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

FORM 10-K

(Mark One)

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended October 31, 2020 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	**35-1150732**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
One Technology Way	
Indianapolis, Indiana	**46268**
(Address of principal executive offices)	(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	HURC	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well–known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).
Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non–accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b–2 of the Exchange Act.

☐ Large accelerated filer ☒ Accelerated filer
☐ Non–accelerated filer ☐ Smaller reporting company
☐ Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b–2 of the Act).
Yes ☐ No ☒

The aggregate market value of the registrant's voting stock held by non–affiliates as of April 30, 2020 (the last business day of our most recently completed second quarter) was $217,919,000.

The number of shares of the registrant's common stock outstanding as of December 31, 2020 was 6,570,635.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the registrant's Proxy Statement for its 2021 Annual Meeting of Shareholders (Part III).

Forward-Looking Statements

This report contains certain statements that are forward-looking statements within the meaning of federal securities laws. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. When used in this report, the words "may", "will", "should", "would" ,"could", "anticipate", "expect", "plan", "seek", "believe", "predict", "estimate", "potential", "project", "target", "forecast", "intend", "strategy", "future", "opportunity", "assume", "guide", and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. These risks and uncertainties include, but are not limited to, the cyclical nature of the machine tool industry, changes in general economic and business conditions that affect demand for our products, the impact of the COVID-19 pandemic and other widespread public health emergencies and outbreaks, pandemics, or contagious diseases on the global economy, our business and operations, our employees, and the business, operations and economies of our customers and vendors, the risks of our international operations, changes in manufacturing markets, fluctuations in foreign currency exchange rates, innovations by competitors, increases in prices of raw materials, the ability to protect our intellectual property, governmental actions and initiatives including import and export restrictions and tariffs, breaches of our network and system security measures, quality and delivery performance by our vendors, our ability to effectively integrate acquisitions, negative or unforeseen tax consequences, loss of key personnel, failure to comply with data privacy and security regulations, and the risks and other important factors under the heading "Risk Factors" in Part I, Item 1A of this report. You should understand that it is not possible to predict or identify all factors that could cause actual results to differ materially from forward-looking statements. Consequently, you should not consider any list or discussion of such factors to be a complete set of all potential risks or uncertainties. Readers of this report 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. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K reports and our other filings with the Securities and Exchange Commission ("SEC").

PART I

Item 1. BUSINESS

General

Hurco Companies, Inc. is an international, industrial technology company. We design, manufacture, and sell computerized (i.e., Computer Numeric Control ("CNC")) machine tools, consisting primarily of vertical machining centers (mills) and turning centers (lathes), to companies in the metal cutting industry through a worldwide sales, service, and distribution network. Although the majority of our computer control systems and software products are proprietary, they predominantly use industry standard personal computer components. Our computer control systems and software products are primarily sold as integral components of our computerized machine tool products. We also provide machine tool components, automation integration equipment and solutions for job shops, software options, control upgrades, accessories and replacement parts for our products, as well as customer service, training, and applications support. As used in this report, the words "we", "us", "our", "Hurco" and the "Company" refer to Hurco Companies, Inc. and its consolidated subsidiaries.

Since our founding in 1968, we have been a leader in the introduction of interactive computer control systems that automate manufacturing processes and improve productivity in the metal parts manufacturing industry. We pioneered the application of microprocessor technology and conversational programming software for use in machine tools. Our Hurco brand computer control systems can be operated by both skilled and unskilled machine tool operators and, yet, are capable of instructing a machine to perform complex tasks. The combination of microprocessor technology and patented interactive, conversational programming software in our proprietary computer control systems enables operators on the production floor to quickly and easily create a program for machining a particular part from a blueprint or computer aided design file, and immediately begin machining that part.

Our executive offices and principal design and engineering operations are headquartered in Indianapolis, Indiana, U.S. We have sales, application engineering, and service subsidiaries in China, France, Germany, India, Italy, the Netherlands, Poland, Singapore, Taiwan, the United Kingdom, and the U.S. We have manufacturing and assembly operations in Taiwan, the U.S., Italy, and China, and distribution facilities in the U.S., the Netherlands, and Taiwan.

Our strategy is to design, manufacture, and sell a comprehensive line of computerized machine tools that help customers in the worldwide metal cutting market increase productivity and profitability. The majority of our machine tools employ proprietary, interactive computer control technology that increases productivity through ease of operation via interactive conversational and graphical programming software. All of our machine tools, regardless of brand, deliver high levels of machine performance (speed, accuracy and surface finish quality) that increases productivity. We routinely expand our product offerings to meet customer needs, which has led us to design and manufacture more complex machining centers with advanced capabilities. We bring a disciplined approach to strategically enter new geographic markets, as appropriate.

We are an industrial technology company that designs, produces, and sells computerized machine tools. Our strategic plans focus on market expansion to reach more customers with more products on a global basis. We have made five acquisitions since 2013, and the products we have added through these acquisitions have given us more advanced products with unprecedented improvements in our machine tool accuracy and precision, allow us to seek higher productivity in complex manufacturing environments, provide automation for machine tending solutions, and minimize dependencies associated with volatilities from economic and geographic cyclicality. While the Hurco-branded computer control systems have been, and continue to be, our premium flagship product line, we have added other products to our portfolio that provide product diversity and market penetration opportunity priced from entry-level to high performance serving a variety of different industries. We have not changed our overall strategy to design, manufacture, and sell a comprehensive line of computerized machine tools; rather, we have enhanced this strategy through growth both organically and through acquisitions in an effort to attain long-term stability and profitability.

During fiscal 2020, our sales and service fees were $170.6 million, a decrease of $92.8 million, or 35%, compared to fiscal 2019 and included a favorable currency impact of $0.6 million, or less than 1%, when translating foreign sales to U.S. dollars for financial reporting purposes. For fiscal 2020, we reported a net loss of $6.2 million, or $(0.93) per diluted share, compared to net income of $17.5 million, or $2.55 per diluted share, for fiscal 2019. The steep decline in sales volume from fiscal 2019 to fiscal 2020 reflected the significant impact of the COVID-19 pandemic and related government-mandated stay-at-home or shelter orders that imposed operating restrictions across the globe during fiscal 2020. The year-over-year swing from net income to net loss included a one-time, non-cash goodwill impairment charge of $4.9 million that resulted from the prolonged ongoing uncertainty in the global markets due to the COVID-19 pandemic. Excluding the impact of this one-time charge, earnings per diluted share for fiscal 2020 would have been $0.69 higher than the earnings per diluted share we reported for fiscal year 2020. While fiscal 2020 presented significant unexpected challenges due to the COVID-19 pandemic, we continued to focus on our long-term sustainable future, preserved by a strong balance sheet, cashflow, and continued investment in products and technologies that will create opportunity for market expansion and the potential for more strategic acquisitions in the near future.

Industry

Machine tool products are considered capital goods, which makes them part of an industry that has historically been highly cyclical.

Industry association data for the U.S. machine tool market is available, and that market accounts for approximately 13% of worldwide consumption. Reports available for the U.S. machine tool market include:

- United States Machine Tool Consumption – generated by the Association for Manufacturing Technology, this report includes metal cutting machines of all types and sizes, including segments in which we do not compete;
- Purchasing Manager's Index – developed by the Institute for Supply Management, this report includes activity levels in U.S. manufacturing plants that purchase machine tools; and
- Capacity Utilization of Manufacturing Companies – issued by the Federal Reserve Board.

A limited amount of information is available for foreign markets, and different reporting methodologies are used by various countries. Machine tool consumption data, published by Gardner Publications, Inc., calculates machine tool consumption annually by country. It is important to note that data for foreign countries are based on government reports that may lag 6 to 12 months behind real-time and, therefore, are unreliable for forecasting purposes.

Demand for capital equipment can fluctuate significantly during periods of changing economic conditions. Manufacturers and suppliers of capital goods, such as our company, are often the first to experience these changes in demand. Additionally, since our typical order backlog is approximately 45 days, it is difficult to estimate demand with any reasonable certainty. Therefore, we do not have the benefit of relying on the common leading indicators that other industries use for market analysis and forecasting purposes.

Products

Our core products consist of general-purpose, computerized machine tools for the metal cutting industry, principally, vertical machining centers (mills) and turning centers (lathes). The majority of our machine tools are equipped and integrated fully with our proprietary software and computer control systems, while the remaining machine tools are equipped with industry standard controls. Additionally, we produce and distribute software options, control upgrades, hardware accessories and replacement parts for our machine tool product lines, and we provide operator training and support services to our customers. We also produce computer control systems and related software for press brake applications that are sold as retrofit units for installation on existing or new press brake machines. In addition, we own an automation integration company that specializes in job shop automation.

The following table sets forth the contribution of each of our product groups and services to our total revenues during each of the past three fiscal years (in thousands):

Net Sales and Service Fees by Product Category

	Year Ended October 31,					
	2020		2019		2018	
Computerized Machine Tools	$ 139,577	82 %	$ 223,735	85 %	$ 261,710	87 %
Computer Control Systems and Software †	1,699	1 %	2,818	1 %	2,870	1 %
Service Parts	22,484	13 %	27,854	11 %	27,501	9 %
Service Fees	6,867	4 %	8,970	3 %	8,590	3 %
Total	$ 170,627	100 %	$ 263,377	100 %	$ 300,671	100 %

† Amounts shown do not include computer control systems and software sold as an integrated component of computerized machine systems.

Product Portfolio by Brand

We have three brands of CNC machine tools in our product portfolio: Hurco is the technology and innovation brand for customers who want to increase productivity and profitability by selecting a brand with the latest software and motion technology. Milltronics is the value-based brand for shops that want easy-to-use machines at competitive prices. The Takumi brand is for customers that need precision and very high speed, high efficiency performance, such as that required in the production, die and mold, aerospace, and medical industries. Takumi machines are equipped with industry standard controls instead of the proprietary controls found on Hurco and Milltronics machines. ProCobots, LLC (“ProCobots”) is our wholly-owned subsidiary that provides practical automation solutions that can be integrated with any machine tool. In addition, through our wholly-owned subsidiary LCM Precision Technology S.r.l. (“LCM”), we produce high-value machine tool components and accessories. The main product categories of each brand are outlined below.

The Hurco, Milltronics, and Takumi product lines represent a comprehensive product portfolio with more than 150 different CNC machine models. The combined machine tool product lines also provide benefits related to the development of product enhancements, technologies, and models, due to leverage of shared resources and cross-utilization of proven engineering designs, that allow us to achieve manufacturing cost reductions from economies of scale and manufacturing efficiencies.

Hurco CNC Machine Tools

Hurco computerized machine tools are equipped with a fully integrated interactive computer control system that features our proprietary WinMax® software. Our computer control system enables a machine tool operator to create complex two-dimensional ("2D") or three-dimensional ("3D") machining programs directly from an engineering drawing or computer-aided design geometry file, such as a solid model. An operator with little or no machine tool programming experience can successfully create a program with minimal training and begin machining the part in a short period of time. The control features an operator console with a touch-screen, and incorporates an upgradeable personal computer ("PC") platform using a high-speed processor with solid rendering graphical programming. In addition, WinMax® has a Windows®† based operating system that enables users to improve shop floor flexibility and software productivity. Companies using computer-controlled machine tools are better able to:

- maximize the efficiency of their human resources;
- make more advanced and complex parts from a wide range of materials using multiple processes;
- incorporate fast moving changes in technology into their operations to keep their competitive edge; and
- integrate their business into the global supply chain of their customers by supporting small to medium lot sizes for "just in time" initiatives.

Our Windows® based Hurco control facilitates our ability to meet these customer needs. The familiar Windows® operating system coupled with our intuitive conversational style of program creation allows our customers' operators to create and edit part-making programs without incurring the incremental overhead of specialized computer aided design ("CAD") and computer aided manufacturing ("CAM") programmers. With the ability to transfer most CAD data directly into a Hurco program, programming time can be significantly reduced.

Machine tool products today are being designed to meet the demand for machining complex parts with greater part accuracies. Our proprietary controls with WinMax® software and high-speed processors efficiently handle the large amounts of data these complex part-making programs require, which enable our customers to create parts with higher accuracy at faster speeds. We continue to add technology to our control design as it becomes available. UltiMotion®, our patented motion control system, provides significant cycle time reductions and increases the quality of a part's surface finish. This technology differentiates us in the marketplace and is incorporated into our control.

Our offering of Hurco machining centers, currently equipped with either a dual touch-screen console or a single touch-screen console, consists of the following product lines:

HTMi/HTLi Product Line

The HTMi/HTLi product line includes a tool room mill and tool room lathe. These models are designed for easy access to the table (mill) or chuck (lathe) and are popular in tool room, prototype, and maintenance applications. There is a 30-inch X-travel mill and an 8-inch chuck lathe.

VMi Product Line

The VM product line consists of moderately priced vertical machining centers for the entry-level market, while still offering the advantage of our advanced control and motion systems. The design premise of the machining center with a large work cube and a small footprint optimizes the use of available floor space. The VM line consists of six models in four sizes with X-axis (horizontal) travels of 18, 26 (three models), 40, and 50 inches.

VMXi Product Line

The VMX product line is our flagship series of machining centers and consists of higher performing vertical machining centers aimed at manufacturers that require faster speeds and greater part accuracy. The small and medium size models are available with either belted or inline (direct) spindles and the larger models are offered as either #40 or #50 taper. The VMX line consists of 12 models in eight sizes with X-axis travels of 24, 26, 30, 42, 50, 60, 64, and 84 inches.

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†Windows® is a registered trademark of Microsoft Corporation in the United States and other countries.

HSi Product Line
Due to the integral, motorized spindle with a base speed of 18,000 rpm, the HS product line is desirable for the die and mold industry because of that industry's particular interest in the improvement of surface finish quality and the reduction of cycle time. Additionally, this product line offers us the opportunity to expand our customer base to manufacturers that produce larger batches. The HS product line consists of four models with X-axis travels of 24, 30, 42, and 60 inches.

Ui Series Product Line
This product line features five-axis trunnion tables integrated onto familiar C-frame style machines, making an easy entry into five-axis for first time users. U Series models are offered with 8, 10, 14, and 20-inch diameter rotary tables with both standard and high-speed spindles.

SRTi/SWi Product Line
The SRT Series of five-axis machines utilizes a swivel head and a C-axis rotary table embedded into and flush with the machine table, making them among the most flexible machines in the industry. The SW model utilizes the swivel head and a traditional machine table that can be then fitted with an A-axis rotary table to machine long five-axis parts. These models are available in either 42 or 60-inch X-axis travels.

VCi/VCXi Product Line
The B-axis configuration of the VC/VCX Series provides greater undercut capability in both positive and negative directions, allowing users to access more part surface area for machining. These cantilever models are available in a 20-inch pallet, moderately-priced model, as well as a high speed, high performance model, with a torque motor-driven 23.6-inch-diameter rotary table.

BXi Product Line
The BX product line is for customers that require higher accuracy parts, as they are built with an extremely rigid double column design that offers superior vibration dampening and excellent thermal characteristics. Four models are available, two with 40-inch X-travels (a three-axis version and a five-axis version), as well as 53-inch and 63-inch X-travel models.

HMi Product Line
The HM product line offers customers moderately priced horizontal machining centers designed for small lot sizes. Two models are available, one with a rotary table and one with a plain table. They both have X-travels of 67 inches. These products are designed for high-mix, low-volume applications that benefit from a horizontal spindle configuration, but do not require an expensive pallet switching system typically found on competitive horizontal machines.

HBMXi Product Line
The HBMX product line is beneficial to manufacturers that build custom machinery and parts for a multitude of industries, such as packaging, pharmaceutical, automotive, energy, and medical. Additionally, boring mills are also used to repair and/or rebuild large components. The HBMX boring mill product line consists of four models with X-axis travels of 55, 79, 94, and 120 inches.

DCXi Product Line
The double column DCX series includes six models in four sizes. Based on 2-meter, 3-meter, and 4-meter X-axis travels, these machining centers are designed to facilitate production of large parts and molds often required by the aerospace, energy, and custom machinery industries. The 3-meter model is available as a five-axis machine equipped with an articulating head. DCX machines are the largest models offered by Hurco that feature the powerful and flexible WinMax® control.

TMi/TMMi Product Line
The TM/TMM product line of slant-bed lathes (horizontal turning centers) is designed for entry-level job shops and contract manufacturers seeking efficient processing of small to medium lot sizes. There is one TM model in four sizes, measured by chuck size: 6, 8, 10, and 12 inches. We added motorized tooling on the lathe turret to further enhance the capability of the TM turning centers and designated it as the TMM product line. These turning centers with live tooling allow our customers to complete a number of secondary milling, drilling, and tapping operations while the part is still held in the chuck after the turning operations are complete, which provides significant productivity gains. The TMM product line consists of three models: TMM8i, TMM10i, and TMM12i.

TMXi Product Line
The TMX product line consists of high-performance turning centers. There are six models in two sizes. The TMX-MY models are equipped with an additional axis and motorized live tooling while the TMX-MYS models also have an additional spindle. These products are designed for customers who want to reduce part handling and complete complex components that require speed, accuracy, and superior surface finish in a single set-up.

Product Development
Since Hurco is the technology and innovation brand of our corporate portfolio, we have focused our attention on product enhancements of existing models in an effort to align the Hurco brand with the newest engineering innovations and components available to compete with other premium brands in the marketplace. Examples of product enhancements completed in 2020 include an upgrade to the control software on our lathe with live tooling designated as TM6M, TM8M, and TM12M models, new inline spindle options for our trunnion 5-axis machines, and a new proprietary thermal growth compensation system available for 3-axis vertical machining centers. We also introduced a new, affordable, entry-level model called the VMOne.

Milltronics CNC Machine Tools

Our Milltronics line of CNC machine tools is designed for excellent value with more standard features for the price versus competitors. We manufacture and sell these machine tools with fully integrated interactive computer control systems that are also compatible with G & M Code programs (generated from CAD/CAM software) and conversational visual aid programming. These straightforward and easy-to-use control systems are available in two versions, the Series 8200-B for our CNC VK knee mills and the more advanced Series 9000 DGI offered on all other models.

The Milltronics portfolio consists of the following product lines:

VK Series
The VK is our CNC knee mill designed for prototype, R&D, maintenance, and other general-purpose applications. It offers the easy table access of a conventional knee mill, with the power and flexibility of the Milltronics 8200-B CNC control and motion system. Unlike most competitive models, it is not a retrofit kit but rather designed from the ground up as a CNC.

MB/RH Product Line
Products with the MM/MB or RH designation are part of the tool room bed mill category, which are machines that do not have an enclosure, also referred to as open bed machines. Typical applications on these machines include general machining, job shops, prototype, or maintenance and repair. Available with quill-head or rigid-head designs, there are six models in four sizes with X-axis travels of 30, 40, 60 and 78 inches. These easy-to-use machines feature the Series 9000 DGI control.

VM General Purpose (GP) Product Line
The VM-GP product line consists of attractively-priced vertical machining centers designed for job shops, prototype, research and development, and other general machining applications. These belt-driven models are 40-taper and available in four different sizes – all with the Series 9000 DGI control. Customers can choose models with X-axis (horizontal) travels of 25, 30, 40, or 50 inches. There is also a model with extended spindle nose-to-table dimensions for large fourth-axis rotary applications.

VM Inline Performance (IL) Product Line

The VM-IL product line consists of moderately-priced performance vertical machining centers for high-speed applications, such as die and mold, aerospace, and medical machining. Featuring heavier castings, faster motion, and inline spindles, these 40-taper machines include the Series 9000 DGI control and are available in four sizes. Models include X-axis travels of 30, 42, 50, or 60 inches.

VM Extra Power (XP) Product Line

The VM-XP product line consists of moderately-priced, vertical machining centers for more demanding metal removal applications, such as castings or forgings. These heavy-duty, 50-taper models are designed for applications that require more power and torque and feature the Series 9000 DGI control. Customers can choose from three different models with X-axis travels of 50, 60, or 84 inches.

BR Product Line

The BR product line consists of high-speed bridge mills that are used in pattern shops and the aerospace industry, in addition to job shops, due to the large table and travels that support a wide range of part sizes. BR machines have inline spindles and are available as six models in three sizes with X-axis travels of 100, 150, and 200 inches. BR machines offer the Series 9000 DGI control.

ML Product Line

The ML product line consists of combination lathes that the customer can configure for either tool room or production applications with the option to add live tooling. There are 17 models available in a variety of thru hole sizes and in the following six swing-over bed diameters: 17, 19, 23, 27, 36, and 39.7 inches. These flexible machines feature the Series 9000 DGI control.

SL Product Line

The SL product line of slant-bed lathes (horizontal turning centers) is designed for entry-level job shops and contract manufacturers seeking efficient processing of small to medium lot sizes. These compact machines are available with chuck sizes of 6, 8, and 10 inches. These compact machines feature the Series 9000 DGI control.

New Products

In fiscal 2020, Milltronics updated its MB/RH Series of tool room mills. Now called the TRQ/TRM Series, these models feature updated controls, specifications, and sheet metal guarding. Additionally, all models will now feature the Series 9000 DGI control, instead of certain models having the legacy 8200-B control.

Takumi CNC Machine Tools

The Takumi brand features machines designed for applications requiring precision and high speed, high efficiency milling. Market segments that require such applications include die and mold, aerospace, medical, and energy, or any customer that needs to produce very high-accuracy parts quickly. Takumi machines are available with a variety of industry standard CNC controls, including Fanuc®*, Siemens®, Mitsubishi®, or Heidenhain®. Models include three- axis vertical machining centers with linear guides; three-axis vertical machining centers with box ways; high-speed, double column vertical machining centers; and heavy-duty, double-column machining centers, and five-axis machining centers. Takumi machines are hand built and fitted to exacting standards to produce high accuracies and superior surface finishes.

*Fanuc® is a registered trademark of GE Fanuc Automation Americas, Inc. Siemens® is a registered trademark of Siemens AG. Mitsubishi® is a registered trademark of Mitsubishi Electric Corporation. Heidenhain® is a registered trademark of HEIDENHAIN CORPORATION, a wholly-owned subsidiary of the German company DR. JOHANNES HEIDENHAIN GmbH.

The Takumi portfolio consists of the following product lines:

PV Series
The PV Series are entry-level vertical machining centers, yet feature high performance direct drive spindles and robust roller way technology. PV machines are available in two sizes with X-axis travels of either 26 or 41 inches. They are designed for general purpose and job shop applications.

VC Series
The VC Series vertical machining centers are fast, three-axis linear guide machining centers designed for customers doing a variety of different parts, including die and mold, medical, automotive, and job shops. The VC machines are available in four sizes with X-axis travels of 34, 42, and 50 inches. An extended Y-axis travel version of the 42-inch model is offered for mold shops making square mold bases.

V Series
The V Series vertical machining centers are heavy-duty, box way machines built for tough applications such as roughing cast iron. These three-axis, massive machines feature belt or geared spindles to provide maximum torque. The V Series product line includes eight models with X-axis travels of 39, 43, 47, 60, 70, 78, 86, and 126 inches.

H Series
Designed to produce parts that require high precision and superior surface finishes, H Series machines offer an extremely rigid and thermally-stable double column design. These three-axis models feature high-speed, direct-drive spindles, or built-in HSK spindles, with up to 20,000 rpm, in addition to spindle speed options of 24,000 rpm and 36,000 rpm. The H Series product line consists of 12 models with X-axis travels of 24, 30, 35, 40, 53, 63, 86, 126, 157, and 197 inches, with select models available with extended Y-axis travel. These machines are specifically targeted for die and mold and aerospace customers.

U Series
Designed with trunnion tables and swivel heads, these five-axis simultaneous machining centers provide versatility, as well as reduce setup time and process time. Most models are offered with a double-column structure for superior stability and performance. The U-Series product line consists of six models, four of which offer trunnion table sizes of 10, 16, 24, and 31.5 inches. One additional model, the UB, is equipped with a B/C swivel head and an HSK100, 12,000 rpm built-in spindle. The UB's double-column design provides a spacious X-axis travel of 126 inches. A new model called the UR1000 has a two-axis head and a 39-inch rotary table integrated into a double-column machine, designed for large and heavy five-axis parts, such as those found in die and mold, aerospace, and energy applications.

G Series
Designed specifically for the machining of graphite or copper electrodes used in electrical discharge machining (EDM), G Series machines offer the same extremely rigid and thermally stable double-column design of the H Series, featuring high-speed, direct-drive spindles, or built-in HSK spindles, with up to 20,000 rpm. The G Series product line consists of three models with X-axis travels of 22, 30, and 40 inches, and are equipped with a graphite dust extraction system.

BC Series
BC Series machines are double column, three-axis machining centers designed for heavy cutting and applications that require high power and torque, such as die and mold. These models include a heavy cutting, 6,000 rpm geared-head spindle design with X-axis travels of 82 or 122 inches.

HMX Series
The HMX Series are high-speed horizontal machining centers that are capable of up to 1G acceleration. These models include twin pallets to maximize cutting time along with very fast pallet exchange times and rapid traverse rates. Available in 400, 500, and 630 mm pallet sizes, they can also be fitted with expandable automatic tool changers that hold up to 220 tools.

SL Lathes
SL slant-bed lathes are turning centers equipped with box ways and designed for heavy cutting to provide superior part finishes. The SL Series includes three models: the SL200, SL250, and SL300.

New Products
In 2020, Takumi introduced the PV Series, a new line of entry-level vertical machining centers for general purpose machining that offers lower cost, yet retains key performance features such as direct-drive spindles and rigid roller ways. Also in 2020, Takumi began offering four-meter and five-meter versions of its H Series product line, called the H42S and H52S, specifically aimed at die and mold shops and the aerospace industry. Finally, a new line of high velocity horizontal machining centers was introduced. Called the HMX Series, these machines are very fast (capable of up to 1G acceleration) and include twin pallets that can be rapidly exchanged to maximize part cutting time.

Other Control Systems, Software, and Accessories

The following machine tool computer control systems and software products are sold directly to end-users and/or to other original equipment manufacturers ("OEM").

Autobend®
Our Autobend® computer control systems are applied to metal bending press brake machines that form parts from sheet metal and steel plate. They consist of a microprocessor-based computer control and back gauge (an automated gauging system that determines where the bend will be made). We have manufactured and sold the Autobend® product line since 1968. We currently market two models of our Autobend® computer control systems for press brake machines, in combination with six different back gauges as retrofit units for installation on existing or new press brake machines.

Software Products
In addition to our standard computer control features, we offer software option products for part programming. These products are sold to users of our Hurco computerized machine tools equipped with our dual touch-screen or single touch-screen consoles featuring WinMax® control software. Each international division packages the options as appropriate for its market. The most common options include: Advanced Verification Graphics, Swept Surface, DXF Transfer, 3D DXF and Solid Model Import, UltiMonitor, UltiPocket with Helical Ramp Entry and Insert Pockets, Conversational Part and Tool Probing, Tool and Material Library, NC/Conversational Merge, Job List, Job Manager, Stream Load, Active Thermal Compensation, Thread Repair, and Simultaneous Five-Axis Contouring.

The Advanced Verification Graphics option displays a picture of the rendered part on the screen of the control that can be viewed from any angle. The detail allows the customer to evaluate how the part is programmed to be machined before cutting commences, which eliminates the need to scrap expensive material.

Solid Model Import with 3D DXF Technology allows the operator to import a solid model directly into the control and provides integrated CAD/CAM and tool path simulation.

Our Swept Surface software option simplifies programming of 3D contours and significantly reduces programming time.

The DXF Transfer software option increases operator productivity because it eliminates manual data entry of part features by transferring AutoCAD®* drawing files directly into our computer control or into our desktop programming software, WinMax® Desktop.

3D DXF and Solid Model Import automatically uses geometry from a 3D CAD model to easily create conversational programs for 2D and 3D parts or even 3+2 and 5-sided parts.

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* AutoCAD® is a registered trademark of Autodesk, Inc., and/or its subsidiaries/ affiliates in the U.S. and/or other countries.

Designed to take advantage of the Internet of Things ("IoT"), UltiMonitor is a web-based productivity, management, and service tool that enables customers to monitor, inspect, and receive notifications about their Hurco machines from any location where they can access the internet. Customers can transfer part designs, receive event notifications via email for text, access diagnostic data, monitor the machine via webcam, and communicate with the machine operator.

UltiPocket with Helical Ramp Entry and Insert Pockets automatically calculates the tool path around islands, eliminating the arduous task of plotting these shapes. Islands can also be rotated, scaled and repeated.

Conversational Part and Tool Probing options permit the computerized dimensional measurement of machined parts and the associated cutting tools. This "on-machine" technique improves the throughput of the measurement process when compared to traditional "off-machine" approaches.

The Tool and Material Library option stores the tool and material information with the machine instead of storing it with each individual part program. The user enters the tool data and geometry one time and chooses the particular tool from the list when it is needed. Additionally, the library reads the part program and automatically locates the tool or displays an alert if the tool does not exist. In addition to saving time, the Tool and Material Library eliminates the need to enter information repeatedly and can prevent common tool crash conditions.

NC/Conversational Merge lets the user incorporate conversational features, such as tool probing, pattern operations, and scaling, into existing G-Code programs.

Job List provides an intuitive way to group files together and run them sequentially without operator intervention, which promotes automation, lights-out machining, program stitching, file bundling, and adaptive processes.

Job Manager is a software feature designed specifically for seamless integration of the Hurco control to our automation package called Job Shop Automation, which promotes intuitive programming of collaborative robots for machine tending applications.

Stream Load allows the user to run very large NC files without the need to upload the entire file into the control's memory to avoid exceeding memory limits.

Active Thermal Compensation is a feature that uses sensors to measure head casting temperature growth and software that automatically compensates for that growth, improving part accuracy.

Thread Repair is a feature for turning applications that provides an efficient way to repair existing threads, which is especially beneficial for large pipes and other parts manufactured for the oil/energy sector.

Simultaneous Five-Axis Contouring software enables a five-axis machine to command motion concurrently on all axes. This allows the user to create continuous tool-paths along complex geometries with only a single machine/part setup, providing increased productivity along with the performance benefits of using shorter cutting tools. The sale of simultaneous five-axis contouring software is subject to government export licensing requirements.

ProCobots CNC Automation

Located in the greater Pittsburgh, Pennsylvania area, ProCobots provides automation solutions that can be integrated with any machine tool. ProCobots integrations include robots, grippers, material handling, and Industry 4.0-capable software and controls. Designed to be easy to use, safe, and flexible, ProCobots solutions are standardized systems aimed at customers who are in the high-mix, low-volume manufacturing environment. Products include portable models, such as the ER5 and Profeeder Light, as well as flexible cell solutions, including the Profeeder and Profeeder Q.

Non-Hurco Branded Products & Technologies

While our three brands of CNC machine tools are responsible for the vast majority of our revenue, we have added other products to our portfolio that have contributed to our top and bottom line growth and will provide product diversity, market penetration opportunity – while minimizing the impact of geographic cyclicality – with products priced from entry-level to high performance serving a variety of different industries. We believe these non-Hurco branded products help us partially offset the cyclical nature of the machine tool market by diversifying our product offering. These non-Hurco branded products are comprised primarily of other general-purpose vertical machining centers and lathes, laser cutting machines, waterjet cutting machines, CNC grinders, compact horizontal machining centers, metal cutting saws, and CNC Swiss lathes.

LCM Machine Tool Components and Accessories

Based in Italy, LCM designs, manufactures, and sells mechanical and electro-mechanical components and accessories for machine tools for a wide variety of machine tool OEMs. LCM’s direct drive spindle, swivel head, and rotary torque table are used in our SRT line of five-axis machining centers to achieve simultaneous five-axis machining.

CNC Rotary Tables
LCM has five lines of CNC rotary tables for both horizontal and vertical-horizontal positioning. Customers can choose rotary tables with either hydraulic or pneumatic clamping systems. Additionally, LCM offers CNC rotary tables powered by either a torque motor or a high-precision mechanical transmission.

CNC Tilt Tables
LCM has seven lines of CNC tilting rotary tables, of which four lines are intended specifically for five-axis machining centers. Each of the seven lines is differentiated by the technology used for clamping (hydraulic or pneumatic) and by the type of transmission (either mechanical transmission or torque motor).

Swivel Heads and Electro-spindles
LCM has two primary lines of swivel heads that enable the spindle axis to be tilted with continuous motion and one line of electro-spindles (built-in motors for swivel heads). The two lines of swivel heads are differentiated by the type of transmission (either mechanical transmission or torque motor).

Product Development
In 2020, LCM developed a new high-performance, triple-torque, motor-drive, trunnion table for five-axis machines. The table has two torque motors on either side of the tilting axis of the trunnion as well as a separate torque motor for the rotary table.

Parts and Service

Our service organization provides installation, warranty, operator training, and customer support for our products on a worldwide basis. In the United States, our principal distributors generally have the primary responsibility for machine installation and warranty service and support for product sales. Our service organization also sells software options, computer control upgrades, accessories, and replacement parts for our products. We believe our after-sales parts and service business strengthens our customer relationships and provides continuous information concerning the evolving requirements of end-users.

Manufacturing

Our computerized metal cutting machine tools are manufactured and assembled to our specifications primarily by our wholly-owned subsidiaries in Taiwan (Hurco Manufacturing Limited (“HML”)) and Waconia, Minnesota (Milltronics USA, Inc. (“Milltronics”)). HML and Milltronics conduct final assembly operations and are supported by a network of contract suppliers of components and sub-assemblies that manufacture components for our products. Our facility in Ningbo, China (Ningbo Hurco Machine Tool Co. Ltd (“NHML”)), focuses on the machining of castings to support HML’s production in Taiwan. The LCM line of electro-mechanical components and accessories for machine tools is designed and manufactured in Italy. Our facility in Indianapolis, Indiana, also conducts final assembly operations for certain Hurco VMX machines for the American market and manufactures certain electro-spindle components for LCM.

We have a contract manufacturing agreement for computer control systems with Hurco Automation, Ltd. ("HAL"), a Taiwanese company in which we have a 35% ownership interest. This company produces all of our computer control systems to our specifications, sources industry standard computer components and our proprietary parts, performs final assembly, and conducts test operations.

We work closely with our subsidiaries, key component suppliers, and HAL to ensure that their production capacity will be sufficient to meet the projected demand for our machine tool products. Many of the key components used in our machines can be sourced from multiple suppliers. However, any prolonged interruption of operations or significant reduction in the capacity or performance capability at any of our manufacturing facilities, or at any of our key component suppliers, could have a material adverse effect on our operations.

Marketing and Distribution

We principally sell our products through more than 200 independent agents and distributors throughout North and South America (the "Americas"), Europe, and Asia. Although some distributors carry competitive products, we are the primary line for the majority of our distributors globally. We also have our own direct sales and service organizations in China, France, Germany, India, Italy, the Netherlands, Poland, Singapore, Taiwan, the United Kingdom, and certain parts of the United States, which are among the world's principal machine tool consuming markets.

Approximately 87% of the worldwide demand for computerized machine tools and computer control systems is outside of the U.S. In fiscal 2020, approximately 61% of our revenues were derived from customers outside of the Americas, (our U.S. selling divisions have responsibility for the Americas, which includes Canada, Mexico, Central America, South America, and the U.S.) No single end-user or distributor of our products accounted for more than 5% of our total sales and service fees. The end-users of our products are precision tool, die and mold manufacturers, independent job shops, specialized short-run production applications within large manufacturing operations, and manufacturing facilities that focus on medium to high run production, wherein they run large batches of a few types of parts instead of small batches of many different parts. Industries served include aerospace, defense, medical equipment, energy, automotive/ transportation, electronics, and computer industries.

We also sell our Autobend® computer control systems to OEMs of new metal fabrication machine tools that integrate them with their own products prior to the sale of those products to their own customers, to retrofitters of used metal fabrication machine tools that integrate them with those machines as part of the retrofitting operation, and to end-users that have an installed base of metal fabrication machine tools, either with or without related computer control systems.

Demand

We believe demand for our products is driven by advances in industrial technology and the related demand for automated process improvements. Other factors affecting demand include:

- the need to continuously improve productivity and shorten cycle time;
- an aging machine tool installed base that will require replacement with more advanced technology;
- the industrial development of emerging markets in Latin America, Asia, and Eastern Europe; and
- the declining supply of skilled machinists.

Demand for our products is also highly dependent upon economic conditions and the general level of business confidence, as well as such factors as production capacity utilization and changes in governmental policies regarding tariffs, corporate taxation, fluctuations in foreign currencies, and other investment incentives.

Competition

We compete with many other machine tool producers in the United States and foreign countries. Most of our competitors are larger and have greater financial resources than our company. Major worldwide competitors include DMG Mori Seiki Co., Ltd., Mazak, Haas Automation, Inc., Doosan, Okuma Machinery Works Ltd., Hyundai, and Feeler.

Through our subsidiary LCM, we compete with manufacturers of machine tool components and accessories such as IBAG, Kessler, Peron Speed, GSA Technology Co., LTD., and Duplomatic Automation.

We strive to compete by developing patentable software and other proprietary features that offer enhanced productivity, technological capabilities, and ease of use. We offer our products in a range of prices and capabilities to target a broad potential market. We also believe that our competitiveness is aided by our reputation for reliability and quality, our strong international sales and distribution organization, and our extensive customer service organization.

Intellectual Property

We consider the majority of our products to be proprietary. Various features of our Hurco and Milltronics control systems and machine tools employ technologies covered by patents and trademarks that are material to our business. We also own additional patents covering new technologies that we have acquired or developed, and that we are planning to incorporate into our control systems or products in the future.

Human Capital Resources

Hurco is committed to attracting and retaining the brightest and best talent. Therefore, investing, developing, and maintaining human capital is critical to our success. As of October 31, 2020, Hurco had approximately 710 full-time employees, of which approximately 29% are in the Americas, and 71% in other global regions. As a global industrial technology company, a large number of our employees are engineers or trained trade or technical workers focusing on advance manufacturing, and many of them hold masters', doctorate, or equivalent or higher degrees. Hurco emphasizes a number of measures and objectives in managing its human capital assets, including, among others, employee safety and wellness, talent acquisition and retention, employee engagement, development, and training, diversity and inclusion, and compensation and pay equity. None of our employees are covered by a collective-bargaining agreement. We have not experienced any employee-generated work stoppages or disruptions, and we consider our employee relations to be satisfactory.

COVID-19 and Employee Safety and Wellness

During the COVID-19 pandemic, the safety and well-being of our employees and their families has been a top priority as we continue to serve our customers – many of which are involved in the installation, production, and/or maintenance of critical infrastructure. Our global pandemic efforts include leveraging the advice and recommendations of infectious disease experts and organizations to establish appropriate safety standards and secure appropriate levels of personal protective equipment for our workforce. Based upon this advice and recommendations, we have adopted and implemented the Hurco COVID-19 Exposure Prevention, Preparedness, and Response Plan (the "Hurco COVID Response Plan") to outline the Company's policies and procedures designed to mitigate the potential for transmission of COVID-19 and prevent exposure to illness from certain other infectious diseases. Among other things, the Hurco COVID Response Plan memorializes employee, manager, and company responsibilities related to house-keeping and sanitization, hygiene and respiratory etiquette, use of personal protective equipment, employee and visitor screening procedures, leave policies and accommodations, remote working opportunities and infrastructure, and protocols for not reporting to work and/or when to return to work upon potential and/or confirmed COVID-19 exposure or infection. In addition to procuring personal protective equipment, automatic screening stations, and other preventative resources, the Company also leveraged Hurco technology and human capital to directly produce personal protective equipment on Hurco products and distributed the same to Hurco personnel and customers around the world.

Hurco has also implemented a wellness program aimed at engaging employees with healthcare providers to promote the proactive evaluation, tracking, and management of major health and wellness indicators, such as blood pressure, weight, and routine blood laboratory analysis. As part of this program, participants receive a discount to already-low employee premium responsibilities associated with generous medical and/or health insurance coverages.

Employee Engagement, Development, and Training

We encourage and support the growth and development of our employees and, wherever possible, seek to fill positions by promotion and transfer from within the organization. We advance continual learning and career development through ongoing performance and development conversations or evaluations with employees, internally and externally developed training programs, and educational reimbursement programs. In connection with the latter, reimbursement is available to employees enrolled in pre-approved degree or certification programs at accredited institutions that teach skills or knowledge relative to our business or otherwise to the development of the employee's skill set or knowledge base. In addition, we routinely invest in seminar, conference, and other training or continuing education events for our employees.

Diversity and Inclusion and Ethical Business Practices

Hurco is committed to fostering work environments that value and promote diversity and inclusion. This commitment includes providing equal access to, and participation in, equal employment opportunities, programs, and services without regard to race, religion, color, national origin, disability, sex, sexual orientation, gender identity, stereotypes or assumptions based thereon. We pride ourselves in the development and fair treatment of our global workforce, including generous healthcare and benefit programs for our employees, equal employment hiring practices and policies, anti-harassment, workforce safety, and anti-retaliation policies, and implementation of affirmative action programs. We welcome and celebrate our teams' differences, experiences, and beliefs, and we are investing in a more engaged, diverse, and inclusive workforce.

Hurco also fosters a strong corporate culture that promotes high standards of ethics and compliance for our businesses, including policies that set forth principles to guide employee, officer, director, and vendor conduct, such as our Code of Business Conduct and Ethics. We also maintain a whistleblower policy and anonymous hotline for the confidential reporting of any suspected policy violations or unethical busines conduct on the part of our businesses, employees, officers, directors, or vendors and provide training and education to our global workforce with respect to our Code of Business Conduct and Ethics and anti-corruption and anti-bribery policies. We intend to disclose any amendment to, or a waiver from, a provision of our Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions by posting such information on our website at www.hurco.com.

Backlog

For information on orders and backlog, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in this report.

Availability of Reports and Other Information

Our website can be found at www.hurco.com. We use this website as a means of disclosing pertinent information about the Company, free of charge, including:

- Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, proxy materials, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file that material with or furnish it to the SEC;
- Press releases on quarterly earnings, product announcements, legal developments and other material news that we may post from time to time;
- Corporate governance information including our Corporate Governance Principles, Code of Business Conduct and Ethics, information concerning our Board of Directors and its committees, including the charters of the Audit Committee, Compensation Committee, Nominating and Governance Committee and other governance-related policies; and
- Opportunities to sign up for email alerts and RSS feeds to have information provided in real time.

The information available on our website is not incorporated by reference in, or a part of, this or any other report we file with, or furnish to, the SEC.

Item 1A. RISK FACTORS

In this section, we describe what we believe to be the material risks related to our business. The risks and uncertainties described below or elsewhere in this report are not the only ones to which we are exposed. Additional risks and uncertainties not presently known and/or risks we currently deem immaterial may also adversely affect our business and operations. If any of the developments included in the following risks were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected.

Risks Related to the COVID-19 Pandemic

Public health emergencies or outbreaks of epidemics, pandemics, or contagious diseases have disrupted, and could continue to disrupt, our operations and materially and adversely affect our business, financial condition, and results of operations.

Widespread public health emergencies or outbreaks of epidemics, pandemics, or contagious diseases, such as the COVID-19 pandemic, have had, and could continue to have, a material adverse effect our business, financial condition, and results of operations. As a result of the COVID-19 pandemic, governmental authorities in jurisdictions where our facilities, customers, and suppliers are located have imposed mandatory closures, stay-at-home orders, and social distancing protocols that significantly limit the movement of people, goods, and services or otherwise restrict normal business operations or consumption patterns.

The COVID-19 pandemic has disrupted our operations and will likely continue to affect our business. Specifically, many of our sales and service organizations throughout the Americas, Europe and Asia Pacific have, at one time or another, been subject to temporary closures or otherwise been required to adopt remote work strategies. And, we may continue to experience additional temporary facility closures in response to government mandates and/or the incidence of additional contagion spread.

Additionally, the COVID-19 outbreak has disrupted and could in the future disrupt our ability to deliver and/or install machines, our procurement of supplies for our operations, and our customers' purchasing behavior or decisions. The COVID-19 pandemic has resulted in significantly reduced demand for our products, which could continue for an extended period of time. Any or all of the foregoing in jurisdictions where we or our customers, suppliers, or business partners are located have had and could continue to have a material adverse effect on our business, results of operations, cash flows, and financial condition.

Significant increases in economic and demand uncertainty have led to disruption and volatility in the global credit and financial markets, which increases the cost of capital and adversely impacts access to capital for both our company and our customers and suppliers. In addition, resulting changes in our access to or cost of capital, expected cash flows, or other factors could cause our goodwill to be impaired, resulting in a non-cash charge against results of operations to write down goodwill for the amount of the impairment. The duration and scope of the COVID-19 pandemic remains uncertain and, therefore, we cannot reasonably estimate its potential impact on our business, financial condition, or results of operations, but such impact has been, and could continue to be, material.

Risks Related to Our Industry and International Operations

The cyclical nature of our business causes fluctuations in our operating results.

The machine tool industry is highly cyclical and changes in demand can occur abruptly in the geographic markets we serve. As a result of this cyclicality, we have experienced significant fluctuations in our sales, which, in periods of reduced demand, have adversely affected our results of operations and financial condition, which could re-occur in the future.

Uncertain global economic conditions may adversely affect overall demand.

We typically sell the majority of our larger, high-performance VMX machines in Europe, which makes us particularly sensitive to economic and market conditions in that region. Economic uncertainty and business downturns in the U.S., European, and Asian Pacific markets have adversely affected, and may in the future adversely affect, our results of operations and financial condition.

Our international operations pose additional risks that may adversely impact sales and earnings.

During fiscal 2020, approximately 61% of our revenues were derived from sales to customers located outside of the Americas. In addition, our main manufacturing facilities are located outside of the U.S. Our international operations are subject to a number of risks, including:

- trade barriers;
- regional economic uncertainty and nationalistic trade strategies;
- differing labor regulation;
- governmental expropriation;
- domestic and foreign customs and tariffs;
- current and changing regulatory environments affecting the importation and exportation of products and raw materials;
- difficulty in obtaining distribution support;
- difficulty in staffing and managing widespread operations;
- differences in the availability and terms of financing;
- political instability and unrest;
- negative or unforeseen consequences resulting from the introduction, termination, modification, or renegotiation of international trade agreements or treaties or the imposition of countervailing measures or anti-dumping duties or similar tariffs;
- foreign exchange controls that make it difficult to repatriate earnings and cash;
- changes in tax regulations and rates in foreign countries; and
- changes in the European Union and Asia may adversely affect business activity and economic conditions globally and could continue to contribute to instability in global financial and foreign exchange markets, as well as disrupt the free movement of goods, services, and people between countries.

Quotas, tariffs, taxes, or other trade barriers could require us to attempt to change manufacturing sources, reduce prices, increase spending on marketing or product development, withdraw from or not enter certain markets, or otherwise take actions that could be adverse to us and/or that we might not be able to accomplish in a timely manner or at all. Also, in some foreign jurisdictions, we may be subject to laws limiting the right and ability of entities organized or operating therein to pay dividends or remit earnings to affiliated companies unless specified conditions are met. These factors may adversely affect our future operating results. The vast majority of our products are shipped from our manufacturing facility in Taiwan from the Port of Taichung to four ports of destination: Los Angeles, California; Tacoma, Washington; Venlo, the Netherlands; and Shanghai, China. Changes in customs requirements, as a result of national security or other constraints put upon these ports, may also have an adverse impact on our results of operations.

Additionally, we must comply with complex foreign and U.S. laws and regulations in a multitude of jurisdictions, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, other foreign laws prohibiting corrupt payments to governmental officials, and anti-competition regulations. Violations of these laws and regulations could result in fines and penalties, criminal sanctions, tariffs or duties, restrictions on our business conduct and on our ability to offer our products in one or more countries, and could also materially adversely affect our brand, our ability to attract and retain employees, our international operations, our business and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies.

Fluctuations in the exchange rates between the U.S. Dollar and any of several foreign currencies can increase our costs and decrease our revenues.

Our sales to customers located outside of the Americas, which generated approximately 61% of our revenues in fiscal 2020, are invoiced and received in several foreign currencies, primarily the Euro, Pound Sterling and Chinese Yuan. Therefore, our results of operations and financial condition are affected by fluctuations in exchange rates between these currencies and the U.S. Dollar, both for purposes of actual conversion and for financial reporting purposes. In addition, we are exposed to exchange risk associated with our purchases of materials and components for our Taiwan manufacturing operations, which are primarily made in the New Taiwan Dollar and the Euro. We hedge a portion of our foreign currency exposure with the purchase of forward exchange contracts. These hedge contracts only mitigate the impact of changes in foreign currency exchange rates that occur during the term of the related contract period and carry risks of counterparty failure. There can be no assurance that our hedges will have their intended effects.

We compete with larger companies that have greater financial resources, and our business could be harmed by competitors' actions.

The markets in which our products are sold are extremely competitive and highly fragmented. In marketing our products, we compete with other manufacturers in terms of quality, reliability, price, value, delivery time, service, and technological characteristics. We compete with a number of U.S., European, and Asian competitors, most of which are larger and have substantially greater financial resources and some of which have been supported by governmental or financial institution subsidies and, therefore, may have competitive advantages over us. Our financial resources are limited compared to those of most of our competitors, making it challenging to remain competitive.

The United Kingdom's withdrawal from the European Union could have an adverse impact on our business, financial condition, operating results, and cash flows.

On January 31, 2020, the United Kingdom ("U.K.") withdrew from the European Union ("E.U."), commonly referred to as "Brexit." The U.K. and E.U. agreed to participate in a transition period (the "Transition Period"), due to expire on December 31, 2020, to negotiate a trade agreement and other aspects of their future relationship. During the Transition Period, free trade has continued and will continue between the U.K. and E.U. without checks or extra charges. Following the Transition Period, the U.K. will no longer be a part of the single market and customs union of the E.U. In December 2020, the U.K. and E.U. announced they had entered into a post-Brexit deal on certain aspects of trade and other strategic and political issues (the "December 2020 Brexit Deal") – potentially avoiding some of the anticipated disruption of a no-deal, "hard" Brexit.

We have operations in the U.K. related to Hurco Europe Ltd. ("HEL"), our sales and service business unit located there. Changes resulting from Brexit and the newly-announced December 2020 Brexit Deal could subject us or our subsidiaries, including HEL, to increased risk, including, among others, changes in regulatory oversight, disruptions to supply, increases in prices, fees, taxes or tariffs on goods that are sold between the E.U. and the U.K., inspections or barriers on goods sold between the U.K. and the E.U., extra charges, and/or difficulty staffing. We are in the process of evaluating the potential impact of Brexit and the December 2020 Brexit Deal on us, our subsidiaries, including HEL, our business, and our future operations, operating results, and cash flows.

In addition, we do not know if the U.K. and E.U. will succeed in negotiating certain terms not addressed or covered by the December 2020 Brexit Deal. Changes in these other terms resulting from Brexit after the Transition Period could, similarly, subject us or our subsidiaries, including HEL, to increased risk, including, among others, changes in regulatory oversight, disruptions to supply, increases in prices, fees, taxes or tariffs on goods that are sold between the E.U. and the U.K., inspections or barriers on goods sold between the U.K. and the E.U., extra charges, and/or difficulty staffing.

Brexit may cause fluctuations in the value of the U.K. pound sterling and E.U. euro. Fluctuations in exchange rates between the U.S. dollar and foreign currencies may adversely affect our expenses, earnings, cash flows, results of operations, and revenues. Although we attempt to mitigate our exposure to some of our foreign currency exchange risks through hedging arrangements, our hedging arrangements may not target the potential impacts associated with fluctuations in currency resulting from Brexit or otherwise effectively offset the adverse financial impacts.

Operational and Strategic Risks

Our competitive position and prospects for growth may be diminished if we are unable to develop and introduce new and enhanced products on a timely basis that are accepted in the market.
The machine tool industry is subject to technological change, evolving industry standards, changing customer requirements, and improvements in and expansion of product offerings. Our ability to anticipate changes in technology, industry standards, customers' requirements, and competitors' product offerings, and to develop and introduce new and enhanced products on a timely basis that are accepted in the market, are significant factors in maintaining and improving our competitive position and growth prospects, and we may not be able to accomplish those actions on a timely basis or at all. If the technologies or standards used in our products become obsolete or fail to gain widespread commercial acceptance, our business would be materially adversely affected. Developments by others may render our products or technologies obsolete or noncompetitive.

Our continued success depends on our ability to protect our intellectual property.
Our future success depends, in part, upon our ability to protect our intellectual property. We rely principally on nondisclosure agreements, other contractual arrangements, trade secret law, trademark registration and patents to protect our intellectual property. However, these measures may be inadequate to protect our intellectual property from infringement by others or prevent misappropriation of our proprietary rights. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as do U.S. laws. Our inability to protect our proprietary information and enforce our intellectual property rights through infringement proceedings could have a material adverse effect on our business, financial condition, and results of operations.

We are also subject to claims that we may be infringing certain patent or other intellectual property rights of third parties. While it is not possible to predict the outcome of patent and other intellectual property litigation, such litigation could result in our payment of significant monetary damages and/or royalty payments, negatively impact our ability to sell current or future products, reduce the market value of our products and services, lower our profits, and could otherwise have an adverse effect on our business, financial condition, and results of operations.

Disruptions in our manufacturing operations or the supply of materials and components could adversely affect our business, results of operations and financial condition.
We depend on our wholly-owned subsidiaries, HML, NHML, Milltronics, and LCM, to produce our machine tools and electro-mechanical components and accessories in Taiwan, China, the U.S., and Italy, respectively. We also depend on our 35% owned affiliate, HAL, and other key third-party suppliers to produce our computer control systems and key components, such as motors and drives, for our machine tools. An unplanned interruption in manufacturing or supply, or significant increase in price from third party suppliers, would have a material adverse effect on our business, results of operations, and financial condition. Such an interruption or increase in price could result from various factors, including a change in the political environment, such as trade wars or tariffs, a natural disaster, such as an earthquake, typhoon, or tsunami, or vulnerabilities in our technology or cyber-attacks against our information systems, such as ransomware attacks. Also, any interruption in service by one of our key component suppliers, if prolonged, could have a material adverse effect on our business, results of operations and financial condition.

Fluctuations in the price of raw materials, especially steel and iron, could adversely affect our sales, costs and profitability.
We manufacture products with a high iron and steel content. The availability and price for these and other raw materials are subject to volatility due to worldwide supply and demand forces, speculative actions, inventory levels, exchange rates, production costs, anticipated or perceived shortages, and tariffs or other trade restrictions. In some cases, those cost increases can be passed on to customers in the form of price increases; in other cases, they cannot. If the prices of raw materials increase and we are not able to charge our customers higher prices to compensate, our results of operations would be adversely affected.

The unanticipated loss of current members of our senior management team and other key personnel may adversely affect our operating results.

The unexpected loss of members of our senior management team or other key personnel could impair our ability to carry out our business plan. We believe that our future success will depend, in part, on our ability to attract and retain highly skilled and qualified personnel. The loss of senior management or other key personnel may adversely affect our operating results as we incur costs to replace the departed personnel and potentially lose opportunities in the transition of important job functions.

Acquisitions could disrupt our operations and harm our operating results.

We may seek additional opportunities to expand our product offerings or the markets we serve by acquiring other companies, product lines, technologies, and personnel. Acquisitions involve numerous risks, including the following

- difficulties integrating the operations, technologies, products, and personnel of an acquired company or being subjected to liability for the target's pre-acquisition activities or operations as a successor in interest;
- diversion of management's attention from normal daily operations of the business;
- potential difficulties completing projects associated with in-process research and development;
- difficulties entering markets in which we have no or limited prior experience, especially when competitors in such markets have stronger market positions;
- initial dependence on unfamiliar supply chains or relatively small supply partners;
- insufficient revenues to offset increased expenses associated with acquisitions;
- the potential loss of key employees of the acquired companies; and
- the potential for recording goodwill and intangible assets that later can be subject to impairment.

Acquisitions may also cause us to:

- issue common stock that would dilute our current shareholders' percentage ownership;
- assume or otherwise be subject to liabilities of an acquired company;
- record goodwill and non-amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges;
- incur amortization expenses related to certain intangible assets;
- incur large acquisition and integration costs, immediate write-offs, and restructuring and other related expenses; and
- become subject to litigation.

For example, in the fourth quarter of fiscal 2020, we recorded a one-time $4.9 million non-cash impairment charge on goodwill arising from prior acquisitions. The goodwill impairment charge was attributable primarily to the prolonged ongoing uncertainty in the global markets due to the COVID-19 pandemic.

Mergers and acquisitions are inherently risky. No assurance can be given that our acquisitions will be successful. Further, no assurance can be given that an acquisition will not adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate an acquisition could harm our business and operating results in a material way. Even when an acquired company has already developed and marketed products, there can be no assurance that enhancements to those products will be made in a timely manner or that pre-acquisition due diligence will identify all possible issues that might arise with respect to such products or the acquired business.

Risks related to new product development also apply to acquisitions. For additional information, please see the risk factor entitled, "Due to future changes in technology, changes in market demand, or changes in market expectations, portions of our inventory may become obsolete or excessive."

Failure to comply with data privacy and security laws and regulations could adversely affect our operating results and business.

A number of U.S. states have enacted data privacy and security laws and regulations that govern the collection, use, disclosure, transfer, storage, disposal, and protection of sensitive personal information, such as social security numbers, financial information and other personal information. For example, several U.S. territories and all 50 states now have data breach laws that require timely notification to individual victims, and at times regulators, if a company has experienced the unauthorized access or acquisition of sensitive personal data. Other state laws include the California Consumer Privacy Act ("CCPA"), which was signed into law on June 28, 2018 and largely took effect on January 1, 2020. The CCPA, among other things, contains new disclosure obligations for businesses that collect personal information about California residents and affords those individuals new rights relating to their personal information that may affect our ability to use personal information or share it with our business partners. Regulations from the California Attorney General have not been finalized, and it is expected that additional amendments to the CCPA will be introduced in 2020. Meanwhile, over fifteen other states have considered privacy laws like the CCPA, We will continue to monitor and assess the impact of these state laws, which may impose substantial penalties for violations, impose significant costs for investigations and compliance, allow private class-action litigation and carry significant potential liability for our business.

Outside of the U.S., data protection laws, including the EU General Data Protection Regulation (the "GDPR"), also apply to some of our operations. Legal requirements in these countries relating to the collection, storage, processing and transfer of personal data continue to evolve. The GDPR imposes, among other things, data protection requirements that include strict obligations and restrictions on the ability to collect, analyze and transfer EU personal data, a requirement for prompt notice of data breaches to data subjects and supervisory authorities in certain circumstances, and possible substantial fines for any violations (including possible fines for certain violations of up to the greater of 20 million Euros or 4% of total company revenue). Other governmental authorities around the world are considering similar types of legislative and regulatory proposals concerning data protection.

The interpretation and enforcement of the laws and regulations described above are uncertain and subject to change, and may require substantial costs to monitor and implement compliance with any additional requirements. Failure to comply with U.S. and international data protection laws and regulations could result in government enforcement actions (which could include substantial civil and/or criminal penalties), private litigation and/or adverse publicity and could negatively affect our operating results and business.

If our network and system security measures are breached and unauthorized access is obtained to our data, to our employees', customers' or vendors' data, or to our critical information technology systems, we may incur legal and financial exposure and liabilities.

As part of our business, we store our data and certain data about our employees, customers and vendors in our information technology systems. If a third party gained unauthorized access to our data, including any data regarding our employees, customers or vendors, the security breach could expose us to risks, including loss of business, litigation and possible liability. Our security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise. Third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as usernames, passwords or other information to gain access to our customers' data or our data, including our intellectual property and other confidential business information, or our information technology systems. In addition, given their size and complexity, our information systems could be vulnerable to service interruptions or to security breaches from inadvertent or intentional actions by our employees, third-party vendors and/or business partners, or from cyber-attacks by malicious third parties attempting to gain unauthorized access to our products, systems or confidential information.

Like other public, multi-national corporations, we have and/or will continue to be subject to, instances of phishing attacks on our email systems, other cyber-attacks, including state-sponsored cyber-attacks, industrial espionage, insider threats, computer denial-of-service attacks, computer viruses, ransomware and other malware, wire fraud or other cyber incidents.

Although we work closely with industry recognized manufacturers supporting the security measures we have employed in an effort to keep our technology current with the ongoing threats, the techniques used to obtain unauthorized access, or to sabotage systems, are becoming more sophisticated, frequent and adaptive, and therefore we may be unable to anticipate these techniques or to implement adequate preventative measures. Any security breach could result in: the unauthorized publication of our confidential business or proprietary information; the unauthorized release of employee, customer or vendor data and payment information; a loss of confidence by our customers; damage to our reputation; a disruption to our business; litigation and legal liability; and a negative impact on our future sales. In addition, the cost and operational consequences of implementing further data protection or data restoration measures could be significant.

<u>Financial, Credit, and Liquidity Risks</u>

Due to future changes in technology, changes in market demand, or changes in market expectations, portions of our inventory may become obsolete or excessive.
The technology within our products evolves, and we periodically bring new versions of our machines to market. The phasing out of an old product involves estimating the amount of inventory required to satisfy the final demand for those machines and to satisfy future repair part needs. Based on changing customer demand and expectations of delivery times for repair parts, we may find that we have either obsolete or excess inventory on hand. Because of unforeseen future changes in technology, market demand or competition, we might have to write off unusable inventory, which would adversely affect our results of operations.

Assets have become, and may become further, impaired, requiring us to record a significant charge to earnings.
We review our assets, including intangible assets such as goodwill, for indications of impairment annually and when events or changes in circumstances indicate the carrying value may not be recoverable. We could be required to record a significant charge to earnings in our financial statements for the period in which any impairment of these assets is determined, which would adversely affect our results of operations for that period. In the fourth quarter of fiscal 2020, we recorded a one-time $4.9 million non-cash goodwill impairment charge arising from prior acquisitions, and we may be required to record impairment charges on other assets in the future.

We may experience negative or unforeseen tax consequences.
We may experience negative or unforeseen tax consequences, which could materially adversely affect our results of operations. We review the probability of the realization of our net deferred tax assets each period based on forecasts of taxable income in both the U.S. and foreign jurisdictions. This review uses historical results, projected future operating results based upon approved business plans, eligible carryforward periods, tax-planning opportunities and other relevant considerations. Adverse changes in our profitability and financial outlook in the U.S. or foreign jurisdictions may require the creation of a valuation allowance to reduce our net deferred tax assets. Such changes could result in material non-cash expenses in the period in which the changes are made and could have a material adverse impact on our results of operations and financial condition. We also earn a significant amount of our operating income from outside the U.S., and any repatriation of funds representing earnings of foreign subsidiaries may significantly impact our effective tax rates.

We are subject to taxes in the U.S. and numerous foreign jurisdictions. Due to economic and political conditions, tax rates in various jurisdictions, including the U.S., may be subject to significant change. Our effective tax rates could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation, including tax laws in the U.S. Similarly, changes in tax laws or regulations, including those in the U.S., could negatively impact our effective tax rate and results of operations. A change in a statutory tax rate may result in the revaluation of our deferred tax assets and liabilities related to the relevant jurisdiction in which the new tax law is enacted, potentially resulting in a material expense or benefit recorded in our Consolidated Statements of Income for that period.

In December 2017, the U.S. passed the Tax Cuts and Jobs Act. The Company has evaluated and recorded the aggregate impact of this passed legislation on our financial condition, cash flows and results of operations. Any benefits associated with lower U.S. corporate tax rates could be reduced or outweighed by other tax changes adverse to our business or operations, such as new or additional taxes imposed on earnings and/or reinvested earnings of our foreign subsidiaries. The aggregate impact of such legislation, including adverse future regulatory guidance, could have a material adverse impact on our cash flows and results of operations.

Other changes in the tax laws of the jurisdictions where we do business, including an increase in tax rates or an adverse change in the treatment of an item of income or expense, could result in a material increase in our tax expense. For example, changes in the tax laws of foreign jurisdictions could arise as a result of the “base erosion and profit shifting” project undertaken by the Organisation for Economic Co-operation and Development (“OECD”). The OECD, which represents a coalition of member countries, has recommended changes to numerous long-standing tax principles. These changes, as adopted by countries, could increase tax uncertainty and may adversely affect our provision for income taxes.

An increase in the LIBOR rate or a phase-out or replacement of LIBOR with a benchmark rate that is higher or more volatile than the LIBOR rate could increase our cost of borrowing and could adversely affect our financial position.

The interest rates applicable to certain of our debt obligations are based on a fluctuating rate of interest determined by reference to the London Interbank Offered Rate (“LIBOR”). Any increase in interest rates applicable to our debt obligations would increase our cost of borrowing and could adversely affect our financial position, results of operations, or cash flows. Further, in July 2017, the U.K.’s Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. The cessation date for submission and publication of rates for certain tenors of LIBOR has since been extended by the ICE Benchmark Administration until mid-2023. In response to concerns regarding the future of LIBOR, the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York convened the Alternative Reference Rates Committee (“ARRC”) to identify alternatives to LIBOR. The ARRC has recommended a benchmark replacement procedures to assist issuers in continued capital market entry while safeguarding against LIBOR’s discontinuation. The initial steps in the ARRC’s recommended provision reference variations of the Secured Overnight Financing Rate (“SOFR”). Additionally, it is uncertain if applicable tenors of LIBOR will cease to exist after calendar year 2021, or whether additional reforms to LIBOR may be enacted, or whether alternative reference rates will gain market acceptance as a replacement for LIBOR. At this time, it is not possible to predict whether SOFR will attain market traction as a LIBOR replacement. Additionally, it is uncertain if applicable tenors of LIBOR will cease to exist after calendar year 2021, or whether additional reforms to LIBOR may be enacted, or whether alternative reference rates will gain market acceptance as a replacement for LIBOR. At this time, all of our debt obligations that are based on LIBOR will mature at the end of 2021, but in anticipation of LIBOR’s phase out, the Second Amendment to our [2018 Credit Agreement] provides for alternative benchmark rates (including a hard-wired SOFR-based alternative benchmark) as well as transition mechanisms for selecting another benchmark replacement rate for LIBOR, with such benchmark replacement rate to be mutually agreed with the lender. We will continue to monitor the situation and address the potential reference rate changes in future debt obligations that we may incur. Accordingly, the potential effect of the phase-out or replacement of LIBOR on our cost of capital cannot yet be determined. Further, the use of an alternative base rate or a benchmark replacement rate as a basis for calculating interest with respect to any outstanding variable rate indebtedness could lead to an increase in the interest we pay and a corresponding increase in our costs of capital or otherwise have a material adverse impact on our business, financial condition or results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The following table sets forth the principal use, location, and size of each of our facilities:

Principal Uses	Locations	Square Footage
Corporate headquarters, design and engineering, product testing, sales and marketing, application engineering, customer service, manufacturing and assembly	Indianapolis, Indiana, U.S.	165,000
Manufacturing, assembly, sales, application engineering and customer service	Taichung, Taiwan	384,700
	Waconia, Minnesota, U.S.	61,000
	Castell'Alfero, Italy	32,300
Manufacturing	Ningbo, China	31,000
Sales, application engineering, customer service, and warehousing	High Wycombe, England	26,300
	Paris, France	12,800
	Munich and Verl, Germany	22,400
	Milan, Italy	12,900
	Venlo, the Netherlands	9,700
	Toh Guan, Singapore	3,900
	Shanghai, Qingdao and Kunshan, China	10,800
	Chennai and Pune, India	8,900
	Liegnitz, Poland	1,000
	Grand Rapids, Michigan, U.S.	3,700
	Los Angeles, California, U.S.	11,400
	Pittsburg, Pennsylvania, U.S.	13,000

We own the Indianapolis facility and lease all other facilities. The leases have terms expiring at various dates ranging from January 2021 to December 2029. We believe that all of our facilities are well maintained and are adequate for our needs now and in the foreseeable future. We do not believe that we would experience significant difficulty in replacing any of the currently leased facilities if any of our leases were not renewed at expiration.

Item 3. LEGAL PROCEEDINGS

From time to time, we are involved in various claims and lawsuits arising in the normal course of business. Pursuant to applicable accounting rules, we accrue the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. We maintain insurance policies for such matters, and we record insurance recoveries when we determine such recovery to be probable. We do not expect any of these claims, individually or in the aggregate, to have a material adverse effect on our consolidated financial position or results of operations. We believe that the ultimate resolution of claims for any losses will not exceed our insurance policy coverages.

Item 4. MINE SAFETY DISCLOSURES

None.

Information about our Executive Officers

Executive officers are appointed each year by the Board of Directors following the Annual Meeting of Shareholders to serve during the ensuing year and until their respective successors are elected and qualified. There are no family relationships between any of our executive officers or between any of them and any of the members of the Board of Directors.

The following information sets forth as of October 31, 2020, the name of each executive officer and his or her age, tenure as an officer, principal occupation and business experience:

Name	Age	Position(s) with the Company
Michael Doar	65	Chairman of the Board and Chief Executive Officer
Gregory S. Volovic	56	Director, President and Chief Operating Officer
Sonja K. McClelland	49	Executive Vice President, Secretary, Treasurer and Chief Financial Officer

Michael Doar was elected Chairman of the Board and Chief Executive Officer on November 14, 2001. Mr. Doar had held various management positions with Ingersoll Milling Machine Company from 1989 until 2001. Mr. Doar has been a director of Hurco since 2000.

Gregory S. Volovic has been employed by us since March 2005. He was elected as our President in March 2013 and elected and appointed as a director and our Chief Operating Officer, respectively, in March 2019. Mr. Volovic has held various positions within our company, most recently Executive Vice President, Software and Engineering before becoming President in 2013. Prior to joining us, Mr. Volovic held various positions with Thomson, Inc. including Director of E-Business, Engineering, and Information Technology. Prior to that, Mr. Volovic was employed by Unisys Corporation.

Sonja K. McClelland has been employed by us since September 1996 and was appointed as Vice President, Secretary, Treasurer, and Chief Financial Officer in March 2014, and then as Executive Vice President in March 2017. Ms. McClelland served as our Corporate Accounting Manager from September 1996 to 1999, as Division Controller for Hurco USA from September 1999 to November 2004, and as our Corporate Controller and Assistant Secretary from November 2004 to March 2014. Prior to joining us, Ms. McClelland was employed by an international public accounting firm.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the Nasdaq Global Select Market under the symbol “HURC”.

Holders

There were 102 holders of record of our common stock as of December 31, 2020.

Dividend Policy

We began declaring cash dividends on our common stock in the third quarter of fiscal 2013, and we expect to continue to declare dividends on a quarterly basis; however, the declaration and amount of any future cash dividends will be subject to the sole discretion of our Board of Directors and will depend upon many factors, including our results of operations, financial condition, capital requirements, regulatory and contractual restrictions, our business strategy and other factors deemed relevant by our Board of Directors from time to time.

Our payment of dividends is limited by our U.S. credit agreement, as further described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 5 of Notes to Consolidated Financial Statements.

Other Information

During the period covered by this report, we did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

The disclosure under the caption "Equity Compensation Plan Information at 2020 Fiscal Year End" in our 2021 proxy statement is incorporated by reference in Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The performance graph information is included in Item 9B. Other Information.

Item 6. SELECTED FINANCIAL DATA

The Selected Financial Data presented below has been derived from our consolidated financial statements for the fiscal years indicated and should be read in conjunction with the consolidated financial statements and related notes set forth elsewhere herein and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended October 31,				
	2020	2019	2018	2017	2016
	(In thousands, except per share amounts)				
Statement of Operations Data:					
Sales and service fees	$ 170,627	$ 263,377	$ 300,671	$ 243,667	$ 227,289
Gross profit	36,457	77,208	91,806	70,564	70,440
Selling, general and administrative expenses	41,416	54,668	58,010	49,661	50,824
Goodwill impairment	4,903	—	—	—	—
Operating income (loss)	(9,862)	22,540	33,796	20,903	19,616
Other income (expense)	(941)	784	(1,300)	(187)	(731)
Net income (loss)	(6,247)	17,495	21,490	15,115	13,292
Earnings (loss) per common share - diluted	$ (0.93)	$ 2.55	$ 3.15	$ 2.25	$ 1.99
Weighted average common shares outstanding-diluted	6,670	6,815	6,771	6,680	6,642
Dividends declared per common share	$ 0.51	$ 0.47	$ 0.43	$ 0.39	$ 0.35

	As of October 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands)				
Balance Sheet Data:					
Current assets	$ 251,411	$ 261,861	$ 281,435	$ 246,415	$ 218,381
Current liabilities	50,437	54,632	86,803	70,889	57,968
Working capital	200,974	207,229	194,632	175,526	160,413
Current ratio	5.0	4.8	3.2	3.5	3.8
Total assets	295,655	301,065	315,407	277,808	251,949
Non-current liabilities	14,070	6,188	5,751	3,834	8,506
Total debt	—	—	1,434	1,507	1,476
Shareholders' equity	231,148	240,245	222,853	203,085	185,475

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE OVERVIEW

Hurco Companies, Inc. is an international, industrial technology company operating in a single segment. We design, manufacture and sell computerized (i.e., CNC) machine tools, consisting primarily of vertical machining centers (mills) and turning centers (lathes), to companies in the metal cutting industry through a worldwide sales, service and distribution network. Although the majority of our computer control systems and software products are proprietary, they predominantly use industry standard personal computer components. Our computer control systems and software products are primarily sold as integral components of our computerized machine tool products. We also provide machine tool components, automation integration equipment and solutions for job shops, software options, control upgrades, accessories and replacement parts for our products, as well as customer service, training and applications support.

The following overview is intended to provide a brief explanation of the principal factors that have contributed to our recent financial performance. This overview is intended to be read in conjunction with the more detailed information included in our financial statements that appear elsewhere in this report.

The market for machine tools is international in scope. We have both significant foreign sales and significant foreign manufacturing operations. During fiscal 2020, approximately 46% of our revenues were attributable to customers in Europe, where we typically sell more of our higher-performance, higher-priced VMX series machines. Additionally, approximately 15% of our revenues were attributable to customers in the Asia Pacific region, where we encounter greater pricing pressures.

We have three brands of CNC machine tools in our product portfolio: Hurco is the technology innovation brand for customers who want to increase productivity and profitability by selecting a brand with the latest software and motion technology. Milltronics is the value-based brand for shops that want easy-to-use machines at competitive prices. The Takumi brand is for customers that need very high speed, high efficiency performance, such as that required in the production, die and mold, aerospace, and medical industries. Takumi machines are equipped with industry standard controls instead of the proprietary controls found on Hurco and Milltronics machines. These three brands of CNC machine tools are responsible for the vast majority of our revenue. However, we have added other non-Hurco branded products to our product portfolio that have contributed product diversity and market penetration opportunity. These non-Hurco branded products are sold by our wholly-owned distributors and are comprised primarily of other general-purpose vertical milling centers and lathes, laser cutting machines, waterjet cutting machines, CNC grinders, compact horizontal machines, metal cutting saws and CNC swill lathes. ProCobots is our wholly-owned subsidiary that provides automation solutions that can be integrated with any machine tool. In addition, through our wholly-owned subsidiary LCM, we produce high value machine tool components and accessories.

We principally sell our products through more than 200 independent agents and distributors throughout the Americas, Europe, and Asia. Although some distributors carry competitive products, we are the primary line for the majority of our distributors globally. We also have our own direct sales and service organizations in China, France, Germany, India, Italy, the Netherlands, Poland, Singapore, Taiwan, the United Kingdom, and certain parts of the United States, which are among the world's principal machine tool consuming markets. The vast majority of our machine tools are manufactured to our specifications primarily by our wholly-owned subsidiary in Taiwan, HML. Machine castings to support HML’s production are manufactured at our wholly-owned subsidiary in Ningbo, China, NHML. Components to support our SRT line of five-axis machining centers, such as the direct drive spindle, swivel head, and rotary table, are manufactured by our wholly-owned subsidiary in Italy, LCM.

Our sales to foreign customers are denominated, and payments by those customers are made, in the prevailing currencies in the countries in which those customers are located (primarily the Euro, Pound Sterling, and Chinese Yuan). 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 financial statements as reported under U.S. Generally Accepted Accounting Principles. For example, when the U.S. Dollar weakens in value relative to a foreign currency, sales made, and expenses incurred, in that currency when translated to U.S. Dollars for reporting in our financial statements, are higher than would be the case when the U.S. Dollar is stronger. In the comparison of our period-to-period results, we discuss the effect of currency translation on those results, which reflect translation to U.S. Dollars at exchange rates prevailing during the period covered by those financial statements.

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

We operate in the industrial equipment industry and have a global footprint that subjects us to various business risks in many different countries. The COVID-19 pandemic has had a significant impact on our business and industry during fiscal 2020. Beginning in early 2020, governmental authorities in many of the major global machine tool markets implemented mandatory stay-at-home or shelter orders requiring most businesses to close or to significantly limit operations, resulting in a sudden decrease in demand for many goods and services. Although the mandatory stay-at-home or shelter orders in many jurisdictions permitted our local operations to continue as an essential business or a supplier to critical infrastructure industries or otherwise with remote work capabilities, many of our customers experienced, and continue to experience, significant disruptions in their business operations and normal purchasing cycles. We cannot predict the duration or scope of impact of the COVID-19 pandemic and the negative financial impact to our results cannot be reasonably estimated, but we believe the impact has been material thus far with regard to revenues, income from operations, and cash flow from operations and could continue to be material in the near future. To date, we have not experienced material disruptions in our supply chain and have not completely ceased operations at any of our global facilities, but have implemented remote working capabilities, as appropriate or otherwise required under local law. We have also implemented reductions in headcount and discretionary spending, delayed capital expenditures, and pulled back production activities in an effort to weather the adverse business climate. We have also received stimulus in various countries to support operations and implemented tax deferrals and provisions that were available to us. We will continue to evaluate and disclose any trends and uncertainties that have had or are reasonably expected to have, a material effect on our consolidated financial position, results of operations, changes in shareholders' equity and cash flows for and at the end of each interim period.

Results of Operations

The following table presents, for the fiscal years indicated, selected items from the Consolidated Statements of Operations expressed as a percentage of our worldwide sales and service fees and the year-to-year percentage changes in the dollar amounts of those items.

	Percentage of Revenues			Year-to-Year % Change Increase/Decrease	
	2020	2019	2018	'20 vs. '19	'19 vs. '18
Sales and service fees	100 %	100 %	100 %	(35)%	(12)%
Gross profit	21 %	29 %	31 %	(53)%	(16)%
Selling, general and administrative expenses	24 %	21 %	19 %	(24)%	(6)%
Goodwill impairment	3 %	—	—	100 %	—
Operating income (loss)	(6)%	9 %	11 %	(144)%	(33)%
Net income (loss)	(4)%	7 %	7 %	(136)%	(19)%

Fiscal 2020 Compared to Fiscal 2019

Sales and Service Fees. Sales and service fees for fiscal 2020 were $170.6 million, a decrease of $92.8 million, or 35%, compared to fiscal 2019, and included a favorable currency impact of $0.6 million, or less than 1%, when translating foreign sales to U.S. Dollars for financial reporting purposes.

Net Sales and Service Fees by Geographic Region

The following table sets forth net sales and service fees by geographic region for the fiscal years ended October 31, 2020 and 2019 (dollars in thousands):

	Fiscal Year Ended October 31,				Increase/Decrease	
	2020		2019		Amount	%
Americas	$ 67,498	39 %	$ 99,064	37 %	$ (31,566)	(32)%
Europe	77,936	46 %	133,675	51 %	(55,739)	(42)%
Asia Pacific	25,193	15 %	30,638	12 %	(5,445)	(18)%
Total	$ 170,627	100 %	$ 263,377	100 %	$ (92,750)	(35)%

Sales in the Americas for fiscal 2020 decreased by 32%, compared to fiscal 2019, primarily due to a reduced volume of shipments of Hurco, Milltronics, and Takumi machines. The reduction in shipment volume was mainly attributable to government-mandated COVID-19 stay-at-home or shelter orders imposed across the region during portions of fiscal 2020. Additionally, sales in the Americas in the first half of fiscal 2019 benefitted from strong demand and backlog generated in the fourth quarter of fiscal 2018.

European sales for fiscal 2020 decreased by 42%, compared to fiscal 2019, and included a favorable currency impact of less than 1%, when translating foreign sales to U.S. Dollars for financial reporting purposes. The decrease in European sales for fiscal 2020 was primarily attributable to a reduced volume of shipments of Hurco and Takumi machines and a decrease in sales of electro-mechanical components and accessories manufactured by our wholly-owned Italian subsidiary, LCM. Like the Americas, the reduction in shipment volume was mainly driven by government-mandated COVID-19 stay-at-home or shelter orders or other similar operating restrictions imposed across the region during portions of fiscal 2020. Additionally, sales in Europe during the first half of fiscal 2019 benefitted from higher demand and backlog coming off fiscal 2018, the recent peak of the European market, particularly for Germany.

Asian Pacific sales for fiscal 2020 decreased by 18%, compared to fiscal 2019, and included a favorable currency impact of less than 1%, when translating foreign sales to U.S. Dollars for financial reporting purposes. The year-over-year decrease in Asian Pacific sales resulted primarily from a reduction in the volume of shipments of Hurco and Takumi machines in all Asian Pacific regions, where our customers are located, as many customers were negatively impacted by government-mandated COVID-19 stay-at-home orders or similar operating restrictions during the first six months of fiscal 2020.

Net Sales and Service Fees by Product Category

The following table sets forth net sales and service fees by product group and services for the fiscal years ended October 31, 2020 and 2019 (dollars in thousands):

	Fiscal Year Ended October 31,				Increase/Decrease	
	2020		2019		Amount	%
Computerized Machine Tools	$ 139,577	82 %	$ 223,735	85 %	$ (84,158)	(38)%
Computer Control Systems and Software †	1,699	1 %	2,818	1 %	(1,119)	(40)%
Service Parts	22,484	13 %	27,854	11 %	(5,370)	(19)%
Service Fees	6,867	4 %	8,970	3 %	(2,103)	(23)%
Total	$ 170,627	100 %	$ 263,377	100 %	$ (92,750)	(35)%

† Amounts shown do not include computer control systems and software sold as an integrated component of computerized machine systems.

Sales of computerized machine tools and computer control systems and software for fiscal 2020 decreased by 38% and 40%, respectively, compared to fiscal 2019, and each included a favorable currency impact of less than 1%. Sales of service parts and service fees decreased by 19% and 23%, respectively, during fiscal 2020, compared to fiscal 2019, and each included a favorable currency impact of less than 1%. The decreases in all product categories were primarily due to a reduced volume of shipments of Hurco, Milltronics and Takumi machines, parts, and services provided, as well as the impact of government- mandated COVID-19 restrictions across all regions.

Orders and Backlog. Orders for fiscal 2020 were $166.9 million, a decrease of $74.2 million, or 31%, compared to fiscal 2019, and included a favorable currency impact of $1.2 million, or less than 1%, when translating foreign orders to U.S. Dollars.

The following table sets forth new orders booked by geographic region for the fiscal years ended October 31, 2020 and 2019 (dollars in thousands):

	Fiscal Year Ended October 31,				**Increase/Decrease**	
	2020		**2019**		**Amount**	**%**
Americas	$ 67,577	41 %	$ 89,136	37 %	$ (21,559)	(24)%
Europe	77,079	46 %	120,191	50 %	(43,112)	(36)%
Asia Pacific	22,282	13 %	31,779	13 %	(9,497)	(30)%
Total	$ 166,938	100 %	$ 241,106	100 %	$ (74,168)	(31)%

Orders in the Americas for fiscal 2020 decreased by 24%, compared to fiscal 2019, primarily due to decreased customer demand for Hurco, Milltronics and Takumi machines during the COVID-19 pandemic. Orders in the Americas of $17.2 million for the fourth quarter of fiscal 2020 reflected a slight improvement over orders in the second and third quarters of fiscal 2020 of $15.9 million and $16.3 million, respectively, but fell short of pre-pandemic order levels in the first quarter of $18.2 million.

European orders for fiscal 2020 decreased by 36%, compared to fiscal 2019, and included a favorable currency impact of less than 1%, when translating foreign orders to U.S. Dollars. The year-over-year decrease in orders was driven primarily by decreased customer demand for Hurco and Takumi machines, and a decrease in sales of electro-mechanical components and accessories manufactured by LCM, during the COVID-19 pandemic. European orders for the fourth quarter of fiscal 2020 were the highest quarter of the fiscal year at $25.6 million, rebounding from the fiscal year low third quarter orders of $14.2 million, second quarter orders of $15.6 million, and first quarter pre-pandemic orders of $21.7 million.

Asian Pacific orders for fiscal 2020 decreased by 30%, compared to fiscal 2019, and included a favorable currency impact of less than 1%, when translating foreign orders to U.S. Dollars. The year-over-year decrease in Asian Pacific orders was driven primarily by a reduction in customer demand for Hurco and Takumi machines during the COVID-19 pandemic throughout the Asian Pacific region where our customers are located. Asian Pacific orders for the fourth quarter of fiscal 2020 reflected the same trend as the European orders, marking the highest quarter of orders of fiscal 2020 at $5.9 million, outpacing the third quarter orders of $5.6 million, second quarter orders of $5.1 million, and first quarter orders of $5.7 million.

Backlog at October 31, 2020 decreased to $29.9 million from $32.7 million at October 31, 2019, primarily due to a reduction in customer demand during fiscal 2020. We do not believe backlog is a useful measure of past performance or indicative of future performance. Backlog orders as of October 31, 2020 are expected to be fulfilled in fiscal 2021.

Gross Profit. Gross profit for fiscal 2020 was $36.5 million, or 21% of sales, compared to $77.2 million, or 29% of sales, for fiscal 2019. The decrease in gross profit as a percentage of sales was primarily due to lower sales across all sales regions, particularly the European sales region where we typically sell higher-priced, higher-performance machines, competitive pricing pressures on a global basis, and the negative impact of fixed costs leveraged against lower sales and production volumes.

Operating Expenses. Selling, general, and administrative expenses for fiscal 2020 were $41.4 million, or 24% of sales, compared to $54.7 million, or 21% of sales, for fiscal 2019, and included an unfavorable currency impact of $0.3 million, when translating foreign expenses to U.S. Dollars for financial reporting purposes. Selling, general, and administrative expenses for fiscal 2020 trended downward as a percentage of sales from the first half of fiscal 2020 to the second half of fiscal 2020 by approximately 5% due to the implementation of cost reduction plans, including changes in employee headcount, decreases in incentive and performance compensation, and reductions in other discretionary spending, partially offset by increased operating expenses associated with ProCobots, the U.S.-based automation integration business acquired by Hurco in the fourth quarter of fiscal 2019, and the unfavorable currency impact when translating foreign expenses to U.S Dollars for financial reporting purposes.

Operating Income (Loss). The operating loss for fiscal 2020 was $9.9 million, or (6%) of sales, compared to operating income of $22.5 million, or 9% of sales, for fiscal 2019. The year-over-year decrease from operating income to operating loss was primarily due to reduced sales volume that resulted from government-mandated stay-at-home or shelter orders imposed across the globe during 2020. The operating loss for fiscal 2020 included a one-time $4.9 million non-cash goodwill impairment charge attributable primarily to the prolonged ongoing uncertainty in the global markets due to the COVID-19 pandemic.

Other Expense, Net. Other expense, net for fiscal 2020 increased by $0.6 million from fiscal 2019, due mainly to a reduction in foreign currency exchange losses in fiscal 2020, compared to fiscal 2019.

Provision for Income Taxes. We recorded an income tax benefit of $4.6 million for fiscal 2020, compared to income tax expense of $5.8 million for fiscal 2019. During the third and fourth quarters of fiscal 2020, we assessed and recorded the year-to-date impact of recent changes in income tax laws to address the unfavorable impact of the COVID-19 pandemic. In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law in the U.S. on March 27, 2020. The CARES Act included economic relief and modifications, most notably the net operating loss carryback provisions. In addition, the year-over-year changes in our income tax benefits and expenses reflected the shift in the geographic mix of income and loss among international tax jurisdictions, which resulted in changes in foreign tax credits, deductions for foreign derived intangible income, and recording of a provision for global intangible low taxed income.

Net Income (Loss). Net loss for fiscal 2020 was $6.2 million, or $(0.93) per diluted share, a decrease of $23.7 million, or 136%, from fiscal 2019 net income of $17.5 million, or $2.55 per diluted share. The year-over-year decrease from net income to net loss was primarily due to reduced sales volume that resulted from government-mandated stay-at-home or shelter orders imposed across the globe during 2020. The net loss for fiscal 2020 included a one-time $4.9 million non-cash goodwill impairment charge attributable primarily to the prolonged ongoing uncertainty in the global markets due to the COVID-19 pandemic.

Fiscal 2019 Compared to Fiscal 2018

Sales and Service Fees. Sales and service fees for fiscal 2019 were $263.4 million, a decrease of $37.3 million, or 12%, compared to fiscal 2018, and included an unfavorable currency impact of $8.5 million, or 3%, when translating foreign sales to U.S. Dollars for financial reporting purposes.

Net Sales and Service Fees by Geographic Region

The following table sets forth net sales and service fees by geographic region for the fiscal years ended October 31, 2019 and 2018 (dollars in thousands):

	Fiscal Year Ended October 31,				Increase/Decrease	
	2019		2018		Amount	%
Americas	$ 99,064	37 %	$ 90,902	30 %	$ 8,162	9 %
Europe	133,675	51 %	166,202	55 %	(32,527)	(20)%
Asia Pacific	30,638	12 %	43,567	15 %	(12,929)	(30)%
Total	$ 263,377	100 %	$ 300,671	100 %	$ (37,294)	(12)%

Sales in the Americas for fiscal 2019 increased by 9%, compared to fiscal 2018, primarily attributable to sales of vertical milling machines from a U.S. machine tool distributor in California acquired by Hurco in the fourth quarter of fiscal 2018. European sales for fiscal 2019 decreased by 20%, compared to fiscal 2018, and included an unfavorable currency impact of 4%, when translating foreign sales to U.S. Dollars for financial reporting purposes. The decrease in European sales for fiscal 2019 was primarily attributable to a reduced volume of shipments of Hurco machines in Germany and the United Kingdom, as well as a decrease in sales of electro-mechanical components and accessories manufactured by our wholly-owned subsidiary in Italy, LCM. Asian Pacific sales for fiscal 2019 decreased by 30%, compared to fiscal 2018, and included an unfavorable currency impact of 2%, when translating foreign sales to U.S. Dollars for financial reporting purposes. The decrease in Asian Pacific sales for fiscal 2019 was primarily attributable to decreased shipments of Hurco vertical milling machines and Takumi bridge mill machines in China, partially offset by increased shipments of Hurco vertical milling machines in India.

Net Sales and Service Fees by Product Category

The following table sets forth net sales and service fees by product group and services for the fiscal years ended October 31, 2019 and 2018 (dollars in thousands):

	Fiscal Year Ended October 31,				Increase/Decrease	
	2019		2018		Amount	%
Computerized Machine Tools	$ 223,735	85 %	$ 261,710	87 %	$ (37,975)	(15)%
Computer Control Systems and Software †	2,818	1 %	2,870	1 %	(52)	(2)%
Service Parts	27,854	11 %	27,501	9 %	353	1 %
Service Fees	8,970	3 %	8,590	3 %	380	4 %
Total	$ 263,377	100 %	$ 300,671	100 %	$ (37,294)	(12)%

† Amounts shown do not include computer control systems and software sold as an integrated component of computerized machine systems.

Sales of computerized machine tools and computer control systems and software for fiscal 2019 decreased by 15% and 2%, respectively, and each included an unfavorable currency impact of 3%, compared to fiscal 2018. The year-over-year decrease in sales of computerized machine tools and computer control systems and software were mainly due to decreased sales of Hurco and Takumi machines in Germany, the United Kingdom, and China, as well as a decrease in sales of electro-mechanical components and accessories manufactured by LCM, partially offset by an increase in sales of vertical milling machines from the U.S. machine tool distributor in California acquired by Hurco in the fourth quarter of fiscal 2018. Sales of service parts and service fees for fiscal 2019 increased by 1% and 4%, respectively, compared to fiscal 2018, due primarily to an increase in aftermarket sales and aftermarket service of Hurco products in North America.

Orders and Backlog. Orders for fiscal 2019 were $241.1 million, a decrease of $64.7 million, or 21%, compared to fiscal 2018, and included an unfavorable currency impact of $8.5 million, or 3%, when translating foreign orders to U.S. Dollars.

The following table sets forth new orders booked by geographic region for the fiscal years ended October 31, 2019 and 2018 (dollars in thousands):

	Fiscal Year Ended October 31,				Increase/Decrease	
	2019		2018		Amount	%
Americas	$ 89,136	37 %	$ 94,160	31 %	$ (5,024)	(5)%
Europe	120,191	50 %	170,366	56 %	(50,175)	(29)%
Asia Pacific	31,779	13 %	41,319	13 %	(9,540)	(23)%
Total	$ 241,106	100 %	$ 305,845	100 %	$ (64,739)	(21)%

Orders in the Americas for fiscal 2019 decreased by 5%, compared to fiscal 2018, primarily due to the fact that fiscal 2018 reflected orders resulting from year-end promotional activities following the September 2018 International Manufacturing Technology Show ("IMTS"), which is held every two years. The decrease in orders for fiscal 2019, compared to fiscal 2018, was partially offset by increased customer demand for vertical milling machines from the distributor in California acquired in the fourth quarter of fiscal 2018 and increased customer demand for automation and integration systems from ProCobots, a U.S.-based automation integration company acquired by Hurco in the fourth quarter of fiscal 2019. European orders for fiscal 2019 decreased by 29%, compared to fiscal 2018, and included an unfavorable currency impact of 4%, when translating foreign orders to U.S. Dollars. The year-over-year decrease in orders was driven primarily by decreased customer demand for Hurco and Takumi machines in Germany and Italy, as well as a decrease in customer demand for electro-mechanical components and accessories manufactured by LCM. Asian Pacific orders for fiscal 2019 decreased by 23%, compared to fiscal 2018, and included an unfavorable currency impact of 3%, when translating foreign orders to U.S. Dollars, due mainly to decreased customer demand for Hurco and Takumi machines in China and India.

Backlog at October 31, 2019 decreased to $32.7 million from $55.0 million at October 31, 2018, primarily due to a reduction in customer demand during fiscal 2019. We do not believe backlog is a useful measure of past performance or indicative of future performance.

Gross Profit. Gross profit for fiscal 2019 was $77.2 million, or 29% of sales, compared to $91.8 million, or 31% of sales, for fiscal 2018. The year-over-year decrease in gross profit as a percentage of sales was primarily due to lower sales of more complex, higher-performance machines in the European sales region, the impact of fixed costs on lower sales and production volume, and competitive pricing pressures on a global basis.

Operating Expenses. Selling, general, and administrative expenses for fiscal 2019 were $54.7 million, or 21% of sales, compared to $58.0 million, or 19% of sales, in fiscal 2018, and included a favorable currency impact of $1.5 million, when translating foreign expenses to U.S. Dollars for financial reporting purposes. The year-over-year reduction in selling, general, and administrative expenses were primarily due to a decrease in tradeshow expenses associated with the September 2018 IMTS, decreased variable employee compensation, and other operating expense reductions implemented during fiscal 2019, partially offset by increased operating expenses associated with the U.S. companies we acquired in the fourth quarter of fiscal 2018 and the fourth quarter of fiscal 2019.

Operating Income. Operating income for fiscal 2019 was $22.5 million, or 9% of sales, compared to $33.8 million, or 11% of sales, in fiscal 2018. The year-over-year decrease in operating income was due to an overall reduction in sales volume year-over-year, particularly in Europe where our more complex, higher performance machines are primarily sold, as well as increased operating expenses associated with the U.S. companies we acquired in the fourth quarter of fiscal 2018 and the fourth quarter of fiscal 2019, partially offset by a reduction in other selling, general, and administrative expenses.

Other Income (Expense). Other expense, net for fiscal 2019 decreased by $1.8 million from fiscal 2018, due mainly to a reduction in foreign currency exchange losses in fiscal 2019, compared to fiscal 2018.

Provision for Income Taxes. Our effective tax rate for fiscal 2019 was 25%, compared to 34% in fiscal 2018. The year-over-year decrease in the effective tax rate for fiscal 2019 principally resulted from the favorable impact of certain U.S. tax reform provisions available in that fiscal year, including the full year impact of a lower U.S. corporate tax rate from 35% to 21%, a new deduction attributable to Foreign-Derived Intangible Income ("FDII"), and the benefit of foreign tax credits included in these tax reform provisions. In addition, the year-over year changes in the effective tax rates included a shift in geographic mix of income and loss among tax jurisdictions. The effective tax rate for fiscal 2018 included one-time charges of $2.9 million related to the U.S. Tax Cuts and Jobs Act that was enacted in December 2017.

Net Income. Net income for fiscal 2019 was $17.5 million, or $2.55 per diluted share, a decrease of $4.0 million, or 19%, from fiscal 2018 net income of $21.5 million, or $3.15 per diluted share.

Liquidity and Capital Resources

At October 31, 2020, we had cash and cash equivalents of $57.9 million, compared to $56.9 million at October 31, 2019. The increase in cash and cash equivalents was primarily a result of a decrease in accounts receivable, partially offset by the repurchase of common stock during the second and third quarters of fiscal 2020, as well as a decrease in accrued payroll and employee benefits. Approximately 15% of our $57.9 million of cash and cash equivalents is held in the U.S. The balance is attributable to our foreign operations and is held in the local currencies of our various foreign entities, subject to fluctuations in currency exchange rates. We do not believe that the indefinite reinvestment of these funds offshore impairs our ability to meet our domestic working capital needs.

Working capital (including cash and cash equivalents) was $201.0 million at October 31, 2020, compared to $207.2 million at October 31, 2019. The decrease in working capital was mostly driven by a decrease in accounts receivable and an increase in operating lease liabilities, partially offset by an increase in prepaid expenses and a decrease in accrued payroll and employee benefits. Inventories, net were $149.9 million at October 31, 2020, compared to $148.9 million at October 31, 2019. Inventory turns at October 31, 2020 were 0.9, compared to 1.3 turns at October 31, 2019.

Capital expenditures were $1.7 million in fiscal 2020, compared to $4.9 million in fiscal 2019. Capital expenditures for fiscal 2020 were primarily for software development costs, purchases of factory equipment for production facilities, and purchases of general software and equipment for sales and service divisions. We funded these expenditures with cash flows from operations.

On March 13, 2020, we announced that our Board of Directors approved a share repurchase program in an aggregate amount of up to $7.0 million. Repurchases under the program could be made in the open market or through privately-negotiated transactions from time to time through March 11, 2022, subject to applicable laws, regulations, and contractual provisions. The program could have been amended, suspended, or discontinued at any time and did not commit us to repurchase any shares of our common stock. During fiscal 2020, we repurchased all $7.0 million in shares of our common stock. As a result of our repurchase of the maximum aggregate amount under the program, this share repurchase program has concluded.

In addition, during fiscal 2020, we paid cash dividends to our shareholders of $3.4 million. Future dividends are subject to approval of our Board of Directors and will depend upon many factors, including our results of operations, financial condition, capital requirements, regulatory and contractual restrictions, our business strategy and other factors deemed relevant by our Board of Directors from time to time.

On December 31, 2018, we and our subsidiary Hurco B.V. entered into a Credit Agreement with Bank of America, N.A., as the lender, which was subsequently amended on each of March 13, 2020 and December 23, 2020 (as amended, the “2018 Credit Agreement”). The 2018 Credit Agreement provides for an unsecured revolving credit and letter of credit facility in a maximum aggregate amount of $40.0 million. The 2018 Credit Agreement provides that the maximum amount of outstanding letters of credit at any one time may not exceed $10.0 million, the maximum amount of outstanding loans made to our subsidiary Hurco B.V. at any one time may not exceed $20.0 million, and the maximum amount of all outstanding loans denominated in alternative currencies at any one time may not exceed $20.0 million. Under the 2018 Credit Agreement, we and Hurco B.V. are borrowers, and certain of our other subsidiaries are guarantors. The scheduled maturity date of the 2018 Credit Agreement is December 31, 2021.

Borrowings under the 2018 Credit Agreement bear interest at floating rates based on, at our option, either (i) a LIBOR-based rate, or other alternative currency-based rate approved by the lender, plus 1.25% per annum, or (ii) a base rate (which is the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate or (c) the one month LIBOR-based rate plus 1.00%), plus 0.00% per annum. Outstanding letters of credit will carry an annual rate of 1.25%.

The 2018 Credit Agreement contains customary affirmative and negative covenants and events of default, including covenants (1) restricting us from making certain investments, loans, advances and acquisitions (but permitting us to make investments in subsidiaries of up to $10.0 million); (2) restricting us from making certain payments, including (a) cash dividends, except that we may pay cash dividends as long as immediately before and after giving effect to such payment, the sum of the unused amount of the commitments under the 2018 Credit Agreement plus our cash on hand is not less than $10.0 million, and as long as we are not in default before and after giving effect to such dividend payments and (b) payments made to repurchase shares of our common stock, except that we may repurchase shares of our common stock as long as we are not in default before and after giving effect to such repurchases and the aggregate amount of payments made by us for all such repurchases during any fiscal year does not exceed $10.0 million; (3) requiring that we maintain a minimum working capital of $125.0 million; (4) requiring that we maintain a minimum tangible net worth of $170.0 million; and (5) providing that if the total amount of indebtedness outstanding owed by the Company and its Taiwanese and Chinese subsidiaries to the lender or its affiliates (the “Specified Outstanding Amount”) exceeds $25.0 million, then the Company will not permit the amount of unrestricted cash-on-hand of the Company and its subsidiaries to be less than the Specified Outstanding Amount. We may use the proceeds from advances under the 2018 Credit Agreement for general corporate purposes.

In March 2019, our wholly-owned subsidiaries in Taiwan, HML, and China, NHML, closed on uncommitted revolving credit facilities with maximum aggregate amounts of 150 million New Taiwan Dollars and 32.5 million Chinese Yuan, respectively. As uncommitted facilities, both the Taiwan and China credit facilities are subject to review and termination by the respective underlying lending institution from time to time.

As of October 31, 2020, our existing credit facilities consisted of our €1.5 million revolving credit facility in Germany, the 150 million New Taiwan Dollars Taiwan credit facility, the 32.5 million Chinese Yuan China credit facility and the $40.0 million revolving credit facility under the 2018 Credit Agreement. We had no debt or borrowings under any of our credit facilities at October 31, 2020.

At October 31, 2020, we had an aggregate of $51.8 million available for borrowing under our credit facilities and were in compliance with all covenants relating thereto.

We have an international cash pooling strategy that generally provides access to available cash deposits and credit facilities when needed in the U.S., Europe or Asia Pacific. We believe our access to cash pooling and our borrowing capacity under our credit facilities provide adequate liquidity to fund our global operations over the next twelve months and allow us to remain committed to our strategic plan of product innovation, acquisitions, targeted penetration of developing markets, and payment of dividends.

We continue to receive and review information on businesses and assets for potential acquisition, including intellectual property assets that are available for purchase.

Contractual Obligations and Commitments

The following is a table of contractual obligations and commitments as of October 31, 2020 (in thousands):

	Payments Due by Period				
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Operating leases	$ 12,481	$ 4,286	$ 5,037	$ 1,579	$ 1,579
Accrued and deferred taxes and credits	6,081	266	551	724	4,540
Total	$ 18,562	$ 4,552	$ 5,588	$ 2,303	$ 6,119

In addition to the contractual obligations and commitments disclosed above, we also have a variety of other obligations for the procurement of materials and services, none of which subject us to any material non-cancelable commitments. While some of these obligations arise under long-term supply agreements, we are not committed under these agreements to accept or pay for requirements that are not needed to meet our production needs. We have no material minimum purchase commitments or “take-or-pay” type agreements or arrangements. Unrecognized tax benefits in the amount of approximately $0.2 million, excluding any interest and penalties, have been excluded from the table above because we are unable to determine a reasonably reliable estimate of the timing of future payment.

We expect capital spending in fiscal 2021 to be approximately $9.7 million, which includes investments for real estate development, software development, factory equipment and production facilities, as well as general software and equipment for selling facilities. We expect to fund these commitments with cash on hand and cash generated from operations.

Off Balance Sheet Arrangements

From time to time, our subsidiaries guarantee third party payment obligations in connection with the sale of machines to customers that use financing. We follow Financial Accounting Standards Board (“FASB”) guidance for accounting for guarantees (codified in Accounting Standards Codification (“ASC”) 460). As of October 31, 2020, we had 14 outstanding third party payment guarantees totaling approximately $0.4 million. The terms of these guarantees are consistent with the underlying customer financing terms. Upon shipment of a machine, the customer assumes the risk of ownership. The customer does not obtain title, however, until the customer has paid for the machine. A retention of title clause allows us to recover the machine if the customer defaults on the financing. We accrue liabilities under these guarantees at fair value, which amounts are insignificant.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. Generally Accepted Accounting Principles. The preparation of financial statements in conformity with those accounting principles requires us to make judgments and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Those judgments and estimates have a significant effect on the financial statements because they result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results could differ from those estimates. Our accounting policies, including those described below, are frequently evaluated as our judgment and estimates are based upon historical experience and on various other assumptions that we believe to be reasonable under the circumstances.

Revenue Recognition – We recognize revenues from the sale of machine tools, components and accessories, and services and reflect the consideration to which we expect to be entitled. We record revenues based on a five-step model in accordance with FASB guidance codified in ASC 606. In accordance with ASC 606, we have defined contracts as agreements with our customers and distributors in the form of purchase orders, packing or shipping documents, invoices, and, periodically, verbal requests for components and accessories. For each contract, we identify our performance obligations, which is delivering goods or services, determine the transaction price, allocate the contract transaction price to each of the performance obligations (when applicable), and recognize the revenue when (or as) the performance obligation to the customer is fulfilled.

A good or service is transferred when the customer obtains control of that good or service. Our computerized machine tools are general purpose computer-controlled machine tools that are typically used in stand-alone operations. Prior to shipment, we test each machine to ensure the machine’s compliance with standard operating specifications. We deem that the customer obtains control upon delivery of the product and that obtaining control is not contingent upon contractual customer acceptance. Therefore, we recognize revenue from sales of our machine tool systems upon delivery of the product to the customer or distributor, which is normally at the time of shipment.

Depending upon geographic location, after shipment, a machine may be installed at the customer's facilities by a distributor, independent contractor, or by one of our service technicians. In most instances, where a machine is sold through a distributor, we have no installation involvement. If sales are direct or through sales agents, we will typically complete the machine installation, which consists of the reassembly of certain parts that were removed for shipping and the re-testing of the machine to ensure that it is performing within the standard specifications. We consider the machine installation process for our three-axis machines to be inconsequential and perfunctory. For our five-axis machines that we install, we estimate the fair value of the installation performance obligation and recognize that installation revenue on a prorata basis over the period of the installation process.

From time to time, and depending upon geographic location, we may provide training or freight services. We consider these services to be perfunctory within the context of the contract, as the value of these services typically does not rise to a material level as a component of the total contract value. Service fees from maintenance contracts are deferred and recognized in earnings on a prorata basis over the term of the contract and are generally sold on a stand-alone basis. Customer discounts and estimated product returns are considered variable consideration and are recorded as a reduction of revenue in the same period that the related sales are recorded. We have reviewed the overall sales transactions for variable consideration and have determined that these amounts are not significant.

Inventories – We determine at each balance sheet date how much, if any, of our inventory may ultimately prove to be either unsalable or unsalable at its carrying cost. Reserves are established to effectively adjust the carrying value of such inventory to lower of cost (first-in, first-out method) or net realizable value. To determine the appropriate level of valuation reserves, we evaluate current stock levels in relation to historical and expected patterns of demand for all of our products. We evaluate the need for changes to valuation reserves based on market conditions, competitive offerings, and other factors on a regular basis.

Income Taxes – We account for income taxes and the related accounts under the asset and liability method. Deferred tax assets and liabilities are measured using enacted income tax rates in each jurisdiction in effect for the year in which the temporary differences are expected to be recovered or settled. These deferred tax assets are reduced by a valuation allowance, which is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Net deferred tax assets and liabilities are classified as non-current in the consolidated financial statements. Our judgment regarding the realization of deferred tax assets may change due to future profitability and market conditions, changes in U.S. or foreign tax laws, and other factors. These changes, if any, may require material adjustments to these deferred tax assets and an accompanying reduction or increase in net income in the period when such determinations are made.

The determination of our provision for income taxes requires judgment, the use of estimates, and the interpretation and application of complex federal, state and foreign tax laws. Our provision for income taxes reflects a combination of income earned and taxed at the federal and state level in the U.S., as well as in various foreign jurisdictions.

In addition to the risks to the effective tax rate described above, the future effective tax rate reflected in forward-looking statements is based on currently effective tax laws. Significant changes in those laws could materially affect these estimates.

We operate in multiple jurisdictions through wholly-owned subsidiaries, and our global structure is complex. The estimates of our uncertain tax positions involve judgments and assessment of the potential tax implications. We recognize uncertain tax positions when it is more likely than not that the tax position will be sustained upon examination by relevant taxing authorities, based on the technical merits of the position. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Our tax positions are subject to audit by taxing authorities across multiple global jurisdictions, and the resolution of such audits may span multiple years. Tax law is complex and often subject to varied interpretations. Accordingly, the ultimate outcome with respect to taxes we may owe may differ from the amounts recognized.

Impairment of Goodwill and Intangible Assets. Goodwill and indefinite-lived intangibles arising from a business combination are not amortized and charged to expense over time. Instead, goodwill and indefinite-lived intangibles must be reviewed for impairment annually as of the last day of our third fiscal quarter, or more frequently, if circumstances arise indicating potential impairment. For goodwill, if the carrying amount of the reporting unit containing the goodwill exceeds the fair value of that reporting unit, an impairment loss is recognized for that excess, but only to the extent of the goodwill amount allocated to that reporting unit. For indefinite-lived intangible assets, if the carrying amount exceeds the fair value, an impairment loss is recognized in an amount equal to that excess. Intangible assets that are determined to have a finite life are amortized over their estimated useful lives and are also subject to review for impairment, if indicators of impairment are identified.

Impairment of Long-Lived Assets – We are required periodically to review the recoverability of certain assets, including property, plant, and equipment, intangible assets, and goodwill, based on projections of anticipated future cash flows, including future profitability assessments of various product lines. We estimate cash flows using internal budgets based on recent sales data.

Capitalized Software Development Costs – Costs incurred to develop computer software products and significant enhancements to software features of existing products are capitalized as required by FASB guidance relating to accounting for the costs of computer software to be sold, leased, or otherwise marketed, and such capitalized costs are amortized over the estimated product life of the related software. The determination as to when in the product development cycle technological feasibility has been established, and the expected product life, require judgments and estimates by management and can be affected by technological developments, innovations by competitors, and changes in market conditions affecting demand. We periodically review the carrying values of these assets and make judgments as to ultimate realization considering the above-mentioned risk factors.

Derivative Financial Instruments – Critical aspects of our accounting policy for derivative financial instruments that we designate as hedging instruments include conditions that require that critical terms of a hedging instrument are essentially the same as a hedged forecasted transaction. Another important element of our policy demands that formal documentation be maintained as required by FASB guidance relating to accounting for derivative instruments and hedging activities. Failure to comply with these conditions would result in a requirement to recognize changes in market value of hedge instruments in earnings. We routinely monitor significant estimates, assumptions, and judgments associated with derivative instruments, and compliance with formal documentation requirements.

Stock Compensation – We account for share-based compensation according to FASB guidance relating to share-based payments, which requires the measurement and recognition of compensation expense for all share-based awards made to employees and directors based on estimated fair values on the grant date. This guidance requires that we estimate the fair value of share-based awards on the date of grant and recognize as expense the value of the portion of the award that is ultimately expected to vest over the requisite service period.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Interest on borrowings under our bank credit agreements are tied to prevailing domestic and foreign interest rates. At October 31, 2020, we had no borrowings outstanding under any of our credit facilities.

Foreign Currency Exchange Risk

In fiscal 2020, we derived approximately 61% of our revenues from customers located outside of the Americas, where we invoiced and received payments in several foreign currencies. 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 subsidiaries in Taiwan, the U.S., Italy, and China or an affiliated contract manufacturer in Taiwan. 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 and the Euro.

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 inter-company receivables, payables, and loans 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 October 31, 2020, which are designated as cash flow hedges under FASB guidance related to accounting for derivative instruments and hedging activities, were as follows (in thousands, except weighted average forward rates):

Forward Contracts	Notional Amount in Foreign Currency	Weighted Avg. Forward Rate		Contract Amount at Forward Rates in U.S. Dollars		Maturity Dates
				Contract Date	October 31, 2020	
Sale Contracts:						
Euro	7,700	1.1587		8,922	9,004	Nov 2020 - Oct 2021
Pound Sterling	2,425	1.3038		3,162	3,144	Nov 2020 - Oct 2021
Purchase Contracts:						
New Taiwan Dollar*	385,000	28.4620	*	13,527	13,931	Nov 2020 - Oct 2021

*New Taiwan Dollars per U.S. Dollar

Forward contracts for the sale or purchase of foreign currencies as of October 31, 2020, which were entered into to protect against the effects of foreign currency fluctuations on inter-company receivables, payables and loans and are not designated as hedges under this guidance denominated in foreign currencies, were as follows (in thousands, except weighted average forward rates):

Forward Contracts	Notional Amount in Foreign Currency	Weighted Avg. Forward Rate	Contract Amount at Forward Rates in U.S. Dollars		Maturity Dates
			Contract Date	October 31, 2020	
Sale Contracts:					
Euro	14,112	1.1372	16,047	16,494	Nov 2020 – Oct 2021
Pound Sterling	1,186	1.2979	1,540	1,537	Nov 2020 – Oct 2021
Purchase Contracts:					
New Taiwan Dollar	701,711	28.9949 *	24,201	24,541	Nov 2020 – Oct 2021

* New Taiwan Dollars per U.S. Dollar

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 with a notional amount of €3.0 million in November 2019. We designated this forward contract as a hedge of our net investment in Euro denominated assets. We selected the forward method under the FASB guidance related to the accounting for derivative instruments and hedging activities. The forward method requires all changes in the fair value of the contract to be reported as a cumulative translation adjustment, net of tax, in Accumulated other comprehensive loss in the same manner as the underlying hedged net assets. This forward contract matured in November 2020 and we entered into a new forward contract for the same notional amount that is set to mature in November 2021. As of October 31, 2020, we had $947,000 of realized gains and $78,000 of unrealized loss, net of tax, recorded as cumulative translation adjustments in Accumulated other comprehensive loss, related to these forward contracts.

Forward contracts designated as net investment hedges under this guidance as of October 31, 2020 were as follows (in thousands, except weighted average forward rates):

Forward Contracts	Notional Amount in Foreign Currency	Weighted Avg. Forward Rate	Contract Amount at Forward Rates in U.S. Dollars		Maturity Date
			Contract Date	October 31, 2020	
Sale Contracts:					
Euro	3,000	1.1231	3,369	3,494	Nov 2020

Management's Annual Report on Internal Control over Financial Reporting

To the Shareholders and
Board of Directors
of Hurco Companies, Inc.

Management of Hurco Companies, Inc. (the "Company") has assessed the effectiveness of the Company's internal control over financial reporting as of October 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO). Management is responsible for the Company's financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting.

Because of its inherent limitations, the Company's internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In management's opinion, the Company's internal control over financial reporting as of October 31, 2020, was effective based on the criteria specified above.

Our independent registered public accounting firm, RSM US LLP ("RSM"), which also audited our consolidated financial statements, audited the effectiveness of our internal control over financial reporting as of October 31, 2020. RSM has issued their attestation report, which is included in Part II, Item 8 of this Annual Report on Form 10-K.

/s/ Michael Doar

Michael Doar
Chairman and Chief Executive Officer

/s/ Sonja K. McClelland

Sonja K. McClelland
Executive Vice President, Secretary, Treasurer, and
Chief Financial Officer

Indianapolis, Indiana
January 8, 2021

Report of Independent Registered Public Accounting Firm

To the Shareholders
and the Board of Directors
of Hurco Companies, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Hurco Companies, Inc. and its subsidiaries (the Company) as of October 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the three years in the period ended October 31, 2020, and the related notes and schedule listed in Item 15(a) (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended October 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of October 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated January 8, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2017.

Indianapolis, Indiana
January 8, 2021

Report of Independent Registered Public Accounting Firm

To the Shareholders
and the Board of Directors
of Hurco Companies, Inc.

Opinion on the Internal Control Over Financial Reporting

We have audited Hurco Companies, Inc.'s (the Company) internal control over financial reporting as of October 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of October 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows, for each of the three years in the period ended October 31, 2020, and the related notes and schedule listed in Item 15(a) of the Company, and our report dated January 8, 2021 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

Indianapolis, Indiana
January 8, 2021

HURCO COMPANIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended October 31,		
	2020	2019	2018
	(In thousands, except per share amounts)		
Sales and service fees	$ 170,627	$ 263,377	$ 300,671
Cost of sales and service	134,170	186,169	208,865
Gross profit	36,457	77,208	91,806
Selling, general and administrative expenses	41,416	54,668	58,010
Goodwill impairment	4,903	—	—
Operating income (loss)	(9,862)	22,540	33,796
Interest expense	94	62	100
Interest income	130	462	189
Investment income	133	356	339
Income from equity investments	69	583	639
Other expense, net	1,179	555	2,367
Income (loss) before income taxes	(10,803)	23,324	32,496
Provision (benefit) for income taxes	(4,556)	5,829	11,006
Net income (loss)	$ (6,247)	$ 17,495	$ 21,490
Income (loss) per common share – basic	$ (0.93)	$ 2.57	$ 3.19
Weighted average common shares outstanding – basic	6,670	6,759	6,700
Income (loss) per common share – diluted	$ (0.93)	$ 2.55	$ 3.15
Weighted average common shares outstanding – diluted	6,670	6,815	6,771
Dividends paid per share	$ 0.51	$ 0.47	$ 0.43

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

HURCO COMPANIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended October 31,		
	2020	2019	2018
		(In thousands)	
Net income (loss)	$ (6,247)	$ 17,495	$ 21,490
Other comprehensive income (loss):			
Translation gain (loss) of foreign currency financial statements	5,969	550	(3,183)
(Gain) / loss on derivative instruments reclassified into operations, net of tax of $(126), $(70) and $453, respectively	(421)	(235)	1,355
Gain / (loss) on derivative instruments, net of tax of $118, $183 and $52, respectively	395	615	155
Total other comprehensive income (loss)	5,943	930	(1,673)
Comprehensive income (loss)	$ (304)	$ 18,425	$ 19,817

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

HURCO COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS

	As of October 31,	
	2020	2019
	(In thousands, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 57,859	$ 56,943
Accounts receivable, less allowance for doubtful accounts of $1,401 in 2020 and $891 in 2019	27,686	43,279
Inventories, net	149,864	148,851
Derivative assets	968	1,391
Prepaid assets	13,803	9,414
Other	1,231	1,983
Total current assets	251,411	261,861
Property and equipment:		
Land	868	868
Building	7,352	7,352
Machinery and equipment	29,195	28,846
Leasehold improvements	4,754	4,902
	42,169	41,968
Less accumulated depreciation and amortization	(30,248)	(28,055)
Total property and equipment, net	11,921	13,913
Non–current assets:		
Software development costs, less accumulated amortization	7,840	8,318
Goodwill	—	5,847
Intangible assets, net	1,846	1,096
Operating lease - right of use assets, net	11,748	—
Deferred income taxes	2,479	1,846
Investments and other assets, net	8,410	8,184
Total non–current assets	32,323	25,291
Total assets	$ 295,655	$ 301,065
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 31,710	$ 33,031
Accounts payable–related parties	1,289	938
Derivative liabilities	872	388
Operating lease liabilities	4,132	—
Accrued payroll and employee benefits	6,209	11,564
Accrued income taxes	285	1,936
Accrued expenses	4,740	5,015
Accrued warranty expenses	1,200	1,760
Total current liabilities	50,437	54,632
Non–current liabilities:		
Deferred income taxes	131	160
Accrued tax liability	1,918	2,036
Operating lease liabilities	7,989	—
Deferred credits and other	4,032	3,992
Total non–current liabilities	14,070	6,188
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, 12,500,000 shares authorized 6,636,906 and 6,967,719 shares issued; and 6,565,163 and 6,767,237 shares outstanding, as of October 31, 2020 and October 31, 2019, respectively	657	677
Additional paid-in capital	60,997	66,350
Retained earnings	172,484	182,151
Accumulated other comprehensive loss	(2,990)	(8,933)
Total shareholders' equity	231,148	240,245
Total liabilities and shareholders' equity	$ 295,655	$ 301,065

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

HURCO COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended October 31,		
	2020	2019	2018
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	$ (6,247)	$ 17,495	$ 21,490
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities, net of acquisitions:			
Provision for doubtful accounts	510	(136)	388
Deferred income taxes	(547)	260	(530)
Equity in income of affiliates	(69)	(583)	(639)
Foreign currency (gain) loss	257	730	755
Unrealized (gain) loss on derivatives	622	(388)	456
Depreciation and amortization	4,547	3,745	3,713
Stock–based compensation	2,058	2,670	2,504
Goodwill impairment charge	4,903	—	—
Change in assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	15,909	11,239	(5,148)
(Increase) decrease in inventories	3,461	(10,499)	(20,386)
(Increase) decrease in prepaid expenses	(4,364)	(1,474)	710
Increase (decrease) in accounts payable	(2,556)	(23,780)	10,788
Increase (decrease) in accrued expenses	(6,544)	(2,354)	3,090
Increase (decrease) in accrued income tax	(1,695)	(3,259)	2,934
Increase (decrease) in accrued tax liability	(119)	(157)	2,061
Net change in operating lease assets and liabilities	370	—	—
Net change in derivative assets and liabilities	115	330	(1,178)
Other	321	(252)	4
Net cash provided by (used for) operating activities	10,932	(6,413)	21,012
Cash flows from investing activities:			
Proceeds from sale of property and equipment	106	83	180
Purchase of property and equipment	(683)	(3,169)	(3,537)
Software development costs	(973)	(1,701)	(2,326)
Other investments	371	243	233
Acquisition of business	—	(4,353)	(1,156)
Net cash provided by (used for) investing activities	(1,179)	(8,897)	(6,606)
Cash flows from financing activities:			
Proceeds from exercise of common stock options	67	—	847
Dividends paid	(3,420)	(3,203)	(2,898)
Taxes paid related to net settlement of restricted shares	(498)	(499)	(502)
Stock repurchases	(7,000)	—	—
Repayment of short-term debt	—	(1,450)	—
Net cash provided by (used for) financing activities	(10,851)	(5,152)	(2,553)
Effect of exchange rate changes on cash and cash equivalents	2,014	235	(990)
Net increase (decrease) in cash and cash equivalents	916	(20,227)	10,863
Cash and cash equivalents at beginning of year	56,943	77,170	66,307
Cash and cash equivalents at end of year	$ 57,859	$ 56,943	$ 77,170
Supplemental disclosures:			
Cash paid for:			
Interest	$ —	$ 11	$ 64
Income taxes, net	$ 487	$ 11,025	$ 6,172

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

HURCO COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands, except shares outstanding)	Common Stock Shares Outstanding	Common Stock Amount	Additional Paid–In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances, October 31, 2017	**6,641,197**	**$ 664**	**$ 61,344**	**$ 149,267**	**$ (8,190)**	**$ 203,085**
Net income (loss)	—	—	—	21,490	—	21,490
Other comprehensive income (loss)	—	—	—	—	(1,673)	(1,673)
Exercise of common stock options	41,680	4	843	—	—	847
Stock–based compensation expense, net of taxes withheld for vested restricted shares	40,283	4	1,998	—	—	2,002
Dividends paid	—	—	—	(2,898)	—	(2,898)
Balances, October 31, 2018	**6,723,160**	**$ 672**	**$ 64,185**	**$ 167,859**	**$ (9,863)**	**$ 222,853**
Net income (loss)	—	—	—	17,495	—	17,495
Other comprehensive income (loss)	—	—	—	—	930	930
Stock–based compensation expense, net of taxes withheld for vested restricted shares	44,077	5	2,165	—	—	2,170
Dividends paid	—	—	—	(3,203)	—	(3,203)
Balances, October 31, 2019	**6,767,237**	**$ 677**	**$ 66,350**	**$ 182,151**	**$ (8,933)**	**$ 240,245**
Net income (loss)	—	—	—	(6,247)	—	(6,247)
Other comprehensive income (loss)	—	—	—	—	5,943	5,943
Stock-based compensation expense, net of taxes withheld for vested restricted shares	47,750	5	1,555	—	—	1,560
Exercise of common stock options	3,738		67			67
Stock repurchases	(253,562)	(25)	(6,975)			(7,000)
Dividends paid	—	—	—	(3,420)	—	(3,420)
Balances, October 31, 2020	**6,565,163**	**$ 657**	**$ 60,997**	**$ 172,484**	**$ (2,990)**	**$ 231,148**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation. The consolidated financial statements include the accounts of Hurco Companies, Inc. (an Indiana corporation) and its wholly–owned subsidiaries ("we", "us", "our", "Hurco" or the "Company"). We have a 35% ownership interest in a Taiwan affiliate that is accounted for using the equity method. Our investment in that affiliate was approximately $4.4 million and $4.2 million as of October 31, 2020 and 2019, respectively. That investment is included in Investments and other assets, net on the accompanying Consolidated Balance Sheets. Inter-company accounts and transactions have been eliminated.

Reclassifications. Certain prior year amounts have been reclassified to conform to the current year presentation. This reclassification has no impact on previously reported net income or shareholders' equity.

Statements of Cash Flows. We consider all highly liquid investments with a stated maturity at the date of purchase of three months or less to be cash equivalents. Cash flows from hedges are classified consistent with the items being hedged.

Translation of Foreign Currencies. All balance sheet accounts of non–U.S. subsidiaries are translated at the exchange rate as of the end of the year and translation adjustments of foreign currency balance sheets are recorded as a component of Accumulated other comprehensive loss in shareholders' equity. Income and expenses are translated at the average exchange rates during the year. Cumulative foreign currency translation adjustments, net of gains related to our net investment hedges, as of October 31, 2020, were a net loss of $4.1 million, net of tax, and are included in Accumulated other comprehensive loss. Foreign currency transaction gains and losses are recorded as income or expense as incurred and are recorded in Other expense, net.

Hedging. 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, and the gross profit and net earnings of certain of our foreign subsidiaries, 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, Indian Rupee, Singapore Dollars, Chinese Yuan, Polish Zloty, and New Taiwan Dollars.

We account for derivative instruments as either assets or liabilities and carry them at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For derivative instruments designated as a fair value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributed to the risk being hedged. For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of Accumulated other comprehensive loss in shareholders' equity and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately.

For derivative instruments that are not designated as accounting hedges under the Derivatives and Hedging Topic of the Financial Accounting Standards Board (the "FASB"), changes in fair value are recognized in earnings in the period of change. We do not hold or issue derivative financial instruments for speculative trading purposes. We only enter into derivatives with one counterparty, which is among one of the largest U.S. banks (ranked by assets), in order to minimize credit risk and, to date, that counterparty has not failed to meet its financial obligations under such contracts.

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 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 and service 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 expense, net 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.

We had forward contracts outstanding as of October 31, 2020, in Euros, Pounds Sterling, and New Taiwan Dollars with set maturity dates ranging from November 2020 through October 2021. The contract amount at forward rates in U.S. Dollars at October 31, 2020 for Euros and Pounds Sterling was $9.0 million and $3.1 million, respectively. The contract amount at forward rates in U.S. Dollars for New Taiwan Dollars was $13.9 million at October 31, 2020. At October 31, 2020, we had approximately $395,000 of gains, net of tax, related to cash flow hedges deferred in Accumulated other comprehensive loss. Of this amount, $262,000 represented unrealized gains, net of tax, related to cash flow hedge instruments that remain subject to currency fluctuation risk. The majority of these deferred gains will be recorded as an adjustment to Cost of sales and service in periods through October 2021, in which the corresponding inventory that is the subject of the related hedge contract is sold, as described above.

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 with a notional amount of €3.0 million in November 2019. We designated this forward contract as a hedge of our net investment in Euro denominated assets. We selected the forward method under FASB guidance related to the accounting for derivative instruments and hedging activities. The forward method requires all changes in the fair value of the contract to be reported as a cumulative translation adjustment, net of tax, in Accumulated other comprehensive loss in the same manner as the underlying hedged net assets. This forward contract matured in November 2020, and we entered into a new forward contract for the same notional amount that is set to mature in November 2021. As of October 31, 2020, we had a realized gain of $947,000 and an unrealized loss of $78,000, 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 inter-company receivables, payables, and loans denominated in foreign currencies. These derivative instruments are not designated as hedges under FASB guidance and, as a result, changes in their fair value are reported currently as Other expense, net in the Consolidated Statements of Operations consistent with the transaction gain or loss on the related inter-company receivables, payables and loans denominated in foreign currencies.

We had forward contracts outstanding as of October 31, 2020, in Euros, Pound Sterling, and New Taiwan Dollars with set maturity dates ranging from November 2020 through October 2021. The contract amounts at forward rates in U.S. Dollars at October 31, 2020 for Euros and Pounds Sterling totaled $18.0 million. The contract amount at forward rates in U.S. Dollars for New Taiwan Dollars was $24.5 million at October 31, 2020.

Fair Value of Derivative Instruments

We recognize the fair value of derivative instruments as assets and liabilities on a gross basis on our Consolidated Balance Sheets. As of October 31, 2020 and October 31, 2019, all derivative instruments were recorded at fair value on the balance sheets as follows (in thousands):

Derivatives	2020 Balance Sheet Location	2020 Fair Value	2019 Balance Sheet Location	2019 Fair Value
Designated as Hedging Instruments:				
Foreign exchange forward contracts	Derivative assets	$ 495	Derivative assets	$ 751
Foreign exchange forward contracts	Derivative liabilities	$ 279	Derivative liabilities	$ 99
Not Designated as Hedging Instruments:				
Foreign exchange forward contracts	Derivative assets	$ 473	Derivative assets	$ 640
Foreign exchange forward contracts	Derivative liabilities	$ 593	Derivative liabilities	$ 289

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

Derivative instruments had the following effects on our Consolidated Balance Sheets, Statements of Changes in Shareholders' Equity, and Statements of Operations, net of tax, during the fiscal years ended October 31, 2020, 2019, and 2018 (in thousands):

Derivatives	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) 2020	2019	2018	Location of Gain (Loss) Reclassified From Other Comprehensive Income (Loss)	Amount of Gain (Loss) Reclassified from Other Comprehensive Income (Loss) 2020	2019	2018
Designated as Hedging Instruments:							
(Effective Portion)							
Foreign exchange forward contracts				Cost of sales			
– Intercompany sales/purchases	$ 395	$ 615	$ 155	and service	$ 421	$ 235	$ (1,355)
–Net Investment	$ (64)	$ 128	$ 136				

We did not recognize any gains or losses as a result of hedges deemed ineffective during fiscal years ended October 31, 2020, 2019, and 2018.

We recognized the following gains and losses in our Consolidated Statements of Operations during the fiscal years ended October 31, 2020, 2019, and 2018 on derivative instruments not designated as hedging instruments (in thousands):

Derivatives	Location of Gain (Loss) Recognized in Operations	Amount of Gain (Loss) Recognized in Operations 2020	2019	2018
Not Designated as Hedging Instruments:				
Foreign exchange forward contracts	Other expense, net	$ (171)	$ 514	$ (963)

The following table presents the changes in the components of Accumulated other comprehensive loss, net of tax, for the fiscal years ended October 31, 2020 and 2019 (in thousands):

	Foreign Currency Translation	Cash Flow Hedges	Total
Balance, October 31, 2018	$ (10,592)	$ 729	$ (9,863)
Other comprehensive income (loss) before reclassifications	550	615	1,165
Reclassifications	—	(235)	(235)
Balance, October 31, 2019	$ (10,042)	$ 1,109	$ (8,933)
Other comprehensive income (loss) before reclassifications	5,969	395	6,364
Reclassifications	—	(421)	(421)
Balance, October 31, 2020	$ (4,073)	$ 1,083	$ (2,990)

Inventories. Inventories are stated at the lower of cost or net realizable value, with cost determined using the first–in, first–out method. Provisions are made to reduce excess or obsolete inventories to their estimated realizable value.

Property and Equipment. Property and equipment are carried at cost. Depreciation and amortization of assets are provided primarily under the straight–line method over the shorter of the estimated useful lives or the lease terms as follows:

	Number of Years
Land	Indefinite
Building	40
Machines	7 – 10
Shop and office equipment	3 – 7
Building & leasehold improvements	3 – 40

Total depreciation and amortization expense recognized for property and equipment was $2.7 million for fiscal 2020, $2.6 million for fiscal 2019, and $2.5 million for fiscal 2018.

Revenue Recognition. We design, manufacture, and sell computerized machine tools. Our computer control systems and software products are primarily sold as integral components of our computerized machine tool products. We also provide machine tool components, automation integration equipment and solutions for job shops, software options, control upgrades, accessories and replacement parts for our products, as well as customer service, training, and applications support.

We recognize revenues from the sale of machine tools, components and accessories and services, and reflect the consideration to which we expect to be entitled. We record revenues based on a five-step model in accordance with FASB guidance codified in Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers" ("ASC 606"). In accordance with ASC 606, we have defined contracts as agreements with our customers and distributors in the form of purchase orders, packing or shipping documents, invoices, and, periodically, verbal requests for components and accessories. For each contract, we identify our performance obligations, which is delivering goods or services, determine the transaction price, allocate the contract transaction price to each of the performance obligations (when applicable), and recognize the revenue when (or as) the performance obligation to the customer is fulfilled. A good or service is transferred when the customer obtains control of that good or service. Our computerized machine tools are general purpose computer-controlled machine tools that are typically used in stand–alone operations. Prior to shipment, we test each machine to ensure the machine's compliance with standard operating specifications. We deem that the customer obtains control upon delivery of the product and that obtaining control is not contingent upon contractual customer acceptance. Therefore, we recognize revenue from sales of our machine tool systems upon delivery of the product to the customer or distributor, which is normally at the time of shipment.

Depending upon geographic location, after shipment, a machine may be installed at the customer's facilities by a distributor, independent contractor, or by one of our service technicians. In most instances where a machine is sold through a distributor, we have no installation involvement. If sales are direct or through sales agents, we will typically complete the machine installation, which consists of the reassembly of certain parts that were removed for shipping and the re-testing of the machine to ensure that it is performing within the standard specifications. We consider the machine installation process for our three-axis machines to be inconsequential and perfunctory. For our five-axis machines that we install, we estimate the fair value of the installation performance obligation and recognize that installation revenue on a prorata basis over the period of the installation process.

From time to time, and depending upon geographic location, we may provide training or freight services. We consider these services to be perfunctory within the context of the contract, as the value of these services typically does not rise to a material level as a component of the total contract value. Service fees from maintenance contracts are deferred and recognized in earnings on a prorata basis over the term of the contract and are generally sold on a stand-alone basis. Customer discounts and estimated product returns are considered variable consideration and are recorded as a reduction of revenue in the same period that the related sales are recorded. We have reviewed the overall sales transactions for variable consideration and have determined that these amounts are not significant.

Allowance for Doubtful Accounts. The allowance for doubtful accounts is based on our best estimate of probable credit issues and historical experience. We perform credit evaluations of the financial condition of our customers. No collateral is required for sales made on open account terms. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising our customer base and their dispersion across many geographic areas. We consider trade accounts receivable to be past due when payment is not made by the due date as specified on the customer invoice, and we charge off uncollectible balances when all reasonable collection efforts have been exhausted.

Product Warranty. Expected future product warranty claims are recorded to expense when the product is sold. Product warranty estimates are established using historical information about the nature, frequency, and average cost of warranty claims. Warranty claims are influenced by factors such as new product introductions, technological developments, the competitive environment, and the costs of component parts. Actual payments for warranty claims could differ from the amounts estimated, requiring adjustments to the liabilities in future periods. See Note 12 of these Notes to Consolidated Financial Statements for further discussion of warranties.

Research and Development Costs. The costs associated with research and development programs for new products and significant product improvements, other than software development costs, which are eligible for capitalization per FASB guidance, are expensed as incurred and are included in Selling, general, and administrative expenses. Research and development expenses totaled $3.5 million, $4.4 million, and $4.7 million, in fiscal 2020, 2019, and 2018, respectively.

Software Development Costs. We sell software products that are essential to our machine tools. Costs incurred to develop computer software products and significant enhancements to software features of existing products to be sold or otherwise marketed are capitalized, after technological feasibility is established. Software development costs are amortized on a straight–line basis over the estimated product life of the related software, which ranges from three to five years. We capitalized costs related to software development projects of $1.0 million in fiscal 2020, $1.8 million in fiscal 2019, and $2.3 million in fiscal 2018. Amortization expense for software development costs was $1.5 million, $1.0 million, and $1.1 million, for the fiscal years ended October 31, 2020, 2019, and 2018, respectively. Accumulated amortization at October 31, 2020 and 2019 was $21.0 million and $19.5 million, respectively.

Estimated amortization expense for the remaining unamortized software development costs for the fiscal years ending October 31, is as follows (in thousands):

Fiscal Year		Amortization Expense
2021	$	1,369
2022		1,883
2023		1,742
2024		1,503
2025 and thereafter		1,343

Goodwill and Intangible Assets. Goodwill and indefinite-lived intangibles arising from a business combination are not amortized and charged to expense over time. Instead, goodwill and indefinite-lived intangibles must be reviewed for impairment annually as of the last day of our third fiscal quarter, or more frequently, if circumstances arise indicating potential impairment. For goodwill, if the carrying amount of the reporting unit containing the goodwill exceeds the fair value of that reporting unit, an impairment loss is recognized for that excess, but only to the extent of the goodwill amount allocated to that reporting unit.

We have a total of $4.9 million of goodwill for our single reporting unit, arising from the acquisitions of ProCobots, LLC ("ProCobots") ($2.5 million) in 2019, LCM Precision Technology S.r.l. ("LCM") ($2.2 million) in 2013, and our wholly-owned distributor located in Michigan ($0.2 million) in 2008. The adverse change in the business climate resulting from the COVID-19 pandemic created triggering events during the second quarter of fiscal 2020, which warranted our review of these assets for potential impairment. With the assistance of a third-party expert, we developed a discounted cash flow model, which included projected growth rates and an appropriate market-participant discount rate, to compute the fair value of the reporting unit as of April 30, 2020. In addition, the fair value determined was also compared to the value obtained using a market approach from guideline public company multiples. The computed fair value of the reporting unit was in excess of our book value of equity as of April 30, 2020, and, therefore, we determined that goodwill and indefinite lived assets were not impaired at that time.

Due to the prolonged ongoing uncertainty in the global markets as a result of the COVID-19 pandemic and the net loss for fiscal 2020, we believed there was a risk that the total cash flow projections of this reporting unit could fall short of its previous projections, As such, we reperformed the goodwill impairment test as of October 31, 2020 using a similar discounted cash flow model. As a result of the net loss for fiscal 2020 and the delayed timing of the recovery period, the total cash flow projected at October 31, 2020 fell short of those projected at April 30, 2020, causing the fair value of the reporting unit to fall below our book value of equity as of October 31, 2020, thus, resulting in a full impairment loss of $4.9 million.

The changes in the carrying amounts of goodwill for the fiscal year ended October 31, 2020 were as follows (in thousands):

Balance as of October 31, 2019	$	5,847
Changes in goodwill acquired		(972)
Goodwill impairment		(4,903)
Impact of foreign currency translation		28
Balance as of October 31, 2020	$	0

For indefinite-lived intangible assets, if the carrying amount exceeds the fair value, an impairment loss is recognized in an amount equal to that excess. Intangible assets that are determined to have a finite life are amortized over their estimated useful lives and are also subject to review for impairment, if indicators of impairment are identified. There were no impairments recognized with respect to the carrying value of intangible assets for the years ended October 31, 2020, 2019, or 2018.

As of October 31, 2020, the balances of intangible assets, other than goodwill, were as follows (in thousands):

	Weighted Average Amortization Period	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Tradenames and trademarks	indefinite	$ 177	$ —	$ 177
Tradenames and trademarks	14 years	765	(181)	584
Customer relationships	15 years	374	(199)	175
Technology	13 years	713	(402)	311
Noncompete	5 years	580	(145)	435
Patents	6 years	2,972	(2,837)	135
Other	8 years	397	(368)	29
Total		$ 5,978	$ (4,132)	$ 1,846

As of October 31, 2019, the balances of intangible assets, other than goodwill, were as follows (in thousands):

	Weighted Average Amortization Period	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Tradenames and trademarks	indefinite	$ 60	$ —	$ 60
Tradenames and trademarks	13 years	408	(114)	294
Customer relationships	15 years	372	(173)	199
Technology	13 years	683	(333)	350
Patents	6 years	2,972	(2,813)	159
Other	8 years	375	(341)	34
Total		$ 4,870	$ (3,774)	$ 1,096

Intangible asset amortization expense was $358,000, $117,000, and $107,000 for fiscal 2020, 2019, and 2018, respectively. Annual intangible asset amortization expense is estimated to be $280,000 per year for fiscal years 2021 through 2025.

Impairment of Long–Lived Assets. Annually, or when there are indicators of impairment, we evaluate the carrying value of long–lived assets to be held and used, including property and equipment, software development costs, and intangible assets, including goodwill, when events or circumstances warrant such a review. The carrying value of a long-lived asset (or group of assets) to be held and used is considered impaired when the anticipated separately identifiable undiscounted cash flows from such an asset (or group of assets) are less than the carrying value of the asset (or group of assets). The adverse change in the business climate resulting from the COVID-19 pandemic created triggering events during the second quarter of fiscal 2020, which warranted our review of these assets for potential impairment as of April 30, 2020. We determined that we have a single asset group due to the interdependent nature of our operations. We estimated the cash flows during the remaining useful life of the primary asset, and our undiscounted cash flow was in excess of the book value of our single asset group, and therefore, there was no impairment indications for our long-lived assets for the period ended April 30, 2020.

Due to the prolonged ongoing uncertainty in the global markets as a result of the COVID-19 pandemic and the net loss for fiscal 2020, we believed there was a risk that the total cash flow projections could fall short of its previous projections, As such, we reevaluated the cash flows during the remaining useful life of the primary asset as of October 31, 2020. The result indicated that our undiscounted cash flow continued to be in excess of the book value of our single asset group, and therefore, there was no impairment indications for our long-lived assets for the period ended October 31, 2020. Thus, there was no impairment recognized with respect to the carrying values of long-lived assets for the years ended October 31, 2020, 2019, or 2018.

Earnings Per Share. Basic earnings per share is calculated by dividing net income (loss) by the weighted–average number of common shares actually outstanding during the period. Diluted earnings per share assumes the issuance of additional shares of common stock upon exercise of all outstanding stock options and contingently issuable securities if the effect is dilutive, in accordance with the treasury stock method discussed in FASB guidance on "Earnings Per Share."

The following table presents a reconciliation of our basic and diluted earnings per share computation:

	Fiscal Year Ended October 31,					
	2020		2019		2018	
(in thousands, except per share amounts)	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income (loss)	$ (6,247)	$ (6,247)	$ 17,495	$ 17,495	$ 21,490	$ 21,490
Undistributed earnings (loss) allocated to participating shares	66	66	(147)	(147)	(132)	(132)
Net income (loss) applicable to common shareholders	$ (6,181)	$ (6,181)	$ 17,348	$ 17,348	$ 21,358	$ 21,358
Weighted average shares outstanding	6,670	6,670	6,759	6,759	6,700	6,700
Stock options and contingently issuable securities	—	—	—	56	—	71
	6,670	6,670	6,759	6,815	6,700	6,771
Income (loss) per share	$ (0.93)	$ (0.93)	$ 2.57	$ 2.55	$ 3.19	$ 3.15

Income Taxes – We account for income taxes and the related accounts under the asset and liability method. Deferred tax assets and liabilities are measured using enacted income tax rates in each jurisdiction in effect for the year in which the temporary differences are expected to be recovered or settled. These deferred tax assets are reduced by a valuation allowance, which is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Net deferred tax assets and liabilities are classified as non-current in the consolidated financial statements. Our judgment regarding the realization of deferred tax assets may change due to future profitability and market conditions, changes in U.S. or foreign tax laws and other factors. These changes, if any, may require material adjustments to these deferred tax assets and an accompanying reduction or increase in net income in the period when such determinations are made.

The determination of our provision for income taxes requires judgment, the use of estimates, and the interpretation and application of complex federal, state and foreign tax laws. Our provision for income taxes reflects a combination of income earned and taxed at the federal and state level in the U.S., as well as in various foreign jurisdictions.

In addition to the risks to the effective tax rate described above, the future effective tax rate reflected in forward–looking statements is based on currently effective tax laws. Significant changes in those laws could materially affect these estimates.

We operate in multiple jurisdictions through wholly-owned subsidiaries, and our global structure is complex. The estimates of our uncertain tax positions involve judgments and assessment of the potential tax implications. We recognize uncertain tax positions when it is more likely than not that the tax position will be sustained upon examination by relevant taxing authorities, based on the technical merits of the position. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Our tax positions are subject to audit by taxing authorities across multiple global jurisdictions, and the resolution of such audits may span multiple years. Tax law is complex and often subject to varied interpretations. Accordingly, the ultimate outcome with respect to taxes we may owe may differ from the amounts recognized.

Stock Compensation. We account for share–based compensation according to FASB guidance relating to share–based payments, which requires the measurement and recognition of compensation expense for all share–based awards made to employees and directors based on estimated fair values on the grant date. This guidance requires that we estimate the fair value of share–based awards on the date of grant and recognize as expense the value of the portion of the award that is ultimately expected to vest over the requisite service period.

Estimates. The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires us to make estimates and assumptions that affect the reported amounts presented and disclosed in our consolidated financial statements. Significant estimates and assumptions in these consolidated financial statements require the exercise of judgment and are used for, but not limited to, allowance for doubtful accounts, estimates of future cash flows and other assumptions associated with goodwill, intangible and long–lived asset impairment tests, useful lives for depreciation and amortization, warranty programs, stock compensation, income taxes and deferred tax valuation allowances, and contingencies. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates.

2. BUSINESS OPERATIONS

Nature of Business. We design, manufacture, and sell computerized CNC machine tools, computer control systems and software products, machine tool components, automation integration equipment and solutions for job shops, software options, control upgrades, accessories and replacement parts for our products, as well as customer service, training, and applications support, to companies in the metal cutting industry through a worldwide sales, service, and distribution network. The machine tool industry is highly cyclical and changes in demand can occur abruptly in the geographic markets we serve. As a result of this cyclicality, we have experienced significant fluctuations in our sales, which, in periods of reduced demand, have adversely affected our results of operations and financial condition.

The end market for our products consists primarily of precision tool, die and mold manufacturers, independent job shops, and specialized short–run production applications within large manufacturing operations. Industries served include: aerospace, defense, medical equipment, energy, automotive/transportation, electronics, and computer industries. Our products are sold principally through more than 200 independent agents and distributors throughout the Americas, Europe and Asia. We also have our own direct sales and service organizations in China, France, Germany, India, Italy, the Netherlands, Poland, Singapore, Taiwan, the United Kingdom, and certain areas of the United States.

Credit Risk. We sell products to customers located throughout the world. We perform ongoing credit evaluations of customers and generally do not require collateral. Allowances are maintained for potential credit losses. Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers and their dispersion across many geographic areas. Although a significant amount of trade receivables are with distributors primarily located in the United States, no single distributor or region represents a significant concentration of credit risk.

Manufacturing Risk. At present, our wholly–owned subsidiaries, Hurco Manufacturing Limited ("HML"), Ningbo Hurco Machine Tool Co., Ltd. ("NHML"), and Milltronics USA, Inc. ("Milltronics") produce the vast majority of our machine tools for all three brands, Hurco, Milltronics, and Takumi. In addition, we manufacture electro–mechanical components and accessories for machine tools through our wholly–owned subsidiary, LCM. HML, NHML, Milltronics, and LCM manufacture their products in Taiwan, China, the U.S., and Italy, respectively. Any interruption in manufacturing at any of these locations would have an adverse effect on our financial operating results. Interruption in manufacturing at one of these locations could result from a change in the political environment or a natural disaster, such as trade wars or tariffs, or an earthquake, typhoon, or tsunami. Any interruption with one of our other third-party key suppliers may also have an adverse effect on our operating results and our financial condition.

3. INVENTORIES

Inventories as of October 31, 2020 and 2019 are summarized below (in thousands):

	2020	2019
Purchased parts and sub–assemblies	$ 30,390	$ 32,074
Work–in–process	12,635	20,901
Finished goods	106,839	95,876
	$ 149,864	$ 148,851

Finished goods inventory consigned to our distributors and agents throughout the Americas, Europe, and Asia was $17.2 million and $12.0 million as of October 31, 2020 and 2019, respectively.

4. ACQUISITION OF BUSINESS

On August 5, 2019, we (through a newly-formed subsidiary, ProCobots) acquired substantially all of the assets of a U.S.-based automation integration company for approximately $4.4 million. This acquired business provides automation solutions that can be integrated with any machine tool.

The acquisition was accounted for in accordance with ASC Topic 805, Business Combinations. Accordingly, the total purchase price was allocated to tangible assets and liabilities based on their fair value and the intangibles and goodwill were allocated on a provisional basis at the date of acquisition. These allocations reflected various provisional estimates that were available at the time and were subject to change during the purchase price allocation period as valuations were finalized. All valuations are now final.

The following table summarizes the allocation of the opening balance sheet of ProCobots as of August 5, 2019 (in thousands):

	Initial Allocation	Adjustments	Final Allocation
Current assets	$ 349	$ —	$ 349
Property plant and equipment	452	—	452
Intangibles	148	972	1,120
Goodwill	3,500	(972)	2,528
Total assets	4,449	—	4,449
Current liabilities	96	—	96
Total liabilities	96	—	96
Total purchase price and cash expended	$ 4,353	$ —	$ 4,353

Intangible assets of $1.1 million were recorded as a result of the purchase. The fair value of the intangible assets was based upon a discounted cash flow method that involves inputs that are not observable in the market (Level 3). Intangible assets are amortized primarily using a straight-line methodology. The intangible assets consisted of the following (in thousands):

		Remaining Economic Useful Life
Trademark/name	$ 520	15
Noncompete	580	5
Other	20	1
	1,120	

The excess purchase price over the fair value of the assets acquired and the liabilities assumed was recorded as goodwill in the amount of $2.5 million. Goodwill recognized in the acquisition relates primarily to expanding our current product offering. The amount recorded as goodwill will be fully deductible for tax purposes.

As of October 31, 2020, we have recognized an impairment loss for the full $2.5 million of goodwill relating to ProCobots. See Note 1 of these Notes to Consolidated Financial Statements for further information.

The results of operations of ProCobots have been included in the consolidated financial statements from the date of acquisition.

5. CREDIT AGREEMENTS AND BORROWINGS

On December 31, 2018, we and our subsidiary Hurco B.V. entered into a new credit agreement, which was amended by that certain First Amendment dated March 13, 2020 and that certain Second Amendment dated December 23, 2020 (as amended, the “2018 Credit Agreement”), with Bank of America, N.A., as the lender. The 2018 Credit Agreement provides for an unsecured revolving credit and letter of credit facility in a maximum aggregate amount of $40.0 million. The 2018

Credit Agreement provides that the maximum amount of outstanding letters of credit at any one time may not exceed $10.0 million, the maximum amount of outstanding loans made to our subsidiary Hurco B.V. at any one time may not exceed $20.0 million, and the maximum amount of all outstanding loans denominated in alternative currencies at any one time may not exceed $20.0 million. Under the 2018 Credit Agreement, we and Hurco B.V. are borrowers, and certain of our other subsidiaries are guarantors. The scheduled maturity date of the 2018 Credit Agreement is December 31, 2021.

Borrowings under the 2018 Credit Agreement bear interest at floating rates based on, at our option, either (i) a LIBOR–based rate, or other alternative currency–based rate approved by the lender, plus 1.25% per annum, or (ii) a base rate (which is the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate or (c) the one month LIBOR–based rate plus 1.00%), plus 0.00% per annum. Outstanding letters of credit will carry an annual rate of 1.25%.

The 2018 Credit Agreement contains customary affirmative and negative covenants and events of default, including covenants (1) restricting us from making certain investments, loans, advances and acquisitions (but permitting us to make investments in subsidiaries of up to $10.0 million); (2) restricting us from making certain payments, including (a) cash dividends, except that we may pay cash dividends as long as immediately before and after giving effect to such payment, the sum of the unused amount of the commitments under the 2018 Credit Agreement plus our cash on hand is not less than $10.0 million, and as long as we are not in default before and after giving effect to such dividend payments and (b) payments made to repurchase shares of our common stock, except that we may repurchase shares of our common stock as long as we are not in default before and after giving effect to such repurchases and the aggregate amount of payments made by us for all such repurchases during any fiscal year does not exceed $10.0 million; (3) requiring that we maintain a minimum working capital of $125.0 million; (4) requiring that we maintain a minimum tangible net worth of $170.0 million; and (5) providing that if the total amount of indebtedness outstanding owed by the Company and its Taiwanese and Chinese subsidiaries to the lender or its affiliates (the “Specified Outstanding Amount”) exceeds $25.0 million, then the Company will not permit the amount of unrestricted cash-on-hand of the Company and its subsidiaries to be less than the Specified Outstanding Amount. We may use the proceeds from advances under the 2018 Credit Agreement for general corporate purposes.

In December 2018, in connection with our entry into the 2018 Credit Agreement, (1) using cash on hand, we repaid in full the $1.4 million outstanding under, and terminated, our credit facility in China and (2) we terminated our United Kingdom credit facility. In March 2019, our wholly-owned subsidiaries in Taiwan, HML, and China, NHML, closed on uncommitted revolving credit facilities with maximum aggregate amounts of 150 million New Taiwan Dollars (the "Taiwan credit facility") and 32.5 million Chinese Yuan (the "China credit facility"), respectively. As uncommitted facilities, both the Taiwan and China credit facilities are subject to review and termination by the respective underlying lending institutions from time to time.

As a result, as of October 31, 2020, our existing credit facilities consisted of our €1.5 million revolving credit facility in Germany, the 150 million New Taiwan Dollars Taiwan credit facility, the 32.5 million Chinese Yuan China credit facility and the $40.0 million revolving credit facility under the 2018 Credit Agreement.

As of October 31, 2020, there were no borrowings under any of our credit facilities and there was $51.8 million of available borrowing capacity thereunder.

6. FINANCIAL INSTRUMENTS

Estimated Fair Value of Financial Instruments

FASB fair value guidance establishes 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 for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The carrying amounts for cash and cash equivalents approximate their fair values due to the short maturity of these instruments, and such instruments meet the Level 1 criteria of the three–tier fair value hierarchy discussed above. The carrying amount of short–term debt approximates fair value due to the variable rate of the interest and the short term nature of the instrument.

In accordance with this guidance, the following table represents the fair value hierarchy for our financial assets and liabilities measured at fair value as of October 31, 2020 and 2019 (in thousands):

	Assets		Liabilities	
	October 31, 2020	October 31, 2019	October 31, 2020	October 31, 2019
Level 1				
Deferred compensation	$ 1,868	$ 1,991	$ —	$ —
Level 2				
Derivatives	$ 968	$ 1,391	$ 872	$ 388

Recurring Fair Value Measurements

Included in Level 1 assets are mutual fund investments under a nonqualified deferred compensation plan. We estimate the fair value of these investments on a recurring basis using market prices which are readily available.

Included as Level 2 fair value measurements are derivative assets and liabilities related to 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. Derivative instruments are reported in the accompanying consolidated financial statements at fair value. We have derivative financial instruments in the form of foreign currency forward exchange contracts as described in Note 1 of Notes to Consolidated Financial Statements in which the U.S. Dollar equivalent notional amount of these contracts was $70.8 million and $108.6 million at October 31, 2020 and 2019, respectively.

The fair value of the foreign currency forward exchange contracts and the related currency positions are subject to offsetting market risk resulting from foreign currency exchange rate volatility. The counterparty to the forward exchange contract is a substantial and creditworthy financial institution. We do not consider either the risk of counterparty non–performance or the economic consequences of counterparty non–performance as material risks.

7. INCOME TAXES

We account for income taxes using the asset and liability method. Under this method, the (benefit) provision for income taxes represents income taxes payable or refundable for the current year plus the change in deferred taxes during the year. On March 27, 2020, the U.S. Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted in response to COVID-19 pandemic. The CARES Act, among other things, allows net operating losses arising in taxable years beginning after December 31, 2017 and before January 1, 2021, to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes, permits net operating loss carryovers and carrybacks to offset 100 percent of taxable income for taxable years beginning before January 1, 2021. Any net operating losses arising in taxable years beginning after December 31, 2017 and before January 1, 2021, are created in years that have a 21.0% federal income tax rate. If these net operating losses are carried back to years prior to December 31, 2017, the resulting refund would be in years with a 34.0% federal income tax rate. We are planning to carry back our taxable loss in the U.S. for fiscal 2020 under the provisions of the CARES Act and has recorded a tax benefit in the current year at 34%.

The 2019 rate and 2018 rate reflect several effects associated with the U.S. Tax Cuts and Jobs Act (the "Tax Reform Act"), which was enacted in December 2017. The Tax Reform Act significantly revised the U.S. corporate income tax regime by, among other things, lowering the U.S. corporate tax rate from 35% to 21% effective January 1, 2018, implemented a modified territorial tax system from a global system by adding provisions related to Global Intangible Low Taxed Income ("GILTI") and Foreign-derived Intangible Income ("FDII") among other provisions. These provisions under the Tax Reform Act became effective for our fiscal 2019. The Tax Reform Act also imposed a one-time transition tax which was recorded in the fiscal 2018, on deemed repatriation of historical earnings of foreign subsidiaries.

The components of income (loss) before taxes are (in thousands):

	Year Ended October 31, 2020	2019	2018
Income (loss) before income taxes:			
Domestic	$ (11,681)	$ 9,793	$ 14,101
Foreign	878	13,531	18,395
	$ (10,803)	$ 23,324	$ 32,496

The components of income tax provision (benefit) are (in thousands):

	Year Ended October 31, 2020	2019	2018
Current:			
U.S. taxes	$ (4,932)	$ 1,854	$ 6,333
Foreign taxes	923	3,715	5,203
	(4,009)	5,569	11,536
Deferred:			
U.S. taxes	(256)	(31)	(326)
Foreign taxes	(291)	291	(204)
	(547)	260	(530)
	$ (4,556)	$ 5,829	$ 11,006

A comparison of income tax expense at the U.S. statutory rate to the Company's effective tax rate is as follows:

	Year Ended October 31, 2020	2019	2018
U.S. statutory rate	21 %	21 %	23 %
Effect of tax rate of international jurisdictions different than U.S. statutory rates	3 %	4 %	2 %
Valuation allowance	0 %	1 %	0 %
State taxes	2 %	1 %	0 %
Tax credits	1 %	(2)%	(1)%
Effect of tax rate changes	0 %	0 %	4 %
Transition tax	0 %	(1)%	7 %
US tax on distributed and undistributed earnings	0 %	3 %	0 %
US benefit of foreign intangible income	0 %	(3)%	0 %
Impact of CARES act	16 %	0 %	0 %
Other	(1)%	1 %	(1)%
Effective tax rate	42 %	25 %	34 %

The Tax Reform Act also made comprehensive changes to U.S. federal income tax laws by moving from a global to a modified territorial tax regime. As a result, cash repatriated to the U.S. is generally no longer subject to U.S federal income tax. On October 31, 2020, undistributed earnings of our foreign subsidiaries are expected to be permanently reinvested or otherwise retained for continuing operations. Accordingly, we have not provided for any withholding taxes on the undistributed earnings of our foreign subsidiaries beginning January 1, 2018.

Deferred income taxes are determined based on the difference between the amounts used for financial reporting purposes and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred taxes are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Net deferred tax assets and liabilities are classified as non-current in the consolidated financial statements.

As of October 31, 2020, we had deferred tax assets established for accumulated net operating loss carryforwards of $2.0 million, primarily related to certain states in the U.S. and foreign jurisdictions. We also had deferred tax assets for tax credits of $0.9 million. We have established a valuation allowance against some of these carryforwards due to the uncertainty of their full realization. As of October 31, 2020 and 2019, the balance of this valuation allowance was $2.2 million for each fiscal year.

Significant components of our deferred tax assets and liabilities at October 31, 2020 and 2019 were as follows (in thousands):

	October 31,	
	2020	2019
Deferred Tax Assets:		
Accrued inventory reserves	$ 1,241	$ 1,224
Accrued warranty expenses	248	363
Compensation related expenses	1,849	2,723
Unrealized exchange gain/loss	14	143
Other accrued expenses	226	170
Net operating loss carryforwards	1,957	1,380
Other credit carryforwards	887	766
Operating lease liabilities	2,736	—
Goodwill and intangibles	1,019	99
Other	183	194
	10,360	7,062
Less: Valuation allowance – net operating loss and other credit carryforwards	(2,164)	(2,227)
Deferred tax assets	8,196	4,835
Deferred Tax Liabilities:		
Net derivative instruments	(305)	(313)
Property and equipment and capitalized software development costs	(2,563)	(2,632)
Operating lease - right of use assets	(2,666)	—
Other	(314)	(204)
Net deferred tax assets	$ 2,348	$ 1,686

As of October 31, 2020, we had net operating loss carryforwards for international and U.S. income tax purposes of $6.8 million, of which $5.1 million related to foreign jurisdictions will expire within 5 years beginning in fiscal 2021 and $1.7 million will expire between 5 and 20 years. We also had tax credits of $0.9 million that will expire between years 2021 and 2030.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding the related accrual for interest or penalties, is as follows (in thousands):

	2020	2019	2018
Balance, beginning of year	$ 193	$ 180	$ 1,101
Additions based on tax positions related to the current year	9	36	37
Additions (reductions) related to prior year tax positions	(2)	—	(945)
Reductions due to statute expiration	(32)	(23)	(18)
Other	—	—	5
Balance, end of year	$ 168	$ 193	$ 180

The entire balance of the unrecognized tax benefits and related interest at October 31, 2020, if recognized, could affect the effective tax rate in future periods.

We recognize accrued interest and penalties related to unrecognized tax benefits as components of our income tax provision. As of October 31, 2020, the amount of interest accrued, reported in other liabilities, was approximately $36,000 which did not include the federal tax benefit of interest deductions. The statute of limitations with respect to unrecognized tax benefits will expire between August 2021 and August 2024.

We file U.S. federal and state income tax returns, as well as tax returns in several foreign jurisdictions. Currently, our subsidiary in France is under tax audit for fiscal years 2018 and 2019.

A summary of open tax years by major jurisdiction is presented below:

United States federal	Fiscal 2017 through the current period
Germany[1]	Fiscal 2018 through the current period
Taiwan	Fiscal 2018 through the current period

[1] Includes federal as well as state, provincial or similar local jurisdictions, as applicable.

8. EMPLOYEE BENEFITS

We have defined contribution plans that include a majority of our U.S. employees, under which our matching contributions are primarily 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 and related expense totaled $1.3 million, $1.4 million, $1.2 million, for the fiscal years ended October 31, 2020, 2019, and 2018, respectively.

9. STOCK–BASED COMPENSATION

In March 2016, we adopted the Hurco Companies, Inc. 2016 Equity Incentive Plan (the “2016 Equity Plan”), which allows us to grant awards of stock options, stock appreciation rights, restricted stock, stock units and other stock–based awards. The 2016 Equity Plan replaced the Hurco Companies, Inc. 2008 Equity Incentive Plan (the “2008 Equity Plan”) and is the only active plan under which equity awards may be made by us to our employees and non–employee directors. No further awards will be made under our 2008 Equity Plan. The total number of shares of our common stock that may be issued pursuant to awards under the 2016 Equity Plan is 856,048, which includes 386,048 shares remaining available for future grants under the 2008 Equity Plan as of March 10, 2016, the date our shareholders approved the 2016 Equity Plan.

The Compensation Committee of our Board of Directors has the authority to determine the officers, directors and key employees who will be granted awards under the 2016 Equity Plan; 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 restricted shares and performance units under the 2016 Equity Plan that are currently outstanding, and we have granted stock options under the 2008 Equity Plan that 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 market value of a share of our common stock, for purposes of the 2016 Equity 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.

A summary of the status of the options as of October 31, 2020, 2019 and 2018 and the related activity for the year is as follows:

	Shares Under Option	Weighted Average Grant Date Fair Value
Balance October 31, 2017	78,725	$ 20.97
Granted	—	—
Cancelled	—	—
Expired	—	—
Exercised	(41,680)	$ 20.33
Balance October 31, 2018	37,045	$ 21.69
Granted	—	—
Cancelled	—	—
Expired	—	—
Exercised	—	—
Balance October 31, 2019	37,045	$ 21.69
Granted	—	—
Cancelled	—	—
Expired	—	—
Exercised	(3,738)	18.13
Balance October 31, 2020	33,307	$ 22.09

The total intrinsic value of stock options exercised during the twelve months ended October 31, 2020, 2019 and 2018 was approximately $44,000, $0, and $847,000, respectively.

As of October 31, 2020, the total intrinsic value of stock options that were outstanding and exercisable was $258,000. Stock options outstanding and exercisable on October 31, 2020, were as follows:

Range of Exercise Prices Per Share	Shares Under Option	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life in Years
Outstanding and Exercisable			
21.45	21,748	21.45	0.73
23.30	11,559	23.30	0.73
$ 21.45 - 23.30	33,307	$ 22.09	1.47

On March 12, 2020, the Compensation Committee granted a total of 17,780 shares of time-based restricted stock to our non-employee directors. The restricted shares vest in full one year from the date of grant provided the recipient remains on the board of directors through that date. The grant date fair value of the restricted shares was based on the closing sales price of our common stock on the grant date, which was $23.62 per share.

On January 2, 2020, the Compensation Committee determined the degree to which the long-term incentive compensation arrangement approved for the fiscal 2017-2019 performance period was attained, and the resulting payout level relative to the target amount for each of the metrics that were established by the Compensation Committee in 2017. As a result, the Compensation Committee determined that a total of 28,979 performance stock units ("PSUs") were earned by our executive officers, which PSUs vested on January 2, 2020. The vesting date fair value of the PSUs was based on the closing sales price of our common stock on the vesting date, which was $37.79 per share.

On January 2, 2020, the Compensation Committee also approved a long-term incentive compensation arrangement for our executive officers in the form of restricted shares and PSUs under the 2016 Equity Plan, which will be payable in shares of our common stock if earned and vested. The awards were approximately 25% time-based vesting and approximately 75% performance-based vesting. The three-year performance period for the PSUs is fiscal 2020 through fiscal 2022.

On that date, the Compensation Committee granted a total of 20,837 shares of time-based restricted stock to our executive officers. The restricted shares vest in thirds over three years from the date of grant provided the recipient remains employed through that date. The grant date fair value of the restricted shares was based upon the closing sales price of our common stock on the date of grant, which was $37.79 per share.

On January 2, 2020, the Compensation Committee also granted a total target number of 26,918 PSUs to our executive officers designated as "PSU – TSR". These PSUs were weighted as approximately 40% of the overall 2020 executive long-term incentive compensation arrangement and will vest and be paid based upon the total shareholder return of our common stock over the three-year period of fiscal 2020-2022, relative to the total shareholder return of the companies in a specified peer group over that period. Participants will have the ability to earn between 50% of the target number of the PSUs – TSR for achieving threshold performance and 200% of the target number of the PSUs – TSR for achieving maximum performance. The grant date fair value of the PSUs – TSR was $46.81 per PSU and was calculated using the Monte Carlo approach.

On January 2, 2020, the Compensation Committee also granted a total target number of 29,174 PSUs to our executive officers designated as "PSU – ROIC". These PSUs were weighted as approximately 35% of the overall 2020 executive long-term incentive compensation arrangement and will vest and be paid based upon the achievement of pre-established goals related to our average return on invested capital over the three-year period of fiscal 2020-2022. Participants will have the ability to earn between 50% of the target number of the PSUs - ROIC for achieving threshold performance and 200% of the target number of the PSUs - ROIC for achieving maximum performance. The grant date fair value of the PSUs – ROIC was based on the closing sales price of our common stock on the grant date, which was $37.79 per share.

On November 13, 2019, the Compensation Committee granted a total of 8,052 shares of time-based restricted stock to our non-executive employees. The restricted shares vest in thirds over three years from the date of grant provided the recipient remains employed through that date. The grant date fair value of the restricted shares was based upon the closing sales price of our common stock on the date of grant, which was $35.75 per share.

On March 14, 2019, the Compensation Committee granted a total of 11,824 shares of time–based restricted stock to our non–employee directors. The restricted shares vest in full one year from the date of grant provided the recipient remains on the board of directors through that date. The grant date fair value of the restricted shares was based on the closing sales price of our common stock on the grant date, which was $40.58 per share.

On January 2, 2019, the Compensation Committee determined the degree to which the long–term incentive compensation arrangement approved for the fiscal 2016–2018 performance period was attained, and the resulting payout level relative to the target amount for each of the metrics that were established by the Compensation Committee in 2016. As a result, the Compensation Committee determined that a total of 32,559 performance shares were earned by our executive officers, which performance shares vested on January 2, 2019. The vesting date fair value of the performance shares was based on the closing sales price of our common stock on the vesting date, which was $36.08 per share.

On January 2, 2019, the Compensation Committee also approved a long–term incentive compensation arrangement for our executive officers in the form of restricted shares and PSUs under the 2016 Equity Plan, which will be payable in shares of our common stock if earned and vested. The awards were approximately 25% time–based vesting and approximately 75% performance–based vesting. The three-year performance period for the PSUs is fiscal 2019 through fiscal 2021.

On that date, the Compensation Committee granted a total of 21,825 shares of time–based restricted stock to our executive officers. The restricted shares vest in thirds over three years from the date of grant provided the recipient remains employed through that date. The grant date fair value of the restricted shares was based upon the closing sales price of our common stock on the date of grant, which was $36.08 per share.

On January 2, 2019, the Compensation Committee also granted a total target number of 30,943 PSUs to our executive officers designated as "PSU – TSR". These PSUs were weighted as approximately 40% of the overall 2019 executive long–term incentive compensation arrangement and will vest and be paid based upon the total shareholder return of our common stock over the three-year period of fiscal 2019–2021, relative to the total shareholder return of the companies in a specified peer group over that period. Participants will have the ability to earn between 50% of the target number of the PSUs – TSR for achieving threshold performance and 200% of the target number of the PSUs – TSR for achieving maximum performance. The grant date fair value of the PSUs – TSR was $40.72 per PSU and was calculated using the Monte Carlo approach.

On January 2, 2019, the Compensation Committee also granted a total target number of 30,557 PSUs to our executive officers designated as "PSU – ROIC". These PSUs were weighted as approximately 35% of the overall 2019 executive long–term incentive compensation arrangement and will vest and be paid based upon the achievement of pre–established goals related to our average return on invested capital over the three-year period of fiscal 2019–2021. Participants will have the ability to earn between 50% of the target number of the PSUs – ROIC for achieving threshold performance and 200% of the target number of the PSUs – ROIC for achieving maximum performance. The grant date fair value of the PSUs – ROIC was based on the closing sales price of our common stock on the grant date, which was $36.08 per share.

On November 14, 2018, the Compensation Committee granted a total of 7,200 shares of time–based restricted stock to our non–executive employees. The restricted shares vest in thirds over three years from the date of grant provided the recipient remains employed through that date. The grant date fair value of the restricted shares was based upon the closing sales price of our common stock on the date of grant, which was $40.01 per share.

On March 15, 2018, the Compensation Committee granted a total of 9,114 shares of time–based restricted stock to our non–employee directors. The restricted shares vest in full one year from the date of grant provided the recipient remains on the board of directors through that date. The grant date fair value of the restricted shares was based on the closing sales price of our common stock on the grant date, which was $46.05 per share.

On January 3, 2018, the Compensation Committee determined the degree to which the long–term incentive compensation arrangement approved for the fiscal 2015–2017 performance period was attained, and the resulting payout level relative to the target amount for each of the metrics that were established by the Compensation Committee in 2015. As a result, the Compensation Committee determined that a total of 23,299 performance shares were earned by our executive officers, which performance shares vested on January 3, 2018. The vesting date fair value of the performance shares was based on the closing sales price of our common stock on the vesting date, which was $42.20 per share. All related stock–based compensation cost for these vested performance shares was expensed accordingly during the three-year performance period ended October 31, 2017.

On January 3, 2018, the Compensation Committee also approved a long–term incentive compensation arrangement for our executive officers in the form of restricted shares and PSUs under the 2016 Equity Plan, which will be payable in shares of our common stock if earned and vested. The awards were 25% time–based vesting and 75% performance–based vesting. The three-year performance period for the PSUs is fiscal 2018 through fiscal 2020.

On that date, the Compensation Committee granted a total of 14,810 shares of time–based restricted stock to our executive officers. The restricted shares vest in thirds over three years from the date of grant provided the recipient remains employed through that date. The grant date fair value of the restricted shares was based upon the closing sales price of our common stock on the date of grant, which was $42.20 per share.

On January 3, 2018, the Compensation Committee also granted a total target number of 21,891 PSUs to our executive officers designated as "PSU – TSR". These PSUs were weighted as approximately 40% of the overall 2018 executive long–term incentive compensation arrangement and will vest and be paid based upon the total shareholder return of our common stock over the three-year period of fiscal 2018–2020, relative to the total shareholder return of the companies in a specified peer group over that period. Participants will have the ability to earn between 50% of the target number of the PSUs – TSR for achieving threshold performance and 200% of the target number of the PSUs – TSR for achieving maximum performance. The grant date fair value of the PSUs – TSR was $45.68 per PSU and was calculated using the Monte Carlo approach.

On January 3, 2018, the Compensation Committee also granted a total target number of 20,734 PSUs to our executive officers designated as "PSU – ROIC". These PSUs were weighted as approximately 35% of the overall 2018 executive long–term incentive compensation arrangement and will vest and be paid based upon the achievement of pre–established goals related to our average return on invested capital over the three-year period of fiscal 2018–2020. Participants will have the ability to earn between 50% of the target number of the PSUs – ROIC for achieving threshold performance and 200% of the target number of the PSUs – ROIC for achieving maximum performance. The grant date fair value of the PSUs – ROIC was based on the closing sales price of our common stock on the grant date, which was $42.20 per share.

On November 15, 2017, the Compensation Committee granted a total of 2,364 shares of time–based restricted stock to our non–executive employees. The restricted shares vest in thirds over three years from the date of grant provided the recipient remains employed through that date. The grant date fair value of the restricted shares was based upon the closing sales price of our common stock on the date of grant, which was $42.30 per share.

A reconciliation of our restricted stock, performance share and PSU activity and related information is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at October 31, 2019	200,482	$ 39.62
Shares or units granted	102,761	37.54
Shares or units vested	(47,750)	38.35
Shares or units cancelled	(10,164)	40.88
Shares withheld	(13,369)	37.38
Unvested at October 31, 2020	231,960	$ 39.03

During fiscal 2020, 2019, and 2018, we recorded approximately $2.1 million, $2.7 million, and $2.5 million, respectively, of stock–based compensation expense related to grants under the 2008 Equity Plan and the 2016 Equity Plan. As of October 31, 2020, there was an estimated $2.8 million of total unrecognized stock–based compensation cost that we expect to recognize by the end of the first quarter of fiscal 2023.

10. RELATED PARTY TRANSACTIONS

As of October 31, 2020, we owned approximately 35% of the outstanding shares of a Taiwanese–based contract manufacturer, Hurco Automation, Ltd. ("HAL"). HAL's scope of activities includes the design, manufacture, sales, and distribution of industrial automation products, software systems, and related components, including control systems and components produced under contract for sale exclusively to us. We are accounting for this investment using the equity method. The investment of $4.4 million and $4.2 million at October 31, 2020 and 2019, respectively, is included in Investments and other assets, net on the Consolidated Balance Sheets. Purchases of controls from HAL amounted to $6.2 million, $8.5 million, and $11.3 million in fiscal 2020, 2019 and 2018, respectively. Sales of control component parts to HAL were $265,000, $198,000 and $197,000 for the fiscal years ended October 31, 2020, 2019, and 2018, respectively. Trade payables to HAL were $1.3 million and $938,000 at October 31, 2020 and 2019, respectively. Trade receivables from HAL were $25,000 and $22,000 at October 31, 2020 and 2019, respectively.

Summary unaudited financial information for HAL's operations and financial condition is as follows (in thousands):

	2020	2019	2018
Net Sales	$ 10,096	$ 15,957	$ 17,841
Gross Profit	1,418	2,322	2,944
Operating Income	160	992	1,534
Net Income	265	1,490	1,845
Current Assets	$ 12,436	$ 12,019	$ 12,870
Non–current Assets	6,152	5,560	4,579
Current Liabilities	3,708	3,674	4,666

11. CONTINGENCIES AND LITIGATION

From time to time, we are involved in various claims and lawsuits arising in the normal course of business. Pursuant to applicable accounting rules, we accrue the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. We maintain insurance policies for such matters, and we record insurance recoveries when we determine such recovery to be probable. We do not expect any of these claims, individually or in the aggregate, to have a material adverse effect on our consolidated financial position or results of operations. We believe that the ultimate resolution of claims for any losses will not exceed our insurance policy coverages.

12. GUARANTEES AND PRODUCT WARRANTIES

From time to time, our subsidiaries guarantee third party payment obligations in connection with the sale of machines to customers that use financing. We follow FASB guidance for accounting for guarantees (codified in ASC 460). As of October 31, 2020, we had 14 outstanding third party payment guarantees totaling approximately $0.4 million. The terms of these guarantees are consistent with the underlying customer financing terms. Upon shipment of a machine, the customer assumes the risk of ownership. The customer does not obtain title, however, until it has paid for the machine. A retention of title clause allows us to recover the machine if the customer defaults on the financing. We accrue liabilities under these guarantees at fair value, which amounts are insignificant.

We provide warranties on our products with respect to defects in material and workmanship. The terms of these warranties are generally one year for machines and shorter periods for service parts. We recognize a reserve with respect to this obligation at the time of product sale, with subsequent warranty claims recorded against the reserve. The amount of the warranty reserve is determined based on historical trend experience and any known warranty issues that could cause future warranty costs to differ from historical experience. A reconciliation of the changes in our warranty reserve for each of the last three fiscal years is as follows (in thousands):

	2020	2019	2018
Balance, beginning of year	$ 1,760	$ 2,497	$ 1,772
Provision for warranties during the year	2,075	2,246	4,121
Charges to the accrual	(2,669)	(2,991)	(3,326)
Impact of foreign currency translation	34	8	(70)
Balance, end of year	$ 1,200	$ 1,760	$ 2,497

The decreases in our warranty reserve from fiscal 2019 to fiscal 2020 and from fiscal 2018 to fiscal 2019 were primarily due to a decrease in the number of machines under warranty resulting from decreased sales volume.

13. LEASES

We adopted Accounting Standards Update ("ASU") No. 2016-02, "Leases" ("ASC 842") on November 1, 2019, the start of our 2020 fiscal year, and utilized the transition method allowed. Accordingly, comparative period financial information was not adjusted for the effects of adopting ASC 842 and no cumulative-effect adjustment was required to the opening balance of retained earnings on the adoption date.

Upon adoption of ASC 842, we utilized the following elections and practical expedients:

- We elected to combine non-lease components with lease components.
- If at the lease commencement date, a lease has a lease term of 12 months or less and does not include a purchase option that is reasonably certain to be exercised, we have elected not to apply ASC 842 recognition requirements. Nonetheless, we intend to include leases of less than 12 months within the updated footnote disclosures, if material.
- We elected not to use the portfolio method if we enter into a large number of leases in the same month with the same terms and conditions.

- As we have applied the new transition method allowed per ASU 2018-11, we have elected not to reassess arrangements entered into prior to November 1, 2019 for whether an arrangement is or contains a lease, the lease classification applied or to separate initial direct costs.
- We elected not to use hindsight in determining the lease term for lease contracts that have historically been renewed or amended.

Our lease portfolio includes leased production and assembly facilities, warehouses and distribution centers, office space, vehicles, material handling equipment utilized in our production and assembly facilities, laptops and other information technology equipment, as well as other miscellaneous leased equipment. Most of the leased production and assembly facilities have lease terms ranging from two to five years, although the terms and conditions of our leases can vary significantly from lease to lease. We have assessed the specific terms and conditions of each lease to determine the amount of the lease payments and the length of the lease term, which includes the minimum period over which lease payments are required plus any renewal options that are both within our control to exercise and reasonably certain of being exercised upon lease commencement. In determining whether or not a renewal option is reasonably certain of being exercised, we assessed all relevant factors to determine if sufficient incentives exist as of lease commencement to conclude renewal is reasonably certain. There are no material residual value guarantees provided by us, nor any restrictions or covenants imposed by the leases to which we are a party. In determining the lease liability, we utilize our incremental borrowing rate to discount the future lease payments over the lease term to present value.

We record a right-of-use asset and lease liability on our Consolidated Balance Sheets for all leases for which we are a lessee, in accordance with ASC 842. We are a lessor in a small number of lease agreements associated with our automation integration equipment for which the impact to our consolidated financial statements is immaterial. All our leases for which we are a lessee are classified as operating leases under the guidance in Topic 840.

We recorded total operating lease expense for the fiscal years ended October 31, 2020, 2019, and 2018 of $5.0 million, $5.1 million, and $4.5 million, respectively, which is classified within Cost of sales and service and Selling, general and administrative expenses within the Consolidated Statements of Operations. Operating lease expense includes short-term leases and variable lease payments which are immaterial. There have been no cost to obtain leases capitalized on the Consolidated Balance Sheets as of October 31, 2020.

The following table summarizes supplemental cash flow information and non-cash activity related to operating leases for fiscal 2020 (in thousands):

Operating cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities	$	4,892
Noncash information:		
Right-of-use assets obtained in exchange for new operating lease liabilities	$	2,600

The following table summarizes the maturities of lease commitments as of October 31, 2019, prior to the adoption of the new lease guidance, as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended October 31, 2019 (in thousands):

2020	$	4,015
2021		3,149
2022		2,224
2023		1,482
2024 and thereafter		2,531
Total	$	13,401

The following table summarizes the maturities of undiscounted cash flows of lease commitments reconciled to the total lease liability as of October 31, 2020 (in thousands):

2021	$ 4,286
2022	3,124
2023	1,913
2024	913
2025	666
2026 and thereafter	1,579
Total	12,481
Less: Imputed interest	(360)
Present value of operating lease liabilities	$ 12,121

As of October 31, 2020, the weighted-average remaining term of our lease portfolio was approximately 4.4 years and the weighted-average discount rate was approximately 1.5%.

14. QUARTERLY FINANCIAL INFORMATION (Unaudited)

2020 (In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales and service fees	$ 43,660	$ 37,126	$ 45,382	$ 44,459
Gross profit	9,159	6,709	11,069	9,520
Gross profit margin	21 %	18 %	24 %	21 %
Selling, general and administrative expenses	10,846	10,599	9,627	10,344
Goodwill impairment	—	—	—	4,903
Operating income (loss)	(1,687)	(3,890)	1,442	(5,727)
Provision (benefit) for income taxes	(597)	(765)	(937)	(2,257)
Net income (loss)	(893)	(3,927)	2,162	(3,589)
Income (loss) per common share – basic	$ (0.13)	$ (0.58)	$ 0.32	$ (0.54)
Income (loss) per common share – diluted	$ (0.13)	$ (0.58)	$ 0.32	$ (0.54)

2019 (In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales and service fees	$ 74,213	$ 70,674	$ 58,501	$ 59,989
Gross profit	22,142	21,637	17,189	16,240
Gross profit margin	30 %	31 %	29 %	27 %
Selling, general and administrative expenses	13,914	14,111	12,592	14,051
Operating income	8,228	7,526	4,597	2,189
Provision (benefit) for income taxes	2,453	2,481	1,155	(260)
Net income	6,654	5,252	3,491	2,098
Income per common share – basic	$ 0.98	$ 0.77	$ 0.51	$ 0.31
Income per common share – diluted	$ 0.97	$ 0.76	$ 0.51	$ 0.31

15. SEGMENT INFORMATION

We operate in a single segment: industrial automation equipment. We design, manufacture, and sell computerized (i.e., Computer Numeric Control) machine tools, consisting primarily of vertical machining centers (mills) and turning centers (lathes), to companies in the metal cutting industry through a worldwide sales, service and distribution network. Although the majority of our computer control systems and software products are proprietary, they predominantly use industry standard personal computer components. Our computer control systems and software products are primarily sold as integral components of our computerized machine tool products. We also provide machine tool components, automation integration equipment and solutions for job shops, software options, control upgrades, accessories and replacement parts for our products, as well as customer service, training, and applications support.

We principally sell our products through more than 200 independent agents and distributors throughout the Americas, Europe and Asia. Our line is the primary line for the majority of our distributors globally even though some may carry competitive products. We also have our own direct sales and service organizations in China, France, Germany, India, Italy, the Netherlands, Poland, Singapore, Taiwan, the United Kingdom, and certain areas of the United States, which are among the world's principal machine tool consuming countries. During fiscal 2020, no distributor accounted for more than 5% of our sales and service fees. In fiscal 2020, approximately 61% of our revenues were from customers located outside of the Americas, and no single end-user of our products accounted for more than 5% of our total sales and service fees.

The following table sets forth the contribution of each of our product groups and services to our total sales and service fees during each of the past three fiscal years (in thousands):

Net Sales and Service Fees by Product Category

	Year ended October 31,		
	2020	2019	2018
Computerized Machine Tools	$ 139,577	$ 223,735	$ 261,710
Computer Control Systems and Software †	1,699	2,818	2,870
Service Parts	22,484	27,854	27,501
Service Fees	6,867	8,970	8,590
Total	$ 170,627	$ 263,377	$ 300,671

† Amounts shown do not include computer control systems and software sold as an integrated component of computerized machine systems.

The following table sets forth revenues by geographic area, based on customer location, for each of the past three fiscal years (in thousands):

	Year Ended October 31,		
	2020	2019	2018
United States of America	$ 64,500	$ 95,196	$ 87,231
Canada	1,621	2,580	2,915
Central & South Americas	1,543	1,409	2,194
Total Americas	67,664	99,185	92,340
Germany	24,993	52,002	62,346
United Kingdom	19,679	29,349	34,216
Italy	8,599	14,772	16,691
France	10,797	14,346	15,815
Other Europe	14,034	20,028	32,034
Total Europe	78,102	130,497	161,102
China	14,225	15,706	27,748
Other Asia Pacific	10,048	16,858	17,937
Total Asia Pacific	24,273	32,564	45,685
Other Foreign	588	1,131	1,544
Grand Total	$ 170,627	$ 263,377	$ 300,671

Long–lived tangible assets, net by geographic area, were (in thousands):

	As of October 31,		
	2020	2019	2018
United States of America	$ 6,826	$ 7,967	$ 8,375
Foreign countries	7,059	8,006	6,617
	$ 13,885	$ 15,973	$ 14,992

Net assets by geographic area were (in thousands):

	As of October 31,		
	2020	2019	2018
Americas	$ 83,214	$ 103,863	$ 96,348
Europe	77,840	71,411	74,558
Asia Pacific	70,094	64,971	51,947
	$ 231,148	$ 240,245	$ 222,853

16. NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements:

Between February 2016 and February 2019, FASB issued ASC 842, and various related updates, which establish a comprehensive new lease accounting model. ASC 842 clarifies the definition of a lease, requires a dual approach to lease classification similar to previous lease classifications, and requires lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease-term of more than twelve months. Under ASC 842, the income statement reflects lease expense for operating leases and amortization/interest expense for financing leases.

ASC 842 was effective for our fiscal year 2020, including interim periods within the fiscal year, and requires modified retrospective application. We adopted ASC 842 on November 1, 2019 utilizing the transition method allowed per ASU 2018-11, and accordingly, comparative period financial information was not adjusted for the effects of adopting ASC 842 and no cumulative-effect adjustment was required to the opening balance of retained earnings on the adoption date. See Note 13 of these Notes to the Consolidated Financial Statements for further information.

In August 2017, FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which simplifies the application of hedge accounting and enables companies to better portray the economics of their risk management activities in their financial statements. ASU 2017-12 was effective for our fiscal year 2020, including interim periods within the fiscal year, and requires modified retrospective application. We adopted this standard on November 1, 2019. This standard did not have a significant effect on our accounting policies or on our consolidated financial statements and related disclosures.

In February 2018, FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which will allow a reclassification from accumulated other comprehensive income to retained earnings for the tax effects resulting from the Tax Reform Act that are stranded in accumulated other comprehensive income. This standard also requires certain disclosures about stranded tax effects. This ASU, however, does not change the underlying guidance that requires the effect of a change in tax laws or rates be included in income from continuing operations. ASU 2018-02 became effective for our fiscal year 2020 and we adopted this standard on November 1, 2019. This standard did not have a significant effect on our accounting policies or on our consolidated financial statements and related disclosures.

New Accounting Pronouncements:

In June 2016, FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard modifies the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. This may result in the earlier recognition of allowances for losses. This standard is effective for our fiscal year 2021. We do not anticipate that the adoption of this ASU will have a material impact on our consolidated financial statements and related disclosures.

In December 2019, FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which allows for companies to remove certain exceptions and clarifies certain requirements regarding franchise taxes, goodwill, consolidated tax expenses, and annual effective tax rate calculations. This standard is effective for our fiscal year 2022, with early adoption permitted. We are assessing the impact this new accounting standard will have on our consolidated financial statements and related disclosures.

In March 2020, FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* This standard provides temporary optional expedients and exceptions to the GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as SOFR. This standard is effective for all entities as of March 12, 2020 through December 31, 2022. We are assessing the impact this new accounting standard will have on our consolidated financial statements and related disclosures.

There have been no other significant changes in the Company's critical accounting policies and estimates during the fiscal year ended October 31, 2020.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of October 31, 2020, 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 have been no changes in our internal control over financial reporting that occurred during the fourth quarter of the fiscal year ended October 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

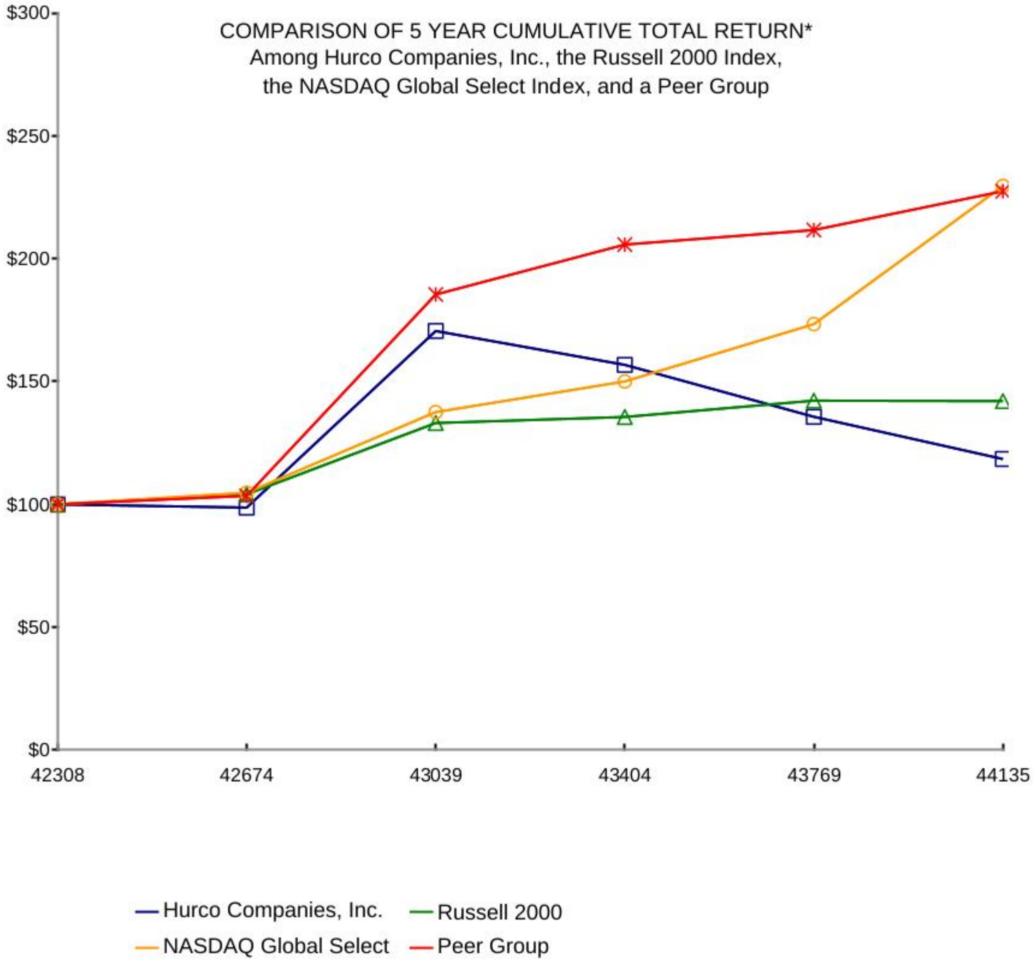
The attestation report of our independent registered public accounting firm on our internal control over financial reporting is included in this report under Item 8. Financial Statements and Supplementary Data. Our management's annual report on internal control over financial reporting is included in this report immediately preceding Item 8.

Item 9B. OTHER INFORMATION

On January 7, 2021, our Board of Directors approved and adopted amendments to the Company's Amended and Restated By-Laws, effective on that date. The amendments amend Section 1, Section 4, Section 5, Section 6(e), and Section 7(c) of Article II of the Amended and Restated By-Laws to explicitly provide for shareholder meetings to be conducted by means of remote communication and related matters. The foregoing summary is qualified in its entirety by reference to the full text of the Amended and Restated By-Laws, as so amended, a copy of which is filed as Exhibit 3.2 hereto and is incorporated herein by reference.

During the fourth quarter of fiscal 2020, the Audit Committee of the Board of Directors did not engage our independent registered public accounting firm to perform any new non-audit services. This disclosure is made pursuant to Section 10A(i)(2) of the Securities Exchange Act of 1934, as amended, as added by Section 202 of the Sarbanes-Oxley Act of 2002.

The graph below matches the cumulative 5-Year total return of holders of Hurco Companies, Inc.'s common stock with the cumulative total returns of the Russell 2000 index, the NASDAQ Global Select index and a customized peer group of eighteen companies that includes: Ampco-Pittsburgh Corp, DMC Global Inc., Douglas Dynamics Inc., Eastern Co, FARO Technologies Inc., Graham Corp, Helios Technologies Inc., IEC Electronics Corp, Kadant Inc., Key Tronic Corp, L S Starrett Co, Novanta Inc., Onto Innovation Inc., Proto Labs Inc., QAD Inc., Transcat Inc., Twin Disc Inc. and Vishay Precision Group Inc. The graph assumes that the value of the investment in our common stock, in each index, and in the peer group (including reinvestment of dividends) was $100 on October 31, 2015 and tracks it through October 31, 2020.



	10/15	10/16	10/17	10/18	10/19	10/20
Hurco Companies, Inc.	**100.00**	**98.70**	**170.56**	**156.78**	**135.65**	**118.46**
Russell 2000	**100.00**	**104.11**	**133.11**	**135.57**	**142.22**	**142.03**
NASDAQ Global Select	**100.00**	**104.76**	**137.55**	**150.03**	**173.35**	**229.57**
Peer Group	**100.00**	**103.48**	**185.41**	**205.72**	**211.64**	**227.44**

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference to the definitive proxy statement for our 2021 annual meeting of shareholders except that the information required by Item 10 regarding our executive officers is included herein under the caption "Information about our Executive Officers" at the end of Part I.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the definitive proxy statement for our 2021 annual meeting of shareholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference to the definitive proxy statement for our 2021 annual meeting of shareholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the definitive proxy statement for our 2021 annual meeting of shareholders.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the definitive proxy statement for our 2021 annual meeting of shareholders.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements. The following consolidated financial statements of the Company are included herein under Item 8 of Part II:

2. Financial Statement Schedule. The following financial statement schedule is included in this Item.

Schedule II – Valuation and Qualifying Accounts and Reserves
for the Years Ended October 31, 2020, 2019 and 2018
(Dollars in thousands)

Description	Balance at Beginning of Period	Charged to/ (Recovered from) Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Allowance for doubtful accounts for the year ended:					
October 31, 2020	$ 891	$ 575	$ —	$ 65 (1)	$ 1,401
October 31, 2019	$ 1,027	$ (136)	$ —	$ — (1)	$ 891
October 31, 2018	$ 639	$ 394	$ —	$ 6 (1)	$ 1,027
Income tax valuation allowance for the year ended:					
October 31, 2020	$ 2,227	$ 50	$ —	$ 113	$ 2,164
October 31, 2019	$ 2,106	$ 458	$ —	$ 337	$ 2,227
October 31, 2018	$ 2,282	$ 253	$ —	$ 429	$ 2,106

(1) Receivable write–offs.

All other financial statement schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

(b) Exhibits

EXHIBITS INDEX

Exhibits Filed. The following exhibits are filed with this report:

3.2	Amended and Restated By-Laws of the Registrant as amended through January 7, 2021.
4.1	Description of the Company's Common Stock.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm, RSM US LLP.
31.1	Certification by the Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification by the Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities 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.
101	The following financial information from the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 2020, formatted in Inline XBRL: (i) Consolidated Statements of Operations; (ii) Consolidated Statements of Comprehensive Income (Loss); (iii) Consolidated Balance Sheets; (iv) Consolidated Statements of Cash Flows; (v) Consolidated Statements of Changes in Shareholders' Equity; and (vi) Notes to Consolidated Financial Statements
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

Exhibits Incorporated by Reference. The following exhibits are incorporated into this report:

3.1	Amended and Restated Articles of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 1997.
10.1*	Hurco Companies, Inc. 2016 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 10, 2016.
10.2*	Form of Restricted Stock Agreement (Director) under the 2016 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 10, 2016.
10.3*	Form of Restricted Stock Award Agreement (Employee) under the 2016 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 10-Q for the quarter ended January 31, 2017.
10.4*	Form of Performance Stock Unit Award Agreement (Employee) under the 2016 Equity Incentive Plan, incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 10-Q for the quarter ended January 31, 2017.
10.5*	Hurco Companies, Inc. Cash Incentive Plan, incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on March 10, 2016.
10.6*	Employment Agreement dated March 15, 2012, between Hurco Companies, Inc. and Michael Doar, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 16, 2012.
10.7*	Employment Agreement dated March 15, 2012, between Hurco Companies, Inc. and Gregory S. Volovic, incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed March 16, 2012.
10.8*	Employment Agreement dated March 15, 2012, between Hurco Companies, Inc. and Sonja K. McClelland, incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed March 16, 2012.
10.9*	Hurco Companies, Inc. 2008 Equity Incentive Plan, incorporated by reference to Appendix A of the Registrant's definitive Proxy Statement on Schedule 14A filed January 28, 2008.
10.10*	Form of restated split-dollar insurance agreement, incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2008.
10.11	Credit Agreement, dated as of December 31, 2018, among Hurco Companies, Inc. and Hurco B.V., as the Borrowers, certain subsidiaries party thereto, as the Guarantors, and Bank of America, N.A., as the Lender, incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2018.
10.12	First Amendment to Credit Agreement, dated as of March 13, 2020, to the Credit Agreement, dated as of December 31, 2018, among Hurco Companies, Inc. and Hurco B.V., as the Borrowers, certain subsidiaries party thereto, as the Guarantors, and Bank of America, N.A., as the Lender, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 13, 2020.
10.13	Second Amendment to Credit Agreement, dated as of December 23, 2020, to the Credit Agreement, dated as of December 31, 2018, among Hurco Companies, Inc. and Hurco B.V., as the Borrowers, certain subsidiaries party thereto, as the Guarantors, and Bank of America, N.A., as the Lender, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed December 29, 2020.

* The indicated exhibit is a management contract, compensatory plan, or arrangement required to be listed by Item 601 of Regulation S-K.

Item 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, this 8th day of January, 2021.

HURCO COMPANIES, INC.

By: /s/ Sonja K. McClelland
Sonja K. McClelland
Executive Vice President, Secretary, Treasurer and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature and Title(s)	Date
/s/ Michael Doar Michael Doar, Chairman and Chief Executive Officer of Hurco Companies, Inc. (Principal Executive Officer)	January 8, 2021
/s/ Sonja K. McClelland Sonja K. McClelland Executive Vice President, Secretary, Treasurer and Chief Financial Officer of Hurco Companies, Inc. (Principal Financial Officer and Principal Accounting Officer)	January 8, 2021
/s/ Thomas A. Aaro Thomas A. Aaro, Director	January 8, 2021
/s/ Robert W. Cruickshank Robert W. Cruickshank, Director	January 8, 2021
/s/ Cynthia Dubin Cynthia Dubin, Director	January 8, 2021
/s/ Timothy J. Gardner Timothy J. Gardner, Director	January 8, 2021
/s/ Jay C. Longbottom Jay C. Longbottom, Director	January 8, 2021
/s/ Richard Porter Richard Porter, Director	January 8, 2021
/s/ Janaki Sivanesan Janaki Sivanesan, Director	January 8, 2021
/s/ Gregory Volovic Gregory Volovic, Director	January 8, 2021

Exhibit 3.2

AMENDED AND RESTATED

BY-LAWS

OF

HURCO COMPANIES, INC.

AS AMENDED THROUGH JANUARY 7, 2021

TABLE OF CONTENTS

BY-LAWS

OF

HURCO COMPANIES, INC.

ARTICLE I

Identification

Section 1. Name . The name of the Corporation is HURCO COMPANIES, INC. (hereinafter referred to as the "Corporation").

Section 2. Registered Office and Registered Agent . The street address of the Registered Office of the Corporation is One Technology Way, Indianapolis, Indiana 46268; and the name of its Registered Agent located at such office is Sonja McClelland.

Section 3. Principal Office. The address of the Principal Office of the Corporation is One Technology Way, Indianapolis, Indiana 46268. The Principal Office of the Corporation shall be the principal executive offices of the Corporation, and such Principal Office may be changed from time to time by the Board of Directors in the manner provided by law and need not be the same as the Registered Office of the Corporation.

Section 4. Other Offices. The Corporation may also have offices at such other places or locations, within or without the State of Indiana, as the Board of Directors may determine or the business of the Corporation may require.

Section 5. Seal . The Corporation need not use a seal. If one is used, it shall be circular in form and mounted upon a metal die suitable for impressing the same upon paper. About the upper periphery of the seal shall appear the words "HURCO COMPANIES, INC." and about the lower periphery thereof the word "Indiana". In the center of the seal shall appear the word "Seal". The seal may be altered by the Board of Directors at its pleasure and may be used by causing it or a facsimile thereof to be impressed, affixed, printed or otherwise reproduced.

Section 6. Fiscal Year . The fiscal year of the Corporation shall begin at the beginning of the first day of November in each year and end at the close of the last day of October next succeeding.

ARTICLE II

Shareholders

Section 1. Place of Meetings and Participation in Meetings by Remote Communication . All meetings of shareholders of the Corporation shall be held at such place, if any, within or without the State of Indiana, as may be determined by the President or Board of Directors and specified in the notices or waivers of notice thereof or proxies to represent shareholders at such meetings. The Board of Directors, acting in its sole discretion, may establish guidelines and procedures in accordance with applicable provisions of the Indiana Business Corporation Law, as then in effect and as amended from time to time, and any other applicable law for the participation by shareholders in a meeting of shareholders by means of remote communication, and may determine that any meeting of shareholders will not be held at any place but will instead be held solely by means of remote communication. Shareholders complying with such procedures and guidelines and otherwise entitled to vote at a meeting of shareholders shall be deemed present in person and entitled to vote at the meeting of shareholders, whether such meeting is to be held at a designated place or solely by means of remote communication.

Section 2. Annual Meetings . An annual meeting of shareholders shall be held each year on such date and at such time as may be determined by the President or Board of Directors. The failure to hold an annual meeting at the designated time shall not affect the validity of any corporate action. Any and all business of any nature or character may be transacted, and action may be taken thereon, at any annual meeting, except as otherwise provided by law or by these By-laws.

Section 3. Special Meetings . A special meeting of shareholders shall be held: (a) on call of the Board of Directors or the President; or (b) if the holders of a majority of all the votes entitled to be cast on any issue proposed to be considered at the proposed special meeting sign, date and deliver to the Secretary one (1) or more written demands for the meeting describing the purpose or purposes for which it is to be held. At any special meeting of the shareholders, only business within the purpose or purposes described in the notice of the meeting may be conducted.

Section 4. Notice of Meeting . Written or electronic notice stating the date, time and place, if any, of a meeting, the means of remote communication, if any, by which shareholders may be deemed to be present in person and vote at such meeting, and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be given by the Corporation to each shareholder of record of the Corporation entitled to vote at the meeting, at such address as appears upon the records of the Corporation, no fewer than ten (10) days nor more than sixty (60) days, before the meeting date. If mailed, such notice shall be effective when mailed if correctly addressed to the shareholder's address shown in the Corporation's current record of shareholders.

Section 5. Waiver of Notice . A shareholder may waive any notice required by law, the Articles of Incorporation or these By-laws before or after the date and time stated in the notice. The waiver by the shareholder entitled to the notice must be in writing and be delivered to the Corporation for inclusion in the minutes or filing with the corporate records. A shareholder's attendance at a meeting, in person or by proxy, or participation in a meeting by remote communication in accordance with the Indiana Business Corporation Law, as then in effect and as amended from time to time, and these By-laws: (a) waives objection to lack of notice or defective notice of the meeting, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting; and (b) waives objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the shareholder objects to considering the matter when it is presented.

Section 6. Voting at Meetings .

(a) Voting Rights . At each meeting of the shareholders, each outstanding share, regardless of class, is entitled to one (1) vote on each matter voted on at such meeting, except to the extent cumulative voting is allowed by the Articles of Incorporation. Only shares are entitled to vote.

(b) Record Date . The record date for purposes of determining shareholders entitled to vote at any meeting shall be ten (10) days prior to the date of such meeting or such different date not more than seventy (70) days prior to such meeting as may be fixed by the Board of Directors.

(c) Proxies .

(1) A shareholder may vote the shareholder's shares in person or by proxy.

(2) A shareholder may appoint a proxy to vote or otherwise act for the shareholder by executing in writing an appointment form, either personally or by the shareholder's attorney-in-fact. For purposes of this Section, a proxy appointed by telegram, telex, telecopy or other document transmitted electronically for or by a shareholder shall be deemed "executed in writing" by the shareholder.

(3) An appointment of a proxy is effective when received by the Secretary or other officer or agent authorized to tabulate votes. An appointment is valid for eleven (11) months, unless a longer period is expressly provided in the appointment form.

(4) An appointment of a proxy is revocable by the shareholder, unless the appointment form conspicuously states that is irrevocable and the appointment is coupled with an interest.

(d) Quorum . At all meetings of shareholders, a majority of the votes entitled to be cast on a particular matter constitutes a quorum on that matter. If a quorum exists, action on a matter (other than the election of directors) is approved if the votes cast favoring the action exceed the votes cast opposing the action, unless the Articles of Incorporation or law require a greater number of affirmative votes.

(e) Adjournments . Any meeting of shareholders, including both annual and special meetings and any adjournments thereof, may be adjourned to a different date, time or place. Notice need not be given of the new date, time or place, if any, if the new date, time or place and the means of remote communication, if any, by which shareholders may be deemed to be present in person and vote at such meeting are announced at the meeting before adjournment, even though less than a quorum is present. At any such adjourned meeting at which a quorum is present, in person or by proxy, any business may be transacted which might have been transacted at the meeting as originally notified or called.

Section 7. List of Shareholders .

(a) After a record date has been fixed for a meeting of shareholders, the Secretary shall prepare or cause to be prepared an alphabetical list of the names of the shareholders of the Corporation who are entitled to vote at such meeting. The list shall show the address of and number of shares held by each shareholder.

(b) The shareholders' list must be available for inspection by any shareholder entitled to vote at the meeting, beginning five (5) business days before the date of the meeting for which the list was prepared and continuing through the meeting, at the Corporation's principal office or at a place identified in the meeting notice in the city where the meeting will be held. Subject to the restrictions of applicable law, a shareholder, or the shareholder's agent or attorney authorized in writing, is entitled on written demand to inspect and to copy the list during regular business hours and at the shareholder's expense, during the period it is available for inspection.

(c) The Corporation shall make the shareholders' list available at the meeting, and any shareholder, or the shareholder's agent or attorney authorized in writing, is entitled to inspect the list at any time during the meeting or any adjournment. If the meeting is held solely by means of remote communication, the list shall be open to examination by any shareholder at any time during the meeting on a reasonably accessible electronic network, and information required to access this list shall be provided with the notice of the meeting.

Section 8. Notice of Shareholder Business . At an annual meeting of the shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have the legal right and authority to make the proposal for consideration at the meeting and the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than 60 days prior to the meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and record address of the shareholder(s) proposing such business, (c) the class and shares of number of the Corporation's capital stock which are beneficially owned by such shareholder(s), and (d) any material interest of such shareholder(s) in such business. Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 8. The Chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 8, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. At any special meeting of the shareholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

Section 9. Notice of Shareholder Nominees . Only persons who are nominated in accordance with the procedures set forth in this Section 9 shall be eligible for election as Directors. Nominations of persons for election to the Board of Directors may be made at a meeting of shareholders by or at the direction of the Board of Directors, by any nominating committee or person appointed by the Board of Directors or by any shareholder of the Corporation entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Section 9. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 60 days prior to the meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholders to be timely must be so received not later than the close of business on the 10th day following the date on which such notice of the date of the meeting was mailed or such public disclosure was made. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or re-election as a Director, (i) the name, age, business address and residence address of such person; (ii) the principal occupation or employment of such person, (iii) the class and number of shares of capital stock of the Corporation which are beneficially owned by such person, and (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange act of 1934, as amended (including without limitation such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); and (b) as to the shareholder giving the notice (i) the name and record address of such shareholder and (ii) the class and number of shares of capital stock of the Corporation which are beneficially owned by such shareholder. No person shall be eligible for election as a Director of the Corporation unless nominated in accordance with the procedures set forth in this Section 9. The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not so declared in accordance with the procedures prescribed by these By-Laws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

ARTICLE III

Directors

Section 1. Duties. The business, property and affairs of the Corporation shall be managed and controlled by the Board of Directors and, subject to such restrictions, if any, as may be imposed by law, the Articles of Incorporation or by these By-laws, the Board of Directors may, and are fully authorized to, do all such lawful acts and things as may be done by the Corporation which are not directed or required to be exercised or done by the shareholders. Directors need not be residents of the State of Indiana or shareholders of the Corporation.

Section 2. Number of Directors. The Board of Directors shall consist of nine (9) members, which number may be increased or reduced from time to time by resolution adopted by not less than a majority of the Directors then in office; provided that no reduction in number shall have the effect of shortening the term of any incumbent Director.

Section 3. Election and Term. Except as otherwise provided in Section 5 of this Article, the directors shall be elected each year at the annual meeting of the shareholders, or at any special meeting of the shareholders. Each such director shall hold office, unless he is removed in accordance with the provisions of these By-laws or he resigns or dies or becomes so incapacitated he can no longer perform any of his duties as a director, for the term for which he is elected and until his successor shall have been elected and qualified. Each director shall qualify by accepting his election to office either expressly or by acting as a director. The shareholders or directors may remove any director, with or without cause, and elect a successor at a meeting called expressly for such purpose.

Each director shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. If, as of the record date for such meeting, the number of director nominees to be considered at the meeting does not exceed the number of directors to be elected, then if a nominee for director who is an incumbent director does not receive more “for” votes than “withhold” votes with respect to his or her election, such director shall promptly tender his or her resignation to the Board of Directors, subject to acceptance by the Board of Directors. The Nominating and Governance Committee shall make a recommendation to the Board of Directors on whether to accept or reject the tendered resignation, or whether other action should be taken. The Board of Directors, taking into account the recommendation of the Nominating and Governance Committee, shall, within 90 days of the certification of the shareholder director election at issue, determine the appropriate responsive action with respect to the tendered resignation. Promptly after the Board of Directors takes action on a resignation tendered under this Section, the Corporation shall issue a press release regarding the Board of Directors’ response thereto. The Nominating and Governance Committee, in making its recommendation, and the Board of Directors, in making its decision, may each consider any factors or other recommendations that it considers relevant and appropriate. The incumbent director who tenders his or her resignation shall not participate in the Nominating and Governance Committee’s recommendation, or the Board of Director’s decision, with respect to that director. If the resignation is not accepted, such director shall continue to serve until the next annual meeting of shareholders and until his or her successor has been elected and qualified, or unless he or she is removed or he or she resigns or dies or becomes so incapacitated he or she can no longer perform any of his or her duties as a director. If the resignation is accepted, the Board of Directors may decide to fill any resulting vacancy or decrease the number of directors.

Section 4. Resignation. Any director may resign at any time by delivering written notice to the Board of Directors, the President, or the Secretary of the Corporation. A resignation is effective when the notice is delivered unless the notice specifies a later effective date and except for resignations tendered under Section 3 of this Article. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation and except for resignations tendered pursuant to Section 3 of this Article.

Section 5. Vacancies. Vacancies occurring in the membership of the Board of Directors caused by resignation, death or other incapacity, or increase in the number of directors shall be filled by a majority vote of the remaining members of the Board, and each director so elected shall serve until the next meeting of the shareholders, or until a successor shall have been duly elected and qualified.

Section 6. Annual Meetings. The Board of Directors shall meet annually, without notice, immediately following, and at the same place as, the annual meeting of the shareholders.

Section 7. Regular Meetings. Regular meetings shall be held at such times and places, either within or without the State of Indiana, as may be determined by the Chairman of the Board, the President or the Board of Directors.

Section 8. Special Meetings. Special meetings of the Board of Directors may be called by the President or by two (2) or more members of the Board of Directors, at any place within or without the State of Indiana, upon twenty-four (24) hours' notice, specifying the time, place and general purposes of the meeting, given to each director personally, by telephone, telegraph, teletype, or other form of wire or wireless communication; or notice may be given by mail if mailed at least three (3) days before such meeting.

Section 9. Notice. The Secretary or an Assistant Secretary shall give notice of each special meeting, and of the date, time and place of the particular meeting, in person or by mail, or by telephone, telegraph, teletype, or other form of wire or wireless communication, and in the event of the absence of the Secretary or an Assistant Secretary or the failure, inability, refusal or omission on the part of the Secretary or an Assistant Secretary so to do, any other officer of the Corporation may give said notice.

Section 10. Waiver of Notice. A director may waive any notice required by law, the Articles of Incorporation, or these By-laws before or after the date and time stated in the notice. Except as otherwise provided in this Section, the waiver by the director must be in writing, signed by the director entitled to the notice, and included in the minutes or filed with the corporate records. A director's attendance at or participation in a meeting waives any required notice to the director of the meeting unless the director at the beginning of the meeting (or promptly upon the director's arrival) objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

Section 11. Business to be Transacted. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or any waiver of notice of such meeting. Any and all business of any nature or character whatsoever may be transacted and action may be taken thereon at any meeting, regular or special, of the Board of Directors.

Section 12. Quorum — Adjournment if Quorum is Not Present. A majority of the number of directors fixed by, or in the manner provided in, the Articles of Incorporation or these By-laws shall constitute a quorum for the transaction of any and all business, unless a greater number is required by law or Articles of Incorporation or these By-laws. At any meeting, regular or special, of the Board of Directors, if there be less than a quorum present, a majority of those present, or if only one director be present, then such director, may adjourn the meeting from time to time without notice until the transaction of any and all business submitted or proposed to be submitted to such meeting or any adjournment thereof shall have been completed. In the event of such adjournment, written, telegraphic or telephonic announcement of the time and place at which the meeting will reconvene must be provided to all directors. The act of the majority of the directors present at any meeting of the Board of Directors at which a quorum is present shall constitute the act of the Board of Directors, unless the act of a greater number is required by law or the Articles of Incorporation or these By-laws.

Section 13. Presumption of Assent. A director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent or abstention shall be entered in the minutes of the meeting or unless he shall file his written dissent or abstention to such action with the presiding officer of the meeting before the adjournment thereof or to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent or abstain shall not apply to a director who voted in favor of such action.

Section 14. Action by Written Consent. Any action required or permitted to be taken at a meeting of the Board of Directors or any committee thereof may be taken without a meeting if the action is taken by all the members of the Board of Directors or committee, as the case may be. The action must be evidenced by one or more written consents describing the action taken, signed by each director or committee member, and included in the minutes or filed with the corporate records reflecting the action taken. Such action is effective when the last director or committee member signs the consent, unless the consent specifies a different prior or subsequent effective date. Such consent shall have the same force and effect as a unanimous vote at a meeting, and may be described as such in any document or instrument.

Section 15. Committees. The Board of Directors, by resolution adopted by a majority of the Board of Directors, may designate from among its members an executive committee and one or more other committees, each of which, to the extent provided in such resolution or in the Articles of Incorporation or in these By-laws of the Corporation, shall have and may exercise such authority of the Board of Directors as shall be expressly delegated by the Board from time to time; except that no such committee shall have the authority of the Board of Directors in reference to (a) amending the Articles of Incorporation; (b) approving a plan of merger even if the plan does not require shareholder approval; (c) authorizing dividends or distributions, except a committee may authorize or approve a reacquisition of shares, if done according to a formula or method prescribed by the Board of Directors; (d) approving or proposing to shareholders action that requires shareholder approval; (e) amending, altering or repealing the By-laws of the Corporation or adopting new By-laws for the Corporation; (f) filling vacancies in the Board of Directors or in any of its committees; or (g) electing or removing officers or members of any such committee. A majority of all the members of any such committee may determine its action and fix the time and place of its meetings, unless the Board of Directors shall otherwise provide. The Board of Directors shall have power at any time to change the number and members of any such committee, to fill vacancies and to discharge any such committee. The designation of such committee and the delegation thereto of authority shall not alone constitute compliance by the Board of Directors, or any member thereof, with the standard of conduct imposed upon it or him by the Indiana Business Corporation Law, as the same may, from time to time, be amended.

Section 16. Meeting by Telephone or Similar Communication Equipment. Any or all directors may participate in and hold a regular or special meeting of the Board of Directors or any committee thereof by, or through the use of, any means of conference telephone or other similar communications equipment by which all directors participating in the meeting may simultaneously hear each other during the meeting. Participation in a meeting pursuant to this Section shall constitute presence in person at such meeting, except where a director participates in the meeting for the express purpose of objecting to holding the meeting or transacting business at the meeting on the ground that the meeting is not lawfully called or convened.

ARTICLE IV

Officers

Section 1. Principal Officers. The officers of the Corporation shall be chosen by the Board of Directors and shall consist of a Chairman of the Board, a President, a Treasurer and a Secretary. There may also be one or more Vice Presidents, a Controller, and such other officers or assistant officers as the Board shall from time to time create and so elect. Any two (2) or more offices may be held by the same person.

Section 2. Election and Terms. Each officer shall be elected by the Board of Directors at the annual meeting thereof and shall hold office until the next annual meeting of the Board or until his or her successor shall have been elected and qualified or until his or her death, resignation or removal. The election of an officer shall not of itself create contract rights.

Section 3. Resignation and Removal. An officer may resign at any time by delivering notice to the Board of Directors, its Chairman, or the Secretary of the Corporation. A resignation is effective when the notice is delivered unless the notice specifies a later effective date. If an officer's resignation is made effective at a later date and the Corporation accepts the future effective date, the Board of Directors may fill the pending vacancy before the effective date, if the Board of Directors provides that the successor does not take office until the effective date. The acceptance of a resignation shall not be necessary to make it effective, unless expressly provided in the resignation. An officer's resignation does not affect the Corporation's contract rights, if any, with the officer. Any officer may be removed at any time, with or without cause, by vote of a majority of the whole Board. Such removal shall not affect the contract rights, if any, of the officer so removed.

Section 4. Vacancies. Whenever any vacancy shall occur in any office by death, resignation, increase in the number of officers of the Corporation, or otherwise, the same shall be filled by the Board of Directors, and the officer so elected shall hold office until the next annual meeting of the Board or until his or her successor shall have been elected and qualified.

Section 5. Powers and Duties of Officers. The officers so chosen shall perform the duties and exercise the powers expressly conferred or provided for in these By-laws, as well as the usual duties and powers incident to such office, respectively, and such other duties and powers as may be assigned to them by the Board of Directors or by the President.

Section 6. Chairman of the Board. The Chairman of the Board shall be the Chief Executive Officer of the Corporation and shall have charge of and supervision and authority over all of the affairs, business and operations of the Corporation in the ordinary course of its business, with all such duties, powers and authority with respect to such affairs, business and operations as may be reasonably incident to such responsibilities. He shall have general supervision of and direct all officers, agents and employees of the Corporation and shall see that all orders and resolutions of the Board are carried into effect. He shall have the authority to sign all deeds, bonds, mortgages, contracts, notes and other instruments on behalf of the Corporation (except in cases where the signing and execution thereof shall be expressly delegated by the Board or by these By-laws, or by law to some other officer or agent of the Corporation). He shall preside at meetings of the shareholders and of the Board of Directors. He shall also perform such other duties and have such additional authority and powers as are incident to his office or as may be delegated to him from time to time by the Board of Directors."

Section 7. The President. The President shall be the Chief Operating Officer of the Corporation and shall supervise the day-to-day operations of the Corporation subject to the supervision of the Chairman of the Board and the Board of Directors. He shall have the authority to sign all deeds, mortgages, bonds, contracts, notes and other instruments on behalf of the Corporation (except in cases where the signing and execution thereof shall be expressly delegated by the Board or by these By-laws or by law to some other officer or agent of the Corporation). In the absence of the Chairman of the Board, he shall preside at meetings of the shareholders. He shall also perform such other duties and have such additional authority and powers as are incident to his office or as may be delegated to him from time to time by the Chairman of the Board or the Board of Directors.

Section 8. Vice Presidents. The Vice Presidents shall assist the President and shall perform such duties as may be assigned to them by the Board of Directors or the President. Unless otherwise provided by the Board, in the absence or disability of the President, the Vice President (or, if there be more than one, the Vice President first named as such by the Board of Directors at its most recent meeting at which Vice Presidents were elected) shall execute the powers and perform the duties of the President. Any action taken by a Vice President in the performance of the duties of the President shall be conclusive evidence of the absence or inability to act of the President at the time such action was taken.

Section 9. Secretary. The Secretary (a) shall keep the minutes of all meetings of the Board of Directors and the minutes of all meetings of the shareholders in books provided for that purpose; (b) shall attend to the giving and serving of all notices; (c) when required, may sign with the President or a Vice President in the name of the Corporation, and may attest the signature of any other officers of the Corporation to all contracts, conveyances, transfers, assignments, encumbrances, authorizations and all other instruments, documents and papers, of any and every description whatsoever, of or executed for or on behalf of the Corporation and affix the seal of the Corporation thereto; (d) may sign with the President or a Vice President all certificates for shares of the capital stock of the

Corporation and affix the corporate seal of the Corporation thereto; (e) shall have charge of and maintain and keep or supervise and control the maintenance and keeping of the stock certificate books, transfer books and stock ledgers and such other books and papers as the Board of Directors may authorize, direct or provide for, all of which shall at all reasonable times be open to the inspection of any director, upon request, at the office of the Corporation during business hours; (f) shall, in general, perform all the duties incident to the office of Secretary; and (g) shall have such other powers and duties as may be conferred upon or assigned to him by the Board of Directors.

Section 10. Treasurer. The Treasurer shall have custody of all the funds and securities of the Corporation which come into his hands. When necessary or proper, he may endorse on behalf of the Corporation, for collection, checks, notes and other obligations, and shall deposit the same to the credit of the Corporation in such banks or depositories as shall be selected or designated by or in the manner prescribed by the Board of Directors. He may sign all receipts and vouchers for payments made to the Corporation, either alone or jointly with such officer as may be designated by the Board of Directors. Whenever required by the Board of Directors, he shall render a statement of his cash account. He shall enter or cause to be entered, punctually and regularly, on the books of the Corporation, to be kept by him or under his supervision or direction for that purpose, full and accurate accounts of all moneys received and paid out by, for or on account of the Corporation. He shall at all reasonable times exhibit his books and accounts and other financial records to any director of the Corporation during business hours. He shall have such other powers and duties as may be conferred upon or assigned to him by the Board of Directors. The Treasurer shall perform all acts incident to the position of Treasurer, subject always to the control of the Board of Directors. He shall, if required by the Board of Directors, give such bond for the faithful discharge of his duties in such form and amount as the Board of Directors may require.

Section 11. The Controller. The Controller shall be the chief accounting officer of the Corporation and in such capacity shall keep full and accurate accounts of all assets, liabilities, commitments, receipts, disbursements, and other financial transactions of the Corporation and its subsidiaries in books belonging to the Corporation; shall cause audits of such books and records to be made at regular intervals as required by law and in accordance with guidelines established by the Audit Committee of the Board of Directors; shall see that all expenditures are made in accordance with procedures duly established, from time to time by the Corporation; shall prepare financial statements for the Corporation and its subsidiaries at regular intervals as required by law or at the request of the Board of Directors, the Chairman, the President or the Vice President, Finance; and, in general shall perform all the duties ordinarily connected with the office of Controller and such other duties as, from time to time, may be assigned to him by the Board of Directors, the Chairman, the President or the Vice President, Finance.

Section 12. Assistant Secretaries. The Assistant Secretaries shall assist the Secretary in the performance of his or her duties. In the absence of the Secretary, any Assistant Secretary shall exercise the powers and perform the duties of the Secretary. The Assistant Secretaries shall exercise such other powers and perform such other duties as may from time to time be assigned to them by the Board, the President, or the Secretary.

Section 13. Assistant Treasurers. The Assistant Treasurers shall assist the Treasurer in the performance of his or her duties. Any Assistant Treasurer shall, in the absence or disability of the Treasurer, exercise the powers and perform the duties of the Treasurer. The Assistant Treasurers shall exercise such other duties as may from time to time be assigned to them by the Board, the President, or the Treasurer.

Section 14. Delegation of Authority. In case of the absence of any officer of the Corporation, or for any reason that the Board may deem sufficient, a majority of the entire Board may transfer or delegate the powers or duties of any officer to any other officer or officers for such length of time as the Board may determine.

Section 15. Securities of Other Corporations. The President or any Vice President or Secretary or Treasurer of the Corporation shall have power and authority to transfer, endorse for transfer, vote, consent or take any other action with respect to any securities of another issuer which may be held or owned by the Corporation and to make, execute and deliver any waiver, proxy or consent with respect to any such securities.

ARTICLE V

Directors' Services, Limitation of Liability
and Reliance on Corporate Records, and
Interest of Directors in Contracts

Section 1. Services. No director of this Corporation who is not an officer or employee of this Corporation shall be required to devote his time or any particular portion of his time or render services or any particular services exclusively to this Corporation. Every director of this Corporation shall be entirely free to engage, participate and invest in any and all such businesses, enterprises and activities, either similar or dissimilar to the business, enterprise and activities of this Corporation, without breach of duty to this Corporation or to its shareholders and without accountability or liability to this Corporation or to its shareholders.

Every director of this Corporation shall be entirely free to act for, serve and represent any other corporation, any entity or any person, in any capacity, and be or become a director or officer, or both, of any other corporation or any entity, irrespective of whether or not the business, purposes, enterprises and activities, or any of them thereof, be similar or dissimilar to the business, purposes, enterprises and activities, or any of them, of this Corporation, without breach of duty to this Corporation or to its shareholders and without accountability or liability of any character or description to this Corporation or to its shareholders.

Section 2. General Limitation of Liability. A director shall, based on facts then known to the director, discharge the duties as a director, including the director's duties as a member of a committee, in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances, and in a manner the director reasonably believes to be in the best interests of the Corporation. A director is not liable to the Corporation for any action taken as a director, or any failure to take any action, unless: (a) the director has breached or failed to perform the duties of the director's office in accordance with the standard of care set forth above; and (b) the breach or failure to perform constitutes willful misconduct or recklessness.

Section 3. Reliance on Corporate Records and Other Information. Any person acting as a director of the Corporation shall be fully protected, and shall be deemed to have complied with the standard of care set forth in Section 2 of this Article, in relying in good faith upon any information, opinions, reports or statements, including financial statements and other financial data, if prepared or presented by (a) one or more officers or employees of the Corporation whom such person reasonably believes to be reliable and competent in the matters presented; (b) legal counsel, public accountants, or other persons as to matters such person reasonably believes are within the person's professional or expert competence; or (c) a committee of the Board of Directors of which such person is not a member, if such person reasonably believes the committee merits confidence; provided, however, that such person shall not be considered to be acting in good faith if such person has knowledge concerning the matter in question that would cause such reliance to be unwarranted.

Section 4. Interest of Directors in Contracts. Any contract or other transaction between the Corporation and (a) any director, or (b) any corporation, unincorporated association, business trust, estate, partnership, trust, joint venture, individual or other legal entity (1) in which any director has a material financial interest or is a general partner, or (2) of which any director is a director, officer, or trustee, shall be valid for all purposes, if the material facts of the contract or transaction and the director's interest were disclosed or known to the Board of Directors, a committee of the Board of Directors with authority to act thereon, or the shareholders entitled to vote thereon, and the Board of Directors, such committee or such shareholders authorized, approved or ratified the contract or transaction. Such a contract or transaction is authorized, approved or ratified: (i) by the Board of Directors or such committee, if it receives the affirmative vote of a majority of the directors who have no interest in the contract or transaction, notwithstanding the fact that such majority may not constitute a quorum or a majority of the directors present at the meeting, and notwithstanding the presence or vote of any director who does have such an interest; provided, however, that no such contract or transaction may be authorized, approved or ratified by a single director; and (ii) by such shareholders, if it receives the vote of a majority of the shares entitled to be counted, in which vote shares owned by or voted under the control of any director who, or of any corporation, unincorporated association, business trust, estate, partnership, trust, joint venture, individual or other legal entity that, has an interest in the contract or transaction may be counted; provided, however, that a majority of such shares, whether or not present, shall constitute a quorum for the purpose of authorizing, approving or ratifying such a contract or transaction. This Section shall not be construed to require authorization, ratification or approval by the shareholder of any such contract or transaction, or to invalidate any such contract or transaction that is fair to the Corporation or would otherwise be valid under the common and statutory law applicable thereto.

ARTICLE VI

Indemnification

Section 1. Indemnification Against Underlying Liability. The Corporation shall, to the fullest extent to which it is empowered to do so by the Corporation Law, or any other applicable law, as from time to time in effect, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal, by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or who, while serving as such director, officer, employee or agent of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (collectively, "Agent") against expenses (including attorneys' fees), judgments, fines, penalties, court costs and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit, or proceeding by judgment, order, settlement (whether with or without court approval), conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Agent did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was unlawful. If several claims, issues or matters are involved, an Agent may be entitled to indemnification as to some matters even though he is not entitled as to other matters.

Section 2. Successful Defense. To the extent that an Agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 1 of this Article VI, or in defense of any claim, issue or matter therein, the Corporation shall indemnify such person against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Section 3. Determination of Conduct. Subject to any rights under any contract between the Corporation and any Agent, any indemnification against underlying liability provided for in Section 1 of this Article VI (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the Agent is proper in the circumstances because he has met the applicable standard of conduct set forth in said Section. Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of directors not at the time parties to such action, suit or proceeding; (2) if such an independent quorum cannot be obtained, by majority vote of a committee duly designated by the full Board of Directors (in which designation directors who are parties may participate), consisting solely of one or more directors not at the time parties to the action, suit or proceeding; (3) by special legal counsel (A) selected by the independent quorum of the Board of Directors (or the independent committee thereof if no such quorum can be obtained), or (B) if no such independent quorum or committee thereof can be obtained, selected by majority vote of the full Board of Directors (in which selection directors who are parties may participate); or (4) by the shareholders, but shares owned by or voted under the control of directors who are at the time parties to such action, suit or proceeding may not be voted on the determination. Notwithstanding the foregoing, an Agent shall be able to contest any determination that the Agent has not met the applicable standard of conduct by petitioning a court of appropriate jurisdiction.

Section 4. Definition of Good Faith. For purposes of any determination under Section 1 of this Article VI, a person shall be deemed to have acted in good faith and to have otherwise met the applicable standard of conduct set forth in Section 1 if his action is based on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by (1) one or more officers or employees of the Corporation or another enterprise whom he reasonably believes to be reliable and competent in the matters presented; (2) legal counsel, public accountants, appraisers or other persons as to matters he reasonably believes are within the person's professional or expert competence; or (3) a committee of the Board of Directors of the Corporation or another enterprise of which the person is not a member if he reasonably believes the committee merits confidence. The provisions of this Section 4 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standards of conduct set forth in Section 1 of this Article VI.

Section 5. Payment of Expenses in Advance. Expenses incurred in connection with any civil, criminal, administrative or investigative action, suit or proceeding by an Agent who may be entitled to indemnification pursuant to Section 1 of this Article VI shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of a written affirmation by the Agent of his good faith belief that he has met the applicable standard of conduct set forth in Section 1 of this Article VI and upon receipt of a written undertaking by or on behalf of the Agent to repay such amount if it is ultimately determined that he is not entitled to be indemnified by the Corporation as authorized in this Article VI. Notwithstanding the foregoing, such expenses shall not be advanced if the Corporation conducts the determination of conduct procedure referred to in Section 3 of this Article VI and it is determined from the facts then known that the Agent will be precluded from indemnification against underlying liability because he has failed to meet the applicable standard of conduct set forth in Section 1 of this Article VI. The full Board of Directors (including directors who are parties) may authorize the Corporation to implement the determination of conduct procedure, but such procedure is not required for the advancement of expenses. The full Board of Directors (including directors who are parties) may authorize the Corporation to assume the Agent's defense where appropriate, rather than to advance expenses for such defense.

Section 6. Indemnity Not Exclusive. The indemnification against underlying liability, and advancement of expenses provided by, or granted pursuant to, this Article VI shall not be deemed exclusive of, and shall be subject to, any other rights to which those seeking indemnification or advancement of expenses may be entitled under the Corporation's Articles of Incorporation, these Bylaws, any resolution of the Board of Directors or shareholders, any other authorization, whenever adopted, after notice, by a majority vote of all voting shares then outstanding, or any contract, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be an Agent, and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 7. Vested Right to Indemnification. The right of any individual to indemnification under this Article shall vest at the time of occurrence or performance of any event, act or omission giving rise to any action, suit or proceeding of the nature referred to in Section 1 of this Article VI and, once vested, shall not later be impaired as a result of any amendment, repeal, alteration or other modification of any or all of these provisions. Notwithstanding the foregoing, the indemnification afforded under this Article shall be applicable to all alleged prior acts or omissions of any individual seeking indemnification hereunder, regardless of the fact that such alleged acts or omissions may have occurred prior to the adoption of this Article. To the extent such prior acts or omissions cannot be deemed to be covered by this Article VI, the right of any individual to indemnification shall be governed by the indemnification provisions in effect at the time of such prior acts or omissions.

Section 8. Insurance. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was an Agent of the Corporation against any liability asserted against him or incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article VI.

Section 9. Additional Definitions. For purposes of this Article VI references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries. A person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article VI.

Section 10. Payments a Business Expense . Any payments made to any indemnified party under this Article or under any other right to indemnification shall be deemed to be an ordinary and necessary business expense of the Corporation, and payment thereof shall not subject any person responsible for the payment, or the Board of Directors, to any action for corporate waste or to any similar action.

ARTICLE VII

Shares

Section 1. Share Certificates . The certificate for shares of the Corporation shall be in such form as shall be approved by the Board of Directors. Each share certificate shall state on its face the name and state of organization of the Corporation, the name of the person to whom the certificate is issued, and the number and class of shares the certificate represents. Share certificates shall be consecutively numbered and shall be entered in the books of the Corporation as they are issued. Every certificate for shares of the Corporation shall be signed (either manually or in facsimile) by, or in the name of, the Corporation by the President or a Vice President and either the Secretary or an Assistant Secretary of the Corporation, with the seal of the Corporation, if any, or a facsimile thereof impressed or printed thereon. If the person who signed (either manually or in facsimile) a share certificate no longer holds office when the certificate is issued, the certificate is nevertheless valid.

Section 2. Transfer of Shares . Except as otherwise provided by law, transfers of shares of the capital stock of the Corporation, whether part paid or fully paid, shall be made only on the books of the Corporation by the owner thereof in person or by duly authorized attorney, on payment of all taxes thereon and surrender for cancellation of the certificate or certificates for such shares (except as hereinafter provided in the case of loss, destruction or mutilation of certificate) properly endorsed by the holder thereof or accompanied by the proper evidence of succession, assignment or authority to transfer, and delivered to the Secretary or an Assistant Secretary. All such transfers shall be made in accordance with the relevant provisions of Indiana Code §§26-1-8-101 et seq.

Section 3. Transfer Agent . The Board of Directors shall have power to appoint one or more transfer agents and registrars for the transfer and registration of certificates of stock of the Corporation, and may require that such certificates shall be countersigned and registered by one or more of such transfer agents and registrars.

Section 4. Registered Holders . The Corporation shall be entitled to treat the person in whose name any share of stock or any warrant, right or option is registered as the owner thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, such share, warrant, right or option on the part of any other person, whether or not the Corporation shall have notice thereof, save as may be expressly provided otherwise by the laws of the State of Indiana, the Articles of Incorporation of the Corporation or these By-laws. In no event shall any transferee of shares of the Corporation become a shareholder of the Corporation until express notice of the transfer shall have been received by the Corporation.

Section 5. Lost, Destroyed and Mutilated Certificates . The holder of any share certificate of the Corporation shall immediately notify the Corporation of any loss, destruction or mutilation of the certificate, and the Board may, in its discretion, cause to be issued to such holder of shares a new certificate or certificates of shares of capital stock, upon the surrender of the mutilated certificate, or, in case of loss or destruction, upon the furnishing of an affidavit or satisfactory proof of such loss or destruction. The Board may, in its discretion, require the owner of the lost or destroyed certificate or such owner's legal representative to give the Corporation a bond in such sum and in such form, and with such surety or sureties as it may direct, to indemnify the Corporation, its transfer agents and registrars, if any, against any claim that may be made against them or any of them with respect to the certificate or certificates alleged to have been lost or destroyed, but the Board may, in its discretion, refuse to issue a new certificate or new certificates, save upon the order of a court having jurisdiction in such matters.

Section 6. Consideration for Shares. The Corporation may issue shares for such consideration received or to be received as the Board of Directors determines to be adequate. That determination by the Board of Directors is conclusive insofar as the adequacy of consideration for the issuance of shares relates to whether the shares are validly issued, fully paid and nonassessable. When the Corporation receives the consideration for which the Board of Directors authorized the issuance of shares, the shares issued therefor are fully paid and nonassessable.

Section 7. Payment for Shares. The Board of Directors may authorize shares to be issued for consideration consisting of any tangible or intangible property or benefit to the Corporation, including cash, promissory notes, services performed, contracts for services to be performed, or other securities of the Corporation. If shares are authorized to be issued for promissory notes or for promises to render services in the future, the Corporation must report in writing to the shareholders the number of shares authorized to be so issued before or with the notice of the next shareholders' meeting.

Section 8. Distributions to Shareholders. The Board of Directors may authorize and the Corporation may make distributions to the shareholders subject to any restrictions set forth in the Articles of Incorporation of the Corporation and any limitations in the Indiana Business Corporation Law, as amended.

Section 9. Regulations. The Board of Directors shall have power and authority to make all such rules and regulations as they may deem expedient concerning the issue, transfer and registration or the replacement of certificates for shares of the Corporation.

ARTICLE VIII

Corporate Books and Reports

Section 1. Place of Keeping Corporate Books and Records. Except as expressly provided otherwise in this Article, the books of account, records, documents and papers of the Corporation shall be kept at any place or places, within or without the State of Indiana, as directed by the Board of Directors. In the absence of a direction, the books of account, records, documents and papers shall be kept at the principal office of the Corporation.

Section 2. Place of Keeping Certain Corporate Books and Records. The Corporation shall keep a copy of the following records at its principal office:

(1) Its Articles or restated Articles of Incorporation and all amendments to them currently in effect;

(2) Its By-laws or restated By-laws and all amendments to them currently in effect;

(3) Resolutions adopted by the Board of Directors with respect to one or more classes or series of shares and fixing their relative rights, preferences and limitations, if shares issued pursuant to those resolutions are outstanding;

(4) The minutes of all shareholders' meetings and records of all action taken by shareholders without a meeting, for the past three (3) years;

(5) All written communications to shareholders generally within the past three (3) years, including financial statements furnished to shareholders;

(6) A list of the names and business addresses of its current directors and officers; and

(7) The Corporation's most recent annual report.

Section 3. Permanent Records. The Corporation shall keep as permanent records minutes of all meetings of its shareholders and Board of Directors, a record of all actions taken by the shareholders or Board of Directors without a meeting, and a record of all actions taken by a committee of the Board of Directors in place of the Board of Directors on behalf of the Corporation. The Corporation shall also maintain appropriate accounting records.

Section 4. Shareholder Records. The Corporation shall maintain a record of its shareholders, in a form that permits preparation of a list of the names and addresses of all shareholders, in alphabetical order by class of shares showing the number and class of shares held by each.

Section 5. Shareholder Rights of Inspection. The records designated in Section 2 of this Article may be inspected and copied by shareholders of record, during regular business hours at the Corporation's principal office, provided that the shareholder gives the Corporation written notice of the shareholder's demand at least five (5) business days before the date on which the shareholder wishes to inspect and copy. A shareholder's agent or attorney, if authorized in writing, has the same inspection and copying rights as the shareholder represented. The Corporation may impose a reasonable charge, covering the costs of labor and material, for copies of any documents provided to the shareholder.

Section 6. Additional Rights of Inspection. Shareholder rights enumerated in Section 5 of this Article may also apply to the following corporate records, provided that the notice requirements of Section 5 are met, the shareholder's demand is made in good faith and for a proper purpose, the shareholder describes with reasonable particularity the shareholder's purpose and the records the shareholder desires to inspect, and the records are directly connected with the shareholder's purpose: excerpts from minutes of any meeting of the Board of Directors, records of any action of a committee of the Board of Directors while acting in place of the Board of Directors on behalf of the Corporation, minutes of any meeting of the shareholders, and records of action taken by the shareholders or Board of Directors without a meeting, to the extent not subject to inspection under Section 5 of this Article, as well as accounting records of the Corporation and the record of shareholders. Such inspection and copying is to be done during regular business hours at a reasonable location specified by the Corporation. The Corporation may impose a reasonable charge, covering the costs of labor and material, for copies of any documents provided to the shareholder.

ARTICLE IX

Miscellaneous

Section 1. Notice and Waiver of Notice. Subject to the specific and express notice requirements set forth in other provisions of these By-laws, the Articles of Incorporation, and the Indiana Business Corporation Law, as the same may, from time to time, be amended, notice may be communicated to any shareholder or director in person, by telephone, telegraph, teletype, or other form of wire or wireless communication, or by mail. If the foregoing forms of personal notice are deemed to be impracticable, notice may be communicated in a newspaper of general circulation in the area where published or by radio, television, or other form of public broadcast communication. Subject to Section 4 of ARTICLE II of these By-laws, written notice is effective at the earliest of the following: (a) when received; (b) if correctly addressed to the address listed in the most current records of the Corporation, five days after its mailing, as evidenced by the postmark or private carrier receipt; or (c) if sent by registered or certified United States mail, return receipt requested, on the date shown on the return receipt which is signed by or on behalf of the addressee. Oral notice is effective when communicated. A written waiver of notice, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be equivalent to the giving of such notice.

Section 2. Depositories. Funds of the Corporation not otherwise employed shall be deposited in such banks or other depositories as the Board of Directors, the President or the Treasurer may select or approve.

Section 3. Signing of Checks, Notes, etc. In addition to and cumulative of, but in no way limiting or restricting, any other provision of these By-laws which confers any authority relative thereto, all checks, drafts and other orders for the payment of money out of funds of the Corporation and all notes and other evidence of indebtedness of the Corporation may be signed on behalf of the Corporation, in such manner, and by such officer or person as shall be determined or designated by the Board of Directors; provided, however, that if, when, after and as authorized or provided for by the Board of Directors, the signature of any such officer or person may be a facsimile or engraved or printed, and shall have the same force and effect and bind the Corporation as though such officer or person had signed the same personally; and, in the event of the death, disability, removal or resignation of any such officer or person, if the Board of Directors shall so determine or provide, as though and with the same effect as if such death, disability, removal or resignation had not occurred.

Section 4. Gender and Number. Wherever used or appearing in these By-laws, pronouns of the masculine gender shall include the female gender and the neuter gender, and the singular shall include the plural wherever appropriate.

Section 5. Laws. Wherever used or appearing in these By-laws, the words "law" or "laws" shall mean and refer to laws of the State of Indiana, to the extent only that such are expressly applicable, except where otherwise expressly stated or the context requires that such words not be so limited.

Section 6. Headings. The headings of the Articles and Sections of these By-laws are inserted for convenience of reference only and shall not be deemed to be a part thereof or used in the construction or interpretation thereof.

ARTICLE X

Amendments

These By-laws may, from time to time, be added to, changed, altered, amended or repealed or new By-laws may be made or adopted by a majority vote of the whole Board of Directors at any meeting of the Board of Directors, if the notice or waiver of notice of such meeting shall have stated that the By-laws are to be amended, altered or repealed at such meeting, or if all directors at the time are present at such meeting, have waived notice of such meeting, or have consented to such action in writing.

ARTICLE XI

Other Provisions

Section 1. The Indiana Business Corporation Law. Except as otherwise expressly provided herein, the provisions of the Indiana Business Corporation Law, as the same may, from time to time be amended, applicable to any of the matters not herein specifically covered by these By-laws, are hereby incorporated by reference in and made a part of these By-laws.

Section 2. Mandatory Classified Board Structure. The provisions of IC 23-1-33-6 (c) shall not apply to the Corporation. ”

DESCRIPTION OF HURCO COMPANIES, INC.'S COMMON STOCK

The following is a description of the common stock, no par value (the "Common Stock"), of Hurco Companies, Inc. (the "Company"), which is the only security of the Company registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

General

The Company is authorized to issue up to 12,500,000 shares of Common Stock. As of December 31, 2019, the Company had 6,770,233 shares of Common Stock outstanding.

The following description summarizes selected information regarding the Common Stock, as well as relevant provisions of (i) the Company's Amended and Restated Articles of Incorporation, as currently in effect (the "Articles"), (ii) the Company's Amended and Restated By-Laws, as currently in effect (the "By-Laws"), and (iii) the Indiana Business Corporation Law (the "IBCL"). The following summary description of the Common Stock of the Company is qualified in its entirety by reference to the provisions of the Company's Articles and By-Laws, copies of which have been filed as exhibits to the Company's periodic reports under the Exchange Act, and the applicable provisions of the IBCL.

Common Stock

Voting Rights. The holders of shares of Common Stock are entitled to one vote per share on all matters submitted to shareholders for a vote. The holders of shares of Common Stock do not have cumulative voting rights with respect to the election of directors or any other matter.

Dividend Rights. Subject to preferences to which holders of any preferred stock of the Company may be entitled, the holders of shares of Common Stock are entitled to receive such dividends as may be declared from time to time by the Board of Directors, in its discretion, from any assets legally available therefor.

Liquidation Rights. Subject to the prior payment or provision for payment of the debts and other liabilities of the Company and any preferential amounts to be distributed to holders of any preferred stock of the Company, in the event of any liquidation, dissolution or winding up of the Company, the holders of shares of Common Stock shall be entitled to share ratably in the remaining net assets of the Company.

Other Rights and Preferences. The holders of shares of Common Stock have no preemptive rights to subscribe to or purchase any shares of Common Stock or other Company securities. There are no redemption, sinking fund or conversion provisions applicable to the Common Stock. The holders of shares of Common Stock are not subject to further calls or assessments by the Company.

Transfer Agent and Registrar. The transfer agent and registrar for the Common Stock is Computershare Trust Company, N.A.

Listing. The Common Stock is traded on the Nasdaq Global Select Market under the symbol "HURC."

Anti-Takeover Effects of Provisions of the Company's Articles, By-Laws and the IBCL

Under certain circumstances, certain provisions of the IBCL, the Company's Articles and the Company's By-Laws may render more difficult, or may discourage, a merger, a tender offer, a proxy contest, the assumption of control of the Company by a holder of a large block of the Common Stock or other person, or the removal of incumbent management, even if such actions may be beneficial to the Company's shareholders generally.

Meetings of Shareholders. Under Chapter 29 of the IBCL and the Company's Articles, any action required to be taken by the Company's shareholders may be effected only at an annual meeting or special meeting of shareholders, and shareholders may act in lieu of such meetings only by unanimous written consent. The Company's By-Laws provide that special meetings of shareholders may be called by the Company's Board of Directors or President, or by the holders of a majority of all the votes entitled to be cast on any issue proposed to be considered at the proposed special meeting.

The Company's By-Laws also establish an advance notice procedure for the nomination, other than by or at the direction of the Company's Board of Directors, of persons for election as directors as well as for other shareholder proposals to be considered at annual meetings of shareholders. In general, notice of intent to nominate a director or raise business at such meetings must be delivered to the Company by a shareholder not less than 60 days prior to such meeting. Such notice must contain certain specified information concerning the person to be nominated and the shareholder submitting the proposal.

Amendment of By-Laws. The Company's Articles and By-Laws provide that the Company's Board of Directors has the exclusive authority to make, alter, amend or repeal the Company's By-Laws.

Special Transactions. The Company's Articles require the affirmative vote of the holders of not less than three-fourths of the outstanding shares of Common Stock for certain proposed transactions, including, but not limited to: (i) the merger or consolidation of the Company and a "related corporation"; (ii) the sale or exchange of all or substantially all of the Company's assets or business to or with a related corporation; (iii) the issue or delivery of Common Stock or any other Company securities in exchange or payment for property, assets or securities of a related corporation; and (iv) the merger of any of the Company's affiliates with or into a related corporation or any of its affiliates.

For purposes of the above provisions, the below definitions shall apply:

(a) "affiliate" means any person (including a corporation, partnership, trust, estate or individual) who, directly or indirectly, controls, is controlled by, or is under common control with the person specified; and

(b) "related corporation" means a corporation or entity or any of its affiliates, singly or in the aggregate, that are beneficial owners, directly or indirectly, of more than 5% of the total outstanding shares of Common Stock.

The foregoing requirements shall not apply to any transaction that has been (i) approved by resolution of the Board of Directors adopted by the affirmative vote of not less than two-thirds of the then authorized number of directors; or (ii) approved by resolution of the Board of Directors prior to the acquisition of the beneficial ownership of more than 5% of the total voting power of all outstanding shares of Common Stock by such related corporation and its affiliates.

Control Share Acquisitions. Under Chapter 42 of the IBCL, an acquiring person or group who makes a "control share acquisition" in an "issuing public corporation" may not exercise voting rights on any "control shares" unless these voting rights are conferred by a majority vote of the disinterested shareholders of the issuing public corporation at a special meeting of those shareholders held upon the request and at the expense of the acquiring person. If control shares acquired in a control share acquisition are accorded full voting rights and the acquiring person has acquired control shares with a majority or more of all voting power, all shareholders of the issuing public corporation have dissenters' rights to receive the fair value of their shares pursuant to Chapter 44 of the IBCL.

For purposes of Chapter 42 of the IBCL, the below definitions shall apply:

(a) "control share acquisition" means, subject to specified exceptions, the acquisition, directly or indirectly, by any person of ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding control shares. For the purposes of determining whether an acquisition constitutes a control share acquisition, shares acquired within 90 days or under a plan to make a control share acquisition are considered to have been acquired in the same acquisition;

(b) "control shares" means shares acquired by a person that, when added to all other shares of the issuing public corporation owned by that person or in respect to which that person may exercise or direct the exercise of voting power, would otherwise entitle that person to exercise voting power of the issuing public corporation in the election of directors within any of the following ranges: (i) one-fifth or more but less than one-third; (ii) one-third or more but less than a majority; or (iii) a majority or more; and

(c) "issuing public corporation" means a corporation which has (i) 100 or more shareholders, (ii) its principal place of business or its principal office in Indiana, or that owns or controls assets within Indiana having a fair market value of greater than $1,000,000, and (iii) (A) more than 10% of its shareholders resident in Indiana, (B) more than 10% of its shares owned of record or owned beneficially by Indiana residents, or (C) 1,000 shareholders resident in Indiana.

The above provisions do not apply if, before a control share acquisition is made, an Indiana corporation's articles of incorporation or by-laws, including a by-law adopted by the Indiana corporation's board of directors, provide that they do not apply. The Company's Articles and By-Laws do not exclude the Company from these provisions.

Certain Business Combinations. Chapter 43 of the IBCL restricts the ability of a "resident domestic corporation" to engage in any business combinations with an "interested shareholder" for five years after the date the interested shareholder became such, unless the business combination or the purchase of shares by the interested shareholder on the interested shareholder's share acquisition date is approved by the board of directors of the resident domestic corporation before the interested shareholder's share acquisition date. If such prior approval is not obtained, the interested shareholder may effect a business combination after the five-year period only if such shareholder receives approval from a majority of the disinterested shareholders or the offer meets specified fair price criteria.

For purposes of Chapter 43 of the IBCL, the below definitions shall apply:

(a) "beneficial owner" means a person who, directly or indirectly, owns the subject shares, has the right to acquire or vote the subject shares (excluding voting rights under revocable proxies made in accordance with federal law), has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of the subject shares, or holds any derivative instrument that includes the opportunity to profit or share in any profit derived from any increase in the value of the subject shares;

(b) "interested shareholder" means any person, other than the resident domestic corporation or its subsidiaries, that is (i) the beneficial owner, directly or indirectly, of 10% or more of the voting power of the outstanding voting shares of the resident domestic corporation or (ii) an affiliate or associate of the resident domestic corporation, which at any time within the five-year period immediately before the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding shares of the resident domestic corporation; and

(c) "resident domestic corporation" means an Indiana corporation that has 100 or more shareholders.

The above provisions do not apply to corporations that elect not to be subject to Chapter 43 of the IBCL in an amendment to their articles of incorporation approved by a majority of the disinterested shareholders. That amendment, however, cannot become effective until 18 months after its passage and would apply only to share acquisitions occurring after its effective date. The Company's Articles do not exclude the Company from Chapter 43 of the IBCL.

Mandatory Classified Board of Directors. Under Chapter 33 of the IBCL, an Indiana corporation with a class of voting shares registered with the U.S. Securities and Exchange Commission under Section 12 of the Exchange Act must have a classified board of directors unless the Indiana corporation adopts a by-law expressly electing not to be governed by this provision. The Company's By-Laws contain a provision electing not to be subject to this mandatory requirement.

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

SUBSIDIARIES OF HURCO COMPANIES, INC.

Name	Jurisdiction of Incorporation
Hurco B.V	The Netherlands
Hurco Europe Limited	United Kingdom
Hurco GmbH	Federal Republic of Germany
Hurco India Private, Ltd.	India
Hurco Manufacturing Limited	Taiwan R.O.C.
Hurco S.a.r.l.	France
Hurco S.r.l.	Italy
Hurco (S.E. Asia) Pte Ltd.	Singapore
LCM Precision Technology S.r.l.	Italy
Machinery Sales Co.	United States
Milltronics USA, Inc.	United States
Ningbo Hurco Machine Tool Co., Ltd.	China

Hurco Companies, Inc. is the Company’s headquarters in Indianapolis, Indiana, U.S.A. The foregoing list does not include other subsidiaries which, individually or in the aggregate, did not constitute a significant subsidiary as of October 31, 2020.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (No. 333-48204, 333-126036, 333-149809 and 333-210072) on Form S-8 of Hurco Companies, Inc. of our reports dated January 8, 2021, relating to the consolidated financial statements, the financial statement schedule and the effectiveness of internal control over financial reporting of Hurco Companies, Inc. appearing in this Annual Report on Form 10-K of Hurco Companies, Inc. for the year ended October 31, 2020.

/s/ RSM US LLP

Indianapolis, Indiana
January 8, 2021

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Michael Doar, certify that:

1. I have reviewed this annual report on Form 10-K of Hurco Companies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and internal control over financial reporting [as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)] for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. Generally Accepted Accounting Principles; and

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael Doar
Michael Doar
Chairman and Chief Executive Officer
January 8, 2021

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Sonja K McClelland, certify that:

1. I have reviewed this annual report on Form 10-K of Hurco Companies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and internal control over financial reporting [as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)] for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. Generally Accepted Accounting Principles; and

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Sonja K. McClelland
Sonja K. McClelland
Executive Vice President, Secretary, Treasurer and Chief
Financial Officer
January 8, 2021

Exhibit 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Hurco Companies, Inc. (the “Company”) on Form 10-K for the year ended October 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies, pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael Doar

Michael Doar
Chairman and Chief Executive Officer
January 8, 2021

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Hurco Companies, Inc. (the "Company") on Form 10-K for the year ended October 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sonja K. McClelland

Sonja K. McClelland
Executive Vice President, Secretary, Treasurer and Chief
Financial Officer
January 8, 2021