

HARMON INDUSTRIES, INC.  
FIRST QUARTER REPORT  
THREE MONTHS ENDED MARCH 31, 1996



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## Report to Shareholders

Our first quarter ended March 31, 1996, was our best first quarter ever. Sales for the first quarter increased 31 percent to a record \$38.4 million from \$29.4 million last year. Net earnings nearly tripled to \$2.1 million compared with \$706,000 a year earlier. Earnings per share were 30 cents compared with 10 cents for the same period last year.

Shipments to our freight railroad customers were up 41 percent and up 13 percent to our transit customers. The bulk of the increase in freight railroad shipments reflects a continued strong showing in our systems business and a resurgence in our asset management services operation, which had been stalled through most of 1995 while some of our customers were in merger talks.

Orders booked in the first quarter were roughly \$36 million, which closely approximates those of last year. Incoming orders from freight railroad customers were up 7 percent, while orders from transit customers decreased.

### **Freight Railroad Activity**

Our level of freight business activity is all the more remarkable in that it was achieved in the face of a slowdown in the railroad supply industry in general. We believe our superior performance is largely due to our technological leadership in most of our product groups along with the partnerships we've been developing with our customers. These partnerships are

enabling us to become a one-stop supplier of complete signal systems, which include our products and engineering services as well as those of other suppliers .

### **Transit Outlook**

Even though orders for transit business were down in a quarter-to-quarter comparison, we are very optimistic about our participation in the overall transit market. Presently, we have identified more than \$200 million in business that we will bid on during 1996.

In addition, our reputation as a transit system supplier continues to be enhanced. On January 31, 1996, we completed our work for the Chicago Transit Authority's (CTA) Green Line rehabilitation project—on time. This was a noteworthy achievement because the time specified to complete the work was very short. Our on-time performance has made a strong impression on the entire industry.

Finally, the Florida Department of Transportation announced it intended to sign an agreement with the FLORIDA OVERLAND EXPRESS (FOX) group to build the right-of-way for a 200 MPH passenger train that will link Miami to Orlando and Tampa. Harmon is part of the Fox group. We will supply technical expertise, systems integration, equipment and installation for the wayside train control system. Once the agreement is signed, a lengthy certification process follows.

### **International**

Orders from the international market amounted to \$1.8 million, or about 5 percent of orders received in the first quarter. Our train inspection systems for export were the primary beneficiary.

### **Profit Margins**

Profit margins were higher than they were a year ago, chiefly because of increased sales, an improved product mix and better efficiencies in the manufacture of certain products. Our gross profit margin percentages, which include a 42.7 percent *increase* in research and development (R&D) expenditures, were 25.3 percent of sales in the first quarter of 1996 compared with 24.0 percent a year earlier.

The increase in R&D expenditures illustrates Harmon's long-term, permanent commitment to innovation and new product development.

Harmon's pre-tax return on sales was 8.7 percent for the 1996 first quarter compared to 4.1 percent a year earlier. The improvement in gross profit margins and a decline of 3.0 percentage points in selling, general and administrative expenses contributed to this gain.

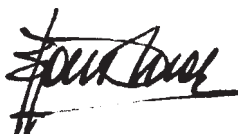
### **Internal Realignment**

On May 1, 1996, we announced the merger of our three operating subsidiaries, Harmon Electronics, Inc., Consolidated Asset Management

Company, Inc., and Electro Pneumatic Corporation, Inc., into the parent company, Harmon Industries, Inc. This step was taken to improve the operations internally by assigning total responsibility along logical, functional lines rather than through corporate subsidiaries. We believe that this will facilitate customer contacts with us and also greatly enhance our productivity.

### **Conclusion**

The year has started out very well. Despite record shipments, we were able to maintain a strong backlog of \$41 million. Thus our near-term business outlook is firm. We are optimistic for the balance of 1996.



Björn E. Olsson  
President and Chief Executive Officer

Blue Springs, Missouri  
May 8, 1996

**Consolidated Statements of Earnings** (Unaudited)

(Dollars in thousands)

Three months ended March 31,	1996	1995
Net sales	\$ 38,397	\$ 29,415
Cost of sales	27,224	21,330
Research and development expenditures	1,458	1,022
Gross profit	9,715	7,063
Selling, general and administrative expenses	6,164	5,612
Amortization of cost in excess of fair value of net assets acquired	137	133
Miscellaneous (income) expense—net	(151)	(25)
Operating income	3,565	1,343
Interest expense	(255)	(147)
Investment income	34	17
Earnings before income taxes	3,344	1,213
Income tax expense (benefit):		
Current	1,285	535
Deferred	(16)	(28)
	1,269	507
Net earnings	\$ 2,075	\$ 706
Net earnings per common share	\$ 0.30	\$ 0.10
Weighted average shares outstanding (000s)	6,829	6,815

**Board of Directors**

Robert E. Harmon  
*Chairman of the Board*

Thomas F. Eagleton  
*Attorney-at-Law  
Thompson & Coburn  
St. Louis, Missouri*

Bruce M. Flohr  
*Chairman, President & 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*

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

Stephen L. Schmitz \*  
*Vice President—Controller*

Douglass Wm. List  
*Management Consultant  
Baltimore, Maryland*

Gerald E. Myers  
*Management Consultant  
Tempe, Arizona*

Björn E. Olsson  
*President and Chief Executive Officer*

Donald V. Rentz  
*Grant Leighton Associates of Texas, Inc.  
Plano, Texas*

Judith C. Whittaker  
*Vice President—Legal  
Hallmark Cards, Inc.  
Kansas City, Missouri*

\* Denotes Advisory Director

**Condensed Consolidated Balance Sheets** (Unaudited)

(Dollars in thousands)

	March 31, 1996	Dec. 31, 1995
<b>Assets</b>		
Current assets	\$ 60,871	\$ 56,841
Net property, plant and equipment	14,874	14,177
Other assets	15,246	15,827
	<b>\$ 90,991</b>	<b>\$ 86,845</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities	\$ 23,362	\$ 21,827
Long-term liabilities	16,321	15,786
Stockholders' equity	51,308	49,232
	<b>\$ 90,991</b>	<b>\$ 86,845</b>

**Management**

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*

Lloyd T. Kaiser  
*Executive Vice President—Systems*

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*

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*

Jeffrey J. Utterback  
*Director—Quality Assurance*

**Domestic Operations**

Riverside, California (4) †

Jacksonville, Florida

Atlanta, Georgia

Louisville, Kentucky

Lee's Summit, Missouri

Grain Valley, Missouri (3) †

Warrensburg, Missouri (2) †

Omaha, Nebraska

Hauppauge, New York

† Denotes number of locations

**International Locations**

Harmon Industries  
Lausanne, Switzerland  
London, England

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

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

**Corporate Headquarters**

1300 Jefferson Court  
Blue Springs, Missouri 64015  
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**Harmon**  
INDUSTRIES

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Blue Springs, Missouri 64015

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