

HURCO COMPANIES INC  
Form 10-Q  
September 04, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended July 31, 2009 or  
 Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File No. 0-9143

HURCO COMPANIES, INC.  
(Exact name of registrant as specified in its charter)

Indiana  
(State or other jurisdiction of  
incorporation or organization)

35-1150732  
(I.R.S. Employer Identification Number)

One Technology Way  
Indianapolis, Indiana  
(Address of principal executive offices)

46268  
(Zip code)

Registrant's telephone number, including area code (317) 293-5309

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to the filing requirements for the past 90 days:  
Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).  
Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a small reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares of the Registrant's common stock outstanding as of September 1, 2009 was 6,440,851.

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HURCO COMPANIES, INC.  
 July 2009 Form 10-Q Quarterly Report

Table of Contents

Part I - Financial Information

Item 1.	Financial Statements	
	Condensed Consolidated Statements of Operations Three and nine months ended July 31, 2009 and 2008	3
	Condensed Consolidated Balance Sheets As of July 31, 2009 and October 31, 2008	4
	Condensed Consolidated Statements of Cash Flows Three and nine months ended July 31, 2009 and 2008	5
	Condensed Consolidated Statements of Changes in Shareholders' Equity Nine months ended July 31, 2009 and 2008	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	21
Item 4.	Controls and Procedures	23
Part II - Other Information		
Item 1.	Legal Proceedings	24
Item 1A.	Risk Factors	24
Item 5.	Other Information	24
Item 6.	Exhibits	25
Signatures		26

## PART I - FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

HURCO COMPANIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share data)

	Three Months Ended July 31		Nine Months Ended July 31	
	2009 (Unaudited)	2008	2009 (Unaudited)	2008 (Unaudited)
Sales and service fees	\$ 19,039	\$ 57,318	\$ 67,835	\$ 176,526
Cost of sales and service	13,788	36,439	48,822	110,459
Gross profit	5,251	20,879	19,013	66,067
Selling, general and administrative expenses	7,200	11,829	22,747	35,881
Operating income (loss)	(1,949)	9,050	(3,734)	30,186
Interest expense	6	25	33	46
Interest income	36	154	185	436
Investment income	3	72	32	363
Other expense (income), net	(133)	471	(1,828)	1,311
Income (loss) before taxes	(1,783)	8,780	(1,722)	29,628
Provision (benefit) for income taxes	(552)	2,954	(564)	10,530
Net income (loss)	\$ (1,231)	\$ 5,826	\$ (1,158)	\$ 19,098
Earnings (loss) per common share				
Basic	\$ (0.19)	\$ 0.91	\$ (0.18)	\$ 2.98
Diluted	\$ (0.19)	\$ 0.90	\$ (0.18)	\$ 2.96
Weighted average common shares outstanding				
Basic	6,434	6,414	6,425	6,414
Diluted	6,434	6,439	6,425	6,445

The accompanying notes are an integral part of the condensed consolidated financial statements.



HURCO COMPANIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except share and per-share data)

	July 31 2009 (Unaudited)	October 31 2008 (Audited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 26,696	\$ 26,394
Short-term investments	—	6,674
Accounts receivable, net	13,078	31,952
Inventories	65,284	66,368
Deferred income taxes	8,947	5,444
Derivative assets	161	12,463
Other	3,606	2,017
	117,772	151,312
Property and equipment:		
Land	782	782
Building	7,127	7,127
Machinery and equipment	15,845	14,885
Leasehold improvements	1,754	1,765
	25,508	24,559
Less accumulated depreciation and amortization	(12,043)	(10,961)
	13,465	13,598
Non-current assets:		
Software development costs, less accumulated amortization	6,265	5,711
Other assets	7,365	6,823
	\$ 144,867	\$ 177,444
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,340	\$ 28,303
Derivative liabilities	3,522	2,692
Accrued expenses	9,727	20,134
	20,589	51,129
Non-current liabilities:		
Deferred income taxes	2,071	2,056
Deferred credits and other obligations	916	782
Total liabilities	23,576	53,967
Shareholders' equity:		
Preferred stock: no par value per share; 1,000,000 shares authorized; no shares issued	—	—
Common stock: no par value; \$.10 stated value per share; 13,250,000 shares authorized, and 6,440,851 and 6,420,851 shares issued and outstanding, respectively	644	642
Additional paid-in capital	51,917	51,690
Retained earnings	70,731	71,889

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Accumulated other comprehensive loss	(2,001)	(744)
Total shareholders' equity	121,291	123,477
	\$ 144,867	\$ 177,444

The accompanying notes are an integral part of the condensed consolidated financial statements.

HURCO COMPANIES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)

	Three Months Ended July 31		Nine Months Ended July 31	
	2009 (Unaudited)	2008	2009 (Unaudited)	2008 (Unaudited)
<b>Cash flows from operating activities:</b>				
Net income (loss)	\$ (1,231)	\$ 5,826	\$ (1,158)	\$ 19,098
Adjustments to reconcile net income (loss) to Net cash provided by (used for) operating activities:				
Provision for doubtful accounts	329	(22)	845	(163)
Deferred income tax provision	217	(310)	(1,029)	(956)
Equity in (income) loss of affiliates	125	(40)	213	(11)
Foreign currency gain (loss)	(4,366)	104	(5,227)	(3,896)
Unrealized gain (loss) on derivatives	1,232	(800)	5,248	(675)
Depreciation and amortization	846	777	2,451	2,190
Stock-based compensation	72	364	186	478
<b>Change in assets and liabilities:</b>				
(Increase) decrease in accounts receivable	3,442	3,742	19,337	(2,541)
(Increase) decrease in inventories	2,905	(6,143)	6,405	(10,290)
Decrease in accounts payable	(3,672)	(826)	(21,185)	(1,559)
Increase (decrease) in accrued expenses	(1,925)	2,144	(11,231)	(1,826)
Net change in derivative assets and liabilities	(153)	1,051	3,502	999
Other	874	(311)	(2,065)	(275)
Net cash provided by (used for) operating activities	(1,305)	5,556	(3,708)	573
<b>Cash flows from investing activities:</b>				
Proceeds from sale of property and equipment	24	—	245	12
Purchase of property and equipment	(169)	(1,306)	(1,497)	(3,061)
Purchase of investments	—	—	—	(9,100)
Sale of investments	—	1,725	6,674	12,075
Software development costs	(472)	(236)	(1,463)	(395)
Other investments	(7)	(334)	(901)	(73)
Net cash provided by (used for) investing activities	(624)	(151)	3,058	(542)
<b>Cash flows from financing activities:</b>				
Tax benefit from exercise of stock options	—	—	—	36
Proceeds from exercise of common stock options	43	—	43	151
Net cash provided by financing activities	43	—	43	187
Effect of exchange rate changes on cash	732	34	909	1,070
Net increase (decrease) in cash and cash equivalents	(1,154)	5,439	302	1,288
Cash and cash equivalents at beginning of period	27,850	25,609	26,394	29,760
Cash and cash equivalents at end of period	\$ 26,696	\$ 31,048	\$ 26,696	\$ 31,048



The accompanying notes are an integral part of the condensed consolidated financial statements.

HURCO COMPANIES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
 For the nine months ended July 31, 2009 and 2008

(In thousands, except Shares Issued and Outstanding)	Common Stock Shares Issued & Outstanding	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, October 31, 2007	6,392,220	\$ 639	\$ 50,971	\$ 49,369	\$ (3,376)	\$ 97,603
Net income	—	—	—	19,098	—	19,098
Translation of foreign currency financial statements	—	—	—	—	2,261	2,261
Unrealized loss on derivative instruments, net of tax	—	—	—	—	(483)	(483)
Unrealized loss on investments, net of tax	—	—	—	—	(202)	(202)
Comprehensive income						20,674
Exercise of common stock options	28,631	3	148	—	—	151
Tax benefit from exercise of stock options	—	—	36	—	—	36
Stock-based compensation	—	—	478	—	—	478
Balances, July 31, 2008 (Unaudited)	6,420,851	\$ 642	\$ 51,633	\$ 68,467	\$ (1,800)	\$ 118,942
Balances, October 31, 2008	6,420,851	\$ 642	\$ 51,690	\$ 71,889	\$ (744)	\$ 123,477
Net loss	—	—	—	(1,158)	—	(1,158)
Translation of foreign currency financial statements	—	—	—	—	2,346	2,346
Unrealized loss on derivative instruments, net of tax	—	—	—	—	(3,805)	(3,805)
Reversal of unrealized loss on investments, net of tax	—	—	—	—	202	202

Comprehensive loss						(2,415)
Exercise of common stock options	20,000	2	41	—	—	43
Stock-based compensation	—	—	186	—	—	186
Balances, July 31, 2009 (Unaudited)	6,440,851	\$ 644	\$ 51,917	\$ 70,731	\$ (2,001)	\$ 121,291

The accompanying notes are an integral part of the condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. GENERAL

The unaudited Condensed Consolidated Financial Statements include the accounts of Hurco Companies, Inc. and its consolidated subsidiaries. As used in this report, and unless the context indicates otherwise, the terms “we”, “us”, “our” and similar language refer to Hurco Companies, Inc. and its consolidated subsidiaries. We design and produce computerized machine tools, interactive computer control systems and software for sale through our distribution network to the worldwide metal cutting market. We also provide software options, computer control upgrades, accessories and replacement parts for our products, as well as customer service and training support.

The condensed financial information as of July 31, 2009 and for the three and nine months ended July 31, 2009 and July 31, 2008 is unaudited; however, in our opinion, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position, results of operations, changes in shareholders’ equity and cash flows at the end of the interim periods. We suggest that you read these condensed consolidated financial statements in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended October 31, 2008.

In May 2009, we adopted FASB Statement No. 165, “Subsequent Events” (“SFAS 165”), which is effective for interim and annual periods ending after June 15, 2009. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement introduces new terminology but is based on the same principles that previously existed in the auditing standards. SFAS 165 requires disclosure of the date through which we have evaluated subsequent events and whether that date represents the date the financial statements were issued or the date the financial statements were available to be issued. We issued our financial statements by filing with the Securities Exchange Commission on September 4, 2009, for the third quarter ended July 31, 2009 and we have evaluated subsequent events through the time of the filing.

2. SHORT-TERM INVESTMENTS

As of October 31, 2008 we held \$6.7 million face amount of auction rate securities, which represented indirect interest in student loan obligations and municipal bonds. These securities were intended to provide liquidity via an auction process that would reset the applicable interest rate at predetermined intervals, allowing a holder to either roll over the investment or to sell the securities at par value. We classified our auction rate securities as “available for sale” in accordance with the provisions of FASB Statement No. 115, “Accounting for Certain Investments in Debt and Equity Securities”.

During the second quarter of fiscal 2008, we recorded an unrealized loss of \$202,000 on our investment in these securities, net of tax, in Accumulated Other Comprehensive Loss, as we had concluded there was a temporary decline in the estimated fair value of the securities. In the first quarter of fiscal 2009, we sold all of our holdings of auction rate securities at par value and, accordingly, we reversed our previously-recorded unrealized loss on the securities. As a result, no gain or loss was recognized in our statement of operations for the nine months ended July 31, 2009, on the sale of the securities.

3. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

On February 1, 2009, we adopted FASB Statement No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”), an amendment of FASB Statement No. 133, “Accounting for Derivative Instruments and

Hedging Activities” (“SFAS 133”). The adoption of SFAS 161 did not have a material impact on our consolidated financial position or results of operations, but does require increased disclosure of our derivative and hedging activities, including how derivative and hedging activities affect our consolidated financial statements. These disclosures are provided below.

7

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We are exposed to certain market risks relating to our ongoing business operations, including foreign currency risk, interest rate risk and credit risk. We manage our exposure to these and other market risks through regular operating and financing activities. Currently, the only risk that we manage through the use of derivative instruments is foreign currency risk.

We operate on a global basis and are exposed to the risk that our financial condition, results of operations and cash flows could be adversely affected by changes in foreign currency exchange rates. To reduce the potential effects of foreign exchange rate movements on our net equity investment in one of our foreign subsidiaries, gross profit and net earnings, we enter into derivative financial instruments in the form of foreign exchange forward contracts with a major financial institution. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and net assets denominated in Euros, Pounds Sterling, Canadian Dollars, Singapore Dollars and New Taiwan Dollars.

We account for derivative instruments designated as hedging instruments in accordance with SFAS 133, and report all derivative instruments as assets or liabilities at fair value on our consolidated balance sheet.

#### Derivatives Designated as Hedging Instruments

We enter into foreign currency forward exchange contracts periodically to hedge certain forecasted inter-company sales and purchases denominated in foreign currencies (the Pound Sterling, Euro and New Taiwan Dollar). The purpose of these instruments is to mitigate the risk that the U.S. Dollar net cash inflows and outflows resulting from sales and purchases denominated in foreign currencies will be adversely affected by changes in exchange rates. These forward contracts have been designated as cash flow hedge instruments, and are recorded in the Condensed Consolidated Balance Sheets at fair value in Derivative Assets and Derivative Liabilities. The effective portion of the gains and losses resulting from the changes in the fair value of these hedge contracts are deferred in Accumulated Other Comprehensive Loss and recognized as an adjustment to Cost of Sales in the period that the corresponding inventory sold that is the subject of the related hedge contract is recognized, thereby providing an offsetting economic impact against the corresponding change in the U.S. Dollar value of the inter-company sale or purchase being hedged. The ineffective portion of gains and losses resulting from the changes in the fair value of these hedge contracts is reported in Other Income (Expense) immediately. We perform quarterly assessments of hedge effectiveness by verifying and documenting the critical terms of the hedge instrument and determining that forecasted transactions have not changed significantly. We also assess on a quarterly basis whether there have been adverse developments regarding the risk of a counterparty default.

For forward contracts outstanding as of July 31, 2009, we have obligations to purchase Euros and Pounds Sterling and sell New Taiwan Dollars at set maturity dates ranging from August 2009 through July 2010. The contract amount at forward rates in U.S. Dollars at July 31, 2009 to purchase Euros and Pounds Sterling was \$16.3 million and \$1.7 million, respectively. The contract amount at forward rates in U.S. Dollars to sell New Taiwan Dollars was \$11.9 million at July 31, 2009. At July 31, 2009, we had approximately \$25,000 of gains, net of tax, related to cash flow hedges deferred in Accumulated Other Comprehensive Loss. Of this amount, \$552,000 represents unrealized losses, net of tax, related to cash flow hedge instruments that remain subject to currency fluctuation risk. These deferred losses will be recorded as an adjustment to Cost of Sales in periods through July 2010, in which the corresponding inventory that is the subject of the related hedge contract is sold, as described above.

We are also exposed to foreign currency exchange risk related to our investment in net assets in foreign countries. To manage this risk, we entered into a forward contract on November 26, 2007 with a notional amount of €3.0 million. We designated this forward contract as a hedge of our net investment in Euro denominated assets. We selected the forward method under the guidance of the Derivatives Implementation Group Statement 133 Issue H8, "Foreign Currency Hedges: Measuring the Amount of Ineffectiveness in a Net Investment Hedge". The forward method requires all changes in the fair value of the forward to be reported as a cumulative translation adjustment in

Accumulated Other Comprehensive Loss, net of tax, in the same manner as the underlying hedged net assets. This forward contract matured on November 25, 2008 and we entered into a new forward contract for the same notional amount that is set to mature in November 2009. At July 31, 2009, we had \$355,000 of realized gains and \$245,000 of unrealized losses, net of tax, recorded as cumulative translation adjustments in Accumulated Other Comprehensive Loss related to these forward contracts.

## Derivatives Not Designated as Hedging Instruments

We enter into foreign currency forward exchange contracts to protect against the effects of foreign currency fluctuations on receivables and payables denominated in foreign currencies. These derivative instruments are not designated as hedges under SFAS 133 and, as a result, changes in their fair value are reported currently as Other Expense (Income), Net in the Condensed Consolidated Statement of Operations consistent with the transaction gain or loss on the related non-hedged gains and losses.

For forward contracts outstanding as of July 31, 2009, we have obligations to purchase Euros, Pounds Sterling, Canadian Dollars and Singapore Dollars and sell New Taiwan Dollars at set maturity dates ranging from August 2009 through March 2010. The contract amounts at forward rates in U.S. Dollars at July 31, 2009 to purchase Euros, Pounds Sterling, Canadian Dollars and Singapore Dollars totaled \$33.1 million. The contract amount at forward rates in U.S. Dollars to sell New Taiwan Dollars was \$905,000 at July 31, 2009.

## Fair Value of Derivative Instruments

We recognize the fair value of derivative instruments as assets and liabilities on a gross basis on our Condensed Consolidated Balance Sheet. As of July 31, 2009 and October 31, 2008, all derivative instruments were recorded at fair value on the balance sheet as follows (in thousands):

Derivatives	2009		2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Designated as Hedging Instruments:</b>				
Foreign exchange forward contracts	Derivative assets	\$ 161	Derivative assets	\$ 9,733
Foreign exchange forward contracts	Derivative liabilities	\$ 1,448	Derivative liabilities	\$ 2,568
<b>Not Designated as Hedging Instruments:</b>				
Foreign exchange forward contracts	Derivative assets	\$ —	Derivative assets	\$ 2,730
Foreign exchange forward contracts	Derivative liabilities	\$ 2,074	Derivative liabilities	\$ 124

## Effect of Derivative Instruments on the Condensed Consolidated Balance Sheets, Statements of Changes in Shareholders' Equity and Statements of Operations

Derivative instruments had the following effects on our Condensed Consolidated Balance Sheets, Statements of Changes in Shareholders' Equity and Statements of Operations, net of tax during the quarter ended July 31, 2009 and 2008 (in thousands):

Derivatives	Amount of Gain Recognized in Other Comprehensive Income		Location of Gain (Loss) Reclassified from Other Comprehensive Income	Amount of Gain (Loss) Reclassified from Other Comprehensive Income	
	7/31/09	7/31/08		7/31/09	7/31/08



Designated as Hedging

Instruments:

(Effective Portion)

Foreign exchange forward contracts	\$	134	\$	3,126	Cost of sales and service	\$	687	\$	(978)
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(Ineffective Portion)

Foreign exchange forward contracts		N/A		N/A	Other income (expense)	\$	225	\$	—
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Derivatives	Location of Loss Recognized in Operations	Amount of Loss Recognized in Operations	
		7/31/09	7/31/08
<b>Not Designated as Hedging Instruments:</b>			
Foreign exchange forward contracts	Other income (expense)	\$ (2,485)	\$ (170)

#### 4. STOCK OPTIONS

In March 2008, we adopted the Hurco Companies, Inc. 2008 Equity Incentive Plan (the “2008 Plan”), which allows us to grant awards of stock options, Stock Appreciation Rights settled in stock (SARs), restricted shares, performance shares and performance units. The 2008 Plan replaced the 1997 Stock Option and Incentive Plan (the “1997 Plan”) which expired in March 2007. The Compensation Committee of the Board of Directors has authority to determine the officers, directors and key employees who will be granted awards; designate the number of shares subject to each award; determine the terms and conditions upon which awards will be granted; and prescribe the form and terms of award agreements. We have granted stock options under both plans which are currently outstanding. No stock option may be exercised more than ten years after the date of grant or such shorter period as the Compensation Committee may determine at the date of grant. The total number of shares of our common stock that may be issued as awards under the 2008 Plan is 750,000. The market value of a share of our common stock, for purposes of the 2008 Plan, is the closing sale price as reported by the Nasdaq Global Select Market on the date in question or, if not a trading day, on the last preceding trading date.

During the first nine months of fiscal 2009 and 2008, we recorded approximately \$186,000 and \$478,000, respectively, of stock-based compensation expense related to grants under the plans. As of July 31, 2009, there was approximately \$223,000 of total unrecognized stock-based compensation cost that we expect to recognize by the end of fiscal 2014.

During the first nine months of fiscal 2009, options to purchase 20,000 shares were exercised, resulting in cash proceeds of approximately \$43,000 and no additional tax benefit, compared to 28,631 shares exercised in the first nine months of the prior year period resulting in cash proceeds of approximately \$151,000 and an additional tax benefit of approximately \$36,000.

On April 16, 2009, the Compensation Committee granted a total of 21,000 options under the 2008 Plan to three new employees. The fair value of the options was estimated on the date of grant using a Black-Scholes valuation model with assumptions for expected volatility based on the historical volatility of our common stock, the contractual term of the options and a risk-free interest rate based upon the five-year U.S. Treasury yield as of the date of grant. The options granted to the employees vest over a five-year period beginning one year from the date of grant. Based upon the foregoing factors, the grant date fair value of the options was determined to be \$8.62 per share.

A summary of stock option activity for the nine-month period ended July 31, 2009, is as follows:

	Stock Options	Weighted Average Exercise Price
Outstanding at October 31, 2008	64,369	\$ 20.29
Options granted	21,000	14.88
Options exercised	20,000	2.15
Options cancelled	—	—
Outstanding at July 31, 2009	65,369	\$ 24.11

The aggregate intrinsic value of exercised stock options was \$347,000 for the nine-month period ended July 31, 2009, and \$685,000 for the nine-month period ended July 31, 2008. The intrinsic value of a stock option is calculated as the difference between the stock price as of July 31 and the exercise price of the option.

Summarized information about outstanding stock options as of July 31, 2009, that are already vested and those that are expected to vest, as well as stock options that are currently exercisable, is as follows:

	Options Already Vested and Expected to Vest	Options Currently Exercisable
Number of outstanding options	65,369	34,369
Weighted average remaining contractual life (years)	7.66	6.46
Weighted average exercise price per share	\$ 24.11	\$ 28.99
Intrinsic value	\$ 106,000	\$ 9,000

#### 5. EARNINGS PER SHARE

Basic and diluted earnings per common share are based on the weighted average number of shares of our common stock outstanding. Diluted earnings per common share give effect to shares underlying outstanding stock options using the treasury method. The dilutive number of shares for the nine months ended July 31, 2009 and 2008 was 0 and 31,000, respectively.

#### 6. ACCOUNTS RECEIVABLE

Accounts receivable are net of allowances for doubtful accounts of \$625,000 as of July 31, 2009 and \$678,000 as of October 31, 2008.

#### 7. INVENTORIES

Inventories, priced at the lower of cost (first-in, first-out method) or market, are summarized below (in thousands):

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	July 31, 2009	October 31, 2008
Purchased parts and sub-assemblies	\$ 14,171	\$ 13,098
Work-in-process	3,914	11,243
Finished goods	47,199	42,027
	\$ 65,284	\$ 66,368

## 8. SEGMENT INFORMATION

We operate in a single segment: industrial automation systems. We design and produce interactive computer control systems and software and computerized machine tools for sale through our own distribution network to the worldwide metal-working market. We also provide software options, control upgrades, accessories and replacement parts for our products, as well as customer service and training support.

## 9. GUARANTEES AND WARRANTIES

From time to time, our subsidiaries guarantee third party payment obligations in connection with the sale of certain machines to customers that use lease financing. As of July 31, 2009, we had 56 outstanding third party guarantees totaling approximately \$2.5 million. The terms of our subsidiaries' guarantees are consistent with the underlying customer financing terms. Upon shipment, the customer has the risk of ownership, but does not obtain title until the machine lease is paid in full. A retention of title clause allows us to recover the machine if the customer defaults on the lease. We accrue for potential liabilities under these guarantees when we believe a loss is probable and can be estimated. The accrual recorded at July 31, 2009 and October 31, 2008 was not material.

We provide warranties on our products with respect to defects in material and workmanship. The terms of these warranties are generally one year for machine labor and service parts. We recognize a liability with respect to this obligation at the time of product sale, with subsequent warranty claims recorded against the liability. The amount of the warranty liability is determined based on historical trend experience and any known warranty issues that could cause future warranty costs to differ from historical experience. The warranty liability may vary due to changes in sales volume, product mix and sales by region. A reconciliation of the changes in our warranty liability is as follows (in thousands):

	Nine months ended	
	July 31, 2009	July 31, 2008
Balance, beginning of period	\$ 2,536	\$ 2,449
Provision for warranties during the period	611	2,447
Charges to the reserve	(1,534)	(2,020)
Impact of foreign currency translation	22	135
Balance, end of period	\$ 1,635	\$ 3,011

## 10. COMPREHENSIVE INCOME

A reconciliation of our net income to comprehensive income was as follows (in thousands):

	Three months ended	
	July 31, 2009	July 31, 2008
Net income (loss)	\$ (1,231)	\$ 5,826
Translation of foreign currency financial statements	2,190	(23)
Unrealized gain (loss) on derivative instruments, net of tax	(1,700)	212
Comprehensive income (loss)	\$ (741)	\$ 6,015

## 11. DEBT AGREEMENTS

We are party to an unsecured domestic credit agreement that provides us with a \$30.0 million unsecured revolving credit facility and a separate letter of credit facility in the amount of 100.0 million New Taiwan Dollars. We are also party to a Taiwan revolving credit agreement of 100.0 million New Taiwan Dollars, which is an uncommitted demand credit facility. In the event the Taiwan facility is not available, the Taiwan letter of credit facility from the domestic

agreement would enable us to provide credit enhancement to a replacement lender in Taiwan. We also have a £1.0 million revolving credit facility in the United Kingdom.

The domestic and U.K. facilities mature on December 7, 2012.

Borrowings under the domestic facility may be used for general corporate purposes and will bear interest at a LIBOR-based rate or an alternate base rate, in each case, plus an applicable margin determined by reference to the ratio of the interest-bearing debt and obligations and the undrawn face amount of all letters of credit outstanding, on a consolidated basis, to consolidated EBITDA. The domestic facility contains customary affirmative and negative covenants and events of default for an unsecured commercial bank credit facility, including, among other things, limitations on consolidations, mergers and sales of assets. The financial covenants are a minimum rolling four quarter consolidated net income covenant and a covenant establishing a maximum ratio of consolidated total indebtedness to total indebtedness and net worth.

As of July 31, 2009 and October 31, 2008, we had no debt or borrowings outstanding under our domestic or European credit facilities and no outstanding letters of credit issued to non-U.S. suppliers for inventory purchase commitments. As of July 31, 2009, we had unutilized credit facilities of \$36.9 million available for either direct borrowings or commercial letters of credit.

12. **INCOME TAXES**

On November 1, 2007, we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109," ("FIN 48"). Our balance of unrecognized tax benefits as of July 31, 2009 and October 31, 2008 was approximately \$629,000 and \$613,000, respectively, which included accrued interest.

We recognize accrued interest and penalties related to unrecognized tax benefits as components of our income tax provision. As of July 31, 2009, the gross amount of accumulated interest accrued and reported in other liabilities was approximately \$88,000.

We file U.S. federal and state income tax returns, as well as tax returns in several foreign jurisdictions. The statute of limitations will expire between March 2010 and July 2010 with respect to unrecognized tax benefits related to FIN 48.

13. **FAIR VALUE**

On November 1, 2008, we adopted the provisions of FASB Statement No. 157 "Fair Value Measurements" ("SFAS 157") as it relates to financial assets and liabilities recorded at fair value on a recurring basis. Financial Accounting Standards Board Staff Position (FSP) No. 157-2 has delayed the effective date of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. We do not expect that the full adoption of SFAS 157 will have a material impact on our consolidated financial statements.

SFAS 157 established a three-tier fair value hierarchy, which categorizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs, such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exist, therefore requiring an entity to develop its own assumptions.

In accordance with SFAS 157, the following table represents the fair value hierarchy for our financial assets and liabilities measured at fair value as of July 31, 2009 (in thousands):

	Level I	Level II	Level III	Total
<b>Assets:</b>				
Derivative Assets	\$	—\$	161 \$	—\$ 161





	Level I	Level II	Level III	Total
<b>Liabilities:</b>				
Derivative Liabilities	\$	—\$ 3,522	\$	—\$ 3,522

Included as Level II fair value measurements are derivative assets and liabilities related to hedged and unhedged gains and losses on foreign currency forward exchange contracts entered into with a third party. We estimate the fair value of these derivatives on a recurring basis using foreign currency exchange rates obtained from active markets.

14.

#### EMPLOYEE BENEFITS

We maintain defined contribution plans in which a majority of our employees participate. Our contributions to these plans are discretionary. The purpose of these plans is generally to provide additional financial security during retirement by providing employees with an incentive to save throughout their employment. Our contributions to the plans are based upon employee contributions or compensation. As of April 1, 2009, we suspended our discretionary contributions to the plans for an indefinite period.

14

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## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### EXECUTIVE OVERVIEW

Hurco Companies, Inc. is an industrial technology company operating in a single segment. We design and produce computerized machine tools, featuring our proprietary computer control systems and software, for sale through our own distribution network to the worldwide metal cutting market. We also provide software options, control upgrades, accessories and replacement parts for our products, as well as customer service and training support.

The market for machine tools is international in scope. We have both significant foreign sales and foreign manufacturing operations. During fiscal 2008, more than 75% of our revenues were attributable to customers located abroad. That percentage has since decreased to approximately 68%, due primarily to deterioration of the European and Asian markets for machine tool products as a result of the global recession. We sell our products through more than 100 independent agents and distributors in countries throughout North America, Europe and Asia. We also have our own direct sales and service organizations in Canada, China, France, Germany, Italy, Poland, Spain, Singapore, South Africa, and the United Kingdom. Our machine tools are manufactured in Taiwan to our specifications by our wholly owned subsidiary, Hurco Manufacturing Limited (HML).

Our sales to foreign customers are denominated, and payments by those customers are made, in the prevailing currencies—primarily the Euro and Pound Sterling—in the countries in which those customers are located. Our product costs are incurred and paid primarily in the New Taiwan Dollar and the U.S. Dollar. Changes in currency exchange rates may have a material effect on our operating results and consolidated balance sheets as reported under U.S. Generally Accepted Accounting Principles. For example, when the U.S. Dollar strengthens in value relative to a foreign currency, as has been the case since the beginning of fiscal 2009, sales made, and expenses incurred, in that currency when translated to U.S. Dollars for reporting in our financial statements, are lower than would be the case when the U.S. Dollar is weaker. In our comparison of period-to-period results, we discuss the effect of currency translation on those results.

Our high levels of foreign manufacturing and sales also subject us to cash flow risks due to fluctuating currency exchange rates. We seek to mitigate those risks through the use of various derivative instruments – principally foreign currency forward exchange contracts.

We experienced significant growth in our sales and earnings between the beginning of fiscal 2003 and the end of fiscal 2008. The primary drivers of this growth were the strong worldwide demand for machine tools during that period, the expansion of our product line to include higher-price and higher-margin products, increased customer acceptance of our products and the strength of our selling and manufacturing operations outside the United States.

Since the beginning of fiscal 2009, our operating results have been adversely affected by the ongoing global recession. During periods of adverse economic conditions, manufacturers and suppliers of capital goods, such as our company, are often the first to experience reductions in demand, as their customers defer or eliminate investments in capital equipment. Additionally, during the current recession, customers who might otherwise want to purchase capital goods have found it difficult to obtain financing due to disruptions in the credit markets. During fiscal 2009, these conditions have had the greatest impact on our European sales region, the primary market for our more expensive, higher-margin machines. As a result, we experienced overall declines of 62% in sales and 65% in orders during the first three quarters of fiscal 2009 in comparison to the same period of fiscal 2008, and our European sales region experienced declines of 67% in sales and 70% in orders.

In response to these adverse market conditions, we have implemented various initiatives to reduce expenses, including management and employee pay reductions, workforce reductions, the suspension of corporate 401K matching contributions and restrictions on travel expenditures, while staying committed to our strategic plan of product innovation and penetration of developing markets. Monthly unit production levels for the third and fourth quarters of fiscal 2009 have been reduced by more than 80% from fiscal 2008 levels in an effort to decrease inventories.

We believe that our cash position and lack of outstanding debt provide us with the capability to weather the current global economic recession.

## RESULTS OF OPERATIONS

### Three Months Ended July 31, 2009 Compared to Three Months Ended July 31, 2008

**Sales and Service Fees.** Sales and service fees for the third quarter of fiscal 2009 were \$19.0 million, a decrease of \$38.3 million, or 67%, from the third quarter of fiscal 2008. The drop of third quarter revenues was primarily the result of the adverse impact of the global economic recession on demand for machine tools. A stronger U.S. Dollar when translating foreign sales to U.S. Dollars for financial reporting purposes during the 2009 period accounted for approximately \$1.7 million of the decrease.

The following tables set forth net sales (in thousands) by geographic region and product category for the third quarter of 2009 and 2008, respectively:

#### Net Sales and Service Fees by Geographic Region

	Three months ended July 31,				Change	
	2009		2008		Amount	%
North America	\$ 5,809	30.5%	\$ 10,643	18.6%	\$ (4,834)	(45.4)%
Europe	11,777	61.9%	43,071	75.1%	(31,294)	(72.7)%
Asia Pacific	1,453	7.6%	3,604	6.3%	(2,151)	(59.7)%
Total	\$ 19,039	100.0%	\$ 57,318	100.0%	\$ (38,279)	(66.8)%

The decrease in sales was primarily driven by lower volume, particularly for higher priced VMX machines (which are principally marketed in the European sales region), and continued pricing pressures globally. Unit shipments decreased in the North America, Europe and Asia Pacific sales regions by 51%, 68% and 57%, respectively.

#### Net Sales and Service Fees by Product Category

	Three months ended July 31,				Change	
	2009		2008		Amount	%
Computerized Machine Tools	\$ 15,552	81.7%	\$ 50,991	89.0%	\$ (35,439)	(69.5)%
Service Fees, Parts and Other	3,487	18.3%	6,327	11.0%	(2,840)	(44.9)%
Total	\$ 19,039	100.0%	\$ 57,318	100.0%	\$ (38,279)	(66.8)%

Unit sales of computerized machine tools during the third quarter of fiscal 2009 decreased by 62% from the corresponding period in fiscal 2008.

**Orders.** New order bookings in the third quarter of fiscal 2009, were \$17.9 million, a decrease of \$34.5 million, or 66%, compared to the prior year period, while unit orders declined by 63%. Orders in the North America, Europe and Asia Pacific regions decreased \$5.4 million, or 50%, \$27.3 million, or 71%, and \$1.8 million, or 61%, respectively. The impact of currency translation on new orders booked in the third quarter was consistent with the impact on sales.

**Gross Profit.** Gross margin for the third quarter of fiscal 2009 was 28%, compared to 36% for the 2008 period. The decrease in margin as a percentage of sales was primarily due to lower sales of higher-margin VMX machines in the European sales region, the impact of fixed costs on lower sales volume, and competitive pricing pressures on a global

basis.

16

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**Operating Expenses.** Selling, general and administrative expenses were \$7.2 million, a decrease of \$4.6 million, or 39%, from the corresponding period in 2008, reflecting lower sales commissions, the benefit of cost reduction initiatives, and the favorable effect of a stronger U.S. Dollar in 2009 when translating foreign operating expenses to U.S. Dollars for financial reporting purposes.

**Operating Income (Loss).** The operating loss for the third quarter of fiscal 2009 was \$1.9 million compared to operating income of \$9.1 million for the prior year period. The reduction in operating income year-over-year was primarily due to the reduction in sales, primarily those for the higher-margin VMX machines in the European sales region, and global competitive pricing pressures.

**Other (Income) Expense, net.** The increase in other income of \$0.6 million was primarily due to net realized gains on hedge contracts closed before maturity due to forecasted reductions in production and sales, and unrealized gains from foreign currency fluctuations on payables and receivables, net of foreign currency forward exchange contracts. These net gains were partially offset by a loss in our equity investment of an affiliated Taiwan contract manufacturer.

**Income Taxes.** Our effective tax rate for the third quarter of fiscal 2009 was 31% in comparison to 34% for the same period in fiscal 2008. Our provision for income taxes during the third quarter of fiscal 2009 was approximately \$3.5 million lower than in the same period in fiscal 2008 as a result of the decrease in operating income before income taxes.

#### Nine months Ended July 31, 2009 Compared to Nine months Ended July 31, 2008

**Sales and Service Fees.** Sales and service fees for the first nine months of fiscal 2009 were \$67.8 million, a decrease of \$108.7 million, or 62%, over the first nine months of fiscal 2008. The decrease in sales and service fees was primarily the result of the adverse impact of the current global recession on demand for machine tools. A stronger U.S. Dollar when translating foreign sales to U.S. Dollars for financial reporting purposes during the 2009 period accounted for approximately \$7.9 million of the decrease.

The following tables set forth net sales (in thousands) by geographic region and product category for the first nine months of 2009 and 2008, respectively:

#### Net Sales and Service Fees by Geographic Region

	Nine months ended July 31,				Change	
	2009		2008		Amount	%
North America	\$ 21,618	31.9%	\$ 35,427	20.1%	\$ (13,809)	(39.0)%
Europe	42,879	63.2%	130,776	74.1%	(87,897)	(67.2)%
Asia Pacific	3,338	4.9%	10,323	5.8%	(6,985)	(67.7)%
Total	\$ 67,835	100.0%	\$ 176,526	100.0%	\$ (108,691)	(61.6)%

The decrease in sales was primarily driven by lower volume, particularly for higher priced VMX machines (which are principally marketed in the European sales region), and continued pricing pressures globally.

#### Net Sales and Service Fees by Product Category

	Nine months ended July 31,				Change	
	2009		2008		Amount	%
Computerized Machine Tools	\$ 56,019	82.6%	\$ 157,977	89.5%	\$ (101,958)	(64.5)%
Service Fees, Parts and Other	11,816	17.4%	18,549	10.5%	(6,733)	(36.3)%
Total	\$ 67,835	100.0%	\$ 176,526	100.0%	\$ (108,691)	(61.6)%

Unit sales of computerized machine tools during the first nine months of fiscal 2009 decreased by 58% from the corresponding period in fiscal 2008.

Orders. New order bookings in the first nine months of fiscal 2009, were \$60.6 million, a decrease of \$111.9 million, or 65%, over the prior year period. Of that decrease, North America, Europe, and Asia Pacific orders decreased \$15.3 million, or 45%, \$89.6 million, or 70%, and \$7.1 million, or 72%, respectively.

Gross Profit. Gross margin for the first nine months of fiscal 2009 was 28%, compared to 37% for the 2008 period. The decrease in margin as a percentage of sales was primarily due to a lower sales of higher-margin VMX machines in the European sales region, the impact of fixed costs on lower sales volume, and global competitive pricing pressures.

Operating Expenses. Selling, general and administrative expenses were \$22.7 million for the first nine months of fiscal 2009, a reduction of \$13.1 million, or 37%, from the 2008 period, reflecting various initiatives to reduce expenses that have included management and employee pay reductions, workforce reductions, the suspension of corporate 401K matching contributions, and restriction of travel and other expenditures. The reduction in expenses also included the favorable effect of a stronger U.S. Dollar in 2009 when translating foreign operating expenses to U.S. Dollars for financial reporting purposes.

Operating Income (Loss). The operating loss for the first nine months of fiscal 2009 was \$3.7 million compared to operating income of \$30.2 million, for the prior year period. The reduction in operating income (loss) year-over-year was primarily due the reduction in sales, primarily those for higher-margin VMX machines in the European sales region, and global competitive pricing pressures.

Other (Income) Expense, net. The increase in other income of \$3.1 million was primarily due to net realized gains on hedge contracts closed before maturity due to forecasted reductions in production and sales, and unrealized gains from foreign currency fluctuations on payables and receivables, net of foreign currency forward exchange contracts. These net gains were partially offset by a loss in our equity investment of an affiliated Taiwan contract manufacturer.

Income Taxes. Our provision for income taxes during the first nine months of fiscal 2009 was \$11.1 million lower than in the same period in fiscal 2008 as a result of the decrease in operating income before income taxes.

## LIQUIDITY AND CAPITAL RESOURCES

At July 31, 2009, we had cash of \$26.7 million, compared to cash and short term investments of \$33.1 million at October 31, 2008. Approximately 66% of the \$26.7 million of cash and cash equivalents is denominated in U.S. Dollars. The remaining balances are held outside the U.S. in the local currencies of our various foreign entities and are subject to fluctuations in currency exchange rates.

Working capital, excluding cash and cash equivalents and short-term investments, was \$70.5 million at July 31, 2009, compared to \$67.1 million at October 31, 2008. The \$3.4 million increase in working capital was primarily driven by reduced accounts payable as a result of lower production levels and a reduction in accrued expenses.

We have a number of domestic and international credit facilities, including a \$30.0 million unsecured revolving line of credit. As of July 31, 2009, we had no borrowings outstanding under any of these facilities and were in compliance with all terms and conditions, including financial covenants. One of the financial covenants applicable to the \$30.0 million credit facility requires us to report consolidated net income of not less than \$0 for four consecutive quarters on a rolling basis. If we continue to report losses for the fourth quarter of the current fiscal year, we would not be permitted to borrow under our loan agreement.

We believe our cash resources will permit us to stay committed to our strategic plan of product innovation and targeted penetration of developing markets. In order to minimize losses and sustain cash flow during these current



economic conditions we have significantly reduced our production levels, eliminated overtime, reduced our work force, eliminated hiring and salary increases and reduced pay for salaried employees by 5-10%.

Capital expenditures were primarily for purchases of equipment for our manufacturing facilities and software development costs. We funded these expenditures with cash flow from operations.

We have an effective “shelf” registration statement on file with the SEC that allows us to offer and sell a variety of securities, including common stock, preferred stock, warrants, depositary shares and debt securities, up to an aggregate amount of \$200.0 million, if and when authorized by the Board of Directors. At present, we have no plans to offer or sell securities.

Although we have not made any significant acquisitions in the recent past and we have no present plans for acquisitions, we continue to receive and review information on businesses and assets, including intellectual property assets, which are available for purchase.

#### NEW ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations” (“SFAS 141R”), which is a revision of SFAS No. 141 “Business Combinations.” SFAS 141R changes the way in which we will account for business combinations as it introduces new purchase accounting concepts, expands the use of fair value accounting related to business combinations and changes the subsequent period accounting for certain acquired assets and liabilities, and among other things, includes a substantial number of new disclosure requirements. SFAS 141R will be applied prospectively on business combinations with acquisition dates in fiscal years beginning on or after December 15, 2008. SFAS 141R may have a material impact on future acquisitions.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51” (“SFAS 160”). SFAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years. We do not expect that the adoption of SFAS No. 160 will have a material impact on our consolidated financial statements or results of operations.

In April 2009, the FASB issued FASB Staff Position (FSP) FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments,” which amends SFAS No. 107, “Disclosures about Fair Value of Financial Instruments” and Accounting Principles Board (APB) Opinion No. 28, “Interim Financial Reporting”. The FSP requires the SFAS No. 107 disclosures about the fair value of financial instruments to be presented in interim financial statements in addition to annual financial statements. The FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of the FSP does not impact on our consolidated financial statements or results of operations.

#### CRITICAL ACCOUNTING POLICIES

Our accounting policies, which are described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2008, require management to make significant estimates and assumptions using information available at the time the estimates are made. These estimates and assumptions significantly affect various reported amounts of assets, liabilities, revenues, and expenses. If our future experience differs materially from these estimates and assumptions, our results of operations and financial condition would be affected. There were no material changes to our critical accounting policies during the first nine months of fiscal 2009.

#### CONTRACTUAL OBLIGATIONS AND COMMITMENTS

There have been no material changes related to contractual obligations and commitments from the information provided in our Annual Report on Form 10-K for the fiscal year ended October 31, 2008. As of July 31, 2009, our FIN 48 liabilities were \$629,000. The periods in which the FIN 48 liabilities will be paid cannot be reliably estimated

and are, therefore, excluded from our contractual obligations. For additional information regarding FIN 48, see Note 12 of Notes to Condensed Consolidated Financial Statements.

## OFF BALANCE SHEET ARRANGEMENTS

From time to time, our subsidiaries guarantee third party payment obligations in connection with the sale of certain machines to customers that use financing. As of July 31, 2009, we had 56 outstanding third party guarantees totaling approximately \$2.5 million. The terms of our subsidiaries' guarantees are consistent with the underlying customer financing terms. Upon shipment, the customer has the risk of ownership, but does not obtain title until the machine is paid in full. A retention of title clause allows us to recover the machine if the customer defaults on the lease. We accrue for potential liabilities under these guarantees when we believe a loss is probable and can be estimated. The accrual recorded at July 31, 2009 and October 31, 2008 was not material.

## CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements made in this report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the statements. These risks, uncertainties and other factors include:

- The impact of the current global economic recession on demand for our products and our customers' access to credit and ability to pay us for the products they purchase;
  - The cyclical nature of the machine tool industry;
  - The risks of our international operations;
  - The limited number of our manufacturing sources;
  - The effects of changes in currency exchange rates;
  - Our dependence on new product development;
  - The need to make technological advances;
  - Competition with larger companies that have greater financial resources;
  - Changes in the prices of raw materials, especially steel and iron products;
    - Possible obsolescence of our technology;
  - Acquisitions that could disrupt our operations and affect operating results;
    - Impairment of our goodwill or other assets;
    - The need to protect our intellectual property assets;
  - The impact of the continuing downturn in the U.S. economy;
- The impact of ongoing disruptions in the credit markets on our investment securities; and
  - The effect of the loss of key personnel.

We discuss these and other important risks and uncertainties that may affect our future operation in Part I, Item 1A – Risk Factors in our most recent Annual Report on Form 10-K and may update that discussion in Part II, Item 1A – Risk Factors in this report or a Quarterly Report on Form 10-Q we file hereafter.

Readers are cautioned not to place undue reliance on these forward-looking statements. While we believe the assumptions on which the forward-looking statements are based are reasonable, there can be no assurance that these forward-looking statements will prove to be accurate. This cautionary statement is applicable to all forward-looking statements contained in this report.

## Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

## Interest Rate Risk

Interest on borrowings on our bank credit agreements are tied to prevailing U.S. and European interest rates. At July 31, 2009, there were no outstanding borrowings under our bank credit agreements.

## Foreign Currency Exchange Risk

In fiscal 2008, we derived more than 75% of our revenues from foreign markets. All of our computerized machine tools and computer control systems, as well as certain proprietary service parts, are sourced by our U.S.-based engineering and manufacturing division and re-invoiced to our foreign sales and service subsidiaries, primarily in their functional currencies.

Our products are sourced from foreign suppliers or built to our specifications by either our wholly owned subsidiary in Taiwan or an affiliated contract manufacturer. Our purchases are predominantly in foreign currencies and in some cases our arrangements with these suppliers include foreign currency risk sharing agreements, which reduce (but do not eliminate) the effects of currency fluctuations on product costs. The predominant portion of the exchange rate risk associated with our product purchases relates to the New Taiwan Dollar.

We enter into foreign currency forward exchange contracts from time to time to hedge the cash flow risk related to forecasted inter-company sales and purchases denominated in, or based on, foreign currencies (primarily the Euro, Pound Sterling, and New Taiwan Dollar). We also enter into foreign currency forward exchange contracts to protect against the effects of foreign currency fluctuations on receivables and payables denominated in foreign currencies. We do not speculate in the financial markets and, therefore, do not enter into these contracts for trading purposes.

Forward contracts for the sale or purchase of foreign currencies as of July 31, 2009, which are designated as cash flow hedges under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") were as follows:

Forward Contracts	Notional Amount in Foreign Currency	Weighted Avg. Forward Rate	Contract Amount at Forward Rates in U.S. Dollars		Maturity Dates
			Contract Date	July 31, 2009	
<b>Sale Contracts:</b>					
Euro	11,460,000	1.3616	15,604,300	16,338,052	August 2009 – July 2010
Pound Sterling	1,010,000	1.5451	1,560,527	1,685,358	August 2009 – July 2010
<b>Purchase Contracts:</b>					
New Taiwan Dollar	385,000,000	32.17*	11,966,203	11,932,606	August 2009 – July 2010

\*NT Dollars per U.S. Dollar

Forward contracts for the sale or purchase of foreign currencies as of July 31, 2009, which were entered into to protect against the effects of foreign currency fluctuations on receivables and payables and are not designated as hedges under SFAS 133 denominated in foreign currencies, were as follows:

Forward Contracts	Notional Amount in Foreign Currency	Weighted Avg. Forward Rate	Contract Date	Contract Amount at Forward Rates in U.S. Dollars July 31, 2009	Maturity Dates
<b>Sale Contracts:</b>					
Euro	18,814,156	1.3366	25,147,001	26,816,607	August 2009 – February 2010
Pound Sterling	396,826	1.6454	652,937	662,274	August 2009 – September 2009
Canadian Dollar	137,623	.9243	127,205	127,555	August 2009
Singapore Dollar	7,916,763	1.5501	5,107,259	5,500,555	March 2010
<b>Purchase Contracts:</b>					
New Taiwan Dollar	29,590,669	32.68*	905,428	904,534	August 2009

\* NT Dollars per U.S. Dollar

We are exposed to foreign currency exchange risk related to our investment in net assets in foreign countries. To manage this risk, we entered into a forward contract on November 26, 2007 with a notional amount of €3.0 million. We designated this forward contract as a hedge of our net investment in Euro denominated assets. We selected the forward method under the guidance of the Derivatives Implementation Group Statement 133 Issue H8, “Foreign Currency Hedges: Measuring the Amount of Ineffectiveness in a Net Investment Hedge”. The forward method requires all changes in the fair value of the forward to be reported as a cumulative translation adjustment in Accumulated Other Comprehensive Loss, net of tax, in the same manner as the underlying hedged net assets. This forward contract matured on November 25, 2008 and we entered into a new forward contract for the same notional amount. As of July 31, 2009, we had a realized gain of \$355,000 and an unrealized loss of \$245,000, net of tax, recorded as cumulative translation adjustments in Accumulated Other Comprehensive Loss, related to these forward contracts.

Forward contracts for the sale or purchase of foreign currencies as of July 31, 2009, which are designated as net investment hedges under SFAS 133 were as follows:

Forward Contracts	Notional Amount in Foreign Currency	Weighted Avg. Forward Rate	Contract Date	Contract Amount at Forward Rates in U.S. Dollars July 31, 2009	Maturity Date
<b>Sale Contracts:</b>					
Euro	3,000,000	1.2936	3,880,800	4,275,990	November 2009

Item 4. CONTROLS AND PROCEDURES

We carried out an evaluation under the supervision and with participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of July 31, 2009, pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the evaluation date.

There were no changes in our internal controls over financial reporting during the quarter ended July 31, 2009 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are involved in various claims and lawsuits arising in the normal course of our business. We believe it is remote that any of these claims will have a material adverse effect on our consolidated financial position or results of operations.

Item 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part I, Item 1A – Risk Factors in our Annual Report on Form 10-K for the year ended October 31, 2008.

Item 5. OTHER INFORMATION

During the period covered by this report, the Audit Committee of our Board of Directors did not engage our independent registered public accounting firm to perform any non-audit services. This disclosure is made pursuant to Section 10A9(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002.



Item 6.

EXHIBITS

3.1 Amended and Restated Bylaws of Hurco Companies, Inc. (as amended through July 8, 2009)

11

Computation of per share earnings.

31.1 Certification by the Chief Executive Officer, pursuant to Rule 13a-15(b) under the Securities and Exchange Act of 1934, as amended.

31.2 Certification by the Chief Financial Officer, pursuant to Rule 13a-15(b) under the Securities and Exchange Act of 1934, as amended.

32.1 Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

25

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HURCO COMPANIES, INC.

By: /s/ John G. Oblazney  
John G. Oblazney  
Vice President and  
Chief Financial Officer

By: /s/ Sonja K. McClelland  
Sonja K. McClelland  
Corporate Controller and  
Principal Accounting  
Officer

September 4, 2009