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

FORM 10-Q

(Mark One)

x Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended July 31, 2018 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**

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 x
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	
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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No x

The number of shares of the Registrant's common stock outstanding as of August 31, 2018 was 6,716,898.

HURCO COMPANIES, INC.
Form 10-Q Quarterly Report for Fiscal Quarter Ended July 31, 2018

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
Sales and service fees	$ 78,752	$ 60,770	$ 217,620	$ 167,736
Cost of sales and service	54,231	43,230	153,665	120,541
Gross profit	24,521	17,540	63,955	47,195
Selling, general and administrative expenses	15,160	12,395	41,446	35,276
Operating income	9,361	5,145	22,509	11,919
Interest expense	29	21	74	66
Interest income	78	14	108	32
Investment income	58	5	180	85
Other (income) expense, net	457	(98)	868	193
Income before taxes	9,011	5,241	21,855	11,777
Provision for income taxes	2,511	1,353	8,667	3,363
Net income	$ 6,500	$ 3,888	$ 13,188	$ 8,414
Income per common share				
Basic	$ 0.96	$ 0.58	$ 1.95	$ 1.26
Diluted	$ 0.95	$ 0.58	$ 1.93	$ 1.25
Weighted average common shares outstanding				
Basic	6,717	6,624	6,694	6,608
Diluted	6,788	6,695	6,774	6,674
Dividends paid per share	$ 0.11	$ 0.10	$ 0.32	$ 0.29

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

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
Net income	$ 6,500	$ 3,888	$ 13,188	$ 8,414
Other comprehensive income (loss):				
Translation of foreign currency financial statements	(3,689)	3,263	(846)	5,419
(Gain) / loss on derivative instruments reclassified into operations, net of tax of $181, $(310), $245 and $(369), respectively	540	(562)	733	(670)
(Loss)/ gain on derivative instruments, net of tax of $125, $(842), $(151) and $(609), respectively	375	(1,531)	(451)	(1,107)
Total other comprehensive income (loss)	(2,774)	1,170	(564)	3,642
Comprehensive income	$ 3,726	$ 5,058	$ 12,624	$ 12,056

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

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

	July 31, 2018 (Unaudited)	October 31, 2017 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 77,011	$ 66,307
Accounts receivable, net	45,814	50,094
Inventories, net	135,931	119,948
Derivative assets	2,157	596
Prepaid assets	9,956	7,913
Other	2,153	1,557
Total current assets	273,022	246,415
Property and equipment:		
Land	868	841
Building	7,352	7,352
Machinery and equipment	27,147	25,652
Leasehold improvements	3,815	3,503
	39,182	37,348
Less accumulated depreciation and amortization	(26,101)	(25,167)
Total property and equipment	13,081	12,181
Non-current assets:		
Software development costs, less accumulated amortization	7,059	6,226
Goodwill	2,449	2,440
Intangible assets, net	988	1,076
Deferred income taxes	4,088	6,176
Investments and other assets, net	7,500	7,131
Total non-current assets	22,084	23,049
Total assets	$ 308,187	$ 281,645
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 58,957	$ 47,638
Accrued expenses and other	18,721	18,240
Accrued warranty expenses	2,277	1,772
Derivative liabilities	2,111	1,732
Short-term debt	1,468	1,507
Total current liabilities	83,534	70,889
Non-current liabilities:		
Deferred income taxes	2,560	3,821
Accrued tax liability	2,445	133
Deferred credits and other	3,573	3,717
Total non-current liabilities	8,578	7,671
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; 6,885,246 and 6,799,006 shares issued and 6,716,898 and 6,641,197 shares outstanding, as of July 31, 2018, and October 31, 2017, respectively	672	664
Additional paid-in capital	63,854	61,344
Retained earnings	160,303	149,267
Accumulated other comprehensive loss	(8,754)	(8,190)
Total shareholders' equity	216,075	203,085
Total liabilities and shareholders' equity	$ 308,187	$ 281,645

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

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2018	**2017**	**2018**	**2017**
	(Unaudited)		**(Unaudited)**	
Cash flows from operating activities:				
Net income	$ 6,500	$ 3,888	$ 13,188	$ 8,414
Adjustments to reconcile net income to net cash provided by (used for) operating activities:				
Provision for doubtful accounts	23	7	114	(4)
Deferred income taxes	(160)	32	480	(515)
Equity in (income) loss of affiliates	(243)	(131)	(437)	(323)
Depreciation and amortization	937	936	2,848	2,718
Foreign currency (gain) loss	864	(2,745)	(185)	(1,381)
Unrealized (gain) loss on derivatives	(311)	2,050	180	1,523
Stock-based compensation	606	441	1,784	1,088
Taxes paid related to net settlement of restricted shares	—	—	545	473
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(4,979)	(1,700)	4,060	11,274
(Increase) decrease in inventories	(4,515)	(5,017)	(17,440)	(4,624)
(Increase) decrease in prepaid expenses	(968)	324	(2,149)	551
Increase (decrease) in accounts payable	1,917	3,943	12,145	9,415
Increase (decrease) in accrued expenses	3,021	(35)	1,047	(4,669)
Increase (decrease) in accrued tax liability	(8)	(93)	2,312	129
Net change in deferred tax assets and liabilities	819	(1,346)	819	(1,140)
Net change in derivative assets and liabilities	(180)	1,051	(597)	1,418
Other	723	347	(1,211)	(185)
Net cash provided by (used for) operating activities	4,046	1,952	17,503	24,162
Cash flows from investing activities:				
Purchase of property and equipment	(1,152)	(668)	(2,826)	(1,666)
Proceeds from sale of equipment	8	—	94	—
Software development costs	(526)	(593)	(1,748)	(1,701)
Net cash provided by (used for) investing activities	(1,670)	(1,261)	(4,480)	(3,367)
Cash flows from financing activities:				
Dividends paid	(742)	(667)	(2,152)	(1,920)
Taxes paid related to net settlement of restricted shares	—	—	(545)	(473)
Proceeds from exercise of common stock options	180	—	734	269
Net cash provided by (used for) financing activities	(562)	(667)	(1,963)	(2,124)
Effect of exchange rate changes on cash	(1,179)	507	(356)	1,257
Net increase (decrease) in cash and cash equivalents	635	531	10,704	19,928
Cash and cash equivalents at beginning of period	76,376	60,614	66,307	41,217
Cash and cash equivalents at end of period	$ 77,011	$ 61,145	$ 77,011	$ 61,145

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

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Nine Months Ended July 31, 2018 and 2017
(In thousands, except shares outstanding)

	Common Stock		Additional		Accumulated Other	
	Shares Outstanding	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Total
Balances, October 31, 2016	**6,573,103**	**$ 657**	**$ 59,119**	**$ 136,742**	**$ (11,043)**	**$ 185,475**
Net income	—	—	—	8,414	—	8,414
Other comprehensive income	—	—	—	—	3,642	3,642
Exercise of common stock options	12,164	1	268	—	—	269
Stock-based compensation	38,930	5	1,083	—	—	1,088
Dividends paid	—	—	—	(1,920)	—	(1,920)
Balances, July 31, 2017 (Unaudited)	**6,624,197**	**$ 663**	**$ 60,470**	**$ 143,236**	**$ (7,401)**	**$ 196,968**
Balances, October 31, 2017	**6,641,197**	**$ 664**	**$ 61,344**	**$ 149,267**	**$ (8,190)**	**$ 203,085**
Net income	—	—	—	13,188	—	13,188
Other comprehensive income (loss)	—	—	—	—	(564)	(564)
Exercise of common stock options	35,418	4	730	—	—	734
Stock-based compensation	40,283	4	1,780	—	—	1,784
Dividends paid	—	—	—	(2,152)	—	(2,152)
Balances, July 31, 2018 (Unaudited)	**6,716,898**	**$ 672**	**$ 63,854**	**$ 160,303**	**$ (8,754)**	**$ 216,075**

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. GENERAL

The unaudited Condensed Consolidated Financial Statements include the accounts of Hurco Companies, Inc. and its consolidated subsidiaries. As used in this report, unless the context indicates otherwise, the terms “we”, “us”, “our” and similar language refer to Hurco Companies, Inc. and its consolidated subsidiaries as a whole.

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, software options, control upgrades, accessories and replacement parts for our products, as well as customer service and training support.

The condensed financial information as of July 31, 2018 and for the three and nine months ended July 31, 2018 and July 31, 2017 is unaudited. However, in our opinion, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position, results of operations, changes in shareholders’ equity and cash flows for and at the end of the interim periods. We suggest that you read these condensed consolidated financial statements in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended October 31, 2017.

2. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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, for which we enter into derivative instruments in the form of foreign currency forward exchange contracts with a major financial institution.

We enter into these forward exchange contracts to reduce the potential effects of foreign exchange rate movements on our net equity investment in one of our foreign subsidiaries, to reduce the impact on gross profit and net earnings from sales and purchases denominated in foreign currencies, and to reduce the impact on our net earnings of foreign currency fluctuations on receivables and payables denominated in foreign currencies that are different than the subsidiaries’ functional currency. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and net assets denominated in Euros, Pounds Sterling, Indian Rupee, South African Rand, Singapore Dollars, Chinese Yuan, Polish Zloty, and New Taiwan Dollars. We record all derivative instruments as assets or liabilities at fair value.

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 the following foreign currencies: the Pound Sterling, Euro and New Taiwan Dollar. The purpose of these instruments is to mitigate the risk that the U.S. Dollar net cash inflows and outflows resulting from sales and purchases denominated in foreign currencies will be adversely affected by changes in exchange rates. These forward contracts have been designated as cash flow hedge instruments and are recorded in the Condensed Consolidated Balance Sheets at fair value in Derivative assets and Derivative liabilities. The effective portion of the gains and losses resulting from the changes in the fair value of these hedge contracts is 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 (income) 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 July 31, 2018, denominated in Euros, Pounds Sterling and New Taiwan Dollars with set maturity dates ranging from August 2018 through July 2019. The contract amounts, expressed at forward rates in U.S. Dollars at July 31, 2018, were $35.8 million for Euros, $10.0 million for Pounds Sterling and $38.2 million for New Taiwan Dollars. At July 31, 2018, we had approximately $507,000 of losses, net of tax, related to cash flow hedges deferred in Accumulated other comprehensive loss. Included in this amount were $4,000 of unrealized losses, net of tax, related to cash flow hedge instruments that remain subject to currency fluctuation risk. The majority of these deferred losses will be recorded as an adjustment to Cost of sales and service in periods through July 2019, when the corresponding inventory that is the subject of the related hedge contracts is sold, as described above.

We are also exposed to foreign currency exchange risk related to our investment in net assets in foreign countries. To manage this risk, we entered into a forward contract with a notional amount of €3.0 million in November 2017. We designated this forward contract as a hedge of our net investment in Euro denominated assets. We selected the forward method under Financial Accounting Standards Board, or 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 in Accumulated other comprehensive loss, net of tax, in the same manner as the underlying hedged net assets. This forward contract matures in November 2018. As of July 31, 2018, we had $632,000 of realized gains and $69,000 of unrealized gains, net of tax, recorded as cumulative translation adjustments in Accumulated other comprehensive loss related to this forward contract.

Derivatives Not Designated as Hedging Instruments

We also enter into foreign currency forward exchange contracts to protect against the effects of foreign currency fluctuations on receivables and payables denominated in foreign currencies. These derivative instruments are not designated as hedges under the FASB guidance and, as a result, changes in their fair value are reported currently as Other (income) expense, net in the Condensed Consolidated Statements of Income consistent with the transaction gain or loss on the related receivables and payables denominated in foreign currencies.

We had forward contracts outstanding as of July 31, 2018, denominated in Euros, Pounds Sterling, South African Rand, and New Taiwan Dollar with set maturity dates ranging from August 2018 through October 2018. The contract amounts, expressed at forward rates in U.S. Dollars at July 31, 2018 totaled $50.8 million.

Fair Value of Derivative Instruments

We recognize the fair value of derivative instruments as assets and liabilities on a gross basis on our Condensed Consolidated Balance Sheets. As of July 31, 2018, and October 31, 2017, all derivative instruments were recorded at fair value on our Consolidated Balance Sheets as follows (in thousands):

	July 31, 2018		October 31, 2017	
Derivatives	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Designated as Hedging Instruments:				
Foreign exchange forward contracts	Derivative assets	$ 1,689	Derivative assets	$ 305
Foreign exchange forward contracts	Derivative liabilities	$ 1,603	Derivative liabilities	$ 1,508
Not Designated as Hedging Instruments:				
Foreign exchange forward contracts	Derivative assets	$ 468	Derivative assets	$ 291
Foreign exchange forward contracts	Derivative liabilities	$ 508	Derivative liabilities	$ 224

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

Derivative instruments had the following effects on our Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Changes in Shareholders' Equity and Condensed Consolidated Statements of Income, net of tax, during the three months ended July 31, 2018 and 2017 (in thousands):

Derivatives	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss)		Location of Gain (Loss) Reclassified from Other Comprehensive Income (Loss)	Amount of Gain (Loss) Reclassified from Other Comprehensive Income (Loss)	
	Three Months Ended July 31,			Three Months Ended July 31,	
	2018	2017		2018	2017
Designated as Hedging Instruments:					
(Effective portion)					
Foreign exchange forward contracts – Intercompany sales/purchases	$ 375	$ (1,531)	Cost of sales and service	$ (540)	$ 562
Foreign exchange forward contract – Net investment	$ 144	$ (172)			

We did not recognize any gains or losses as a result of hedges deemed ineffective for the three months ended July 31, 2018. We recognized losses of $58,000 for the three months ended July 31, 2017, as a result of hedges deemed ineffective for financial reporting purposes and did not qualify as cash flow hedges.

We recognized the following gains and losses in our Condensed Consolidated Statements of Income during the three months ended July 31, 2018 and 2017 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	
		Three Months Ended July 31,	
		2018	2017
Not Designated as Hedging Instruments:			
Foreign exchange forward contracts	Other (income) expense, net	$ (4)	$ (2,402)

The following table presents the changes in the components of Accumulated other comprehensive loss, net of tax, for the three months ended July 31, 2018 (in thousands):

	Foreign Currency Translation	Cash Flow Hedges	Total
Balance, April 30, 2018	$ (4,566)	$ (1,414)	$ (5,980)
Other comprehensive income (loss) before reclassifications	(3,689)	375	(3,314)
Reclassifications	—	540	540
Balance, July 31, 2018	$ (8,255)	$ (499)	$ (8,754)

Derivative instruments had the following effects on our Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Changes in Shareholders' Equity and Condensed Consolidated Statements of Income, net of tax, during the nine months ended July 31, 2018 and 2017 (in thousands):

Derivatives	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss)		Location of Gain (Loss) Reclassified from Other Comprehensive Income (Loss)	Amount of Gain (Loss) Reclassified from Other Comprehensive Income (Loss)	
	Nine Months Ended July 31,			Nine Months Ended July 31,	
	2018	2017		2018	2017
Designated as Hedging Instruments:					
(Effective portion)					
Foreign exchange forward contracts – Intercompany sales/purchases	$ (451)	$ (1,107)	Cost of sales and service	$ (733)	$ 670
Foreign exchange forward contract – Net investment	$ 41	$ (142)			

We did not recognize any gains or losses as a result of hedges deemed ineffective for the nine months ended July 31, 2018. We recognized gains of $110,000 for the nine months ended July 31, 2017, as a result of hedges deemed ineffective for financial reporting purposes and did not qualify as cash flow hedges.

We recognized the following gains and losses in our Condensed Consolidated Statements of Income during the nine months ended July 31, 2018 and 2017 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	
		Nine Months Ended July 31,	
		2018	2017
Not designated as hedging instruments:			
Foreign exchange forward contracts	Other (income) expense, net	$ (1,272)	$ (1,447)

The following table presents the changes in the components of Accumulated other comprehensive loss, net of tax, for the nine months ended July 31, 2018 (in thousands):

	Foreign Currency Translation	Cash Flow Hedges	Total
Balance, October 31, 2017	$ (7,409)	$ (781)	$ (8,190)
Other comprehensive income (loss) before reclassifications	(846)	(451)	(1,297)
Reclassifications	—	733	733
Balance, July 31, 2018	$ (8,255)	$ (499)	$ (8,754)

3. EQUITY INCENTIVE PLAN

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, ("SARs"), restricted stock, stock units and other stock-based awards. The 2016 Equity Plan replaced the Hurco Companies, Inc. 2008 Equity Incentive Plan (the "2008 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 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 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, restricted shares and performance shares under the 2008 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 stock option activity for the nine-month period ended July 31, 2018, is as follows:

	Stock Options	**Weighted Average Exercise Price**
Outstanding at October 31, 2017	78,725	$ 20.97
Options granted	—	—
Options exercised	(35,418)	20.71
Options cancelled	—	—
Outstanding at July 31, 2018	43,307	$ 21.18

Summarized information about outstanding stock options as of July 31, 2018, that have already vested and are currently exercisable, are as follows:

	Options Already Vested and Currently Exercisable
Number of outstanding options	43,307
Weighted average remaining contractual life (years)	3.27
Weighted average exercise price per share	$ 21.18
Intrinsic value of outstanding options	$ 1,001,000

The intrinsic value of an outstanding stock option is calculated as the difference between the stock price as of July 31, 2018 and the exercise price of the option.

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.

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.

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 performance stock units ("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 20,734 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 21,891 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 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.

A reconciliation of the Company's restricted stock, performance share and PSU activity and related information for the nine-month period ended July 31, 2018 is as follows:

	Number of Shares or Units	Weighted Average Grant Date Fair Value
Unvested at October 31, 2017	157,809	$ 32.05
Shares or units granted	68,913	43.76
Shares or units vested	(40,283)	30.20
Shares or units cancelled	(6,385)	33.67
Shares withheld	(11,706)	32.19
Unvested at July 31, 2018	168,348	$ 37.22

During the nine months of fiscal 2018 and 2017, we recorded $1.8 million and $1.1 million, respectively, as stock-based compensation expense related to grants under our equity plans. As of July 31, 2018, there was an estimated $3.5 million of total unrecognized stock-based compensation cost that we expect to recognize by the end of the first quarter of fiscal 2021.

4. EARNINGS PER SHARE

Per share results have been computed based on the average number of common shares outstanding over the period in question. The computation of basic and diluted net income per share is determined using net income applicable to common shareholders as the numerator and the number of shares outstanding as the denominator as follows (in thousands, except per share amounts):

	Three Months Ended July 31,				Nine Months Ended July 31,			
	2018		2017		2018		2017	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income	$ 6,500	$ 6,500	$ 3,888	$ 3,888	$ 13,188	$ 13,188	$ 8,414	$ 8,414
Undistributed earnings allocated to participating shares	(40)	(40)	(26)	(26)	(81)	(81)	(56)	(56)
Net income applicable to common shareholders	$ 6,460	$ 6,460	$ 3,862	$ 3,862	$ 13,107	$ 13,107	$ 8,358	$ 8,358
Weighted average shares outstanding	6,717	6,717	6,624	6,624	6,694	6,694	6,608	6,608
Stock options and contingently issuable shares	—	71	—	71	—	80	—	66
	6,717	6,788	6,624	6,695	6,694	6,774	6,608	6,674
Income per share	$ 0.96	$ 0.95	$ 0.58	$ 0.58	$ 1.95	$ 1.93	$ 1.26	$ 1.25

5. ACCOUNTS RECEIVABLE

Accounts receivable are net of allowances for doubtful accounts of $753,000 as of July 31, 2018 and $639,000 as of October 31, 2017.

6. INVENTORIES

In July 2015, the FASB issued guidance on simplifying the measurement of inventory. The guidance, which applies to inventory that is measured using any method other than the last-in, first-out ("LIFO") or retail inventory method, requires that entities measure inventory at the lower of cost or net realizable value. The Company adopted the provisions of this guidance prospectively in the first quarter of fiscal 2018. The adoption of this guidance did not have a material impact on the Company's consolidated results of operations, financial position, or cash flows.

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

	July 31, 2018	October 31, 2017
Purchased parts and sub-assemblies	$ 41,399	$ 33,045
Work-in-process	23,456	20,008
Finished goods	71,076	66,895
	$ 135,931	$ 119,948

7. SEGMENT INFORMATION

We operate in a single segment: industrial automation equipment. We design, manufacture and sell computerized 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. 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, software options, control upgrades, accessories and replacement parts for our products, as well as customer service and training support.

8. 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 Accounting Standards Codification ("ASC") 460). As of July 31, 2018, we had 23 outstanding third party payment guarantees totaling approximately $0.6 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.

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 certain components 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 is as follows (in thousands):

	Nine Months Ended July 31,	
	2018	**2017**
Balance, beginning of period	$ 1,772	$ 1,523
Provision for warranties during the period	3,064	2,442
Charges to the reserve	(2,531)	(2,317)
Impact of foreign currency translation	(28)	53
Balance, end of period	$ 2,277	$ 1,701

The year-over-year increase in our warranty reserve was primarily due to an increase in the number of machines under warranty resulting from increased sales volume.

9. DEBT AGREEMENTS

On December 7, 2012, we entered into an agreement, which was subsequently amended on May 9, 2014, June 5, 2014, December 5, 2014 and December 6, 2016 (as amended, the "U.S. credit agreement") with a financial institution that provided us with an unsecured revolving credit and letter of credit facility. The U.S. credit agreement contains customary financial covenants, including covenants (1) restricting us from making certain investments, loans, advances and acquisitions (but permitting us to make investments in subsidiaries of up to $5.0 million), (2) requiring that we maintain a minimum working capital, and (3) requiring that we maintain a minimum tangible net worth. The U.S. credit agreement permits us to pay certain cash dividends, so long as we are not in default under the U.S. credit agreement before and after giving effect to such dividends.

Borrowings under our U.S. credit agreement bear interest either at a LIBOR-based rate or a floating rate, in each case with an interest rate floor of 0.00%. The floating rate equals the greatest of (a) a one month LIBOR-based rate plus 1.00% per annum, (b) the federal funds effective rate plus 0.50% per annum, (c) the prevailing prime rate and (d) 0.00%. The rate we must pay for that portion of the U.S. credit agreement which is not utilized is 0.05% per annum.

On December 6, 2016, we entered into a fourth amendment to our U.S. credit agreement to, among other things, increase the unsecured revolving credit facility from $12.5 million to $15.0 million, to increase the cash dividend allowance from $4.0 million per calendar year to $5.0 million per calendar year, and to extend the scheduled maturity date to December 31, 2018. The U.S. credit agreement, as amended, provides for the issuance of up to $5.0 million in letters of credit. We also amended the U.S. credit agreement to increase the minimum working capital and minimum tangible net worth requirements from $90.0 million to $105.0 million and $120.0 million to $125.0 million, respectively.

On February 16, 2017, we amended our credit facility in China to decrease the credit facility from 40.0 million Chinese Yuan to 20.0 million Chinese Yuan (approximately $2.9 million). On February 14, 2018, we renewed this facility with an expiration date of February 13, 2019. We had $1.5 million of borrowings under our China credit facility at each of July 31, 2018 and October 31, 2017, respectively, which bears interest at variable rates of 4.4% annually at each of the respective dates. We also have a £1.0 million revolving credit facility in the United Kingdom and a €1.5 million revolving credit facility in Germany. We had no other debt or borrowings under any of our other credit facilities at either of those dates.

All of our credit facilities are unsecured. At July 31, 2018, we had unutilized credit facilities of $19.5 million.

10. INCOME TAXES

In December 2017, the Tax Cuts and Jobs Act (the "Tax Reform Act") was enacted. The Tax Reform Act, among other things, lowered the U.S. corporate tax rate from 35% to 21%, implemented a territorial tax system from a worldwide system and imposed a tax on deemed repatriation of earnings of foreign subsidiaries, all of which were effective for our first quarter of fiscal 2018. Other provisions of the Tax Reform Act, such as elimination of domestic production deductions and limitation on other business deductions, will be effective for us beginning in fiscal 2019. We recognized the income tax effects of the Tax Reform Act in our 2018 financial statements in accordance with Staff Accounting Bulletin No. 118, which provides Securities and Exchange Commission ("SEC") staff guidance for the application of ASC Topic 740, *Income Taxes*, in the reporting period in which the Tax Reform Act was signed into law. As such, our financial results reflect the income tax effects of the Tax Reform Act for which the accounting under ASC Topic 740 is complete and provisional amounts for those specific income tax effects of the Tax Reform Act for which the accounting under ASC Topic 740 is incomplete, but a reasonable estimate could be determined.

We recorded income tax expense during the first nine months of fiscal 2018 of $8.7 million compared to $3.4 million for the same period in fiscal 2017. Our effective tax rate for the first nine months of fiscal 2018 was 40% compared to 29% for the same period in fiscal 2017. The effective tax rate for the nine months ended July 31, 2018 is a blended rate reflecting the estimated benefit of approximately seven months of the federal tax rate reductions for fiscal 2018, a one-time provisional charge of $2.5 million related to the transition tax on deemed repatriation of accumulated foreign income and a one-time non-cash tax charge of $0.4 million related to the revaluation of net deferred tax assets.

The $2.5 million transition tax on deemed repatriation of accumulated foreign income is subject to adjustment during the measurement period of up to one year following the December 2017 enactment date, as provided by recent SEC guidance. We measure deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Accordingly, our deferred tax assets and liabilities were re-measured to reflect the reduction in the U.S. corporate income tax rate from 35% to 21%, resulting in an increase of $0.4 million in income tax expense for the first quarter ended January 31, 2018 and a corresponding decrease of $0.4 million in net deferred tax assets as of January 31, 2018.

Both of these tax adjustments represent provisional amounts based upon our current interpretation of the Tax Reform Act and may change as we receive additional clarification and implementation guidance. We will continue to analyze the effects of the Tax Reform Act on our financial statements and operations. Any additional impacts from the enactment of the Tax Reform Act will be recorded as they are identified during the remainder of the measurement period as provided for in accordance with Staff Accounting Bulletin No. 118. During the third quarter of fiscal 2018, we did not record any additional amounts, or make any changes to provisional amounts previously recorded, related to the Tax Reform Act.

Our unrecognized tax benefits were $0.1 million as of July 31, 2018 and $1.1 million as of October 31, 2017. The decrease in the unrecognized tax benefits was the result of the expiration of related statutes of limitations.

We recognize accrued interest and penalties related to unrecognized tax benefits as components of income tax expense. As of July 31, 2018, the gross amount of interest accrued, reported in Accrued expenses and other, was approximately $12,000, which did not include the federal tax benefit of interest deductions.

We file U.S. federal and state income tax returns, as well as tax returns in several foreign jurisdictions. The statutes of limitations outstanding as of July 31, 2018 with respect to unrecognized tax benefits will expire between July 2019 and July 2020.

11. FINANCIAL INSTRUMENTS

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

In accordance with this guidance, the following table represents the fair value hierarchy for our financial assets and liabilities measured at fair value as of July 31, 2018 and October 31, 2017 (in thousands):

	Assets		**Liabilities**	
	July 31, 2018	**October 31, 2017**	**July 31, 2018**	**October 31, 2017**
Level 1				
Deferred Compensation	$ 1,728	$ 1,638	$ -	$ -
Level 2				
Derivatives	$ 2,157	$ 596	$ 2,111	$ 1,732

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 that are readily available.

Included in 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 condensed consolidated financial statements at fair value. We have derivative financial instruments in the form of foreign currency forward exchange contracts as described in Note 2 of Notes to the Condensed Consolidated Financial Statements. The U.S. Dollar equivalent notional amounts of these contracts was $142.3 million and $134.3 million at July 31, 2018 and October 31, 2017, respectively.

The fair value of our 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 contracts 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 to be material risks.

12. CONTINGENCIES AND LITIGATION

From time to time, we are involved in 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.

13. NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements:

In August 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-15, *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*, which requires management to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and provide related footnote disclosures. ASU No. 2014-15 is effective for our fiscal year 2018, including interim periods within the fiscal year. As such, we adopted this standard in the first quarter of fiscal 2018. This standard did not have a significant effect on our accounting policies or on our condensed consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): *Simplifying the Measurement of Inventory*, which requires companies to measure inventory at lower of cost and net realizable value, versus lower of cost or market. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for our fiscal year 2018, with early adoption permitted and should be applied prospectively. As such, we adopted this standard in the first quarter of fiscal 2018 on a prospective basis. This standard did not have a significant effect on our accounting policies or on our condensed consolidated financial statements and related disclosures. For additional information, see Note 6: Inventories.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This standard is intended to address eight classification issues related to the statement of cash flows to reduce diversity in practice in how certain transactions are classified. ASU 2016-15 is effective for our fiscal year 2019, with early adoption permitted. This standard requires adoption based upon a retrospective transition method. We elected to early adopt this standard in the first quarter of fiscal 2018. This standard did not have a significant effect on our accounting policies or on our condensed consolidated financial statements and related disclosures.

New Accounting Pronouncements:

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, establishing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This standard provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. We have the option of applying this new standard retrospectively to each prior period presented (“full retrospective approach”) or retrospectively with the cumulative effect recognized in retained earnings as of the date of adoption (“modified retrospective approach”). Between August 2015 and December 2016, the FASB issued five additional updates to Topic 606: 1) ASU No. 2015-14, *Deferral of the Effective Date*, 2) ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, 3) ASU No. 2016-10, *Identifying Performance Obligations and Licensing*, 4) ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients* and 5) ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, in each case to provide further guidance and clarification in accounting for revenue arising from contracts with customers. Topic 606 and these updates will be effective for our fiscal year 2019, including interim periods within the fiscal year. In the second quarter of fiscal 2018, we decided to elect the modified retrospective approach upon adoption, and we expect this standard will have an overall immaterial impact on our consolidated financial results. We have identified and are in the process of implementing and testing changes in policy, processes, systems and internal controls related to the adoption of this new accounting standard. In connection with its adoption, we will compute required transition adjustments and expand our consolidated financial statement disclosures related to our implementation of this new accounting standard in the fourth fiscal quarter of 2018.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which establishes a comprehensive new lease accounting model. ASU 2016-02 clarifies the definition of a lease, requires a dual approach to lease classification similar to current 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. ASU 2016-02 is effective for our fiscal year 2020, including interim periods within the fiscal year, and requires modified retrospective application. Early adoption is permitted. We are assessing the impact this new accounting guidance will have on our consolidated financial statements and disclosures.

In August 2017, the FASB issued ASU No. 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 is effective for our fiscal year 2020, including interim periods within the fiscal year, and requires modified retrospective application. Early adoption is permitted. We do not anticipate that the adoption of this ASU will have a material impact on our consolidated financial statements and 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 that the effect of a change in tax laws or rates be included in income from continuing operations. ASU 2018-02 will be effective for our fiscal year 2020, with the option to early adopt at any time prior to the effective date. It must be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Reform Act is recognized. We are assessing the impact this new accounting guidance will have on our consolidated financial statements and disclosures.

In February 2018, FASB issued ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, that clarifies the guidance in ASU No. 2016-01, Financial Instruments—Overall (Subtopic 825-10)*, which clarifies the guidance in ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10)* on certain issues related to financial instruments including, among other things, forward contracts and presentation requirements. ASU 2018-03 will be effective for our fiscal year 2019, including interim periods within the fiscal year. We are assessing the impact this new accounting guidance will have on our consolidated financial statements and disclosures.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") contains information intended to help provide an understanding of our financial condition and other related matters, including our liquidity, capital resources and results of operations. The MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited financial statements and the notes accompanying our unaudited financial statements appearing elsewhere in this report, as well as our audited financial statements, the accompanying notes and the MD&A included in our Annual Report on Form 10-K for the year ended October 31, 2017.

EXECUTIVE OVERVIEW

Hurco Companies, Inc. is an international industrial technology company operating in a single segment. We design, manufacture and sell computerized (i.e., Computer Numeric Control, or 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, software options, control upgrades, accessories and replacement parts for our products, as well as customer service and training 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 the nine months of fiscal 2018, approximately 55% 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 16% of our revenues were attributable to customers in Asia, where we generally sell more of our entry-level, lower-priced machines, and where we also encounter greater price pressures.

We have three brands of CNC machine tools in our product portfolio: Hurco is the premium brand focused on sophisticated technology; Milltronics is the entry-level brand with a simplified control and straight-forward feature sets; and Takumi is an industry-standard brand with machines that are equipped with industry standard controls instead of the proprietary controls found on Hurco and Milltronics machines. Typically, manufacturing facilities that use industry standard controls focus on medium to high production, wherein they run large batches of a few types of parts instead of small batches of many different types of parts. The Hurco, Milltronics and Takumi product lines represent a comprehensive product portfolio of more than 150 different models. In addition, through our wholly–owned subsidiary LCM Precision Technology S.r.l. ("LCM"), we produce machine tool components and accessories.

We sell our products through more than 190 independent agents and distributors throughout the 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, Poland, Singapore, South Africa, 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, Hurco Manufacturing Ltd. ("HML"). Machine castings and components to support HML's production are manufactured at our wholly-owned subsidiary in Ningbo, China, Ningbo Machine Tool Co., Ltd. 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 LCM in Italy.

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 various derivative instruments – principally foreign currency forward exchange contracts. See Note 2 of Notes to the Condensed Consolidated Financial Statements for additional information.

RESULTS OF OPERATIONS

Three Months Ended July 31, 2018 Compared to Three Months Ended July 31, 2017

Sales and Service Fees. Sales and service fees for the third quarter of fiscal 2018 were $78.8 million, an increase of $18.0 million, or 30%, compared to the corresponding prior year period and included a favorable currency impact of $1.8 million, or 3%, when translating foreign sales to U.S. dollars for financial reporting purposes.

Sales and Service Fees by Geographic Region

The following table sets forth net sales and service fees by geographic region for the third quarter of fiscal 2018 and 2017 (dollars in thousands):

	Three Months Ended July 31,				Change	
	2018		2017		Amount	%
Americas	$ 19,478	25%	$ 17,184	28%	$ 2,294	13%
Europe	44,146	56%	33,813	56%	10,333	31%
Asia Pacific	15,128	19%	9,773	16%	5,355	55%
Total	$ 78,752	100%	$ 60,770	100%	$ 17,982	30%

Sales in the Americas for the third quarter of fiscal 2018 increased by 13%, compared to the corresponding period in fiscal 2017, due primarily to improved U.S. market conditions and demand from U.S. customers for the Hurco and Milltronics product lines. The increase in sales was mainly attributable to an increased sales volume of vertical milling and lathe machines from the Hurco, Milltronics and Takumi product lines. European sales for the third quarter of fiscal 2018 increased by 31%, compared to the corresponding period in fiscal 2017, and included a favorable currency impact of 4%, when translating foreign sales to U.S. dollars for financial reporting purposes. The increase in European sales for the third quarter of fiscal 2018 resulted mainly from increased customer demand for Hurco vertical milling and lathe machines in Germany, the United Kingdom and France. Asian Pacific sales for the third quarter of fiscal 2018 increased by 55%, compared to the corresponding period in fiscal 2017, and included a favorable currency impact of 3%, when translating foreign sales to U.S. dollars for financial reporting purposes. The increase in Asian Pacific sales for the third quarter of fiscal 2018 was primarily attributable to increased customer demand for Hurco and Takumi vertical milling and lathe machines in China and India.

Sales and Service Fees by Product Category

The following table sets forth net sales and service fees by product category for the third quarter of fiscal 2018 and 2017 (dollars in thousands):

	Three Months Ended July 31,				Change	
	2018		2017		Amount	%
Computerized Machine Tools	$ 68,805	87%	$ 52,244	86%	$ 16,561	32%
Computer Control Systems and Software †	708	1%	549	1%	159	29%
Service Parts	7,090	9%	5,930	10%	1,160	20%
Service Fees	2,149	3%	2,047	3%	102	5%
Total	$ 78,752	100%	$ 60,770	100%	$ 17,982	30%

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

The year-over-year increase in sales of computerized machine tools and computer control systems and software for the third quarter of fiscal 2018, exclusive of a 3% favorable currency impact, was driven primarily by an increase in the volume of sales of vertical milling machines from all product lines and across all of our three geographic regions. Sales of service parts increased in the third quarter of fiscal 2018, compared to the corresponding prior year period, due primarily to an increase in aftermarket sales in the Americas and France. Service fees increased slightly in the third quarter of fiscal 2018, compared to the corresponding prior year period, due primarily to increased demand for aftermarket service in the United Kingdom and the Americas.

Orders. Orders for the third quarter of fiscal 2018 were $76.0 million, an increase of $13.4 million, or 21%, compared to the corresponding period in fiscal 2017, and included a favorable currency impact of $2.0 million, or 3%, when translating foreign orders to U.S. dollars.

The following table sets forth new orders booked by geographic region for the third quarter of fiscal 2018 and 2017 (dollars in thousands):

	Three Months Ended July 31,				Change	
	2018		2017		Amount	%
Americas	$ 21,522	28%	$ 19,728	32%	$ 1,794	9%
Europe	44,635	59%	35,821	57%	8,814	25%
Asia Pacific	9,834	13%	6,996	11%	2,838	41%
Total	$ 75,991	100%	$ 62,545	100%	$ 13,446	21%

Orders in the Americas for the third quarter of fiscal 2018 increased by 9%, compared to the corresponding period in fiscal 2017. The increase was largely attributable to increased customer demand for Hurco and Takumi vertical milling machines. European orders for the third quarter of fiscal 2018 increased by 25%, compared to the corresponding prior year period, and included a favorable currency impact of 5%, when translating foreign orders to U.S. dollars. This increase in orders resulted mainly from increased customer demand for Hurco vertical milling and lathe machines in Germany, France and the United Kingdom, as well as increased customer demand for machine tool components and accessories manufactured by our wholly-owned subsidiary, LCM. Asian Pacific orders for the third quarter of fiscal 2018 increased by 41%, compared to the corresponding prior year period, and included a slight unfavorable currency impact of less than 1%, when translating foreign orders to U.S. dollars. This increase in Asian Pacific orders was due primarily to increased customer demand for Hurco vertical milling machines in India and Southeast Asia, as well as increased customer demand for Takumi vertical milling machines in China.

Gross Profit. Gross profit for the third quarter of fiscal 2018 was $24.5 million, or 31% of sales, compared to $17.5 million, or 29% of sales, for the corresponding prior year period. The year-over-year increase in gross profit as a percentage of sales reflected the increased volume of sales of Hurco machines, particularly in Europe, and the favorable impact of foreign currency translation compared to the corresponding prior year period.

Operating Expenses. Selling, general and administrative expenses for the third quarter of fiscal 2018 were $15.2 million, or 19% of sales, compared to $12.4 million, or 20% of sales, in the corresponding period in fiscal 2017. The year-over-year increase in selling, general and administrative expenses for the third quarter of fiscal 2018 was driven by an unfavorable currency impact of $0.1 million, when translating foreign expenses to U.S. dollars for financial reporting purposes, as well as increased expenses for global marketing and employee incentive compensation.

Operating Income. Operating income for the third quarter of fiscal 2018 was $9.4 million compared to $5.1 million for the corresponding period in fiscal 2017. The increase in operating income year-over-year was driven primarily by increased volume of sales of Hurco machines, particularly in Europe, and the favorable impact of foreign currency translation compared to the corresponding prior year period.

Other (Income) Expense, Net. Other (income) expense, net in the third quarter of fiscal 2018 decreased by $0.6 million from the corresponding period in fiscal 2017 due primarily to net realized and unrealized losses from foreign currency fluctuations on payables and receivables, net of foreign currency forward exchange contracts.

Income Taxes. We recorded income tax expense during the third quarter of fiscal 2018 of $2.5 million compared to $1.4 million for the corresponding period in fiscal 2017. Our effective tax rate for the third quarter of fiscal 2018 was 28%, compared to 26% in the corresponding prior year period. The year-over-year increase in the effective tax rate for the third quarter principally resulted from a shift in geographic mix of income and loss among tax jurisdictions.

Nine Months Ended July 31, 2018 Compared to Nine Months Ended July 31, 2017

Sales and Service Fees. Sales and service fees for the nine months of fiscal 2018 were $217.6 million, an increase of $49.9 million, or 30%, compared to the corresponding period in fiscal 2017, and included a favorable currency impact of $11.1 million, or 7%, when translating foreign sales to U.S. dollars for financial reporting purposes.

Sales and Service Fees by Geographic Region

The following table sets forth net sales and service fees by geographic region for the nine months of fiscal 2018 and 2017 (dollars in thousands):

	Nine Months Ended July 31,				Change	
	2018		2017		Amount	%
Americas	$ 62,161	29%	$ 51,943	31%	$ 10,218	20%
Europe	120,710	55%	90,957	54%	29,753	33%
Asia Pacific	34,749	16%	24,836	15%	9,913	40%
Total	$ 217,620	100%	$ 167,736	100%	$ 49,884	30%

Sales in the Americas for the nine months of fiscal 2018 increased by 20%, compared to the corresponding period in fiscal 2017, due primarily to improved U.S. market conditions and demand from U.S. customers for the Hurco and Milltronics product lines. The increase in sales was mainly attributable to an increased sales volume of vertical milling and lathe machines from the Hurco, Milltronics and Takumi product lines. European sales for the nine months of fiscal 2018 increased by 33%, compared to the corresponding period in fiscal 2017, and included a favorable currency impact of 11%, when translating foreign sales to U.S. dollars for financial reporting purposes. The increase in European sales for the nine months of fiscal 2018 was primarily due to increased customer demand for Hurco vertical milling and lathe machines in Germany, the United Kingdom and Italy. Asian Pacific sales for the nine months of fiscal 2018 increased by 40%, compared to the corresponding period in fiscal 2017, and included a favorable currency impact of 6%, when translating foreign sales to U.S. dollars for financial reporting purposes. The increase in Asian Pacific sales for the nine months of fiscal 2018 was primarily attributable to increased customer demand for Hurco and Takumi vertical milling and lathe machines in China and India.

Sales and Service Fees by Product Category

The following table sets forth net sales and service fees by product category for the nine months of fiscal 2018 and 2017 (in thousands):

	Nine Months Ended July 31,				Change	
	2018		2017		Amount	%
Computerized Machine Tools	$ 189,348	87%	$ 142,771	85%	$ 46,577	33%
Computer Control Systems and Software †	1,947	1%	1,685	1%	262	16%
Service Parts	20,005	9%	17,583	11%	2,422	14%
Service Fees	6,320	3%	5,697	3%	623	11%
Total	$ 217,620	100%	$ 167,736	100%	$ 49,884	30%

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

Exclusive of a 7% favorable currency impact, the year-over-year increase in sales of computerized machine tools, computer control systems and software, service parts and service fees for the nine months of fiscal 2018 was driven primarily by increased demand of vertical milling and lathe machines, aftermarket sales and service from all product lines and across all of our three geographic regions.

Orders. Orders for the nine months of fiscal 2018 were $232.8 million, an increase of $45.9 million, or 25%, compared to the corresponding period in fiscal 2017, and included a favorable currency impact of $12.3 million, or 7%, when translating foreign orders to U.S. dollars.

The following table sets forth new orders booked by geographic region for the nine months of fiscal 2018 and 2017 (dollars in thousands):

	Nine Months Ended July 31,				Change	
	2018		2017		Amount	%
Americas	$ 62,905	27%	$ 58,544	31%	$ 4,361	7%
Europe	134,945	58%	100,741	54%	34,204	34%
Asia Pacific	34,972	15%	27,644	15%	7,328	27%
Total	$ 232,822	100%	$ 186,929	100%	$ 45,893	25%

Orders in the Americas for the nine months of fiscal 2018 increased by 7%, compared to the corresponding period in fiscal 2017. The increase was largely attributable to increased customer demand for Hurco and Takumi vertical milling machines. For the nine months of fiscal 2018, European orders increased by 34%, compared to the corresponding prior year period, and included a favorable currency impact of 11%, when translating foreign orders to U.S. dollars. The year-over-year increase in European orders in the nine months ended July 31, 2018 was driven predominantly by increased customer demand for Hurco vertical milling and lathe machines in Germany, France, Italy and the United Kingdom, and increased demand for LCM machine tool components and accessories. Asian Pacific orders for the nine months of fiscal 2018 increased by 27%, compared to the corresponding prior year period, and included a favorable currency impact of 5%, when translating foreign orders to U.S. dollars. The year-over-year increase in orders was mostly due to increased customer demand for Hurco vertical milling machines in China, India and Southeast Asia, partially offset by a reduction in customer demand for Takumi vertical milling machines in China.

Gross Profit. Gross profit for the nine months of fiscal 2018 was $64.0 million, or 29% of sales, compared to $47.2 million, or 28% of sales, for the corresponding prior year period. The year-over-year increase in gross profit as a percentage of sales reflected the increased volume of sales of Hurco machines, particularly in Europe, and the favorable impact of foreign currency translation compared to the corresponding prior year period.

Operating Expenses. Selling, general and administrative expenses for the nine months of fiscal 2018 were $41.4 million, or 19% of sales, compared to $35.3 million, or 21% of sales, in the corresponding period in fiscal 2017. The year-over-year increase in selling, general and administrative expenses for the nine months of fiscal 2018 was driven by an unfavorable currency impact of $1.5 million, when translating foreign expenses to U.S. dollars for financial reporting purposes, as well as increased expenses for global marketing and employee incentive compensation.

Operating Income. Operating income for the nine months of fiscal 2018 was $22.5 million compared to $11.9 million for the corresponding period in fiscal 2017. The increase in operating income year-over-year was driven primarily by increased volume of sales of Hurco machines, particularly in Europe, and the favorable impact of foreign currency translation compared to the corresponding prior year period.

Other (Income) Expense, Net. Other (income) expense, net in the nine months of fiscal 2018 decreased by $0.7 million from the corresponding period in fiscal 2017 due primarily to net realized and unrealized losses from foreign currency fluctuations on payables and receivables, net of foreign currency forward exchange contracts.

Income Taxes. We recorded income tax expense during the nine months of fiscal 2018 of $8.7 million compared to $3.4 million for the corresponding period in fiscal 2017. Our effective tax rate for the nine months of fiscal 2018 was 40%, compared to 29% in the corresponding prior year period. The year-over-year increase in the effective tax rate for the nine months of fiscal 2018 was primarily attributable to one-time charges of $2.9 million related to the Tax Reform that was enacted on December 22, 2017. The impact of these one-time charges increased the effective tax rate by approximately 39% for the first quarter of fiscal 2018. Excluding the impact of these charges, earnings per diluted share would have been $0.43 higher than the earnings per diluted share we reported for the nine months of fiscal 2018.

LIQUIDITY AND CAPITAL RESOURCES

At July 31, 2018, we had cash and cash equivalents of $77.0 million, compared to $66.3 million at October 31, 2017. Approximately 64% of the $77.0 million of cash and cash equivalents is denominated in U.S. Dollars. The balance is attributable to our foreign operations, is held in the local currencies of our various foreign entities and is 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 was $189.5 million at July 31, 2018, compared to $175.5 million at October 31, 2017. The increase in working capital was mostly driven by an increase in cash and inventories, partially offset by a reduction in accounts receivable and an increase in accounts payable.

Capital expenditures of $4.6 million during the nine months of fiscal 2018 were primarily for capital improvements in existing facilities and software development costs. We funded these expenditures with cash on hand.

At July 31, 2018, we had $1.5 million of borrowings outstanding under our China credit facility. We had no other debt or borrowings under any of our other credit facilities. At July 31, 2018, we had an aggregate of $19.5 million available for borrowing under our credit facilities and were in compliance with all covenants relating thereto.

We believe our cash position and borrowing capacity under our credit facilities provide adequate liquidity to fund our operations over the next twelve months and allow us to remain committed to our strategic plan of product innovation and targeted penetration of developing markets.

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

CRITICAL ACCOUNTING POLICIES

Our accounting policies, which are described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017, require management to make significant estimates and assumptions using information available at the time the estimates are made. These estimates and assumptions significantly affect various reported amounts of assets, liabilities, revenues, and expenses. If our future experience differs materially from these estimates and assumptions, our results of operations and financial condition would be affected. There were no material changes to our critical accounting policies during the nine months of fiscal 2018.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

There have been no material changes related to our contractual obligations and commitments from the information provided in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017.

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 FASB guidance for accounting for guarantees (codified in ASC 460). As of July 31, 2018, we had 23 outstanding third party payment guarantees totaling approximately $0.6 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.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements made in this report constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the statements. These risks, uncertainties and other factors include, but are not limited to:

- The cyclical nature of the machine tool industry;
- Uncertain economic conditions, which may adversely affect overall demand, in the Americas, Europe and Asia Pacific markets;
- The risks of our international operations;
- The limited number of our manufacturing and supply chain sources;
- The effects of changes in currency exchange rates;
- Our dependence on new product development;
- Possible obsolescence of our technology and the need to make technological advances;
- Competition with larger companies that have greater financial resources;
- Increases in the prices of raw materials, especially steel and iron products;
- Acquisitions that could disrupt our operations and affect operating results;
- Impairment of our assets;
- Negative or unforeseen tax consequences;
- The need and/or ability to protect our intellectual property assets;
- Our ability to integrate acquisitions;
- Uncertainty concerning our ability to use tax loss carryforwards;

- Breaches of our network and system security measures;
- The effect of the loss of members of senior management and key personnel; and
- Governmental actions, initiatives and regulations, including import and export restrictions and tariffs and changes to tax laws.

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

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Interest on borrowings on our credit facilities are variable and tied to prevailing domestic and foreign interest rates. At July 31, 2018, we had $1.5 million of borrowings outstanding under our China credit facility. We had no other debt or borrowings under any of our other credit facilities.

Foreign Currency Exchange Risk

In the nine months of fiscal 2018, we derived approximately 71% of our revenues from customers located outside of the Americas. 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 primarily 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 receivables and payables denominated in foreign currencies. We also enter into foreign currency forward contracts to hedge a portion of our net investment denominated in Euros. We do not speculate in the financial markets and, therefore, do not enter into these contracts for trading purposes.

Forward contracts for the sale or purchase of foreign currencies as of July 31, 2018, which are designated as cash flow hedges under FASB guidance related to accounting for derivative instruments and hedging activities, were as follows:

			Contract Amount at Forward Rates in U.S. Dollars		
Forward Contracts	**Notional Amount in Foreign Currency**	**Weighted Average Forward Rate**	**Contract Date**	**July 31, 2018**	**Maturity Dates**
Sale Contracts:					
Euro	30,200,000	1.2241	36,967,303	35,770,633	Aug 2018 – Jul 2019
Pound Sterling	7,575,000	1.3729	10,399,718	10,010,938	Aug 2018 – Jul 2019
Purchase Contracts:					
New Taiwan Dollar	1,154,000,000	29.010*	39,778,997	38,187,333	Aug 2018 – Jul 2019

*New Taiwan Dollars per U.S. Dollar

Forward contracts for the sale or purchase of foreign currencies as of July 31, 2018, which were entered into to protect against the effects of foreign currency fluctuations on receivables and payables denominated in foreign currencies and are not designated as hedges under FASB guidance, were as follows:

Forward Contracts	Notional Amount in Foreign Currency	Weighted Average Forward Rate	Contract Amount at Forward Rates in U.S. Dollars		Maturity Dates
			Contract Date	July 31, 2018	
Sale Contracts:					
Euro	18,387,020	1.1936	21,946,418	21,620,510	Aug 2018 – Oct 2018
Pound Sterling	138,120	1.3106	181,020	181,509	Aug 2018
South African Rand	7,349,100	0.0786	577,546	554,923	Oct 2018
Purchase Contracts:					
New Taiwan Dollar	865,373,424	29.991*	28,854,818	28,395,065	Aug 2018 – Oct 2018

* 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 have maintained a forward contract with a notional amount of €3.0 million. We designated this forward contract as a hedge of our net investment in Euro denominated assets. We selected the forward method under 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 in Accumulated other comprehensive loss, net of tax, in the same manner as the underlying hedged net assets. This forward contract matures in November 2018. As of July 31, 2018, we had $632,000 of realized gains and $69,000 of unrealized gains, net of tax, recorded as cumulative translation adjustments in Accumulated other comprehensive loss related to the hedging of our net investment in Euro-denominated assets. Forward contracts for the sale or purchase of foreign currencies as of July 31, 2018, which are designated as net investment hedges under this guidance were as follows:

Forward Contracts	Notional Amount in Foreign Currency	Weighted Avg. Forward Rate	Contract Amount at Forward Rates in U.S. Dollars		Maturity Date
			Contract Date	July 31, 2018	
Sale Contracts:					
Euro	3,000,000	1.2095	3,628,500	3,536,863	November 2018

Item 4. CONTROLS AND PROCEDURES

We conducted an evaluation, under the supervision and with participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of July 31, 2018, pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the evaluation date.

There were no changes in our internal control over financial reporting during the three months ended July 31, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, we are involved in 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 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part I, Item 1A – Risk Factors in our Annual Report on Form 10-K for the year ended October 31, 2017.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We did not repurchase any shares of our common stock in the third quarter of fiscal 2018.

Item 5. OTHER INFORMATION

During the period covered by this report, the Audit Committee of our Board of Directors engaged our independent registered public accounting firm to perform non-audit, tax planning services. This disclosure is made pursuant to Section 10A9(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002.

Item 6. EXHIBITS

EXHIBIT INDEX

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.
3.2	Amended and Restated By-Laws of the Registrant as amended through November 16, 2017, incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on November 17, 2017.
31.1	Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as amended.
31.2	Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as amended.
32.1	Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

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

HURCO COMPANIES, INC.

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

September 7, 2018

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 quarterly report on Form 10-Q 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 generally accepted accounting principles;

   (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;

   (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;

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 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
September 7, 2018

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 quarterly report on Form 10-Q 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 generally accepted accounting principles;

   (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;

   (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;

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 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 & Chief Financial Officer
September 7, 2018

Exhibit 32.1

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

In connection with the Quarterly Report of Hurco Companies, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2018 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
September 7, 2018

Exhibit 32.2

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

In connection with the Quarterly Report of Hurco Companies, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2018 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 & Chief Financial Officer
September 7, 2018