HARMON INDUSTRIES, INC.

First Quarter Report

Three Months Ended March 31, 1997

1

Incoming orders for this year's first quarter were $46.6 million, up 33 percent from $34.9 million booked for the same quarter last year. Thus, our level of new business in the 1997 first quarter was excellent. However, shipments to customers declined six percent to $36 million for this year's first quarter compared with $38.4 million for the same period last year. Net earnings declined to $1.4 million, or 21 cents per share, from $2.1 million, or 30 cents per share for the same period in 1996.

Our reduced sales volume was the reason for the decline in net earnings. Our shipment level reflected certain customers' desires to temporarily hold off on deliveries because of ongoing merger negotiations and from an inability on the part of other customers to receive shipments at some of their receiving points because of unusually severe weather last winter in the North and from extensive flooding this spring in the Northwest.

Backlog Up 18 Percent

Our backlog of unfilled orders rose 18 percent during the first quarter to a record $70.2 million from $59.4 million at 1996 year-end. Further, our backlog at the end of the first quarter of 1997 was nearly $30 million greater than it was twelve months earlier. Hence, despite reduced shipments for this year's first quarter, we have a bright outlook for the remainder of this year and beyond.

	$–Millions	
Order Backlog	3/31/97	12/31/96
Domestic Freight including service	$34.6	$24.7
Rail Transit	22.9	23.8
International	12.7	10.9
Total	$70.2	$59.4

The increase in our bookings illustrates the strong market conditions under which Harmon is presently operating, and we expect these conditions to continue throughout the balance of 1997. As a result of our order rate and related growing backlog, we are in the process of adding resources and expanding manufacturing capabilities to meet this increasing demand.

Domestic Markets

Business from the North American freight railroads is strong for us chiefly because of the railroads' continued emphasis on outsourcing services and functions as well as their ongoing drive to increase capacity and efficiency. In both instances, we have the products and services to meet these requirements.

As regards rail transit, we booked no significant orders during the first quarter but expect to bid on various projects later this year which, in the aggregate, amount to $200–$300 million.

International Markets

The international market continues to be promising, with eighteen percent of our first quarter bookings being derived from this market. A sizable portion of our improved international position is due to the continued, exceptional performance of our British subsidiary, Vaughan Harmon Systems Ltd., which we acquired last July.

The timing of our Vaughan Harmon acquisition was excellent. Railtrack, the portion of the old British Rail that is now responsible for infrastructure improvements, recently announced a plan to spend $16.3 billion during the next ten years on rail infrastructure. Approximately $4 billion is specifically earmarked for signaling and train control. We are already bidding on two projects, and we anticipate bidding on other similar systems in the near future.

Vaughan Harmon's outstanding reputation and solid acceptance within the British rail community together with our advanced products for signal and control systems provide the Company with a superb opportunity for additional business, which we will pursue vigorously.

New Manufacturing Facilities Underway

On May 2, we broke ground for a 17,000 square foot addition to our manufacturing facility in Grain Valley, Missouri. The new addition is being built to support future growth. It will be equipped with the very latest in manufacturing equipment and processes, including surface mount technology in the future. We are also increasing our capacity in Warrensburg, Missouri, by acquiring a 40,000 square foot building on 19 acres of land. This will double our capacity in wiring. These expansions are a reflection of the significant growth we've experienced during the past year, and are in preparation for the growth we are expecting into the next century.

Conclusion

Overall business conditions are quite strong. Despite the temporary decline in shipments during the first quarter, which will be recouped later this year, our outlook is bright for the remainder of 1997.

Björn E. Olsson
President and Chief Executive Officer
Blue Springs, Missouri
May 6, 1997

Harmon Industries, Inc. and Subsidiaries

Consolidated Statements of Earnings (Unaudited)

(Dollars in thousands)

	Three months ended March 31, 1997	Three months ended March 31, 1996
Net sales	$ 35,988	$ 38,397
Cost of sales	26,196	27,224
Research and development expenditures	1,602	1,458
Gross profit	8,190	9,715
Selling, general and administrative expenses	5,847	6,164
Amortization of cost in excess of fair value of net assets acquired	160	137
Miscellaneous (income) expense–net	(23)	(151)
Operating income	2,206	3,565
Interest expense	(124)	(255)
Investment income	138	34
Earnings before income taxes	2,220	3,344
Income tax expense (benefit):		
Current	772	1,285
Deferred	–	(16)
	772	1,269
Net earnings	$ 1,448	$ 2,075
Net earnings per common share	$ 0.21	$ 0.30
Weighted average shares outstanding (000s)	6,869	6,829

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 & 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

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

Douglass Wm. List
Management Consultant
Baltimore, Maryland

Gerald E. Myers
Management Consultant
Tempe, Arizona

Björn E. Olsson
President and CEO

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

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

* Denotes Advisory Director

Harmon Industries, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

(Dollars in thousands)

	March 31, 1997	Dec. 31, 1996
Assets		
Current assets	$ 71,250	$ 73,030
Net property, plant and equipment	18,383	17,932
Other assets	15,418	13,715
	$105,051	$104,677
Liabilities and Stockholders' Equity		
Current liabilities	$ 26,325	$ 39,401
Long-term liabilities	19,275	7,337
Stockholders' equity	59,451	57,937
	$105,051	$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

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. Heggestad
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
Louisville, Kentucky
Blue Springs, Missouri
Grain Valley, Missouri (3) †
Lee's Summit, Missouri
Warrensburg, Missouri (2) †
Omaha, Nebraska
Hauppauge, New York

† Denotes number of plants and locations

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

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Harmon
INDUSTRIES

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First Quarter Report to Shareholders

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