

HARMON INDUSTRIES, INC.

Second Quarter Report
Six Months Ended June 30, 1997



Signal and Train Control Systems for Railroads Worldwide

Sales and earnings set new corporate benchmarks. Sales for the second quarter were \$47.6 million, an increase of 22 percent from the same quarter a year ago and the best second quarter in our history. Year-to-date sales were up eight percent at \$83.6 million compared with \$77.5 million a year earlier.

Net earnings were a record \$3.0 million for the second quarter, up 12 percent. Earnings per share were also a new high at 43 cents versus 39 cents last year. Year-to-date earnings were \$4.4 million this year compared with \$4.7 million last year, or 64 cents versus 69 cents per common share.

Orders Received	\$-Millions	
Six months ended	6/30/97	6/30/96
Domestic Freight including service	\$ 87.2	\$67.4
Rail Transit	7.9	1.8
International	8.8	1.9
Total	\$103.9	\$71.1

Incoming orders were on a record pace. Bookings for the second quarter were \$57.3 million, up 58 percent from \$36.2 million recorded for the same quarter last year. Year-to-date bookings for 1997 were \$103.9 million, 46 percent above the same six-month period in 1996.

Backlog at Record Levels

As a result of record incoming orders, our backlog of unfilled orders at June 30, 1997 was a record \$78.4 million, up 32 percent from \$59.4 million at 1996 year-end. On a year-to-year basis, our \$78.4 million backlog reflected a 126 percent increase from our June 30, 1996 backlog of \$34.7 million.

Domestic Markets

Our record orders principally reflect added business from the North American freight railroads. They are experiencing sound growth, which is highlighted by increases in car loadings and intermodal traffic. In addition, freight railroads are also consolidating various rail lines as a result of mergers. These consolidations, in turn, result in high levels of orders for electronic signals and controls.

While business conditions in general have been excellent in recent months, we believe our technological leadership in product and systems designs has been a major contributing factor in our ability to maintain a solid market share of the new equipment orders being placed by the North American freight railroads.

Within the rail transit market, we booked approximately \$6.4 million in new orders in this year's second quarter. These orders included an extension contract for signals and services from the Southern California Regional Rail Authority and a cross-

ing-warning system for the Salt Lake City Light Rail System. In addition, we expect to bid on various projects later this year which, in the aggregate, amount to \$200-\$300 million.

International Markets

We continue to expand internationally. Vaughan Harmon Systems Ltd., which we acquired a year ago, posted another solid performance for the second quarter. In addition, worldwide bidding activities, particularly in the United Kingdom, have been exceptionally robust. Business in the UK is being driven by Railtrack's commitment to improve the British Rail System, which includes major capital expenditures proposed for signals and controls.

Increased R&D Investment

In order to maintain our position in cutting edge products, we increased our investment for research and development in the first six months of the current year by seven percent to \$3.4 million, roughly 4.1 percent of sales. We expect to increase that commitment during the second half of 1997.

Expanded Work Force

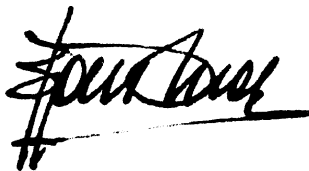
During the second quarter, we expanded our work force by approximately 180 people to meet increased demand for our products and systems. We opened a new manufacturing operation in Warrensburg, Missouri, and expect to have ex-

pansions at three other manufacturing plants completed by this year-end. These expansions are in response to a rapidly growing need for additional manufacturing and engineering capabilities.

The costs to prepare our new building, and recruit and train new employees were a considerable expense against this year's second quarter operations. Despite these higher costs, we were still able to report record earnings for the quarter. Further, this expanded production capability should enable us to increase shipments during the second half of 1997, which is expected to boost profitability for the balance of the year.

Conclusion

We are pleased with our second quarter results. Volume and profitability increases have materialized as expected. Our order backlog, incoming order trend and heightened quotation activity continue to fuel our optimism for the future.



Björn E. Olsson
President and Chief Executive Officer
Blue Springs, Missouri
August 1, 1997

Consolidated Statements of Earnings (Unaudited)

(Dollars in thousands)

	Three months ended June 30,		Six months ended June 30,	
	1997	1996	1997	1996
Net sales	\$ 47,621	\$ 39,111	\$ 83,609	\$ 77,509
Cost of sales	33,607	26,141	59,803	53,366
Research and development expenditures	1,809	1,726	3,411	3,183
Gross profit	12,205	11,244	20,395	20,960
Selling, general and administrative expenses	6,687	6,560	12,535	12,724
Amortization of cost in excess of fair value of net assets acquired	166	137	326	274
Equity in net loss of affiliate	330	-	330	-
Miscellaneous (income) expense-net	(49)	(14)	(72)	(30)
Operating income	5,071	4,561	7,276	7,992
Interest expense	(428)	(234)	(551)	(489)
Investment income	176	29	313	198
Earnings before income taxes	4,819	4,356	7,038	7,701
Income tax expense (benefit):				
Current	1,832	1,723	2,604	3,008
Deferred	-	(24)	-	(40)
	1,832	1,699	2,604	2,968
Net earnings	\$ 2,987	\$ 2,657	\$ 4,434	\$ 4,733
Net earnings per common share	\$ 0.43	\$ 0.39	\$ 0.64	\$ 0.69
Weighted average shares outstanding (000s)	6,890	6,840	6,880	6,835

Board of Directors

Robert E. Harmon
Chairman of the Board

Bruce M. Flohr
*Chairman & CEO
RailTex, Inc.
San Antonio, Texas*

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

Rodney L. Gray
*Chairman & CEO
Enron International, Inc.
Houston, Texas*

* John W. Johnson
Vice President-Domestic Sales

Herbert M. Kohn
*Attorney-at-Law
Bryan Cave
Kansas City, Missouri*

Douglass Wm. List
*Management Consultant
Baltimore, Maryland*

Gerald E. Myers
*Management Consultant
Tempe, Arizona*

Björn E. Olsson
President and CEO

Judith C. Whittaker
*Vice President,
General Counsel/Secretary
Hallmark Cards, Inc.
Kansas City, Missouri*

* Denotes Advisory Director

Condensed Consolidated Balance Sheets (Unaudited)

(Dollars in thousands)

	June 30, 1997	Dec. 31, 1996
Assets		
Current assets	\$ 76,674	\$ 73,030
Net property, plant and equipment	20,279	17,932
Other assets	14,646	13,715
	\$111,599	\$104,677
Liabilities and Stockholders' Equity		
Current liabilities	\$ 29,435	\$ 39,401
Long-term liabilities	19,939	7,337
Stockholders' equity	62,225	57,939
	\$111,599	\$104,677

Management

Björn E. Olsson

President and Chief Executive Officer

Charles M. Foudree

*Executive Vice President—Finance,
Treasurer and Secretary*

Lloyd T. Kaiser

Executive Vice President—Systems

Ronald G. Breshears

Vice President—Human Resources

Richard A. Daniels

Vice President—Transit Sales

Robert E. Heggstad

Vice President—Technology

J. Randall John

Vice President—Services

John W. Johnson

Vice President—Domestic Sales

Raymond A. Rosewall

Vice President—Manufacturing

William J. Scheerer

*Vice President—Applications
Engineering*

Stephen L. Schmitz

Vice President—Controller

William L. Bush

Director—Research & Development

Jeffery J. Utterback

Director—Quality Assurance

Domestic Locations

Riverside, California (2) †

Jacksonville, Florida

Atlanta, Georgia

Ft. Wayne, Indiana

Louisville, Kentucky

Blue Springs, Missouri

Grain Valley, Missouri (3) †

Lee's Summit, Missouri

Warrensburg, Missouri (3) †

Omaha, Nebraska

Hauppauge, New York

International Locations

Harmon Industries

Lausanne, Switzerland

Henkes-Harmon Industries, Pty. Ltd.

Mooroolbark, Victoria, Australia

Vale-Harmon Enterprises, Ltd.

Saint-Laurent, Quebec, Canada

Vaughan Harmon Systems Ltd.

Ware, England

Corporate Headquarters

1300 Jefferson Court

Blue Springs, Missouri 64015

☎ 816/229-3345

Telefax: 816/229-0556

<http://www.harmonind.com>

† Denotes number of plants and locations



Harmon
INDUSTRIES

Corporate Office
1300 Jefferson Court
Blue Springs, MO 64015
☎ 816•229•3345
Fax: 816•229•0556

Second Quarter Report to Shareholders