS) and a superior antenna that picks up low-level signals transmitted through the rail and simultaneously rejects increased electrical interference emanating from new, AC powered locomotives were two of Harmon's major R&D contributions in 1995.

Harmon Products, continued

Harmon serves three railroad markets: domestic freight railroads, domestic rail transit systems and international, which includes both freight and passenger railroads as well as rail transit systems. In 1995, domestic freight railroads provided 78 percent of Harmon sales, rail transit systems accounted for 17 percent, and the international market contributed five percent.

or a huge data network, unlike other systems presently under development by competitors.

The ITCS Installation

When ITCS is installed, it will be the first operational communication-based train control system in the nation. Although its initial installation will mark an important milestone for Harmon, the longer term implications are even more important.

The experience gained in the operation of the system will undoubtedly lead to expanded features and applications. Such enhancements would yield an even wider technological and practical lead over competitors that could ultimately result in a rapid growth in demand for this system throughout the rail industry.

increasing passenger throughput over a given stretch of track in the same amount of time.

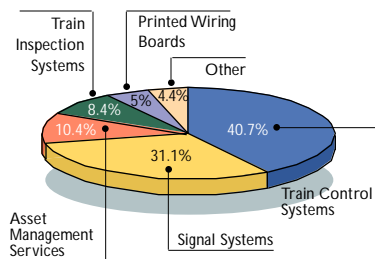
Harmon is one of five railroad supply companies scheduled to participate in a series of demonstrations under the direction of the Toronto Transit Commission (TTC).

The demonstration period will run approximately six to seven months, with each supplier having a period in which to install, demonstrate and remove its control system solution from a stretch of track set aside for this purpose.

The TTC will evaluate various suppliers' developments in this type of train control as a step toward qualifying suppliers to bid on its proposed new line extension in 1997. In addition to the TTC's evaluation, this competitive demonstration will be watched by many other major rail transit authorities in the U.S. and Canada, including New York City Transit, which is contemplating changes to its system that could run to several billion dollars over the next 20 years or so.

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Harmon Sales by Product Category – 1995



Harmon's UltraBlock Demonstration

Harmon will unveil a demonstration model of its UltraBlock System for rail transit operations in Toronto this summer. UltraBlock is Harmon's next-generation solution to high density rail transit's need to expand its passenger carrying capacity by shortening the distance between trains, thus

Sales of Current Products – 1995

In 1995 many of the Company's sales were of products introduced or materially updated since 1990. Sales in 1995 were \$107 million to domestic freight railroads, \$23 million to domestic rail transit systems and nearly \$7 million to international markets. For the first time in Harmon's history, sales of systems exceeded those of components, a shift in product mix that closely mirrors the



Harmon's principal business, the sale of signal, train control and inspection systems and components to Class I and short line railroads, increased to record levels in 1995 as sales of systems outpaced those of components. The switching yard shown above utilizes a Harmon TTM control office system, Harmon controllers and Electro Code to control switches and signals in the yard.

Underlying virtually all of Harmon's product success was its adoption of electronic technology, using microprocessors in place of electromechanical relays to control switches and signals. This work established Harmon as a leader in railroad electronics and paved the way for its revolutionary products, many of which have since become industry standards.

Concern over congested highways and their attendant air pollution is fueling the demand for more extensive rail transit systems in the U.S., which is fast-developing into another major outlet for Harmon's innovative, electronic solutions to signal and train control.

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Harmon is supplying a new, electronic signal and control system for Chicago's "Green Line," one of four rail transit routes operated by The Chicago Transit Authority.

changing patterns of railroad purchasing policies, particularly those of freight railroads.

Train Control Systems

Sales of train control systems increased 21% to \$55.4 million last year from \$45.7 million in 1994. Train control systems are the mainstay of Harmon's product line and are central to all of its markets.

Within this category are microprocessor-based interlocking controllers: the HLC, which is used for data telemetry between interlockings and control centers, the VHLC, which is used for control of switches and signals at interlockings, and the Electro Logic, which is similar to the VHLC, but limited to smaller interlockings.

On-board cab signal equipment is a major part of this product family. Sales of Harmon's Ultra Cab product line nearly doubled last year when Harmon introduced an improved antenna which overcame data transmission interferences that were being generated by new AC traction locomotives in the 4,000 to 6,000 horsepower range.

Presently, it is the only on-board cab signal equipment which can effectively receive data transmissions when used on new AC

locomotives now being placed into service on many mainline railroads. The Australian BHP Iron Ore railroad, which is one of the highest tonnage, heavy haul train operations in the world, was also a major purchaser of the Ultra Cab last year.

Electro Code track circuits for domestic freight service, Audio Frequency Track Circuits for electrified transit applications, and dispatch control centers for traffic management round out this product family.

Signal Systems

Sales of signal systems advanced 20% last year to \$42.4 million. This category is comprised of four principal product families, which are used primarily by domestic freight railroads and also by rail transit systems. Within one product family are electronic controls for grade crossing warning systems: Harmon's PMD, which detects motion, its HXP which calculates consistent warning time for any train speed, and AFTAC, which are audio frequency overlay track circuits.

The second product family is hardware: flashing light signals for grade crossings, color light signals for block signal use, and cantilever and bridge structures to support crossing signals and railroad signals.

Prewired racks, containing all required control equipment, and prewired cases or houses, which contain the prewired racks plus power sources and related support facilities, comprise the third category.



Lowering a bungalow onto the elevated tracks on the "Green Line" rail transit route in Chicago. The bungalow houses the controls that regulate the operation of a portion of the Chicago Transit Authority's renovated system. The \$13.5 million "Green Line" project was Harmon's largest rail transit award to date.

Freight railroads have steadily increased their emphasis on improving safety and reducing costs to become more competitive with one another as well as with the long-haul segment of the trucking industry, against which they have made sizable inroads. As a result, railroad buyers are seeking out cost saving or multiple function products and systems that can deliver increased productivity with enhanced safety. Harmon is a pioneer in developing such products.

Internationally, Harmon's business increased in 1995 to nearly \$7.0 million –solid progress indeed, but only a fraction of one percent of the potential this giant market offers.

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Warehouse and assembly area at Harmon's asset management services operation in Riverside, California. Here Harmon products as well as those manufactured by others are assembled into kits for ready installation by railroad customers according to their needs.

Event recorders – HCA products that monitor, record and report events at grade crossings, and WDA analyzers that monitor, record and report events at large, major wayside signal installations – round out this product family.

Train Inspection Systems

Sales of train inspection systems more than doubled in 1995 to \$11.4 million. Products include Harmon's original hot box detector line, the hot box and hot wheel detector lines acquired from Servo Corporation of America in December, 1994, and related accessories.

Domestic freight railroads are the largest users of these systems. The international market is the second leading outlet for these products, which enjoyed significant sales gains in Europe and China last year.

Asset Management Services

Asset management services provide a single-source, rapid delivery service of railroad components. Domestic freight railroads and rail transit systems avail themselves of these

services when their cost analyses show that Harmon can provide some or all of the services outlined below at a lower net cost.

Harmon's services include warehousing of commonly-used components, materials management and subassembly functions, including making up kits of pre-assembled signal packages for quick and easy installation.

While this is primarily a service organization, its presence in the marketplace often produces additional sales of Harmon components. Margins are thin relative to Harmon's manufacturing operation but contribute to profits each year because of tight expense control and its ability to turn inventory quickly. In 1996, these services will be expanded and marketed to the international market.

Future Product Development

Increased emphasis is being placed on R&D to maintain technological leadership. Major products for 1996 are the continued development of ITCS and UltraBlock, a next-generation system to provide "moving block" capability, primarily for high-density transit systems.

Other major R&D projects for 1996 include the development of specialized data radio products to further eliminate wayside wire and cable, and several innovations in hot box detector technology. ■



A train winds its way through the Swedish countryside near Stockholm. Harmon's international business increased significantly last year, principally because of the addition and expansion of the Servo organization.

Selected Consolidated Financial Data (Unaudited)

(Dollars in thousands, except per share data)

<i>Years ended December 31</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>	<i>1992</i>
Operations				
Net sales	\$136,780	\$119,703	\$99,295	\$81,899
Cost of sales	96,094	81,023	65,716	54,271
Research and development expenditures	5,218	4,561	3,442	3,541
Gross profit	35,468	34,119	30,137	24,087
Selling, general and administrative expenses	23,200	21,176	18,558	15,646
Other operating expenses (income)	481	44	114	137
Operating income	11,787	12,899	11,465	8,304
Other expenses	607	214	388	1,228
Pre-tax earnings (continuing operations)	11,180	12,685	11,077	7,076
Income taxes	4,294	5,046	4,193	2,498
Earnings from continuing operations	6,886	7,639	6,884	4,578
Gain (loss) from discontinued operations	—	—	—	165
Use of net operating loss carryforward	—	—	—	273
Net earnings (loss)	\$ 6,886	\$ 7,639	\$ 6,884	\$ 5,016
Effective tax rate – continuing operations	38.4%	39.8%	37.9%	35.3%
Return on sales – continuing operations	5.0%	6.4%	6.9%	5.6%
Return on equity – continuing operations	14.0%	17.7%	20.8%	30.1%
Return on equity – total	14.0%	17.7%	20.8%	33.0%
Weighted average shares	6,827	6,567	6,212	5,275
Per Share Data				
Earnings from continuing operations	\$ 1.01	\$ 1.16	\$ 1.11	\$.87
Net earnings (loss)	1.01	1.16	1.11	.95
Cash dividends	.15	.15	—	—
Book value	7.23	6.40	5.23	2.82
Price/earnings ratio range	13.2-20.3	14.2-20.9	10.5-20.9	3.6-13.4
Other Data At Year-End				
Working capital	\$ 35,014	\$ 21,670	\$ 20,790	\$ 10,740
Total assets	86,845	68,395	53,000	38,488
Long-term debt	12,090	733	439	4,898
Stockholders' equity	49,232	43,063	33,086	15,197
Current ratio	2.60:1	2.03:1	2.28:1	1.72:1
Quick assets ratio	1.16:1	1.03:1	1.32:1	.87:1
Liabilities to equity ratio	.76:1	.59:1	.60:1	1.53:1
Capital additions	5,532	3,242	3,189	2,154
Depreciation and amortization	3,906	2,621	2,121	1,936
Outstanding shares (000s)	6,806	6,728	6,328	5,383

<i>1991</i>	<i>1990</i>	<i>1989</i>	<i>1988</i>	<i>1987</i>	<i>1986</i>	<i>1985</i>	<i>Five-Year Compound Growth</i>	<i>Ten-Year Compound Growth</i>
\$ 70,934	\$ 72,707	\$ 70,154	\$ 64,558	\$ 57,068	\$ 47,223	\$ 52,993	+ 13.47%	+ 9.95%
45,536	47,478	46,377	42,044	37,995	30,333	34,426		
4,000	3,414	3,200	3,669	3,318	2,360	2,095		
21,398	21,815	20,577	18,845	15,755	14,530	16,472	+ 10.21%	+ 7.97%
13,550	14,427	13,186	11,965	10,671	9,362	8,497		
1,122	762	(263)	(27)	43	145	125		
6,726	6,626	7,654	6,907	5,041	5,023	7,850	+ 12.21%	+ 4.15%
2,118	1,504	1,244	1,301	1,519	885	1,720		
4,608	5,122	6,410	5,606	3,522	4,138	6,130	+ 16.90%	+ 6.19%
1,688	2,022	2,506	2,100	1,613	2,039	2,909		
2,920	3,100	3,904	3,506	1,909	2,099	3,221	+ 17.31%	+ 7.89%
(2,492)	(12,306)	(2,744)	(1,020)	(217)	—	—		
395	—	—	—	—	—	—		
\$ 823	\$ (9,206)	\$ 1,160	\$ 2,486	\$ 1,692	\$ 2,099	\$ 3,221	N/M*	+ 7.89%
36.6%	39.5%	39.1%	37.5%	45.8%	49.3%	47.5%		
4.1%	4.3%	5.6%	5.4%	3.3%	4.4%	6.1%		
39.6%	53.9%	26.5%	25.9%	16.5%	20.0%	22.9%		
11.2%	(160.2%)	7.9%	18.3%	14.6%	20.0%	22.9%		
5,066	4,723	4,633	4,479	4,472	4,854	4,430		
\$.58	\$.66	\$.84	\$.78	\$.43	\$.43	\$.73	+ 8.88%	+ 3.30%
.16	(1.95)	.25	.56	.38	.43	.73	N/M*	+ 3.30%
—	.0625	.125	.125	.125	.125	.125		
1.48	1.20	3.19	3.03	2.59	2.34	2.94	+ 43.24%	+ 9.41%
21.9-45.3	N/A	23.0-35.0	9.5-14.8	13.2-22.4	15.4-27.3	8.2-16.1		
\$ 9,660	\$ 7,955	\$ 14,444	\$ 7,037	\$ 11,870	\$ 11,599	\$ 9,962	+ 34.50%	+ 13.39%
36,575	41,408	48,082	42,948	37,984	34,045	30,111	+ 15.97%	+ 11.17%
11,915	17,220	17,688	12,139	14,621	13,793	6,604		
7,377	5,747	14,756	13,557	11,604	10,470	14,038	+ 53.66%	+ 13.37%
1.71:1	1.49:1	2.08:1	1.45:1	2.17:1	2.36:1	2.17:1		
.76:1	.66:1	.84:1	.60:1	1.09:1	.96:1	.90:1		
3.96:1	6.21:1	2.26:1	2.17:1	2.27:1	2.25:1	1.14:1		
1,098	4,521	4,589	9,886	3,552	2,212	2,919		
2,022	3,511	3,185	2,834	2,531	2,074	1,775		
4,998	4,790	4,628	4,478	4,472	4,472	4,769		

* Not Measurable

Management's Discussion and Analysis of Financial Condition and Results of Operations

- OVERVIEW

Harmon's total business has been on an upward trend for the past several years. The Company has increased its market share with its principal customers, the Class I and Short-Line Railroads, and it has successfully entered into the new construction portion of the rail transit market, principally because of its technology and service. Additionally, the purchasing, materials management and pre-assembly services supplied by its asset management services subsidiary are filling an increasing need in the industry as railroads continue to downsize.

- PROFILE OF CURRENT OPERATIONS

The Company's sales are summarized by product category in the table on page 17. The table also breaks out gross sales and percentages of total sales for each of the past three years. Sales of signal and control products by the Company's asset management services subsidiary (CAMCO) are included in those descriptive categories. The value-added portion supplied with those products by CAMCO remains in the asset management services category. A new category, Train Inspection Systems, is included this year, because its sales reached a sufficient level to separate them from the "Other" category of previous years.

Train Control Systems include products related to the control of train movement. These include signal control track circuits (Electro Code); interlocking control equipment such as Electro Logic, the Harmon Logic Controller (HLC) and the Vital Harmon Logic Controller (VHLC); carborne equipment (Ultra Cab); and computer-based control systems (TTM).

Signal Systems include all products related to rail/highway crossing warning systems. The products include motion detectors and predictors (the Company's PMD and HXP, among others); flashing lights and cantilevers; and the design, wiring and installation of packages comprised of these products.

Asset Management Services provides a single-source, rapid delivery service for railroad components. It involves warehousing commonly-used parts and equipment that are manufactured by the Company and by other vendors. This service has been expanded in recent years to include asset and materials management as well as assembly of various components, which are delivered as a complete unit, ready for installation.

Train Inspection Systems include products that monitor the condition of trains when they pass a train inspection site. The hot box detector is the principal product, which is installed beside the track to detect overheating bearings in passing rail cars, a serious condition that could lead to derailments. Other products include a sensor to identify high or wide loads and a device that detects foreign objects being dragged under a rail car.

Printed Wiring Boards include production of customer designed printed wiring boards for shipment to other electronics manufacturers.

Other sales include communication equipment and products that do not fit readily into the other five categories.

Sales by Product or Service Function*

<i>(Dollars in thousands)</i>	<i>Years ended December 31,</i>					
	<i>1995</i>		<i>1994</i>		<i>1993</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Train Control Systems	\$ 55,437	40.7%	\$ 45,711	38.4%	\$37,585	38.0%
Signal Systems	42,374	31.1%	35,449	29.8%	36,034	36.5%
Asset Management Services	14,194	10.4%	20,894	17.5%	10,223	10.3%
Train Inspection Systems	11,360	8.4%	5,054	4.2%	4,510	4.6%
Printed Wiring Boards	6,752	5.0%	6,307	5.3%	6,180	6.3%
Other	5,999	4.4%	5,712	4.8%	4,252	4.3%
Total	\$136,116	100.0%	\$119,127	100.0%	\$98,784	100.0%

* Sales volumes shown above are gross totals and do not include cash discounts or deferred contract revenue. As a result, there are minor differences between the figures in this table and those presented in the Consolidated Statements of Earnings. The differences do not affect the validity of the discussion and analysis.

• RESULTS OF OPERATIONS

Years Ended December 31, 1995, 1994 and 1993. Net sales increased 14.3% to \$136.8 million in 1995. Sales in 1994 were \$119.7 million, 20.6% above the \$99.3 million recorded for 1993. Net earnings for 1995 were \$6.9 million (\$1.01 per share), a decrease of 9.9% from the record \$7.6 million (\$1.16 a share) earned in 1994, which was 11.0% greater than the \$6.9 million (\$1.11 a share) earned in 1993. The decrease in earnings in 1995 was due primarily to a higher cost of sales principally occasioned by production issues related to the acquired hot box detector line, operating inefficiencies resulting from customer-induced delays in shipments, a \$657,000 increase in research and development expenditures and higher interest costs. The increase in earnings in 1994 over those of 1993 was the result of substantially higher sales at slightly lower margins.

The table on page 18 illustrates the percentage relationship to net sales for certain items reflected in the Company's Consolidated Statements of Earnings and the percentage increase or decrease in the dollar amounts of such items year-to-year.

Net Sales

Harmon's 14.3% increase in net sales in 1995 was due to gains in system sales (train control, train inspection and signal). Approximately half of the gain was the result of the Serrmi acquisition and a resurgence in rail-highway crossing installation sales (signal systems), which increased Harmon's market share last year. The remainder reflects gains in shipments on rail transit contracts and for carborne equipment (train control systems) and hot box detectors from the Servo acquisition (train inspection systems). Sales of asset management services were down \$6.7 million in 1995 when shipments were delayed because of railroad merger activity.

The 20.6% increase in net sales in 1994 resulted from a \$10.7 million increase in asset management services revenues, an \$8.1 million gain in train control system sales, much of which was related to rail transit contracts. The gain in train control systems in 1994 reflects the industry's growing acceptance of Harmon's control products, the HLC, VHLC and Ultra Cab.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Operating Summary

	Percentage of Net Sales			Percentage of Change		
	Years ended December 31,			1995	1994	1993
	1995	1994	1993	over 1994	over 1993	over 1992
Net sales	100.0%	100.0%	100.0%	14.3 %	20.6 %	21.2 %
Cost of sales	70.3%	67.7%	66.2%	18.6 %	23.3 %	21.1 %
Research and development	3.8%	3.8%	3.5%	14.4 %	32.5 %	(2.8)%
Gross profit	25.9%	28.5%	30.3%	4.0 %	13.2 %	25.1 %
Selling, general and administrative expenses	17.0%	17.7%	18.7%	9.6 %	14.1 %	18.6 %
Other operating expenses, net	0.4%	0.0%	0.1%	993.2 %	(61.4)%	(16.8)%
Operating income	8.5%	10.8%	11.5%	(8.6)%	12.5 %	38.1 %
Other expenses	0.4%	0.2%	0.4%	183.6 %	(44.8)%	(68.4)%
Earnings before income taxes	8.1%	10.6%	11.1%	(11.9)%	14.5 %	56.5 %
Income taxes	3.1%	4.2%	4.2%	(14.9)%	20.3 %	67.9 %
Net earnings	5.0%	6.4%	6.9%	(9.9)%	11.0 %	50.4 %

Sales of the Company's signal systems are influenced by the financial condition of the railroad industry, the railroads' budgets for planned equipment expenditures and by the level of activity in authorizing grade crossing warning system improvements subject to 80% federal support, up to a 1996 authorized limit of \$160 million. Authorization expires in 1997, and future extensions are uncertain. Rail transit project funding is expected to approximate 1995 levels.

The market for the remainder of the Company's products is largely dependent on the financial condition of the railroad industry, the trend of the general economy, and individual railroads' budgets for capital expenditures and repairs and maintenance.

Gross Profit

Gross profit margins for 1995 decreased to 25.9% of sales from 28.5% in 1994. The decline was caused primarily by inefficiencies in manufacturing the acquired hot box detector product line, difficulties encountered by the Company when its shipment stream was interrupted by railroad merger activity, increased R&D expenditures and from low margins obtained on "pass through" sales that were part of rail transit contracts.

Gross profit margins for 1994 decreased to 28.5% from 30.4% for 1993. The decline reflects that asset management services sales, which are traditionally lower in margin, comprised a greater percentage of total sales than they did in 1993. In addition, R&D expenditures were higher in 1994 than in 1993.

Selling, General & Administrative Expenses

Selling, general and administrative expenses (SG&A) for 1995 increased approximately \$2.0 million to \$23.2 million (17.0% of net sales) from \$21.2 million (17.7% of net sales) in 1994 and \$18.6 million (18.7%) in 1993. The downward trend as a percentage of net sales reflects gains in cost controls and the fixed nature of certain costs. The absolute increase in dollars each year basically reflects the result of inflation,

commissions incident to higher sales volume, and additions to SG&A expenses incident to two acquisitions made in December 1994 and February 1995. These expenses were offset somewhat in 1995 by lower profit-based bonuses.

Amortization Expenses

The increase in amortization expenses in 1995 is attributable to the acquisitions of the hot box detector line of Servo Corporation of America at the end of 1994 and the assets of Serrmi Services, Inc. in the first quarter of 1995.

Other Operating Expenses

Changes in other operating expenses were insignificant in 1995, 1994 and 1993.

Interest Expense

Interest expense was \$741,000 in 1995, \$264,000 in 1994 and \$427,000 in 1993. The increase for 1995 was the result of increased borrowings related to the acquisitions and to provide working capital. Interest costs were lower in 1994 as borrowings were less than in 1993.

Income Taxes

The Company's effective income tax rate for 1995 was 38.4% compared with 39.8% for 1994 and 37.9% for 1993. Tax rates were lower in 1995 because Harmon did more business in states with lower tax rates than it did in 1994.

Tax rates were higher in 1994 than in 1993 principally because of changes in the federal tax law, prevailing high state income taxes in California, where Harmon did more business in 1994, and increased Missouri tax rates, where Harmon is headquartered. See Note 4 of Notes to the Consolidated Financial Statements.

• INFLATION

Inflation has been moderate during the past three years, averaging 3% to 4% for materials and wages. Competitive pressure has required the Company to maintain or reduce sales prices to sustain market share. Management believes that competitive pricing pressures will remain for the foreseeable future. Its program to combat this is to continue to increase productivity, adopt emerging lower-cost technological advances into its products, expand its available products through internal development and acquire products or companies in the railroad supply industry that will expand Harmon's product or service offerings.

• LIQUIDITY, CASH FLOW AND CAPITAL RESOURCES

The Company had a very strong balance sheet at 1995 year-end. Total assets were \$86.8 million, up \$18.5 million. Stockholders' equity rose to \$49.2 million (\$7.23 per share) from \$43.1 million (\$6.40 per share). Working capital was \$35 million, which produced a current ratio of 2.6:1 compared to 2.0:1 a year earlier. Cash was down \$926,000 and interest-bearing debt was up \$10.5 million in 1995. Cash was used to fund the acquisition of Serrmi (\$1.2 million), capital expenditures of \$5.5 million, increased receivables of \$3.9 million (largely because of \$4.3 million increase in sales in the 1995 fourth quarter), and to support increased year-end inventories and increases in contracts in progress.

At year-end 1995, the Company had an \$18 million line of working capital credit and had borrowed \$11.5 million. Capital expenditures for 1996 are expected to be approximately \$8 million, roughly \$2.5 million higher than the capital expenditures for 1995.

Management's Discussion and Analysis of Financial Condition and Results of Operations

- **1996 OUTLOOK**

There is much to be optimistic about for 1996. The Company's core business is solid. It begins the new year with a record backlog of \$49.1 million, up \$4.5 million from the year earlier backlog of \$44.6 million. The shipment delays that accompanied the railroad merger activity in 1995 are largely over, and business is returning to normal. Further, the production and inventory difficulties that surrounded the integration of the acquired hot box detector product line are largely behind the Company, although the hot box detector line's profit margins will be below their targeted levels for the next several months as some high cost inventory remains to be sold off. In addition, customer acceptance of our newer products has been excellent.

Despite the favorable climate for increased business for Harmon, there are some uncertainties to consider as well. Among them are whether the economy will perform as well in 1996, whether government funding for rail transit and grade crossing warning systems will continue as before — given the mood in the Congress to reduce federal subsidies, whether our R&D departments will continue their output of innovative and very successful products, and what the outcome will be for the environmental matter discussed in Note 10 to the Consolidated Financial Statements.

Further, the railroad industry remains acquisition minded. Mergers typically create short-term problems, particularly with shipment continuity and immediate new business. Long-term, however, mergers often prove beneficial as the surviving entity often consolidates traffic patterns to strengthen its operation, which for Harmon translates into additional orders for signal and control systems.

Finally, we are operating at near-capacity in several areas of our business. Accordingly, we will spend substantial sums of money over the next several years to expand capacity in order to bid on larger contracts and to produce larger and more complex systems. We are addressing these issues by expanding our manufacturing space at several locations and increasing the size of our research and development center to accommodate many additional engineers.

We also intend to increase our total capacity by outsourcing certain functions that would be more expensive to do in-house with our present volume of business. Management also recognizes that capacity can be increased by joining forces with others, particularly on very large installations, such as multimillion dollar contracts that will be bid on this year by suppliers to the rail transit industry. We will also make some major changes internally in 1996 to improve our cost effectiveness and the overall management of our processes. We view these expenditures as the price of admission to reach the next level of annual sales.

- **OTHER**

There are no pending accounting pronouncements which will have a significant effect on the Company's financial statements.

• **FOURTH QUARTER RESULTS**

Sales for the 1995 fourth quarter were \$36.5 million, 13.5% higher than 1994 fourth quarter sales of \$32.2 million. Cost of sales as a percentage of sales was 70.8% in 1995 compared with 67.2% in 1994, which reflected a higher margin product mix in 1994 than in 1995. Net earnings for the 1995 fourth quarter were \$1.8 million (\$0.27 per share) compared with \$1.7 million (\$0.25 per share) in the year earlier period.

While this year's final quarter reflected increased sales and earnings from the same quarter a year ago, we expected to perform better than we did. We anticipated higher volume and geared up accordingly for rush shipments that were subsequently delayed for a month and more. In an effort to compensate for these delays as much as possible, we rescheduled other projects. We put all our factories on heavy production schedules and outsourced some engineering capacity that we would normally have done in-house at lower cost. In addition, we were forced to expedite material to get our rescheduled projects out in a timely manner. Thus a combination of lower volume, primarily due to delayed shipping schedules among our customers, and higher costs incurred due to an effort to compensate as much as possible, negatively affected our earnings.

• **QUARTERLY CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)**

(Dollars in thousands, except per share data)

	1995				1994			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
<i>Quarters ended</i>								
Net sales	\$29,415	\$32,854	\$38,026	\$36,485	\$25,902	\$32,166	\$29,448	\$32,187
Cost of sales	21,330	21,971	26,954	25,839	17,503	21,882	19,997	21,641
R&D expenditures	1,022	1,236	1,503	1,457	990	966	805	1,800
Gross profit	7,063	9,647	9,569	9,189	7,409	9,318	8,646	8,746
Selling, general and administrative expenses	5,612	5,990	5,464	6,134	4,837	5,377	4,973	5,989
Amortization	133	133	144	137	33	33	11	1
Miscellaneous (income) expense-net	(25)	(7)	(13)	(21)	(4)	(20)	21	(31)
Operating income	1,343	3,531	3,974	2,939	2,543	3,928	3,641	2,787
Interest expense	147	190	197	207	43	80	85	56
Investment income	17	60	4	53	14	5	1	30
Pre-tax earnings	1,213	3,401	3,781	2,785	2,514	3,853	3,557	2,761
Income taxes	507	1,343	1,501	943	1,018	1,523	1,406	1,099
Net earnings	\$ 706	\$ 2,058	\$ 2,280	\$ 1,842	\$ 1,496	\$ 2,330	\$ 2,151	\$ 1,662
Earnings per common share	\$ 0.10	\$ 0.30	\$ 0.33	\$ 0.27	\$ 0.23	\$ 0.36	\$ 0.33	\$ 0.25
Weighted average shares (000s)	6,815	6,824	6,837	6,834	6,551	6,559	6,563	6,594

Quarterly per share amounts may not add to annual amounts due to the timing of net earnings and changes in common stock equivalents during each year.

Consolidated Balance Sheets

(Dollars in thousands)

<i>At December 31,</i>	<i>1995</i>	<i>1994</i>
Assets		
Current assets:		
Cash and cash equivalents	\$ –	\$ 250
Trade receivables, less allowance for doubtful accounts of \$362 in 1995 and \$360 in 1994	25,317	21,457
Costs and estimated earnings in excess of billings on uncompleted contracts (note 2)	4,053	1,321
Inventories:		
Work in process	4,583	5,763
Raw materials and supplies	21,262	11,955
	25,845	17,718
Income tax receivable	434	667
Deferred tax asset (note 4)	584	586
Prepaid expenses and other current assets	608	731
	56,841	42,730
Property, plant and equipment, at cost (note 3):		
Land	356	164
Buildings	5,802	4,596
Machinery and equipment	12,820	11,680
Office furniture and equipment	14,589	11,711
Transportation equipment	1,036	928
Leasehold improvements	2,288	1,600
	36,891	30,679
Less accumulated depreciation and amortization	22,714	19,610
Net property, plant and equipment	14,177	11,069
Deferred tax asset (note 4)	621	500
Cost in excess of fair value of net assets acquired, net of accumulated amortization of \$1,896 in 1995 and \$1,349 in 1994 (note 11)	7,674	7,967
Deferred compensation asset (note 6)	5,575	5,146
Other assets	1,957	983
	\$ 86,845	\$ 68,395

See accompanying notes to consolidated financial statements.

At December 31,

1995

1994

Liabilities and Stockholders' Equity

Current liabilities:

Bank overdraft	\$ 676	\$ -
Current debt installments (note 3)	337	1,174
Accounts payable	11,022	8,646
Accrued payroll, bonus and employee benefit plan contributions	6,688	7,327
Billings in excess of costs and estimated earnings on uncompleted contracts (note 2)	1,279	1,420
Other accrued liabilities	1,825	2,493
Total current liabilities	21,827	21,060
Deferred compensation liability (note 6)	3,696	3,539
Long-term debt (note 3)	12,090	733
Total liabilities	37,613	25,332

Stockholders' equity (notes 3 and 7):

Common stock of \$.25 par value; authorized 20,000,000 shares, issued 6,805,626 shares in 1995 and 6,728,252 shares in 1994	1,702	1,682
Additional paid-in capital	23,003	22,719
Retained earnings	24,527	18,662
Total stockholders' equity	49,232	43,063

Commitments and contingencies (notes 6 and 10)

\$ 86,845

\$ 68,395

Consolidated Statements of Earnings

(Dollars in thousands, except per share data)

<i>Years ended December 31,</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Net sales	\$136,780	\$119,703	\$ 99,295
Cost of sales	96,094	81,023	65,716
Research and development expenditures	5,218	4,561	3,442
Gross profit	35,468	34,119	30,137
Selling, general and administrative expenses	23,200	21,176	18,558
Amortization of cost in excess of fair value of net assets acquired	547	78	134
Miscellaneous income – net	(66)	(34)	(20)
Operating income	11,787	12,899	11,465
Interest expense	(741)	(264)	(427)
Investment income	134	50	39
Earnings before income taxes	11,180	12,685	11,077
Income tax expense (benefit) (note 4):			
Current	4,413	5,098	4,561
Deferred	(119)	(52)	(368)
	4,294	5,046	4,193
Net earnings	\$ 6,886	\$ 7,639	\$ 6,884
Earnings per common share	\$ 1.01	\$ 1.16	\$ 1.11
Weighted average shares outstanding (000s)	6,827	6,567	6,212

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(Dollars in thousands)

	<i>Common Stock</i>	<i>Additional Paid-in Capital</i>	<i>Retained Earnings</i>	<i>Treasury Stock</i>	<i>Total Stockholders' Equity</i>
Balance at December 31, 1992	\$1,524	\$15,591	\$ 5,107	\$ (7,025)	\$15,197
Net earnings	–	–	6,884	–	6,884
Common stock issued (note 7):					
Stock offering	38	3,411	–	7,025	10,474
Stock options and other	20	511	–	–	531
Balance at December 31, 1993	1,582	19,513	11,991	–	33,086
Net earnings	–	–	7,639	–	7,639
Cash dividends paid (\$0.15 per share)	–	–	(968)	–	(968)
Common stock issued (notes 7 and 11):					
Servo acquisition	65	2,860	–	–	2,925
Stock options and other	35	346	–	–	381
Balance at December 31, 1994	1,682	22,719	18,662	–	43,063
Net earnings	–	–	6,886	–	6,886
Cash dividends paid (\$0.15 per share)	–	–	(1,021)	–	(1,021)
Common stock issued (note 7):					
Stock options and other	20	284	–	–	304
Balance at December 31, 1995	\$1,702	\$23,003	\$24,527	\$ –	\$49,232

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Dollars in thousands)

<i>Years ended December 31,</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Cash flows from operating activities:			
Net earnings	\$ 6,886	\$ 7,639	\$ 6,884
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,906	2,621	2,121
Gain on sale of property, plant and equipment	(34)	(6)	(7)
Deferred tax expense (benefit)	(119)	211	(453)
Changes in assets and liabilities, net of acquisition of businesses:			
Trade receivables	(3,860)	(3,046)	(5,880)
Inventories	(7,830)	(1,558)	(2,572)
Estimated costs, earnings and billings on contracts	(2,873)	(920)	(850)
Prepaid expenses	131	(109)	(70)
Accounts payable	2,376	2,588	1,579
Accrued payroll and benefits	(651)	1,506	2,107
Other liabilities	(478)	(1,423)	(43)
Other deferred liabilities	157	304	310
Discontinued operations	-	-	23
Total adjustments	(9,275)	168	(3,735)
Net cash provided by (used in) operating activities	(2,389)	7,807	3,149
Cash flows from investing activities:			
Capital expenditures	(5,532)	(3,242)	(3,189)
Acquisition of businesses	(1,182)	(6,661)	-
Proceeds from sale of property, plant and equipment	84	30	26
Deferred compensation contributions	(429)	(524)	(1,240)
Other investing activities	(974)	(37)	53
Net investing activities of discontinued operations	-	-	(339)
Net cash used in investing activities	(8,033)	(10,434)	(4,689)
Cash flows from financing activities:			
Proceeds from issuance of common stock	292	300	10,817
Cash dividends	(1,021)	(968)	-
Net borrowings under line of credit agreements	10,661	800	-
Principal payments of long-term debt	(436)	(320)	(6,655)
Bank overdraft	676	-	-
Net cash provided by (used in) financing activities	10,172	(188)	4,162
Net increase (decrease) in cash and cash equivalents	(250)	(2,815)	2,622
Cash and cash equivalents at beginning of year	250	3,065	443
Cash and cash equivalents at end of year	\$ -	\$ 250	\$ 3,065
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 661	\$ 265	\$ 492
Income taxes	\$ 4,167	\$ 5,939	\$ 3,865

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements**Note 1—Summary of Significant Accounting Principles**

Principles of Consolidation and Basis of Presentation. The consolidated financial statements of the Company include the accounts of Harmon Industries, Inc., and its wholly-owned subsidiaries, Harmon Electronics, Inc., Electro Pneumatic Corporation (EPC), Consolidated Asset Management Company, Inc. (CAMCO) and Harmon Railway Systems International.

Significant intercompany accounts and transactions have been eliminated in consolidation. Management of the Company has made estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

Nature of Business. The Company is a major supplier of signal and train control products to railroads throughout North America and the world. It manufactures an extensive line of railroad signal and communication equipment, traffic control systems, rail/highway grade crossing hardware and related components. The Company also provides a single-source, rapid delivery service for urgently needed railroad components by warehousing commonly-used parts and equipment, which are manufactured both by Harmon and other vendors.

Inventory Valuation. Inventories are valued primarily at the lower of cost (first-in, first-out) or market (net realizable value). The components of cost are labor, materials and an allocation of manufacturing overhead.

Property, Plant and Equipment. Buildings, machinery and equipment, office furniture and equipment, transportation equipment and leasehold improvements are being depreciated or amortized using the straight-line method over the estimated useful lives of the assets, which range from two to thirty-three years. Maintenance and repairs are charged to operations as incurred. Renewals and betterments are capitalized as additions to the appropriate asset accounts. Upon sale or retirement of assets, the cost and related accumulated depreciation applicable to such assets are removed from the accounts, and any resulting gain or loss is reflected in operations.

Income Taxes. Effective January 1, 1993 the Company adopted Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. The cumulative effect of that change in the method of accounting for income taxes in 1993 was immaterial.

Under the asset and liability method of Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Notes to Consolidated Financial Statements

Long-term Contracts. Profits on long-term contracts are recorded on the basis of the Company's estimates of the percentage of completion of individual contracts. That portion of the total contract price is accrued which is allocable, on the basis of the Company's engineering estimates of the percentage of completion, to contract expenditures incurred. Profits are not recorded during the start-up phase of the contract, which has been determined by the Company to approximate the initial 15% of design and construction. All losses are recognized in the period during which they become evident.

Cost in Excess of Fair Value of Net Assets Acquired. Cost in excess of the fair value of net assets acquired is amortized on a straight-line basis generally over fifteen years. The Company assesses the recoverability of such cost by determining whether the amortization of the cost in excess of the fair value of net assets acquired over its remaining life can be recovered through undiscounted future operating cash flows.

Patents. The cost of patents acquired is being amortized on a straight-line basis over the estimated remaining economic lives of the respective patents, which is less than the statutory life of each patent.

Statement of Cash Flows. For purposes of the statement of cash flows, the Company considers all investments purchased with a maturity of three months or less to be cash equivalents.

Research and Development. Costs incurred in the creation and start-up of new products or in changing existing products are charged to expense as incurred.

Earnings per Common Share. Earnings per common share are based on the weighted average number of common shares outstanding, including common shares held by the Company's Employee Stock Ownership Plan and Trust. Effect is given to common stock equivalents (stock options), if dilutive.

Notes to Consolidated Financial Statements

Note 2—Contracts in Progress

Contract costs on uncompleted contracts are as follows:

<i>(Dollars in thousands)</i>	<i>Costs and estimated earnings in excess of billings</i>	<i>Billings in excess of costs and estimated earnings</i>	<i>Total</i>
December 31, 1995:			
Costs and estimated earnings	\$25,234	\$28,541	\$53,775
Billings	21,181	29,820	51,001
	\$ 4,053	\$ (1,279)	\$ 2,774
December 31, 1994:			
Costs and estimated earnings	\$11,820	\$34,666	\$46,486
Billings	10,499	36,086	46,585
	\$ 1,321	\$ (1,420)	\$ (99)

Balances billed, but not paid by customers under retainage provisions in contracts amounted to \$1,146,000 and \$342,000 at December 31, 1995 and 1994. Unbilled amounts representing claims subject to uncertainty concerning their ultimate realization amounted to \$1,000,000 at December 31, 1995. All receivables on contracts in progress are considered to be collectible within twelve months.

Note 3—Indebtedness

<i>(Dollars in thousands)</i>	<i>1995</i>	<i>1994</i>
Revolving credit agreements	\$11,461	\$ 800
Capitalized lease obligations	966	967
Industrial revenue bonds	—	140
Total indebtedness	12,427	1,907
Less current installments	337	1,174
Long-term debt	\$12,090	\$ 733

Revolving credit agreements. The Company has an unsecured \$15,000,000 revolving credit. At December 31, 1995, outstanding borrowings totaled \$8,461,000 and \$6,539,000 was available. Outstanding borrowings come due on June 28, 1997 and bear interest at a base rate established by the bank plus a variable component depending on the Company's funded debt to capitalization percentage (\$7,461,000 at 8.5% and \$1,000,000 at 7.5% at December 31, 1995).

The Company has a reducing revolving credit agreement with original total credit availability of \$6,000,000 reducing by \$300,000 each quarter after June 30, 1993 (\$3,000,000 at December 31, 1995). The Company has outstanding borrowings of \$3,000,000 at December 31, 1995. Outstanding borrowings are due on June 28, 1998 and bear interest at a base rate established by the bank plus a variable component depending on the Company's funded debt to capitalization percentage (7.75% at December 31, 1995). Borrowings under this agreement are collateralized by liens against substantially all of the Company's equipment and machinery.

The Company pays commitment fees of 3/8 of 1% annually on the unused portion of the revolving credit agreements.

Notes to Consolidated Financial Statements

Note 3—Indebtedness,
continued

Capitalized lease obligations. The Company entered into various computer hardware and software capital lease agreements totaling \$295,000 and \$783,000 in 1995 and 1994, respectively. Monthly installments are due through October 1998. The average implied interest rate in the lease agreements is 7.0%.

Industrial revenue bonds. The industrial revenue bonds were issued to provide funds to construct and equip manufacturing and research and development facilities. The bonds were repaid in 1995.

Covenants. The various indebtedness agreements contain, among other things, covenants relating to: maintenance of certain levels of consolidated net worth and limitations of total liabilities; maintenance of certain ratios of debt to equity and current assets to current liabilities; and certain limitations on the payment of cash dividends. At December 31, 1995, the Company is in compliance with all covenants under its indebtedness agreements.

Maturities. At December 31, 1995, long-term debt maturities for 1996 and thereafter are:

<i>Years ended December 31</i>	<i>(Dollars in thousands)</i>
1996	\$ 337
1997	8,821
1998	3,269
	<u>\$12,427</u>

Note 4—Income Taxes

Income tax expense consisted of the following:

<i>(Dollars in thousands)</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Current:			
Federal	\$ 3,664	\$ 4,193	\$ 4,029
State	749	905	532
Total current	4,413	5,098	4,561
Deferred:			
Federal	(99)	(14)	(332)
State	(20)	(38)	(36)
Total deferred	(119)	(52)	(368)
Total income tax expense	<u>\$ 4,294</u>	<u>\$ 5,046</u>	<u>\$ 4,193</u>

Notes to Consolidated Financial Statements

Income tax expense for the years ended December 31, 1995, 1994, and 1993, respectively, differed from the amounts computed by applying the U.S. federal income tax rate of 35 percent for 1995 and 1994 and 34 percent for 1993 to pretax income as a result of the following:

<i>(Dollars in thousands)</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Computed "expected" tax expense	\$3,913	\$4,440	\$3,766
Increase (reduction) in income taxes resulting from:			
State and local income taxes, net of federal income tax benefit	473	564	327
Other, net	(92)	42	100
	\$4,294	\$5,046	\$4,193

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1995 and 1994 are presented below:

<i>(Dollars in thousands)</i>	<i>1995</i>	<i>1994</i>
Deferred tax assets:		
Deferred compensation	\$1,442	\$1,327
Compensated absences	356	256
Inventories	329	186
Allowance for doubtful accounts	141	135
Various other reserves	127	378
Total gross deferred tax assets	2,395	2,282
Less valuation allowance	369	369
	2,026	1,913
Deferred tax liabilities:		
Plant and equipment	(821)	(827)
Net deferred tax assets	\$1,205	\$1,086

The valuation allowance for deferred tax assets as of January 1, 1994 was approximately \$351,000. The net changes in the total valuation allowance for the years ended December 31, 1995 and 1994 were \$0 and \$18,000, respectively. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

During 1995, the Internal Revenue Service completed examinations of the Company's federal income tax returns for the years ended December 31, 1992, 1993 and 1994. The results of the examinations did not have a material effect on the Company's financial statements.

Notes to Consolidated Financial Statements**Note 5—Business Segment Information**

The Company and its subsidiaries operate in one reportable segment of railroad electronics and related products.

Two customers accounted for net sales of approximately \$19,091,000 and \$15,532,000 for the year ended December 31, 1995, net sales of approximately \$25,735,000 and \$11,015,000 for the year ended December 31, 1994 and net sales of approximately \$14,168,000 and \$10,136,000 for the year ended December 31, 1993. At December 31, 1995, the Company had significant receivable balances from five customers totaling approximately \$11,078,000. The Company has no other unusual credit risks or concentrations.

Note 6—Commitments

The Company has entered into various lease arrangements covering the use of manufacturing facilities, administrative offices and equipment, all of which are operating leases. Rental expense related to these leases amounted to \$1,581,000, \$1,398,000 and \$1,268,000 for the years ended December 31, 1995, 1994 and 1993, respectively.

A summary of non-cancellable long-term operating lease commitments follows: (Dollars in thousands)

<i>Years ended December 31,</i>	<i>Equipment</i>	<i>Real property</i>	<i>Total commitments</i>
1996	\$ 82	\$1,042	\$1,124
1997	67	564	631
1998	21	547	568
1999	5	411	416
2000	—	72	72

It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on other properties; thus, it is anticipated that future minimum lease commitments will not be less than the amounts shown for 1996.

Employee Benefits. In 1985, the Company formed an Employee Stock Ownership Plan and Trust (ESOP), which includes all employees. At December 31, 1995 and 1994 the ESOP held 490,428 shares of Company common stock which had been allocated to plan participants. Company contributions to the ESOP are normally based on a percentage of pretax earnings. Dividends on common shares held by the ESOP are reflected as a reduction in retained earnings.

ESOP contributions charged to operating expense were \$2,785,000, \$3,045,000 and \$2,540,000 for the years ended December 31, 1995, 1994 and 1993, respectively.

The Company and its subsidiaries have various bonus plans based primarily on Company performance. Accrued and unpaid bonuses at December 31, 1995 and 1994 were \$757,000 and \$1,467,000, respectively.

The Company has a nonqualified, unfunded deferred compensation plan for certain key executives providing for payments upon retirement, death or disability.

Notes to Consolidated Financial Statements

Under the plan, certain employees receive retirement payments equal to a portion of the three highest continuous years' average compensation. These payments are to be made for the remainder of the employees' life with a minimum payment of ten years' benefits to either the employee or his or her beneficiary. The plan also provides for reduced benefits upon early retirement, disability or termination of employment. The deferred compensation expense was \$491,000, \$522,000 and \$426,000 for the years ended December 31, 1995, 1994 and 1993, respectively.

The Company has recorded the assets and liabilities for the deferred compensation at gross amounts in the Consolidated Balance Sheets because such assets and liabilities belong to the Company rather than to any plan or trust.

The Company does not provide other post-retirement benefits.

Note 7—Stockholders' Equity

A summary of stock options granted, exercised and expired follows:

	<i>Shares</i>	<i>Price Per Share</i>	
Balance at January 1, 1993	352,850	\$ 4.40	Average Price
Granted	32,000	13.38-21.50	
Exercised	(75,600)	3.88-5.50	
Expired	(2,000)	4.13	
Balance at December 31, 1993	307,250	5.70	Average Price
Granted	42,000	20.50-22.75	
Exercised	(157,600)	3.88-13.38	
Expired	(2,000)	5.50-7.25	
Balance at December 31, 1994	189,650	10.44	Average Price
Granted	28,000	14.00-17.75	
Exercised	(83,150)	3.88-13.38	
Expired	(10,000)	13.38	
Balance at December 31, 1995	124,500	\$ 15.20	Average Price

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The Company has exercisable outstanding stock options for 113,290 shares of common stock at prices ranging from \$5.50 to \$21.50 a share (\$14.46 average per share) as of December 31, 1995. In May 1995, and 1994 the Company granted stock options for up to 2,000 common shares to each of the Company's eleven directors as of those dates, respectively. The options expire on May 31, 1997 and May 31, 1996, respectively. In May 1993, the Company granted stock options for up to 2,000 common shares to each of the Company's eleven directors as of that date. The options expired on May 28, 1995.

The Company and selling shareholders sold 1,150,000 shares of common stock in a public offering in April and May 1993 (285,000 shares were sold by shareholders). The Company received cash proceeds of approximately \$10,474,000.

The Company issued 260,000 shares of unregistered common stock to Servo Corporation of America in December 1994 (See Note 11).

Notes to Consolidated Financial Statements**Note 8—Affiliates**

The Company has investments of 38% and 20% in unconsolidated affiliates which are accounted for under the equity method. Equity in earnings (losses) of these affiliates was not significant for the years ended December 31, 1995, 1994 and 1993. The Company had sales to these related entities totaling \$1,477,000, \$272,000 and \$398,000 for 1995, 1994 and 1993, respectively. The Company had receivables due from these entities of \$434,000 and \$60,000 as of December 31, 1995 and 1994.

Note 9—Other Financial Information

The Company has classified certain environmental compliance expenses as cost of sales in the accompanying statements of operations. These expenses amounted to \$215,000, \$164,000 and \$465,000 for the years ended December 31, 1995, 1994 and 1993, respectively.

Note 10—Litigation

Environmental matter. On September 30, 1991, the United States Environmental Protection Agency (EPA) issued a complaint against the Company alleging violations of the Resource Conservation and Recovery Act (RCRA) and RCRA regulations in the disposal of solvents at the Company's Grain Valley, Missouri, plant. The complaint sought penalties in the amount of \$2,344,000 and proposed certain compliance actions. In January 1994 the administrative hearing on the penalty assessment was heard. The decision from that hearing reduced the penalties to \$586,000.

Based on the Company's cooperation with the Missouri Department of Natural Resources (MDNR), which had the original jurisdiction of the matters complained by the EPA, in voluntarily disclosing the alleged violations and in promptly undertaking all remedial actions specified by the MDNR, the penalties appear to the Company's legal counsel to be excessive. However, because so few cases have been disposed of by settlement, or by administrative or judicial proceedings since the new penalty guidelines were adopted, legal counsel cannot express an opinion as to the ultimate amount, if any, of the Company's liability.

The Company has recorded a total of \$1,950,000 of environmental compliance expenses to date relating to this matter. The Company has recorded a liability for its best estimates of the costs to be incurred relative to the compliance actions in other accrued liabilities. Since the amount of the penalty cannot be reasonably determined at this time, no liability has been accrued in the financial statements.

Other litigation. The Company has been named as a defendant in several other lawsuits in the normal course of its business. In the opinion of management, after consulting with legal counsel, the liabilities, if any, resulting from these matters will not have a material effect on the consolidated financial statements of the Company.

Notes to Consolidated Financial Statements**Note 11—Acquisition**

On February 24, 1995, the Company acquired certain assets of Serrmi Services, Inc. (Serrmi) for approximately \$1,182,000 in cash. The acquisition has been accounted for by the purchase method of accounting and, accordingly the operating results have been included in the Company's consolidated results of operations from the date of acquisition. The excess of the cash paid over the fair value of net assets acquired has been recorded as goodwill of \$139,000. The pro forma effects of the Serrmi acquisition on the consolidated financial statements are not significant.

On December 20, 1994, the Company acquired the transportation division of Servo Corporation of America. Servo's transportation division manufactures hot box detector systems and various components to help railroads monitor the condition of bearings and wheels on freight and passenger vehicles. The purchase method of accounting for business combinations was used and accordingly, the operating results of this division have been included in the Company's consolidated results of operations from the date of acquisition and were insignificant in 1994. The Servo acquisition was made with the issuance of 260,000 shares of unregistered common stock valued at \$11.25 per share, as determined by a fair market value analysis conducted by an independent investment and securities firm, and \$6,661,000 in cash. The fair value of assets acquired, including goodwill, was \$10,283,000 and liabilities assumed totaled \$697,000. Goodwill of \$7,967,000 is being amortized over fifteen years on a straight line basis. Assets acquired included inventory, fixed assets and other miscellaneous items.

The pro forma results below (unaudited) for 1994 assume the acquisition occurred at the beginning of that year.

(Dollars in thousands, except per share data)

Net sales	\$ 131,024
Operating income	13,730
Net earnings	8,152
Earnings per common share	1.19

Note 12—Disclosures About Fair Value of Financial Instruments

Estimates of fair values are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could affect the estimates. Except as follows, the fair market value of the Company's financial instruments approximates the carrying value:

<i>(Dollars in thousands)</i>	<i>December 31, 1995</i>		<i>December 31, 1994</i>	
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
Financial Liabilities:				
Long-term debt:				
Capital lease obligations	\$966	\$943	\$967	\$938

The fair value of the Company's long-term debt is estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rate.

Report of Management

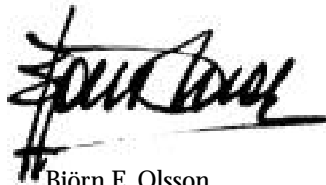
**To the Stockholders of
Harmon Industries, Inc.:**

The management of Harmon Industries, Inc., is responsible for the preparation, presentation, and integrity of the consolidated financial statements and other information included in this annual report. The financial statements have been prepared by the Company in accordance with generally accepted accounting principles and, as such, include amounts based on management's best estimates and judgments.

The financial statements have been audited by KPMG Peat Marwick LLP, independent public accountants. Their audits were made in accordance with generally accepted auditing standards and included such reviews and tests of the Company's internal accounting controls as they considered necessary.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance at reasonable cost that Company assets are protected against loss or unauthorized use and that transactions and events are properly recorded.

The Board of Directors, through its Audit Committee, comprised solely of directors who are not employees of the Company, meets with management and the independent public accountants to assure that each is properly discharging its respective responsibilities. The independent accountants have free access to the Audit Committee, without management present, to discuss the results of their work and their assessment of the adequacy of internal accounting controls and the quality of financial reporting.



Björn E. Olsson
President and Chief Executive Officer



Charles M. Foudree
Executive Vice President –
Finance, Treasurer and Secretary

February 2, 1996

Report of Independent Auditors

**The Board of Directors and
Stockholders of Harmon
Industries, Inc. and Subsidiaries:**

We have audited the accompanying consolidated balance sheets of Harmon Industries, Inc. and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harmon Industries, Inc. and subsidiaries at December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 1995, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP
Kansas City, Missouri
February 2, 1996

Investor Information

Form 10-K	Shareholders may receive a copy of the Corporation's 1995 Annual Report to the Securities and Exchange Commission on Form 10-K free of charge by writing: Mr. Charles M. Foudree, Executive Vice President-Finance, at the Corporation's headquarters.
Annual Meeting	Shareholders are cordially invited to attend the 1995 Annual Meeting of Shareholders, which will be held at 2:00 p.m. on Tuesday, May 14, 1996, at the Country Club of Blue Springs, Blue Springs, Missouri. Management urges all shareholders to vote their proxies and thus participate in the decisions that will be made at this meeting.
Registrar & Transfer Agent	UMB Bank, n.a., P.O. Box 419226, Kansas City, Missouri 64141-6226, 816/860-7000 For change of name, address, or to replace lost stock certificates, write or call the Securities Transfer Division.
Securities Analyst Contact	Securities analyst inquiries are welcome. Please direct them to: Mr. Charles M. Foudree, Executive Vice President-Finance, 816/229-3345
Independent Auditors	KPMG Peat Marwick LLP, 1600 Commerce Bank Building, Kansas City, Missouri 64106
Outside Counsel	Morrison & Hecker, 2600 Grand Avenue, Kansas City, Missouri 64108-4606, 816/691-2600
Corporate Headquarters	1300 Jefferson Court, Blue Springs, Missouri 64015, 816/229-3345, Telefax: 816/229-0556
Common Stock Price Range and Dividend Information	At December 31, 1995, there were 6,805,626 shares outstanding and approximately 675 shareholders of record. Cash dividends were resumed in 1994 at the rate of 15 cents per share per year, paid semi-annually at 7.5 cents per share. The range of high and low prices for the past eight quarters ended December 31, 1995 is shown below. Per share prices have been adjusted for all stock splits and stock dividends, if any.

<i>Calendar Quarter Ended</i>	<i>1995 Price Range</i>
March 31	\$ 19½ – \$ 13½
June 30	18 – 13½
September 30	20½ – 13¾
December 31	18¼ – 14

<i>Calendar Quarter Ended</i>	<i>1994 Price Range</i>
March 31	\$ 24 – \$ 19
June 30	21 – 19
September 30	22 – 19
December 31	23 – 16

Stock Trading The Company's common stock trades on The Nasdaq Stock Market under the symbol: HRMN. Stock price quotations can be found in major daily newspapers and in The Wall Street Journal.

At February 1, 1996, the following securities firms were making a dual auction market in the Company's common stock: George K. Baum & Company; Piper Jaffray Companies Inc.; and PaineWebber Inc.

Officers, Directors and Corporate Data

Board of Directors

Robert E. Harmon (56)
Chairman of the Board

Thomas F. Eagleton (66)
Attorney-at-Law
Thompson & Mitchell
St. Louis, Missouri

Bruce M. Flohr (57)
Chairman, President & CEO
RailTex, Inc.
San Antonio, Texas

Charles M. Foudree (51)
Executive Vice President–
Finance, Treasurer and Secretary

Rodney L. Gray (43)
Chairman & CEO
Enron International, Inc.
Houston, Texas

Herbert M. Kohn (57)
Attorney-at-Law
Bryan Cave
Kansas City, Missouri

Stephen L. Schmitz* (42)
Vice President – Controller
Harmon Industries, Inc.

Douglass Wm. List (40)
Management Consultant
Baltimore, Maryland

Gerald E. Myers (54)
Management Consultant
Tempe, Arizona

Björn E. Olsson (50)
President and
Chief Executive Officer

Donald V. Rentz (57)
President
Graham Wholesale Floral
Graham, Texas

Judith C. Whittaker (57)
Vice President–Legal
Hallmark Cards, Inc.
Kansas City, Missouri

() Indicates age of director

*Denotes Advisory Director

Corporate Officers

Björn E. Olsson
President and
Chief Executive Officer

Robert E. Harmon
Chairman of the Board

Charles M. Foudree
Executive Vice President–
Finance, Treasurer and Secretary

Gary E. Ryker
Executive Vice President–
Marketing, Sales and Service

Ronald G. Breshears
Vice President–
Human Resources

Richard A. Daniels
Vice President–Transit Sales

Robert E. Heggstad
Vice President–Technology

John W. Johnson
Vice President–Domestic Sales

William J. Scheerer
Vice President–Business Development

Stephen L. Schmitz
Vice President–Controller

Subsidiaries

Consolidated Asset Management
Company, Inc. (CAMCO)
Lee's Summit, Missouri
Riverside, California (2) †
• J. Randall John, *President*

Electro Pneumatic Corporation
Riverside, California
Hauppauge, New York
• Raymond A. Rosewall, *President*

Harmon Electronics, Inc.
Grain Valley, Missouri (3) †
Atlanta, Georgia
Jacksonville, Florida
Louisville, Kentucky
Omaha, Nebraska
Warrensburg, Missouri (2) †
• Lloyd T. Kaiser, *President*

† Denotes number of plants and locations

International
Harmon Industries
Lausanne, Switzerland

Henkes-Harmon Industries, Pty. Ltd.
Mooroolbark, Victoria, Australia

Vale-Harmon Enterprises, Ltd.
Saint-Laurent, Quebec, Canada

Harmon Industries, Inc. / 1300 Jefferson Court / Blue Springs, Missouri 64015 / (816) 229-3345/ Fax (816) 229-0556

