

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 April 30, 2002 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 the filing requirements for the past 90 days:

Yes X No
--- ---

The number of shares of the Registrant's common stock outstanding as of May 30, 2002 was 5,583,158.

HURCO COMPANIES, INC.
April 2002 Form 10-Q Quarterly Report

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Financial Statements
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HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2002	2001	2002	2001
	(unaudited)		(unaudited)	
Sales and service fees.....	\$ 14,995	\$ 23,432	\$ 33,515	\$ 49,365
Cost of sales and service.....	12,029	17,460	26,546	36,778
Cost of sales non-recurring.....	1,083	--	1,083	--
Gross profit.....	1,883	5,972	5,886	12,587
Selling, general and administrative expenses.....	4,535	5,959	9,749	12,045
Restructuring and other expense (credit).....	1,395	(328)	1,751	(328)
Operating income (loss).....	(4,047)	341	(5,614)	870
License fee income, net.....	--	175	163	509
Interest expense.....	133	198	310	379
Other income (expense), net.....	(2)	335	37	423
Income (loss) before taxes.....	(4,182)	653	(5,724)	1,423
Provision for income taxes.....	29	330	128	533
Net income (loss).....	\$ (4,211)	\$ 323	\$ (5,852)	\$ 890
Earnings (loss) per common share				
Basic.....	\$ (.75)	\$.06	\$ (1.05)	\$.15
Diluted.....	\$ (.75)	\$.06	\$ (1.05)	\$.15
Weighted average common shares outstanding				
Basic.....	5,583	5,651	5,583	5,761

Diluted.....	5,583	5,693	5,583	5,801
	=====	=====	=====	=====

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

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(Dollars in thousands)

	April 30, 2002	October 31, 2001
	(unaudited)	(audited)
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 3,218	\$ 3,523
Accounts receivable.....	10,849	14,436
Inventories.....	24,453	30,319
Other.....	1,567	1,232
	-----	-----
Total current assets.....	40,087	49,510
Property and equipment:		
Land	761	761
Building.....	7,196	7,187
Machinery and equipment.....	11,487	11,410
Leasehold improvements.....	1,170	1,059
Less accumulated depreciation and amortization.....	(11,893)	(11,653)
	-----	-----
	8,721	8,764
Software development costs, less amortization.....	1,992	3,066
Investments and other assets.....	3,765	4,877
	-----	-----
	\$ 54,565	\$ 66,217
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 8,085	\$ 9,936
Accrued expenses.....	7,445	8,081
Current portion of long-term debt.....	294	200
	-----	-----
Total current liabilities.....	15,824	18,217
Non-current liabilities:		
Long-term debt.....	8,206	11,800
Deferred credits and other obligations.....	452	732
	-----	-----
Total non-current liabilities.....	8,658	12,532
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; 5,583,158 and 5,580,658 shares issued and outstanding, respectively	558	558
Additional paid-in capital.....	44,717	44,714
Accumulated deficit.....	(7,762)	(1,910)
Other comprehensive income.....	(7,430)	(7,894)
	-----	-----
Total shareholders' equity.....	30,083	35,468
	-----	-----
	\$54,565	\$66,217
	=====	=====

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

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in thousands)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2002	2001	2002	2001
	(unaudited)		(unaudited)	
Cash flows from operating activities:				
Net income (loss).....	\$ (4,211)	\$ 323	\$ (5,852)	\$ 890
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:				
Restructuring and other expense.....	2,219	(328)	2,519	(328)
Equity in (income) loss of affiliates.....	(33)	(312)	11	(312)
Depreciation and amortization.....	477	572	990	1,111
Change in assets and liabilities:				
(Increase) decrease in accounts receivable.....	2,191	185	3,569	(2,871)
(Increase) decrease in inventories.....	1,933	(4,340)	4,753	(5,781)
Increase (decrease) in accounts payable.....	637	1,195	(1,834)	3,015
Increase (decrease) in accrued expenses.....	(1,085)	162	(1,015)	1,222
Other.....	(241)	(81)	34	(592)
	-----	-----	-----	-----
Net cash provided by (used for) operating activities...	1,887	(2,624)	3,175	(3,646)
Cash flows from investing activities:				
Proceeds from sale of equipment.....	--	15	45	15
Purchase of property and equipment.....	(324)	(244)	(616)	(451)
Software development costs.....	(128)	(134)	(285)	(262)
Other investments.....	912	86	891	8
	-----	-----	-----	-----
Net cash provided by (used for) investing activities.....	460	(277)	35	(690)
Cash flows from financing activities:				
Advances on bank credit facilities.....	5,600	10,000	12,575	24,650

Repayment on bank credit facilities	(12,300)	(8,400)	(20,575)	(16,700)
Proceeds from first mortgage.....	4,500	--	4,500	--
Repayment of term debt	--	--	--	(1,786)
Proceeds from exercise of common stock options.....	--	--	4	35
Purchase of common stock.....	--	(485)	--	(1,706)
Net cash provided by (used for) financing activities.....	(2,200)	1,115	(3,496)	4,493
Effect of exchange rate changes on cash.....	110	(151)	(19)	(286)
Net increase (decrease) in cash and Cash equivalents.....	257	(1,937)	(305)	(129)
Cash and cash equivalents at beginning of period.....	2,961	5,192	3,523	3,384
Cash and cash equivalents at end of period.....	\$ 3,218	\$ 3,255	\$ 3,218	\$ 3,255

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

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Six Months Ended April 30, 2002 and 2001

Common Stock						
	Shares Issued & Outstanding	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Total
(Dollars in thousands)						
Balances, October 31, 2000	5,955,359	\$596	\$46,347	\$ (313)	\$ (7,739)	\$38,891
Net income.....	--	--	--	890	--	890
Translation of foreign currency financial statements.....	--	--	--	--	150	150
Unrealized loss on derivative instruments.....	--	--	--	--	(56)	(56)
Comprehensive income (loss).....	--	--	--	--	--	984
Exercise of Common Stock Options....	16,400	1	34	--	--	35
Repurchase of Common Stock.....	(391,101)	(39)	(1,667)	--	--	(1,706)
Balances, April 30, 2001	5,580,658	\$558	\$44,714	\$577	\$ (7,645)	\$38,204
Balances, October, 31 2001	5,580,658	\$558	\$44,714	\$ (1,910)	\$ (7,894)	\$35,468
Net loss.....	--	--	--	(5,852)	--	(5,852)
Translation of foreign currency financial statements.....	--	--	--	--	461	461
Unrealized gain on derivative instruments.....	--	--	--	--	3	3
Comprehensive income (loss).....	--	--	--	--	--	(5,388)
Exercise of Common Stock Options....	2,500	--	3	--	--	3
Balances, April 30, 2002	5,583,158	\$558	\$44,717	\$ (7,762)	\$ (7,430)	\$30,083

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. We design and produce interactive, personal computer (PC) based, computer control systems and software and computerized machine systems for sale through a world wide sales, service and distribution network.

The condensed financial information as of April 30, 2002 and 2001 is unaudited but includes all adjustments which we consider necessary for a fair presentation of our financial position at those dates and our results of operations and cash flows for the three and six months then ended. We suggest that you read these condensed 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, 2001.

2. LICENSE FEE INCOME, NET

From time to time, our wholly owned subsidiary, IMS Technology, Inc., has entered into agreements for the licensing of its interactive computer numerical control patents. License fees received or receivable under a fully paid-up license, for which there are no future performance requirements or contingencies, are recognized in income, net of legal fees and expenses, at the time the license agreement is executed. License fees receivable in periodic installments that are contingent upon the continuing validity of a licensed patent are recognized in income, net of legal fees and expenses, over the life of the licensed patent. The licensed patent expired in October 2001 and, as a result, we have no deferred license fee income at April 30, 2002.

3. HEDGING

We enter into foreign currency forward exchange contracts periodically to hedge certain forecast inter-company sales and forecast inter-company and third-party purchases denominated in foreign currencies (primarily 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 the 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 Sheet at fair value in Other Current Assets and Accrued Liabilities. Gains and losses resulting from changes in the fair value of these hedge contracts are deferred in Accumulated Other Comprehensive Income and recognized as an adjustment to the related sale or purchase transaction in the period that the transaction occurs. Net losses on cash flow hedge contracts which we reclassified from Accumulated Other Comprehensive Income to Cost of Sales in the quarter ended April 30, 2002 were \$7,000.

At April 30, 2002, we had \$9,000 of unrealized losses related to cash flow hedges deferred in Accumulated Other Comprehensive Income, which we expect to recognize in Cost of Sales within the next twelve months. Cash flow hedge contracts mature at various dates through August 2002.

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 Statement of Financial Accounting Standards No. 133, "Accounting Standards for Derivative Instruments and Hedging Activities" (SFAS 133), and as a result, changes in fair value are reported currently as Other Income (Expense) in the Consolidated Statement of Operations consistent with the transaction gain or loss on the related foreign denominated receivable or payable. Such net transaction gains and (losses) were \$(77,000) and \$3,000 for the quarters ended April 30, 2002 and 2001, respectively.

4. EARNINGS PER SHARE

Basic and diluted earnings per common share are based on the weighted average number of our shares of common stock outstanding. Diluted earnings per common share give effect to outstanding stock options using the treasury method. For the quarter and six months ended April 30, 2002, no effect was given to outstanding options because of their anti-dilutive effect.

5. ACCOUNTS RECEIVABLE

The allowance for doubtful accounts was \$806,000 as of April 30, 2002 and \$907,000 as of October 31, 2001.

6. INVENTORIES

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

	April 30, 2002	October 31, 2001
Purchased parts and sub-assemblies	\$ 6,957	\$ 7,853
Work-in-process	1,269	1,256
Finished goods	16,227	21,210
	-----	-----
	\$ 24,453	\$ 30,319
	=====	=====

7. SEGMENT INFORMATION

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

8. SPECIAL CHARGES

The second quarter of fiscal 2002 includes special charges aggregating \$2.5 million related principally to the write-down of assets related to the repositioning of product lines and severance costs associated with cost reduction programs, in response to market changes and the current recession impacting the machine tool industry. These actions are intended to improve our profitability and long-term shareholder return.

The special charges include (in thousands):

Cost of sales non-recurring:	
Inventory write-down related to under-performing product lines which are being discontinued	\$1,083
Restructuring and other expense:	
Write-off of capitalized software development cost resulting from termination of development project due to product line repositioning	1,036
Severance cost	471
Foreign lease termination liability (Note 11)	165
Termination of software development agreement (Note 9)	(277)

	1,395

Total	\$2,478
	=====

The balance of the reserve for Restructuring and Other Expense at April 30, 2002 is as follows:

(in thousands)	Balance 1/31/02	Provision (Credit)	Used	Balance 4/30/02
	-----	-----	-----	-----
Cost of sales non-recurring:				
Inventory write-down	--	1,083	(1,083)	--
	-----	-----	-----	-----
Restructuring and other expense:				
Capitalized software development cost write-off	--	1,036	(1,036)	--
Severance costs	358	471	(296)	533
Foreign lease termination liability	60	165	--	225
Termination of software development agreement	--	(277)	277	--
	-----	-----	-----	-----
	418	1,395	(1,055)	758
	-----	-----	-----	-----
Total	\$418	\$2,478	\$(2,138)	\$758
	=====	=====	=====	=====

The balance of \$758,000 at April 30, 2002 represents severance costs related to employees that will be paid in future periods and the estimated liability for a foreign lease obligation. The severance provision recorded in the second quarter of fiscal 2002 represents 46 domestic positions that have been or will be eliminated in fiscal 2002. At April 30, 2002, 29 employees had been paid the full amount of their severance while the remaining employees will be paid at different times through the second quarter of fiscal 2003.

9. TERMINATION OF AGREEMENTS

During the second quarter of fiscal 2002, we terminated certain software development and loan agreements previously entered into in fiscal 2001. In connection therewith, we received early repayment of our investment in a secured loan and warrants totaling \$1.0 million. We were also reimbursed for software development fees previously paid and expensed, resulting in a credit of \$277,000 which is reflected in Restructuring and Other Expense in the second quarter of fiscal 2002. Neither party has any future obligations to the other under the termination agreement.

10. DEBT AGREEMENTS

On April 30, 2002, we obtained a \$4.5 million first mortgage loan on our

Indianapolis corporate headquarters. The loan bears an interest rate of 7% per annum and matures in April 2009, with partial prepayments in periodic installments during the preceding seven years, based on a twenty-year amortization schedule.

Effective April 30, 2002, our bank credit agreement was amended, extending the maturity date to June 30, 2003, reducing the bank's commitment to \$15.0 million at April 30, 2002 and to \$10.0 million at June 30, 2002. Interest rate margins for borrowings under Libor or the prime rate option are as follows:

	Libor Margin	Prime Margin
	-----	-----
May 1, 2002 - October 31, 2002	2.5%	0.5%
November 1, 2002 - January 31, 2003	3.0%	1.0%
February 1, 2003 - June 30, 2003	3.5%	1.5%

The net worth covenant was amended to require tangible net worth, exclusive of Accumulated Other Comprehensive Income, to be not less than \$32.5 million at July 31, 2002, which reduces to \$32.3 million thereafter. The amended minimum EBITDA (earnings before interest, taxes, depreciation and amortization) requirements as of the end of the twelve consecutive months then ending cannot be less than negative \$2.75 million on July 31, 2002, increasing to negative \$2.15 million on October 31, 2002, negative \$750,000 at January 31, 2003 and positive \$1.0 million at April 30, 2003. Other financial covenants have been extended to June 30, 2003 as well. A facility fee previously payable August 1, 2002 has been reduced to \$50,000 from \$100,000 and is payable March 31, 2003, if we have not obtained a new financing arrangement by that time.

We were in compliance with all loan covenants at April 30, 2002, and had additional credit availability of \$13.4 million, including \$2.7 million under a European bank facility.

Based on our business plan and financial projections for fiscal 2002, which include planned reductions of operating expenses and working capital, we believe that cash flow generated from operations and borrowings available to us under our credit facilities will be sufficient to meet our anticipated cash requirements in the foreseeable future. We believe that the assumptions underlying our 2002 business plan and financial projections are reasonable; however, there are risks related to further declines in market demand and reduced sales in the U.S. and Europe, adverse currency movements, realization of anticipated cost reductions and cash from planned inventory reductions, that could cause our actual results to differ from our business plan and financial projections.

11. LEASEHOLD REPAIRS CONTINGENCY

The lease for our facility located in England expired in April 2002 and required that we make certain repairs to the facility at the conclusion of the lease resulting from dilapidation of the facility that occurred during the lease term. The extent of repairs to be completed are being negotiated and, as a result, the cost of these repairs cannot be estimated. Our maximum liability for the repairs and fees is believed to be approximately \$800,000. However, this amount could be reduced by statutory limitations or by a negotiated settlement. We believe our minimum liability is approximately \$225,000, which we have accrued at April 30, 2002. We have engaged a firm that specializes in these types of claims and intend to vigorously contest this matter during the third quarter.

12. NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" (SFAS 141) and Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method of accounting. Under SFAS 142, amortization of goodwill will cease and the goodwill carrying values will be tested periodically for impairment. We are required to adopt SFAS 142, effective November 1, 2002 for goodwill and intangible assets acquired prior to July 1, 2001. Goodwill and intangible assets acquired after June 30, 2001 will be subject immediately to the goodwill non-amortization and intangible provisions of this statement. The impact on our financial statements will be immaterial.

In August 2001, the Financial Accounting Standards Board issued Statement No.

144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), which is effective for the fiscal year beginning November 1, 2002. SFAS 144 establishes a single model to account for impairment of assets to be held or disposed of, incorporating guidelines for accounting and disclosure of discontinued operations. We believe the impact on our financial statements will be immaterial.

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

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto appearing elsewhere herein. Certain statements made in this report may constitute "forward-looking statements". These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, among others, changes in general economic and business conditions that affect market demand for computer control systems, machine tools and software products, changes in manufacturing markets, the success of our plans to reduce inventory and operating costs, adverse currency movements, innovations by competitors, quality and delivery performance by our contract manufacturers and governmental actions and initiatives including import and export restrictions and tariffs.

RESULTS OF OPERATIONS

Three Months Ended April 30, 2002 Compared to Three Months Ended April 30, 2001

The net loss was attributed to substantially lower sales and special charges aggregating \$2.5 million.

The special charges consisted of: (a) non cash write downs of inventories of approximately \$1.1 million and capitalized software development costs of approximately \$1.0 million related to under-performing product lines that are being discontinued and (b) severance costs of \$471,000 related to additional personnel reductions. Also included in the restructuring and other expense is \$165,000 for a contingency related to termination of a foreign lease and a credit of \$277,000 due to a refund of software development fees related to the termination of a software development agreement during the quarter.

Sales and service fees for the second quarter were \$15.0 million, approximately \$8.4 million, or 36%, lower than those recorded in the corresponding 2001 period. Second quarter sales and service fees in the U.S. market declined 35% to \$5.8 million reflecting the continuing weakness in industrial equipment spending and reduced consumption of machine tools. In Europe, sales and service fees declined 37% to \$9.0 million due to an 18% decline in new orders, along with a \$1.5 million increase in backlog in the 2002 period, while shipments in the corresponding prior year period benefited from a reduction in backlog during that period. Sales of computerized machine systems declined 38%. Non-machine revenues, principally parts and service fees, declined 28% and represented 24% of total sales and service fees. International sales were 62% of total sales and service fees in the second fiscal quarter, approximately the same as in the prior year period.

New order bookings for the second quarter of fiscal 2002 were \$16.5 million, approximately the same as in the first quarter but down 22% from the \$21.1 million recorded in the corresponding prior year period. New orders for computerized machine tool systems declined 20% in U.S. dollars worldwide compared to the second quarter of fiscal 2001. In the U.S. market, machine tool orders declined 29% in dollars compared to the same period in the prior year reflecting a sharp decrease in orders for vertical machining centers, our primary product line. This decline was partially offset by increased unit sales of under-performing models which are being discounted. New orders in Europe were 18% lower than the comparable prior year period reflecting weaker demand in fiscal 2002 in those markets. Backlog was \$7.8 million at April 30, 2002 compared to \$6.1 million at January 31, 2002 and \$9.1 million at October 31, 2001.

Gross profit margin for the second quarter of fiscal 2002, exclusive of the non-recurring inventory write-down, declined to 19.8%, from 25.5% in the same period a year ago, due to the decline in sales and service fees along with

discounted selling prices of under-performing products, which more than offset the benefit of reductions in operating costs related to cost of sales which had been initiated during the past ten months.

Selling, general and administrative expenses for the second quarter of fiscal 2002 of \$4.5 million were \$1.4 million, or 24%, lower than those of the corresponding 2001 period due to previously announced cost reduction programs, including reductions initiated in the most recent quarter. During the second quarter of 2002, we recorded a severance provision related to the elimination of 46 domestic positions. The annual savings from this is approximately \$3.5 million, of which approximately \$2.0 million will be reflected as a reduction in selling, general and administrative expenses, the full benefits of which will not be realized until the end of the fiscal year.

The decrease in other income for the second quarter of 2002 is the result of a decrease in earnings of foreign affiliates accounted for using the equity method.

The decrease in income tax expense is the result of a decline in earnings of a wholly-owned foreign subsidiary.

Six Months Ended April 30, 2002 Compared to Six Months Ended April 30, 2001

Sales and service fees for the first half of fiscal 2002 were \$33.5 million, approximately \$15.9 million, or 32%, lower than those recorded in the corresponding 2001 period. During this period, our sales and service fees in the U.S. market declined 45%, reflecting the continuing weakness in industrial equipment spending and reduced consumption of machine tools. In Europe, sales and service fees declined 23% due to a 26% decline in new orders. Sales of computerized machine systems declined 33%. Non-machine revenues, principally parts and service fees, declined 29% and represented 21% of total sales and service fees. International sales were 69% of total sales and service fees in the first half of fiscal 2002 compared to 59% in the same prior year period.

New order bookings for the first half of fiscal 2002 were \$33.0 million compared to \$49.2 million in the prior year, a 33% decline. New orders for computerized machine tool systems declined 34% in U.S. dollars worldwide. In the U.S. market, machine tool orders declined 49% in dollars reflecting a sharp decrease in orders for vertical machining centers, our primary product line, offset partially by increased unit sales of under-performing models which are being discounted. New orders in Europe were 26% lower than the comparable prior year period reflecting weaker demand in fiscal 2002 in those markets.

Gross profit margin for the first half of fiscal 2002, exclusive of the non-recurring inventory write-down, declined to 20.8%, from 25.5% in the same period a year ago, due to the decline in sales and service fees along with discounted selling prices of under-performing products, which more than offset the benefit of reductions in operating costs related to cost of sales which had been initiated during the past ten months.

Selling, general and administrative expenses for the first half of fiscal 2002 of \$9.7 million were \$2.3 million, or 19%, lower than those of the corresponding 2001 period due to previously announced cost reduction programs, the full benefits of which will not be realized until the end of the fiscal year.

Foreign Currency Risk Management

We manage our foreign currency exposure through the use of foreign currency forward exchange contracts. We do not speculate in the financial markets and, therefore, do not enter into these contracts for trading purposes. We also moderate our currency risk related to significant purchase commitments with certain foreign vendors through price adjustment agreements that provide for a sharing of, or otherwise limit, the potential adverse effect of currency fluctuations on the costs of purchased products. See Item 3 below and Note 3 to the Condensed Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

At April 30, 2002, we had cash and cash equivalents of \$3.2 million compared to \$3.5 million at October 31, 2001. Cash provided by operations totaled \$3.2 million for the six months ended April 30, 2002 compared to cash used for operations of \$3.6 million in the prior year. The net loss in fiscal 2002, exclusive of non-cash charges, was more than offset by a reduction in working

capital in fiscal 2002.

Net working capital, excluding short-term debt, was \$24.6 million at April 30, 2002 compared to \$31.5 million at October 31, 2001. The decrease in working capital was the result of a \$3.6 million reduction in accounts receivable, due to lower sales and improved collections, and a \$4.8 million planned reduction in inventory, offset by a \$2.8 million reduction in accounts payable and accrued expenses.

Capital investments for the six months ended April 30, 2002 consisted principally of expenditures for software development projects and purchases of equipment. During the second quarter, we terminated certain agreements resulting in an early repayment of our investment in a secured loan and warrants totaling \$1.0 million. The early repayment provided net cash from investment activities in fiscal 2002.

On April 30, 2002, we obtained a \$4.5 million first mortgage loan on our Indianapolis corporate headquarters. The loan bears an interest rate of 7% and matures in April 2009, with partial prepayments in periodic installments during the preceding seven years, based on a twenty-year amortization schedule. The proceeds from the first mortgage loan, together with other available cash, were used to repay bank debt. After giving effect to the repayment, our bank debt was \$3.2 million at April 30, 2002 compared to \$11.2 million at October 31, 2001.

Effective April 30, 2002, our bank credit agreement was amended, extending the maturity date to June 30, 2003, reducing the bank's commitment to \$15.0 million at April 30, 2002, and to \$10.0 million at June 30, 2002. The amendment reduced interest rates through January 31, 2003 by one-half to one percentage point below those called for by the previous agreement. The net worth covenant was amended to require tangible net worth, exclusive of Accumulated Other Comprehensive Income, to be not less than \$32.5 million at July 31, 2002, which reduces to \$32.3 million thereafter. The amended minimum EBITDA (earnings before interest, taxes, depreciation and amortization) requirements as of the end of the twelve consecutive months then ending cannot be less than negative \$2.75 million on July 31, 2002, increasing to negative \$2.15 million on October 31, 2002, negative \$750,000 at January 31, 2003 and positive \$1.0 million at April 30, 2003. Other financial covenants have been extended to June 30, 2003 as well. A facility fee previously payable August 1, 2002 was reduced to \$50,000 from \$100,000 and is payable March 31, 2003, if we have not obtained a new financing arrangement by then. We were in compliance with all loan covenants at April 30, 2002, and had an additional credit availability of \$13.4 million, including the European facility.

Our cash flow from operations for the first half of fiscal 2002 was consistent with our fiscal 2002 business plan. Our business plan for fiscal 2002 includes planned reductions of operating expenses and working capital. We believe that the assumptions underlying our 2002 business plan and financial projections are reasonable; however, there are risks related to further declines in market demand and reduced sales in the U.S. and Europe, adverse currency movements, realization of anticipated cost reductions and cash realized from planned inventory reductions, that could cause our actual results to differ from our business plan and financial projections. Market demand and sales in the U.S. and Europe declined during the first half of fiscal 2002 causing operating results to differ unfavorably from our business plan. As a result, we implemented additional cost reduction actions in the second quarter, which involved a 20% reduction in our domestic workforce, and which we expect will generate an annual cost savings of approximately \$2.5 million, substantially all of which will be realized beginning in our third fiscal quarter of 2002. Our plans call for additional reduction in working capital invested in inventory to improve cash flow from operations over the remainder of fiscal 2002, due in part to the sale of discounted products related to the product line repositioning. We believe that cash flow generated from operations and borrowings available to us under our credit facilities will be sufficient to meet our anticipated cash requirements in the foreseeable future.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Interest on our bank borrowings is affected by changes in prevailing U.S. and European interest rates and/or Libor. At April 30, 2002, outstanding borrowings under our bank credit facilities were \$3.2 million and our total indebtedness was \$8.5 million. The interest rate on the Libor portion of our bank debt was

Libor plus 2%, which increases to 2.5% effective May 1, 2002.

Foreign Currency Exchange Risk

In fiscal 2002, approximately 69% of our sales and service fees, including export sales, were derived from foreign markets. All of our computerized machine systems and computer numerical control systems, as well as certain proprietary service parts, are sourced by our U.S.-based engineering and manufacturing division and re-invoiced to our foreign sales and service subsidiaries, primarily in their functional currencies.

Our products are sourced from foreign suppliers or built to our specifications by either our wholly owned subsidiary in Taiwan, or contract manufacturers overseas. These purchases are predominantly in foreign currencies and in many 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 our exchange rate risk associated with product purchases relates to the New Taiwan Dollar.

We enter into forward foreign exchange contracts from time to time to hedge the cash flow risk related to forecast inter-company sales, and forecast inter-company and third-party purchases denominated in, or based on, foreign currencies. We also enter into foreign currency forward exchange contracts to provide a natural hedge against the effects of foreign currency fluctuations on receivables and payables denominated in foreign currencies. We do not speculate in the financial markets and, therefore, do not enter into these contracts for trading purposes.

Forward contracts for the sale or purchase of foreign currencies as of April 30, 2002 which are designated as cash flow hedges under SFAS No. 133 were as follows:

Forward Contracts	Notional Amount in Foreign Currency	Weighted Avg. Forward Rate	Contract Amount at Forward Rates in U.S. Dollars		Maturity Dates
			Contract Date	April 30, 2002	
Sale Contracts:					
Euro	5,500,000	.8893	\$4,891,150	\$4,944,362	May - August 2002
Purchase Contracts:					
New Taiwan Dollar	75,000,000	34.85	\$2,161,875	\$2,151,081	May - July 2002

Forward contracts for the sale of foreign currencies as of April 30, 2002, which were entered into to protect against the effects of foreign currency fluctuations on receivables and payables denominated in foreign currencies were as follows:

Forward Contracts	Notional Amount in Foreign Currency	Weighted Avg. Forward Rate	Contract Amount at Forward Rates in U.S. Dollars		Maturity Dates
			Contract Date	April 30, 2002	
Sale Contracts:					
Euro	6,079,877	.8830	\$5,368,531	\$5,468,313	May - July 2002
Singapore Dollar	1,853,914	1.8331	\$1,011,355	\$1,022,258	May - July 2002
Purchase Contracts:					
New Taiwan Dollar	96,000,000	34.85	\$2,754,449	\$2,765,958	May - July 2002
Sterling	575,000	1.4374	\$826,505	\$837,135	May 2002

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are involved in various claims and lawsuits arising in the ordinary course of business, none of which, in the opinion of management, is expected to have a material adverse effect on our consolidated financial position or results of operations.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

 At our Annual Meeting of Shareholders held on April 3, 2002, the following individuals were elected to the Board of Directors by the following votes cast at the meeting:

	For	Abstentions and Broker Non-Votes
Robert W. Cruickshank	5,120,520	58,780
Michael Doar	5,021,320	157,980
Richard T. Niner	5,117,513	61,787
O. Curtis Noel	5,115,541	63,759
Charles E. M. Rentschler	5,119,932	59,368
Gerald V. Roch	5,114,573	64,727

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 10.1 Second Amendment to Second Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement dated April 30, 2002 between the registrant and Bank One.
- 10.2 First mortgage on Hurco corporate headquarters dated April 30, 2002 between the registrant and American Equity Investment Life Insurance Company.
- 11 Statement re: Computation of Per Share Earnings

(b) Reports on Form 8-K: None

SIGNATURES

Pursuant to the requirements of the Securities and 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/ Roger J. Wolf

 Roger J. Wolf
 Senior Vice President and
 Chief Financial Officer

By: /s/ Stephen J. Alesia

 Stephen J. Alesia
 Corporate Controller and
 Principal Accounting Officer

May 30, 2002

Exhibit 11
 Statement Re: Computation of Per Share Earnings

Three Months Ended April 30,		Six Months Ended April 30,	
2002	2001	2002	2001

	(in thousands, except per share amount)							
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income (loss)	\$ (4,211)	\$ (4,211)	\$ 323	\$ 323	(5,852)	(5,852)	\$ 890	\$ 890
Weighted average shares outstanding	5,583	5,583	5,651	5,651	5,583	5,583	5,761	5,761
Dilutive effect of stock options	--	--	--	42	--	--	--	40
	5,583	5,583	5,651	5,693	5,583	5,583	5,761	5,801
Earnings (loss) per common share	\$ (0.75)	\$ (0.75)	\$ 0.06	\$ 0.06	\$ (1.05)	\$ (1.05)	\$ 0.15	\$ 0.15

SECOND AMENDMENT TO
SECOND AMENDED AND RESTATED CREDIT AGREEMENT
AND AMENDMENT TO REIMBURSEMENT AGREEMENT

THIS SECOND AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT AND AMENDMENT TO REIMBURSEMENT AGREEMENT, dated as of April 30, 2002 (this "Amendment"), between HURCO COMPANIES, INC., an Indiana corporation (the "Company"), and BANK ONE, INDIANA, NA, a national banking association (the "Bank").

RECITALS

A. The parties hereto have entered into a Second Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement dated as of October 31, 2001 (as amended or modified from time to time, the "Credit Agreement"), which is in full force and effect.

B. The Company desires to further amend the Credit Agreement as herein provided, and the Bank is willing to so amend the Credit Agreement on the terms set forth herein.

AGREEMENT

Based upon these recitals, the parties agree as follows:

1. Amendment. Upon the Company satisfying the condition set forth in paragraph 4 (the date that this occurs being called the "Effective Date"), the Credit Agreement shall be amended as follows:

(a) The definition of the term "Applicable Margin" is amended and restated, to read as follows:

"Applicable Margin" means, with respect to Advances of any Type at any time, the percentage rate per annum which is applicable at such time with respect to Advances of such Type:

(a) from and including the Effective Date through October 31, 2001:

Eurodollar Advances: 1.0%
Floating Rate Advances: 0.0%

(b) from and including November 1, 2001 and thereafter, as follows:

Date	Eurodollar Advances	Floating Rate Advances
From and including November 1, 2001, through April 30, 2002	2.0% per annum	0% per annum
From and including May 1, 2002, through October 30, 2002	2.5% per annum	0.5% per annum
From and including November 1, 2002, through January 31, 2003	3.0% per annum	1.0% per annum
From and including February 1, 2003, and thereafter	3.5% per annum	1.5% per annum

(b) The definition of the term "Automatic Termination Date" is amended and restated, to read as follows:

"Automatic Termination Date" means June 30, 2003.

(c) The definition of the term "Commitment" is amended and restated, to read as follows:

"Commitment" means the obligation of the Bank to make Loans to, and issue Facility LCs upon the application of, the Borrower in an aggregate amount not exceeding \$15,000,000, reduced by (i) \$5,000,000 from and including June 30, 2002, and (ii) the amount required pursuant to Section 2.5(d) and Section 2.5(e) (other than Sections 2.5(e)(iii) and 2.5(e)(iv), which have already occurred).

(d) The definition of the term "European Facility" is amended and restated, to read as follows:

"European Facility" means a facility under which Bank One, NA, London Branch, in its sole discretion, may make revolving credit loans in favor of any of the European Subsidiaries not to exceed \$5,000,000 or its Dollar Equivalent (subject to Section 2.1(a)) pursuant to a letter agreement dated as of August 17, 1999, as amended from time to time, provided, however, that, after the New Hurco GmbH Facility has been issued, no borrower under that facility may obtain loans under the European Facility.

(e) The definition of the term "Intangible Assets" is amended and restated, to read as follows:

"Intangible Assets" means, for the Borrower or any of its Subsidiaries, the net book value, calculated in accordance with Agreement Accounting Principles, of all items of the following character which are included in the assets of such person: (i) goodwill, including without limitation the excess of cost over book value of any asset, (ii) organization or experimental expenses, (iii) unamortized debt discount and expense, (iv) patents, trademarks, trade names and copyrights, (v) deferred taxes and deferred charges, (vi) franchises, licenses and permits, and (vii) other assets which are deemed intangible assets under Agreement Accounting Principles, provided, however, that, for purposes of calculating the Consolidated Tangible Net Worth, the net book value of any intangible assets acquired under the CIMPlus Option shall be excluded from this definition.

(f) Section 2.1(a) is amended and restated, to read as follows:

(a) From and including the Effective Date and prior to the Facility Termination Date, the Bank agrees, on the terms set forth in this Agreement, to (i) make Advances to the Borrower and (ii) issue Facility LCs upon the request of the Borrower not to exceed in the aggregate principal amount at any time outstanding the lesser of (A) the amount of the Borrowing Base as of the close of business on the last day of the month next preceding the date any such Advance is made and (B) the amount of the Commitment as of the date any such Advance is made, provided, however, that the aggregate principal amount of Facility LCs outstanding at any time shall not exceed the amount of the Commitment, and, provided, further, that the aggregate principal amount of Advances and Facility LCs outstanding at any time, together with the aggregate principal amount of Loans (as defined in the European Facility) outstanding at such time under the European Facility, shall not exceed the lesser of (A) the amount of the Borrowing Base as of the close of business on the last day of the month next preceding such date and (B) the amount of the Commitment as of that date. Subject to the terms of this Agreement, the Borrower may borrow, repay and reborrow at any time prior to the Facility Termination Date. The Commitment to extend credit hereunder shall expire on the Facility Termination Date. The Bank will issue Facility LCs hereunder on the terms and conditions set forth in Section 2.18.

(g) Section 2.5(b) is amended and restated, to read as follows:

(b) Facility Fee. The Borrower agrees to pay to the Bank a facility fee on March 31, 2003, equal to \$50,000, provided that, if all Obligations are repaid and the Commitment is terminated on or before

March 31, 2003, the facility fee shall be forgiven, and provided further, if a Default occurs, the entire facility fee shall be earned as of the Default occurring and be payable by the Borrower to the Bank on March 31, 2003.

(h) Section 2.18.1 is amended and restated, to read as follows:

2.18.1. Issuance. The Bank agrees, on the terms set forth in this Agreement, to issue standby and commercial letters of credit (each, a "Facility LC") and to renew, extend, increase, decrease or otherwise modify each Facility LC ("Modify," and each such action a "Modification"), from time to time from and including the date of this Agreement and prior to the Facility Termination Date upon the request of the Borrower; provided that immediately after each such Facility LC is issued or Modified, (i) the aggregate amount of the outstanding LC Obligations shall not exceed the amount of the Commitment, and (ii) the Outstanding Credit Exposure shall not exceed the Commitment. No Facility LC shall have an expiry date later than the earlier of (x) the fifth Business Day prior to the Facility Termination Date and (y) one year after its issuance.

(i) Section 6.11(iv) is amended and restated, to read as follows:

(iv) Indebtedness of any Subsidiary owing to the Borrower or to any other Subsidiary, and indebtedness of the Borrower owing to any Subsidiary.

(j) Section 6.14(iv) is amended and restated, to read as follows:

(iv) The exercise of the CIMPlus Option, provided that, if the Borrower does not exercise the CIMPlus Option on or before June 14, 2002, the Borrower shall have provided to the Bank a certificate of the chief financial officer of the Borrower (attaching computations to demonstrate compliance with all financial covenants hereunder), stating that, following the exercise of the CIMPlus Option, the Company will be in compliance with Article VI of this Agreement.

(k) Section 6.15(vii) is amended and restated, to read as follows:

(vii) Liens on the assets of Hurco GmbH to secure the New Hurco GmbH Facility, and, if Hurco BV is a borrower or guarantor under the New Hurco GmbH Facility, on the assets of Hurco BV to secure the New Hurco GmbH Facility.

(l) Section 6.20 is amended and restated, to read as follows:

6.20. Financial Covenants.

6.20.1. Minimum Consolidated EBITDA. The Borrower will not permit Consolidated EBITDA, determined as of the end of the twelve (12) consecutive months then ending, to be less than: (i) on October 31, 2001, \$2,000,000, (ii) on January 31, 2002, negative \$620,000, (iii) on April 30, 2002, negative \$2,750,000, (iv) on July 31, 2002, negative \$2,750,000, (v) on October 31, 2002, negative \$2,150,000, (vi) on January 31, 2003, negative \$750,000, and (vii) on April 30, 2003, positive \$1,000,000.

6.20.2. Minimum Consolidated Tangible Net Worth. The Borrower will maintain Consolidated Tangible Net Worth as of the last day of each fiscal quarter then ending of not less than, (i) on October 31, 2001, \$35,900,000, (ii) on January 31, 2002, \$34,500,000, (iii) on April 30, 2002, \$33,500,000, (iv) on July 31, 2002, \$32,500,000, (v) on October 31, 2002, \$32,300,000, (vi) on January 31, 2003, \$32,300,000, and (vii) on April 30, 2003, \$32,300,000.

6.20.3. Maximum Consolidated Total Indebtedness to Consolidated Total Capitalization. The Borrower will not permit the ratio, determined as of the end of each of its fiscal quarters, of (i) Consolidated Total Indebtedness to (ii) Consolidated Total Capitalization, to be greater than 0.4 to 1.0.

(m) Section 6.21 is amended and restated, to read as follows:

6.21. Capital Expenditures. The Borrower will not, nor will it permit any Subsidiary to, acquire or contract to acquire any fixed asset or make any other Capital Expenditure if the aggregate purchase price and other acquisition costs of all Consolidated Capital Expenditures made during any fiscal quarter, together with the Consolidated Capital Expenditures made during the prior three fiscal quarters, would exceed an amount equal to the lesser of (i) 125% of the consolidated depreciation and amortization expense of the Borrower and its Subsidiaries for the four fiscal quarters immediately preceding the date of the proposed Capital Expenditure and (ii) \$3,000,000. For clarification, any acquisition of intangible assets under the CIMPlus Option shall not be considered an acquisition of a fixed or capital asset and such acquisition shall not be governed by this covenant.

2. References to Credit Agreement. From and after the effective date of this Amendment, references to the Credit Agreement in the Credit Agreement and all other documents issued under or with respect thereto (as each of the foregoing is amended hereby or pursuant hereto) shall be deemed to be references to the Credit Agreement as amended hereby.

3. Representations and Warranties. The Company represents and warrants to the Bank that:

(a) (i) The execution, delivery and performance of this Amendment and all agreements and documents delivered pursuant hereto by the Company have been duly authorized by all necessary corporate action and do not and will not violate any provision of any law, rule, regulation, order, judgment, injunction, or award presently in effect applying to it, or of its articles of incorporation or bylaws, or result in a breach of or constitute a default under any material agreement, lease or instrument to which the Company is a party or by which it or its properties may be bound or affected (including without limitation any credit facility with Principal Mutual Life Insurance Company); (ii) no authorization, consent, approval, license, exemption or filing of a registration with any court or governmental department, agency or instrumentality is or will be necessary to the valid execution, delivery or performance by the Company of this Amendment and all agreements and documents delivered pursuant hereto; and (iii) this Amendment and all agreements and documents delivered pursuant hereto by the Company are the legal, valid and binding obligations of the Company, enforceable against it in accordance with the terms thereof.

(b) After giving effect to the amendments contained herein, the representations and warranties contained in Article V of the Credit Agreement (with the exception of Section 5.5) are true and correct on and as of the effective date hereof with the same force and effect as if made on and as of the effective date. Since March 31, 2002, there has been no change in the business, Property, prospects, condition (financial or otherwise) or results of operations of the Borrower and its Subsidiaries which could reasonably be expected to have a Material Adverse Effect.

(c) As of the date hereof, there are no loans or other obligations outstanding under the European Facility. Prior to the date a letter agreement regarding the Fifth Amendment to European Facility is executed among the European Subsidiaries and the Bank, in form and substance satisfactory to the Bank, the Borrower shall cause the European Subsidiaries to not utilize the credit facilities provided under the European Facility.

(d) No Event of Default has occurred and is continuing or will exist under the Credit Agreement as of the effective date hereof.

4. Conditions to Effectiveness. This Amendment shall not become effective until the Bank has received the following documents and the following conditions have been satisfied, each in form and substance satisfactory to the Bank:

(a) Copies, certified as of the effective date hereof, of such corporate documents of the Company and the Guarantors as the Bank may request, including articles of incorporation, bylaws (or certifying as to the continued accuracy of the articles of incorporation and by-laws previously delivered to the Bank), and incumbency certificates, and such documents evidencing necessary corporate action by the Company and the Guarantors with respect to this Amendment and all other agreements or documents delivered pursuant hereto as the Bank may request;

(b) A Confirmation of Subsidiary Guaranty of even date herewith executed by the Guarantors in favor of the Bank, in form and substance satisfactory to the Bank;

(c) Such additional agreements and documents, fully executed by the Company, as are reasonably requested by the Bank; and

(d) The Company has paid the Bank on or prior to the Effective Date an arrangement fee in the amount of \$15,000.

5. Miscellaneous. The terms used but not defined herein shall have the respective meanings ascribed thereto in the Credit Agreement. Except as expressly amended, the Credit Agreement and all other documents issued under or with respect thereto are ratified and confirmed by the Banks and the Company and shall remain in full force and effect, and the Company hereby acknowledges that it has no defense, offset or counterclaim with respect thereto.

6. Counterparts. This Amendment may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Amendment by signing any such counterpart.

7. Expenses. The Company agrees to pay and save the Bank harmless from liability for all costs and expenses of the Bank arising in respect of this Amendment, including the reasonable fees and expenses of Dickinson Wright PLLC, counsel to the Bank, in connection with preparing and reviewing this Amendment and any related agreements and documents.

8. Governing Law. This Amendment is a contract made under, and shall be governed by and construed in accordance with, the laws of the State of Indiana applicable to contracts made and to be performed entirely within such state and without giving effect to the choice law principles of such state.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

HURCO COMPANIES, INC.

BANK ONE, INDIANA, NA

By: /s/ Roger J. Wolf

By: /s/ Joanna W. Anderson

Its: Senior Vice President
and Chief Financial Officer

Its: Assistant Vice President

DETROIT 15275-5 660867

PROMISSORY NOTE

\$4,500,000.00 Note Date: April 30, 2002
Maturity Date: April 30, 2009

FOR VALUE RECEIVED, the undersigned, HURCO COMPANIES, INC., an Indiana corporation, ("Maker"), hereby unconditionally promises to pay to the order of AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY ("Payee"), at P. O. Box 71216, Des Moines, Iowa 50325, or such other address as the holder hereof may, from time to time designate in writing, the principal sum of Four Million Five Hundred Thousand Dollars (\$4,500,000), in lawful money of the United States of America, together with interest on the unpaid principal balance from day-to-day remaining computed from the date of advance until maturity at a rate per annum equal to seven and three-eighths percent (7.375%) (the "Fixed Rate").

For purposes of calculating interest accrued hereon at the Fixed Rate, interest on this Note shall be calculated on the basis of the actual days elapsed over a 360-day year and monthly payments of principal and interest shall be calculated on the basis of a twenty-year amortization schedule.

Principal and accrued interest on this Note, computed as aforesaid, shall be due and payable as follows: (i) in equal monthly installments, each in the amount of Thirty-five Thousand Nine Hundred Eight and 52/100 Dollars (\$35,908.52), commencing on June 1, 2002 (the "Initial Payment Date"), and continuing thereafter on the first day of each succeeding calendar month, and (ii) in one final installment on April __, 2009, (the "Maturity Date"). MAKER ACKNOWLEDGES THAT THE MONTHLY INSTALLMENTS REFERRED TO ABOVE WILL NOT AMORTIZE ALL OF THE PRINCIPAL SUM OF THE INDEBTEDNESS BY THE MATURITY DATE, RESULTING IN A "BALLOON PAYMENT" ON SAID MATURITY DATE OF THE ENTIRE UNPAID PRINCIPAL BALANCE OF THIS NOTE AND ACCRUED UNPAID INTEREST. Maker shall pay to Payee at the time of execution hereof interest from and including the date of advance until, but not including the day which is one calendar month preceding the date of the Initial Payment Date. Monthly payments shall also be made on the Initial Payment Date and each subsequent payment date by Maker to the reserve fund created by Payee for the payment of all ground rentals, insurance premiums, taxes and assessments, as required in the Mortgage, as hereinafter defined.

All payments on account of the indebtedness evidenced by this Note shall be applied: (i) first, to further advances, if any, made by the holder hereof as provided in the Mortgage (as hereinafter defined); (ii) next, to any Late Charge (as hereinafter defined); (iii) next, to interest at the Default Rate (as hereinafter defined), if applicable; (iv) next, to the Prepayment Premium (as hereinafter defined), if applicable; (v) next, to interest at the Fixed Rate on the unpaid principal balance of this Note unless interest at the Default Rate is applicable; and (vi) lastly, any remainder to reduce the unpaid principal of this Note.

In addition to the foregoing required monthly payments, Maker shall pay to the Payee a late charge equal to the lesser of (a) One Thousand Dollars (\$1,000), or (b) five percent (5%) of any payment required to be made hereunder or under the Mortgage (as hereinafter defined) with respect to any payment which is not received in full by the Payee within five (5) days after it becomes due ("Late Charge").

Should the final payment of principal of this Note become due and payable on any day other than a business day, the maturity thereof shall be extended to the next succeeding business day and interest shall be payable with respect to such extension. All payments of principal of and interest upon this Note shall be made by Maker to Payee in immediately available funds.

After an Event of Default (as hereinafter defined), all past due principal and, to the extent permitted by applicable law, interest upon this Note shall bear interest at the lesser of (i) the Maximum Rate (as hereinafter defined), or (ii) the rate per annum which shall from day-to-day be equal to three percent (3%) in excess of the Fixed Rate ("Default Rate"). Such Default Rate shall apply to any period before or after any judgment on this Note.

The term "Maximum Rate," as used herein, shall mean, with respect to the holder hereof, the maximum nonusurious interest rate, if any, that at any time, or from time to time, may be contracted for, taken, reserved, charged, or received on the indebtedness evidenced by this Note under the laws which are presently in effect of the United States and the State of Indiana applicable to such holder and such indebtedness or, to the extent permitted by applicable law, under such applicable laws of the United States and the State of Indiana which may hereafter be in effect and which allow a higher maximum nonusurious interest

rate than applicable laws now allow.

Maker and each surety, endorser, guarantor and other party ever liable for payment of any sums of money payable on this Note, jointly and severally waive demand for payment, presentment, protest, notice of protest and non-payment, or other notice of default, notice of acceleration and intention to accelerate, and agree that their liability under this Note shall not be affected by any renewal or extension in the time of payment hereof, or by any indulgences, or by any release or change in any security for the payment of this Note, and hereby consent to any and all renewals, extensions, indulgences, releases or changes, regardless of the number of such renewals, extensions, indulgences, releases or changes.

This Note is secured by, among other things, a Mortgage, Security Agreement, Financing Statement and Assignment of Rents (the "Mortgage") dated of even date herewith from Maker to Payee, covering certain real property located in Marion County, Indiana ("Premises"), as more fully described therein.

No waiver by Payee of any of its rights or remedies hereunder or under any other document evidencing or securing this Note or otherwise shall be considered a waiver of any other subsequent right or remedy of Payee; no delay or omission in the exercise or enforcement by Payee of any rights or remedies shall ever be construed as a waiver of any right or remedy of Payee; and no exercise or enforcement of any such rights or remedies shall ever be held to exhaust any right or remedy of Payee.

An "Event of Default" shall exist hereunder if any one or more of the following events shall occur and be continuing:

(a) Maker shall fail or refuse to pay within five (5) days after the date when due any principal of, or interest upon, this Note;

(b) any statement, representation or warranty made by Maker to Payee shall prove to be untrue or inaccurate in any material respect when made;

(c) default shall occur in the performance of any of the covenants or agreements of Maker contained herein or in any instrument securing this Note or any other document executed or delivered to Payee in connection herewith and such default shall continue uncured to the reasonable satisfaction of Payee for a period of fifteen (15) days after written notice thereof from Payee to Maker;

(d) Maker or any guarantor of this Note (a "Guarantor") shall (i) apply for or consent to the appointment of a receiver, trustee, custodian, intervenor or liquidator of such Maker or such Guarantor or of all or a substantial part of the assets of such Maker or such Guarantor, (ii) file a voluntary petition in bankruptcy, admit in writing that such Maker or such Guarantor is unable to pay the debts of such Maker or such Guarantor as they become due or generally not pay such Person's debts as they become due, (iii) make a general assignment for the benefit of creditors, (iv) file a petition or answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy or insolvency laws, (v) file an answer admitting the material allegations of, or consent to, or default in answering, a petition filed against such Maker or such Guarantor in any bankruptcy, reorganization or insolvency proceeding, or (vi) take corporate action for the purpose of effecting any of the foregoing;

(e) An involuntary petition or complaint shall be filed against Maker or any Guarantor seeking bankruptcy or reorganization of such Maker or such Guarantor or the appointment of a receiver, custodian, trustee, intervenor or liquidator of such Maker or such Guarantor, or of all or substantially all of the assets of such Maker or such Guarantor, and such petition or complaint shall not have been dismissed within forty-five (45) days of the filing thereof; or an order, order for relief, judgment or decree shall be entered by any court of competent jurisdiction or other competent authority approving a petition or complaint seeking reorganization of such Maker or such Guarantor or appointing a receiver, custodian, trustee, intervenor or liquidator of such Maker or such Guarantor, or of all or substantially all of the assets of the Maker or such Guarantor;

(f) the failure of Maker or any Guarantor to pay any uninsured money judgment against such Maker or such Guarantor within thirty (30)

days after such judgment becomes final and no longer appealable;

(g) the failure of Maker or any Guarantor to have discharged within a period of thirty (30) days after the commencement thereof any attachment, sequestration, or similar proceedings against any of Maker's or any Guarantor's assets; or

(h) Payee's liens, mortgages or security interests in any of the collateral for this Note should become unenforceable, or cease to be first priority liens, mortgages or security interests, except for liens of real estate taxes which are due, but not delinquent, provided Maker is not in default in the payment of real estate tax reserve deposits to Payee.

Upon the occurrence of any Event of Default or other default under any other agreement or instrument securing or assuring the payment of this Note or executed in connection herewith, the holder hereof may, at its option, declare the entire unpaid balance of principal and accrued interest on this Note to be immediately due and payable, and foreclose all liens and security interests securing payment hereof or any part hereof; provided, however, upon the occurrence of any of the Events of Default described in items (a), (d) or (e) above, the entire unpaid balance of principal and accrued interest upon this Note shall, without any action by Payee, immediately become due and payable without demand for payment, presentment, protest, notice of protest and non-payment, or other notice of default, notice of acceleration and intention to accelerate or any other notice, all of which are expressly waived by Maker.

Maker may prepay the outstanding principal balance of this Note, in whole but not in part, upon giving thirty (30) days' prior written notice to Payee if, and only if, contemporaneously with such prepayment Maker pays to Payee a prepayment premium equal to the product of (i) the percentage set forth below opposite the period in which prepayment occurs, multiplied by (ii) the amount of principal prepaid on this Note ("Prepayment Premium").

Period	Percentage
Date hereof through the day preceding the First Anniversary of the date hereof	Seven Percent (7%)
First Anniversary Date through the day preceding the Second Anniversary	Five Percent (5%)
Second Anniversary Date through the day preceding the Third Anniversary	Four Percent (4%)
Third Anniversary Date through the day preceding the Fourth Anniversary	Three Percent (3%)
Fourth Anniversary Date through the day preceding the Fifth Anniversary	Two Percent (2%)
On and after Fifth Anniversary	No Prepayment Premium

Maker hereby acknowledges and agrees that in the event Maker is in default under this Note or the Mortgage or any other instrument by which this Note is secured, thereby causing the Payee to accelerate the maturity of this Note, then the Payee will sustain damage due to additional administrative expenses and the loss of the investment represented hereby. Therefore, Maker hereby agrees to pay the Payee damages in an amount which shall be equal to the Prepayment Premium applicable on the date of such acceleration. Notwithstanding the foregoing, Maker shall be permitted to prepay up to ten percent (10%) of the then-existing Note balance each year without a Prepayment Penalty, provided that (a) Payee is given not less than thirty (30) days advance written notice of intent to prepay; (b) the prepayment occurs on an anniversary date, and (c) the monthly payments required under this Note remain the same. The annual prepayment right shall not be cumulative from one year to any subsequent year.

Notwithstanding anything in this Note to the contrary, there shall at no time be any limitation on Maker's liability for the payment to Payee of:

(i) all loss, damage, costs, expense and liability (including without limitation, reasonable attorneys' fees and costs) directly or indirectly incurred by Payee (and its directors, officers, employees and agents) arising out of or attributable to the installation, use, generation, manufacture, production, storage, release, threatened release, discharge, disposal or presence of a Hazardous Substance (as defined in the Mortgage), or from the presence of any underground storage tanks, in, on, under or about the Premises, including without limitation, (a) all foreseeable consequential damages, (b) the cost of any required or necessary repair, cleanup or detoxification of the Premises and (c) the preparation and implementation of any closure, remedial or other required plans, or damages arising from the presence of any toxic or hazardous waste or substances, or underground storage tanks, or any other pollutants in or on the Premises.

(ii) any loss (including any Prepayment Premium), cost or expense resulting from acceleration of the maturity of the Note due to application of the "due on sale" or "further encumbrance" provisions contained in the Mortgage, or

(iii) any transfer or other taxes, costs and reasonable attorneys' fees incurred by Payee in connection with the enforcement of the Loan Documents.

Notwithstanding anything contained in this Note to the contrary, Payee shall never be deemed to have contracted for or be entitled to receive, collect or apply as interest on this Note, any amount in excess of the amount permitted and calculated at the Maximum Rate, and, in the event Payee ever receives, collects or applies as interest any amount in excess of the amount permitted and calculated at the Maximum Rate, such amount which would be excessive interest shall be applied to the reduction of the unpaid principal balance of this Note, and, if the principal balance of this Note is paid in full, any remaining excess shall forthwith be paid to Maker. In determining whether or not the interest paid or payable under any specific contingency exceeds the Maximum Rate, Maker and Payee shall, to the maximum extent permitted under applicable law, (i) characterize any non-principal payment (other than payments which are expressly designated as interest payments hereunder) as an expense, fee, or premium, rather than as interest, (ii) exclude voluntary prepayments and the effect thereof, and (iii) spread the total amount of interest throughout the entire contemplated term of this Note.

This Note is being executed and delivered, and is intended to be performed in the State of Indiana. Except to the extent that the laws of the United States may apply to the terms hereof, the substantive laws of the State of Indiana shall govern the validity, construction, enforcement and interpretation of this Note. In the event of a dispute involving this Note or any other instruments executed in connection herewith, the undersigned irrevocably agrees that venue for such dispute shall lie in any court of competent jurisdiction in Marion County, Indiana.

If this Note is placed in the hands of an attorney for collection, or if it is collected through any legal proceedings at law or in equity or in bankruptcy, receivership or other court proceedings, Maker promises to pay all costs and expenses of collection including, but not limited to, court costs and the reasonable attorneys' fees of the holder hereof.

Executed as of the day and year first above written.

HURCO COMPANIES, INC.,
an Indiana corporation

By: /S/ Roger J. Wolf

Roger J. Wolf, Senior Vice President
and Chief Financial Officer

MORTGAGE, SECURITY AGREEMENT, FINANCING STATEMENT AND
ASSIGNMENT OF RENTS

Secured Property Address: Hurco Companies, Inc. International Headquarters
One Technology Way
Park 100 Business Park
Indianapolis, Indiana 46268

THIS MORTGAGE, SECURITY AGREEMENT, FINANCING STATEMENT AND ASSIGNMENT OF RENTS ("Mortgage") is executed as of April 30, 2002, by and between HURCO COMPANIES, INC., an Indiana corporation, whose address is One Technology Way, P. O. Box 68180, Indianapolis, Indiana 46268-0180, ("Mortgagor") and AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY, an Iowa corporation, whose mailing address is P. O. Box 71216, Des Moines, Iowa 50325, (such party, together with any holder or holders of all or any part of the "Secured Indebtedness" (as hereinafter defined) shall be referred to herein as "Mortgagee").

ARTICLE I

DEFINITIONS

Section 1.1. As used in this Mortgage, the following terms shall have the meanings indicated, unless the context otherwise requires:

"CERCLA" shall mean the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (42 U.S.C. ss. 9601 et seq.), as amended from time to time, including, without limitation, the Superfund Amendments and Reauthorization Act ("SARA").

"Code" shall mean the Uniform Commercial Code, as amended from time to time, in effect in the State where the Land is situated.

"Default" shall have the meaning assigned to such term in Section 6.1.

"Environmental Law" shall mean any federal, state or local law, statute, ordinance, or regulation pertaining to health, industrial hygiene, or the environmental conditions on, under or about the Mortgaged Property, including but not limited to, CERCLA, SARA and RCRA.

"Hazardous Substance" shall mean one or more of the following substances:

(i) Those substances included within the definitions of "hazardous substances," "hazardous materials," "toxic substances," or "solid waste" in CERCLA, SARA, RCRA, Toxic Substances Control Act, as amended, 15 U.S.C. ss. 2601 et seq., and the Hazardous Materials Transportation Act (49 U.S.C. ss. 1801 et seq.), and in the regulations promulgated pursuant to said laws;

(ii) Those substances listed in the United States Department of Transportation Table (49 CFR 172.101 and amendments thereto) or by the Environmental Protection Agency (or any successor agency) as hazardous substances (40 CFR Part 302 and amendments thereto);

(iii) Such other substances, materials and wastes which are or become regulated under applicable local, state or federal law, or the United States government, or which are classified as hazardous or toxic under federal, state, or local laws or regulations; and

(iv) Any material, waste or substance which is:
(A) asbestos; (B) polychlorinated biphenyls; (C) designated as a "hazardous substance" pursuant to Section 311 of the Clean Water Act, 33 U.S.C. Sections 1251 et seq. (33 U.S.C. ss. 1321) or listed pursuant to Section 307 of the Clean Water Act (33 U.S.C. ss. 1317); (D) petroleum or petroleum

distillate; (E) explosives; or (F) radioactive materials.

"Improvements" shall mean all buildings, structures and improvements now or hereafter situated on the Land.

"Land" shall mean the tract of real property described upon Exhibit "A" attached hereto.

"Leases" shall mean all present and future leases and agreements, written or oral, for the use or occupancy of any portion of the Mortgaged Property, and any renewals, extensions or substitutions of said leases and agreements and any and all subleases thereunder.

"Lessee" shall mean the lessee, sublessee, tenant or other person having the right to occupy, use or manage the Mortgaged Property, or any part thereof, under a Lease.

"Lien" shall mean any lien, judgment lien, mortgage, deed of trust, mechanic's lien, materialmen's lien, pledge, conditional sale agreement, title retention agreement, financing lease, security interest or other encumbrance, whether arising by contract or under law.

"Loan Documents" shall mean the Note and this Mortgage, together with all documents, agreements, certificates, affidavits, guaranties, loan agreements, security agreements, deeds of trust, collateral pledge agreements, assignments and contracts representing, evidencing or securing any or all of the Secured Indebtedness or executed in connection therewith.

"Mortgage" shall have the meaning assigned to such term in the preamble hereof.

"Mortgaged Property" shall have the meaning assigned to such term in Section 2.1.

"Mortgagee" shall have the meaning assigned to such term in the preamble hereof.

"Mortgagor" shall have the meaning assigned to such term in the preamble to this Mortgage.

"Mortgagor's Successors" shall mean each and all of the heirs, executors, administrators, legal representatives, successors and assigns of Mortgagor, both immediate and remote.

"Note" shall mean that certain Promissory Note, of even date herewith, in the original principal amount of Four Million Five Hundred Thousand Dollars (\$4,500,000), executed by Mortgagor payable to the order of Mortgagee, and providing that the principal balance thereof shall be due and payable in 2009 on the date which is seven (7) years from the date of this Mortgage, which date is the Maturity Date, as defined in the Note.

"Obligated Party" shall mean any guarantor, surety, endorser or other party (other than Mortgagor) directly or indirectly obligated, primarily or secondarily, for any portion of the Secured Indebtedness.

"Permitted Exceptions" shall mean the exceptions, if any, to title described upon Exhibit "B" attached hereto.

"Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization, government or any agency or political subdivision thereof, or any other form of entity.

"Personal Property" shall mean all of the following described properties and interests, now owned or hereafter acquired by Mortgagor, and all accessories, attachments and additions thereto and all replacements or substitutes therefor and all products and proceeds thereof, and accessions thereto:

(i) All of the fixtures, building materials, inventory, furniture, appliances, furnishings, goods, equipment, and machinery and all other tangible personal

property now or hereafter used primarily in connection with the operation of the Real Estate, but excluding in all events all production machinery and equipment, office furniture and furnishings, computers, and other tangible personal property intended for use in the business operations of Mortgagor;

(ii) All insurance proceeds, surveys, plans and specifications, drawings, permits, licenses, warranties, guaranties, deposits, prepaid expenses and contract rights now, or hereafter arising from or related to the ownership of any of the Real Estate;

(iii) All Rents and Leases;

(iv) All general intangibles relating to the development or use of the Real Estate, including but not limited to all governmental permits relating to construction on the Real Estate, all names under or by which the Real Estate may at any time be operated or known, and all rights to carry on the business under any such names or any variant thereof, and all trademarks and goodwill in any way relating to the Real Estate;

(v) All water rights and water stock relating to the Real Estate that is owned by Mortgagor in common with others, and all documents of membership in any owners' or members' association or similar group having responsibility for managing or operating any part of the Real Estate; and

(vi) All proceeds and claims arising on account of any damage to or taking of the Real Estate or any part thereof, and all causes of action and recoveries for any loss or diminution in the value of the Real Estate and all rights of the Mortgagor under any policy or policies of insurance covering the Real Estate or any rents relating to the Real Estate and all proceeds, loss payments and premium refunds which may become payable with respect to such insurance policies.

"RCRA" shall mean the Resource Conservation and Recovery Act of 1976 (42 U.S.C. Section 6901 et seq.), as amended from time to time.

"Real Estate" shall mean the Land and the Improvements.

"Rents" shall mean the rents, income, receipts, revenues, issues and profits now due or which may become due or to which Mortgagor may now or hereafter become entitled or may demand or claim, arising or issuing from or out of the Leases or from or out of the Mortgaged Property, or any part thereof, including, without limitation, minimum rents, additional rents, percentage rents, common area maintenance charges, parking charges (including monthly rental for parking spaces), tax and insurance premium contributions, and liquidated damages following default, premiums payable by any Lessee upon the exercise of any cancellation privilege provided for in any of the Leases, and all proceeds payable under any policy of insurance covering the loss of rent resulting from untenability caused by destruction or damage of the Mortgaged Property, together with any and all rights and claims of any kind which Mortgagor may have against any Lessee or against any other occupants of the Mortgaged Property.

"Rights" shall mean rights, remedies, powers, benefits and privileges.

"Sale" shall mean any sale, transfer, lease or other disposition made pursuant to Subsection 6.2(h).

"Secured Indebtedness" shall have the meaning given such term in Section 3.1.

ARTICLE II

GRANT

Section 2.1. Grant. For good and valuable consideration, including the debt hereinafter described, the receipt and legal sufficiency of which is hereby

expressly acknowledged by all parties, Mortgagor does hereby MORTGAGE AND WARRANT unto Mortgagee, and Mortgagee's successors and assigns, the following described property, subject to the Permitted Exceptions:

(i) The Land, together with (A) the Improvements; (B) all estates, easements, interests, licenses, Rights and titles of Mortgagor in and to the Land and all easements and rights-of-way used in connection with the Land or the Improvements or as a means of ingress to or egress from the Land or the Improvements; (C) all estates, easements, interests, licenses, Rights and titles, if any, of Mortgagor in and to the real estate lying in the streets, roads, alleys, ways, sidewalks, or avenues, open or proposed, in front of, or adjoining, the Land, and in and to any strips or gores of real estate adjoining the Land; (D) all passages, waters, water rights, water courses, riparian rights, other Rights appurtenant to the Land, as well as any after-acquired title, franchise or license, and the reversions and remainders thereof; and (E) all estates, easements, licenses, interests, Rights and titles appurtenant or incident to the foregoing;

(ii) The Personal Property; and

(iii) All other estates, easements, licenses, interests, Rights and titles of every kind and character which Mortgagor now has, or at any time hereafter acquires, in and to the Land, the Improvements, the Personal Property, and all property which is used or useful in connection with the Land, the Improvements, and the Personal Property, including without limitation (A) all proceeds payable in lieu of or as compensation for the loss of or damage to any of the foregoing; (B) all awards made by any public body or decreed by any court of competent jurisdiction for a taking or for degradation of value in any eminent domain proceeding involving any of the foregoing; and (C) the proceeds of any and all insurance (including without limitation, title insurance) covering the Land, the Improvements, the Personal Property, and any of the foregoing.

All property and interests described or referred to in Subsections (i), (ii), and (iii) of this Section 2.1, together with any additional interest therein now owned, or hereafter acquired, by Mortgagor, are sometimes hereinafter collectively called the "Mortgaged Property".

TO HAVE AND TO HOLD the Mortgaged Property, together with all and singular the rights, hereditaments, and appurtenances in anywise appertaining or belonging thereto, unto Mortgagee and Mortgagee's successors and assigns forever, PROVIDED, NEVERTHELESS, that these presents are upon the express condition that if Mortgagor shall pay or cause to be paid the Secured Indebtedness, and if Mortgagor shall duly and punctually perform and observe all of the terms, covenants, agreements and conditions contained in this Mortgage, the Note, and all the Loan Documents, then this Mortgage and the estate, right and interest of Mortgagee in and to the Mortgaged Property shall cease and become void and of no force and effect, and shall be satisfied at Mortgagor's expense; otherwise, this Mortgage shall remain in full force and effect.

Section 2.2. Warranty of Title. Mortgagor, for Mortgagor and Mortgagor's Successors, hereby agrees to warrant and forever defend, all and singular, good and marketable unencumbered fee simple title to the Mortgaged Property unto Mortgagee, and Mortgagee's successors or assigns, forever, against every person whomsoever lawfully claiming, or to claim, the same or any part thereof, subject, however, to the Permitted Exceptions. The foregoing warranty of title shall survive the foreclosure of this Mortgage and shall inure to the benefit of and be enforceable by any person who may acquire title to the Mortgaged Property pursuant to such foreclosure.

ARTICLE III

SECURED INDEBTEDNESS

Section 3.1. Secured Indebtedness. This Mortgage, and all Rights, and all titles, interests and Liens created hereby, or arising by virtue hereof, are given to secure payment and performance of the following indebtedness, liabilities, and obligations (herein collectively called the "Secured Indebtedness"):

(i) All loans, principal, interest, late charges, fees, premiums, expenses, obligations and liabilities owing by Mortgagor to Mortgagee arising pursuant to, evidenced by or represented by the Note;

(ii) All indebtedness, liabilities, and obligations arising under this Mortgage or under any of the other Loan Documents; and

(iii) Any and all renewals, increases, extensions, modifications, rearrangements, or restatements of the Note or all or any part of the loans, advances, future advances, indebtedness, liabilities, and obligations described or referred to in Subsections 3.1(i) through (ii), together with all costs, expenses, and reasonable attorneys' fees incurred in connection with the enforcement or collection thereof.

ARTICLE IV

REPRESENTATIONS, WARRANTIES AND COVENANTS OF MORTGAGOR

Section 4.1. Representations and Warranties. Mortgagor expressly represents and warrants to Mortgagee as follows:

(a) Organization. Mortgagor (i) is an Indiana corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation and is qualified to do business under the laws of the state where the Land is situated, (ii) has complied with all conditions prerequisite to its lawfully doing business in the state where the Land is situated, and (iii) has all requisite corporate power and all governmental certificates of authority, licenses, permits, qualifications, and documentation to own, lease and operate its properties and to conduct its business as now being, and as proposed to be, conducted.

(b) Authority. Mortgagor has full and lawful authority and power to execute, acknowledge, deliver, and perform this Mortgage and the other Loan Documents executed by Mortgagor and such Loan Documents constitute the legal, valid, and binding obligations of Mortgagor and any other party thereto, enforceable against Mortgagor and such other parties in accordance with their respective terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or similar laws of general application affecting creditors' rights generally.

(c) Place of Business. Mortgagor's principal place of business, chief executive office, location of its account records, mailing address and address for notices hereunder is set forth in the preamble hereof.

(d) Title. Mortgagor is the lawful record owner of good and marketable title to the Mortgaged Property, subject only to the Permitted Exceptions. No Liens exist in or against the Mortgaged Property, other than those Liens which have been identified in writing in the title insurance commitment delivered to Mortgagee, all of which will be satisfied and released contemporaneously with the closing under the Note and Loan Documents. All portions of the Mortgaged Property have full and free access to and from public streets and utilities' services and connections.

(e) Conflicts. Neither the execution and delivery of the Loan Documents, nor consummation of any of the transactions therein contemplated, nor compliance with the terms and provisions thereof, will contravene or conflict with any provision of law, statute or regulation to which Mortgagor is subject or any judgment, license, order or permit applicable to Mortgagor or any indenture, mortgage, deed of trust, agreement or other instrument to which Mortgagor is a party or by which Mortgagor or the Mortgaged Property may be bound, or to which Mortgagor or the Mortgaged Property may be subject, or violate or contravene any provision of the Articles of Incorporation or Bylaws of Mortgagor.

(f) Information Provided. All reports, statements, financial statements, cost estimates and other data, furnished by or on behalf of Mortgagor or any Obligated Party including, without limitation, any surveys, as-built plans and specifications, and commitments for title insurance are true and correct in all material respects.

(g) Defaults. No event has occurred and is continuing which

constitutes a Default or would, with the lapse of time or giving of notice or both, constitute a Default.

(h) Taxes. All taxes, assessments and other charges levied against the Mortgaged Property have been paid in full.

(i) Flood Hazards. Neither the Land nor any portion thereof is located within an area that has been designated or identified as an area having special flood hazards by the Secretary of Housing and Urban Development or by such other official as shall from time to time be authorized by federal or state law to make such designation pursuant to the National Flood Insurance Act of 1968, as such act may from time to time be amended, or pursuant to any other national, state, county or city program of flood control.

(j) Performance of Covenants Under Leases. Mortgagor has duly and punctually performed all and singular the terms, covenants, conditions and warranties of the existing Leases on Mortgagor's part to be kept, observed and performed up to the date hereof.

(k) Collection of Advance Rents. Any Rents due for occupancy for any period subsequent to the date hereof have not been collected for more than one (1) month in advance of accrual and payment of any Rents has not otherwise been anticipated, waived, released, discounted, set-off or otherwise discharged or compromised.

(l) No Defaults. No Lessee under any existing Lease is in default of any of the terms thereof.

(m) Homestead. No part of the Mortgaged Property constitutes a part of a business or residential homestead.

(n) Commercial Loan. The Secured Indebtedness constitutes a contract under which credit is extended for business, commercial, investment, or other similar purpose, and is not for personal, family, household, or agricultural use. Mortgagor represents and certifies that the extension of credit secured by this Mortgage is exempt from any and all provisions of the Federal Consumer Credit Protection Act (Truth-in-Lending Act) and Regulation "Z" of the Board of Governors of the Federal Reserve System.

Section 4.2. Covenants. So long as this Mortgage shall remain in effect, Mortgagor covenants and agrees with Mortgagee as follows:

(a) Taxes. To pay, or cause to be paid (not later than ten (10) days before the date upon which such items would become delinquent), all lawful taxes and assessments of every character in respect of any of the Mortgaged Property, and to furnish to Mortgagee (not later than ten (10) days prior to the date upon which such taxes or assessments would become delinquent) evidence satisfactory to Mortgagee of the timely payment of such taxes and assessments, provided that so long as Mortgagor has timely paid all taxes and assessments into the reserve fund required under Section 9.4, Mortgagor shall not be required to provide such evidence, and, provided further, Mortgagor shall not be required to pay any such tax or assessment if and so long as the amount, applicability or validity thereof is being contested in good faith by appropriate legal proceedings and appropriate cash reserves therefor have been deposited with Mortgagee in an amount equal to the amount being contested plus a reasonable additional sum to cover costs, legal fees and expenses, interest and penalties.

(b) Insurance.

(i) Mortgaged Property. To carry insurance with respect to the Mortgaged Property with such insurers, in such amounts and covering such risks as shall be satisfactory to Mortgagee, including, without limitation, insurance against loss or damage by fire, extended coverage, lightning, hail, windstorm, explosion, riot, hazards, casualties, and other contingencies; provided, that in the absence of written direction from Mortgagee, the insurance shall not be less than the full replacement cost of the Improvements. Such insurance shall be sufficient to prevent Mortgagor from being or becoming a "co-insurer" of the Mortgaged Property and shall

include the standard non-contributory mortgage clause.

(ii) Public Liability. To carry liability insurance covering occurrences that may arise in the Mortgaged Property as a result of the operations thereon, with such insurers and in such amounts as shall be acceptable to Mortgagee; and to carry workers' compensation insurance sufficient to meet all statutory requirements, as may be amended from time to time.

(iii) Loss of Rents. To carry insurance covering loss of rents and/or business interruption with respect to the Mortgaged Property for a period of not less than one year.

(iv) Delivery of Policies. To deliver to Mortgagee a true and complete copy of each policy of insurance covering the Mortgaged Property.

(v) Mortgagee as Named Insured: Payment of Insurance Proceeds. To cause all insurance carried by Mortgagor covering the Mortgaged Property to name Mortgagee as an insured and to be payable to Mortgagee as its interest may appear, and, in the case of all policies of insurance carried by each Lessee for the benefit of Mortgagor, to cause all such policies to be payable to Mortgagee as its interest may appear.

(vi) Payment of Premiums; Proof. To cause to be paid, pursuant to Section 9.4 hereof, all premiums for such insurance before such premiums become due and to deliver all renewal policies to Mortgagee at least fifteen (15) days before the expiration date of each expiring policy and to cause such policies to require the insurer to give written notice to Mortgagee of any amendment or termination of any such policy at least thirty (30) days before such termination or amendment is to be effective.

(vii) Review of Values. Upon the written request of Mortgagee, not more than once during each thirty-month period following the date of this Mortgage, to increase the amount of insurance covering the Mortgaged Property to its then full insurable value.

(viii) Notice of Casualty. To immediately deliver written notice to Mortgagee of any casualty loss affecting the Mortgaged Property that would cost more than \$10,000 to repair or replace.

(c) Compliance with Laws. To comply with all valid governmental laws, ordinances, rules, and regulations applicable to the Mortgaged Property and its ownership, use, and operation, and to comply with all, and not violate any, easements, restrictions, agreements, covenants, and conditions with respect to or affecting the Mortgaged Property, or any part thereof; provided, however, Mortgagor shall not be required to comply with such items if and so long as the applicability or validity thereof is being contested diligently in good faith by appropriate legal proceedings and appropriate reserves have been set aside by Mortgagor.

(d) Condition of Mortgaged Property. To maintain, preserve, and keep the Mortgaged Property in good repair and condition at all times and, from time to time, to make all necessary and proper repairs, replacements, and renewals, to complete or repair any Improvements in a good and workmanlike manner, and not to abandon or commit or permit any waste on or of the Mortgaged Property, and not to do anything to the Mortgaged Property that may impair its value.

(e) Payments for Labor and Materials. To pay promptly all bills for labor, materials and equipment incurred in connection with the Mortgaged Property and never to permit to be affixed against the Mortgaged Property, or any part thereof, any Lien, even though inferior to the liens and security interests hereof, for any such bill which may be legally due and payable; provided, however, Mortgagor shall not be required to pay any such bill if the amount, applicability or validity thereof is being contested in good faith by appropriate legal proceedings and Mortgagor has furnished to Mortgagee a bond in form and substance acceptable to Mortgagee with corporate surety satisfactory to

Mortgagee or other security satisfactory to Mortgagee, in an amount equal to the amount being contested plus a reasonable additional sum to cover possible costs, legal fees and expenses, interest and penalties, and provided further that Mortgagor shall pay any amount adjudged by a court of competent jurisdiction to be due, with all costs, interest and penalties thereon, in order to release any such Lien on the Mortgaged Property, or any part thereof.

(f) Further Assurances. To execute and deliver forthwith to Mortgagee, at any time and from time to time upon request by Mortgagee, any and all additional instruments (including, without limitation, deeds of trust, mortgages, security agreements, assignments and financing statements) and further assurances, and to do all other acts and things at Mortgagor's expense, as may be necessary or proper, in Mortgagee's reasonable opinion, to effect the intent of these presents, to more fully evidence and to perfect, the rights, titles and Liens, herein created or intended to be created hereby and to protect the Rights of Mortgagee hereunder.

(g) Maintenance of Existence: Authority To Do Business. To maintain continuously Mortgagor's existence and Mortgagor's right to do business in the state where the Real Estate is located under all applicable laws.

(h) Prohibition Against Liens. Without the prior written consent of Mortgagee, not to create, incur, permit or suffer to exist in respect of the Mortgaged Property, or any part thereof, any other or additional Lien on a parity with or superior or inferior to the liens and security interests hereof; provided, however, if any such Lien now or hereafter affects the Mortgaged Property or any part thereof, Mortgagor covenants to timely perform all covenants, agreements and obligations required to be performed under or pursuant to the terms of any instrument or agreement creating or giving rise to such Lien.

(i) Limitation on Dispositions.

(i) Prohibition on Sale or Transfer. Mortgagor acknowledges that Mortgagee has examined both the creditworthiness of Mortgagor and Mortgagor's experience in owning and operating properties such as the Mortgaged Property in determining whether or not to make the loan secured hereby, that Mortgagee has relied on Mortgagor's creditworthiness and experience in deciding to make the loan secured hereby, and that Mortgagee will continue to rely on Mortgagor's ownership of the Mortgaged Property as a means of maintaining the value of the Mortgaged Property as security for repayment of the Debt. Mortgagor acknowledges that Mortgagee has a valid interest in maintaining the value of the Mortgaged Property so as to ensure that, should Mortgagor default in the repayment of the Note, Mortgagee can recover the balance of the Note by a sale of the Mortgaged Property. Mortgagor shall not, without the prior written consent of Mortgagee, (A) sell, trade, transfer, assign, exchange, or otherwise dispose of the Mortgaged Property, or any part thereof or any interest therein (whether legal or equitable in nature), except items of Personal Property which have become obsolete or worn beyond practical use and which have been replaced by adequate substitutes having a value equal to or greater than the replaced items when new, or (B) permit the change in control (by way of transfers of stock ownership, partnership interest, or otherwise) in Mortgagor. In the event Mortgagor violates the terms of this prohibition, the entire indebtedness owing under the Note and any other Loan Document shall immediately become due and payable at the option of Mortgagee. Notwithstanding the foregoing, and provided that no Default exists hereunder, Mortgagee agrees to permit one (1) transfer of the Mortgaged Property to, and assumption of the Loan by, another person or entity; provided, however, that no such transfer shall be valid or permitted hereunder unless: (i) Mortgagee receives prior written notice at least thirty (30) days in advance of such proposed transfer, (ii) such proposed transferee has been approved in writing by Mortgagee, which approval shall be at Mortgagee's sole discretion, taking into consideration such factors as, but not limited to, transferee's creditworthiness, business experience, financial

condition and real estate experience, (iii) approval by Mortgagee of the proposed new property management of the Mortgaged Property, (iv) Mortgagee shall be paid a transfer and assumption fee in the amount of one percent (1%) of the then-outstanding principal balance and accrued interest of the Note, (v) Mortgagor pays all fees and expenses incurred by Mortgagee in connection with such transfer and assumption, including without limitation, inspection and investigation fees, title insurance charges and reasonable attorneys' fees, and (vi) such proposed transferee and any guarantor required by Mortgagee in connection therewith assumes all obligations of Mortgagor and any Obligated Party under the Note, this Mortgage and other Loan Documents with the same degree of liability of Mortgagor and any such Obligated Party. This one-time right of transfer and assumption shall apply only to the Mortgagor named herein and not to any subsequent owner of the Mortgaged Property.

(ii) Operation. The provisions hereof shall be operative with respect to, and be binding upon any persons who, in accordance with the terms hereof or otherwise, shall acquire any part or interest in or encumbrance upon the Mortgaged Property. Any waiver by the Mortgagee of the provisions hereof shall not be deemed to be a waiver of the right of the Mortgagee in the future to insist upon strict compliance with the provisions hereof.

(j) Financial Statements. To deliver to Mortgagee, within ninety (90) days after the end of each calendar year, a copy of Mortgagor's most recent federal income tax return and then-current audited annual financial statements of Mortgagor in form and substance acceptable to Mortgagee, certified by an independent certified public accountant. At a minimum, such financial statements shall include a balance sheet and income statement for Mortgagor, a report itemizing the income and expenses for the operation of Mortgaged Property, and a current rent roll, all in form and detail as shall be satisfactory to Mortgagee. Mortgagor shall also cause each Guarantor to deliver to Mortgagee, within ninety (90) days after the end of each calendar year, then-current financial statements of each such Guarantor, certified as true and correct by the Guarantor.

(k) Tax on Liens. At any time any law shall be enacted imposing or authorizing the imposition of any tax upon this Mortgage, or upon any rights, titles, liens, or security interests created hereby, or upon the Secured Indebtedness, or any part thereof, to pay immediately all such taxes to the extent permitted by law; provided that, if it is unlawful for Mortgagor to pay such taxes, then Mortgagor shall, if Mortgagee so requires, prepay the Secured Indebtedness in full within sixty (60) days after demand therefor by Mortgagee.

(l) Statement of Balance of Secured Indebtedness. At any time and from time to time, to furnish promptly upon request, a written statement or affidavit, in such form as shall be satisfactory to Mortgagee, stating the unpaid balance of the Secured Indebtedness and that there are no offsets or defenses against full payment of the Secured Indebtedness and the terms hereof, or, if there are any such offsets and defenses, specifically describing such offsets to the satisfaction of Mortgagee.

(m) Inspections; Books, Records. During all business hours to allow any representative of Mortgagee to inspect the Mortgaged Property and all books and records of Mortgagor, and to make and take away copies of such books and records. Mortgagor shall maintain complete and accurate books and records in accordance with good accounting practices.

(n) Removal of Personalty. Not to cause or permit any of the Personal Property to be removed from the Land, except items of Personal Property which have become obsolete or worn beyond practical use and which have been replaced by adequate substitutes having a value equal to, or greater than, the replaced items when new.

(o) Warrant and Defend Title. To protect, warrant and forever defend title to the Mortgaged Property unto Mortgagee, its successors and assigns, against all persons whomsoever lawfully having or

otherwise claiming an interest therein or a lien thereon, but Mortgagee shall have the right, at any time, to intervene in any suit affecting such title and to employ independent counsel in connection with any such suit to which it may be a party by intervention or otherwise; and upon demand Mortgagor agrees to pay Mortgagee all reasonable expenses paid or incurred by Mortgagee in respect of any such suit affecting title to any such property or affecting Mortgagee's lien or rights hereunder, including reasonable fees to Mortgagee's attorneys, and Mortgagor will indemnify and hold harmless Mortgagee from and against any and all costs and expenses, including, but not limited to, any and all cost, loss, damage or liability which Mortgagee may suffer or incur by reason of the failure of the title to all or any part of the Mortgaged Property or by reason of the failure or inability of Mortgagor, for any reason, to convey the rights, titles and interests which this Mortgage purports to mortgage or assign, and all amounts at any time so payable by Mortgagor hereunder shall be secured by the lien hereof and by the said assignment.

(p) Payment of Expenses. To promptly pay and hold Mortgagee harmless from all reasonable appraisal fees, survey fees, recording fees, abstract fees, title policy fees, escrow fees, attorneys' fees, brokers' fees and all other costs of every kind incurred by Mortgagee in connection with the Secured Indebtedness, the collection thereof and the exercise by Mortgagee of its rights and remedies hereunder and under the other Loan Documents.

(q) Obligations Under Personal Property. Mortgagor shall perform fully all obligations imposed upon it by the agreements and instruments constituting part of the Personal Property (including, without limitation, the Leases) and maintain in full force and effect all such agreements and instruments.

(r) Notice of Claims. Mortgagor shall promptly notify Mortgagee of any claim, action or proceeding affecting any Lease or title to the Mortgaged Property, or any part thereof, or the Liens herein granted.

(s) Leases.

(i) Defense of Actions Respecting Leases. Mortgagor shall appear in and defend any action or proceeding arising under, occurring out of, or in any manner connected with, the Leases or the obligations, duties or liabilities of Mortgagor and any Lessee thereunder, and, upon request by Mortgagee, shall do so in the name and on behalf of Mortgagee but at the expense of Mortgagor, and Mortgagor shall pay all costs and expenses of Mortgagee, including reasonable attorneys' fees, in any action or proceeding in which Mortgagee may appear.

(ii) Receipt of Future Rents. Mortgagor shall not receive or collect any Rents from any of the Leases for a period of more than one (1) month in advance.

(iii) Waivers, Releases of Lessees. Except in the ordinary course of business, Mortgagor shall not waive, discount, set-off, compromise, or in any manner release or discharge any Lessee, of and from any obligations, covenants, conditions and agreements by said Lessee to be kept, observed and performed, including the obligation to pay rent in the manner and at the place and time specified in any Lease, or in any manner impair the value of the Mortgaged Property or the security of this Mortgage.

(iv) Termination of Leases. Except in the ordinary course of business, Mortgagor shall not terminate or consent to any surrender of any Lease, or modify or in any way alter the terms thereof, without the prior written consent of Mortgagee, and shall use all reasonable efforts to maintain each of the Leases in full force and effect during the term of this Mortgage.

(v) No Subordination. Mortgagor shall not subordinate any Lease to any mortgage or other encumbrance (other than the Lien of this Mortgage), or permit,

consent or agree to such subordination.

(vi) Form of Leases, Side Agreements. Unless otherwise consented to in writing by Mortgagee, Mortgagor shall, prior to the execution of any new leases, (A) obtain Mortgagee's approval as to the form and substance of each Lease or amendment thereto; (B) deliver to Mortgagee true and complete copies of the Leases and any amendments thereto; (C) not enter into any oral leases or any side agreements with respect to a Lease with any Lessee, except upon notice to and approval in writing by Mortgagee; (D) not execute any Lease except for actual occupancy by the Lessee thereunder; (E) from time to time upon request of Mortgagee, furnish to Mortgagee a written certification signed by Mortgagor describing all then existing Leases and the names of the tenants and Rents payable thereunder, and (F) not enter into any Lease with Mortgagor or an affiliate of Mortgagor.

(t) Alterations. To make no material alterations in the Mortgaged Property, except as required by law or municipal ordinance, without Mortgagee's prior written consent.

(u) Payment of Utilities. To pay promptly all charges for utilities or services related to the Mortgaged Property, including, without limitation, electricity, gas, sewer and water.

ARTICLE V

PROVISIONS REGARDING ENVIRONMENTAL LAWS

Section 5.1. Covenants Regarding Environmental Compliance.
Mortgagor covenants and agrees with Mortgagee as follows:

(a) Hazardous Substance Use, Manufacture. Mortgagor shall not use, generate, manufacture, produce, store, release, discharge, or dispose of on, under, or about the Mortgaged Property or transport to or from the Mortgaged Property any Hazardous Substance or allow any other person or entity to do so except under conditions permitted by applicable laws (including all Environmental Laws).

(b) Compliance with Environmental Laws. Mortgagor shall keep and maintain the Mortgaged Property in compliance with, and shall not cause or permit the Mortgaged Property to be in violation of, any Environmental Law.

(c) Notices. Mortgagor shall give prompt written notice to Mortgagee of:

(i) any proceeding or inquiry by any governmental authority with respect to the presence of any Hazardous Substance on the Mortgaged Property or the migration thereof from or to other property;

(ii) all claims made or threatened by any third party against Mortgagor or the Mortgaged Property relating to any loss or injury resulting from any Hazardous Substance; and

(iii) Mortgagor's discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Mortgaged Property that could cause the Mortgaged Property or any part thereof to be subject to any restrictions on the ownership, occupancy, transferability or use of the Mortgaged Property under any Environmental Law, or to be otherwise subject to any restrictions on the ownership, occupancy, transferability or use of the Mortgaged Property under any Environmental Law.

(d) Filings with Agencies. Mortgagor shall provide to Mortgagee copies, contemporaneously with filing same, of all reports, inventories, notices or other forms filed or submitted to the Environmental Protection Agency, or any state or local agency having responsibility for overseeing or enforcing any Environmental Laws.

(e) Legal Proceeding. Mortgagee shall have the right to join

and participate in, as a party if it so elects, any legal proceedings or actions initiated with respect to the Mortgaged Property in connection with any Environmental Law and have Mortgagee's attorneys' fees in connection therewith paid by Mortgagor.

(f) Indemnity. Mortgagor shall protect, indemnify and hold harmless Mortgagee, its directors, officers, employees, agents, successors and assigns from and against any and all loss, damage, cost, expense or liability (including attorneys' fees and costs) directly or indirectly arising out of or attributable to the use, generation, manufacture, production, storage, release, threatened release, discharge, disposal, or presence of a Hazardous Substance on, under or about the Mortgaged Property whether known or unknown, fixed or contingent, occurring prior to the termination of this Mortgage, including, but not limited to: (i) all foreseeable consequential damages; and (ii) the costs of any required or necessary repair, cleanup or detoxification of the Mortgaged Property and the preparation and implementation of any closure, remedial or other required plans. This indemnity shall survive the release of the lien of this Mortgage, or the extinguishment of the lien by foreclosure or action in lieu thereof, and this covenant shall survive such release or extinguishment.

(g) Remedial Work. In the event that any investigation, site monitoring, containment, cleanup, removal, restoration or other remedial work of any kind or nature (the "Remedial Work") is reasonably necessary under any applicable local, state or federal law or regulation, any judicial order, or by any governmental entity because of, or in connection with, the current or future presence or release of a Hazardous Substance in or into the air, soil, ground water, surface water or soil vapor at, on, about, under or within the Mortgaged Property (or any portion thereof), Mortgagor shall within such period of time as may be required under any applicable law, regulation, order or agreement, commence and thereafter diligently prosecute to completion, all such Remedial Work. All Remedial Work shall be performed by competent contractors. All costs and expenses of such Remedial Work shall be paid by Mortgagor including, but not limited to, Mortgagee's reasonable attorneys' fees and costs incurred in connection with such Remedial Work. In the event Mortgagor shall fail to timely commence, or cause to be commenced, or fail to diligently prosecute to completion, such Remedial Work, Mortgagee may, but shall not be required to, cause such Remedial Work to be performed and all costs and expenses thereof, or incurred in connection therewith, shall become part of the indebtedness secured hereby.

Section 5.2. Representations and Warranties Relating to Environmental Matters. Mortgagor represents and warrants to Mortgagee that:

(a) No Existing Violation. Neither the Mortgaged Property nor the Mortgagor is in violation of or subject to any existing, pending or threatened investigation by any governmental authority under any Environmental Law.

(b) No Permits Required. Mortgagor has not and is not required by any Environmental Law to obtain any permits or license to construct or use any improvements, fixtures or equipment forming a part of the Mortgaged Property.

(c) Previous Uses. Mortgagor or its environmental advisors has made diligent inquiry into previous uses and ownership of the Mortgaged Property, and, based on such inquiry, has determined that no Hazardous Substance has been disposed of or released on or to the Mortgaged Property.

(d) Use by Mortgagor. Mortgagor's prior, current and intended future use of the Mortgaged Property will not result in the disposal or release of any Hazardous Substance on or to the Mortgaged Property except as permitted by applicable law.

(e) Underground Storage. No underground storage tanks, whether or not containing any Hazardous Substances, are located on or under the Mortgaged Property.

Section 5.3. Environmental Risk Assessment. At any time that Mortgagee reasonably believes that Hazardous Substances have been disposed of on, or have

been released to or from the Mortgaged Property, or at any time after a Default hereunder, within thirty (30) days after a written request therefor by Mortgagee, Mortgagor shall deliver to Mortgagee an environmental audit prepared at Mortgagor's cost and expense by an environmental consultant acceptable to Mortgagee, detailing the results of an environmental investigation of the Mortgaged Property, including an inspection of and results of soil and ground water samples.

ARTICLE VI

RESPECTING DEFAULTS AND REMEDIES OF MORTGAGEE

Section 6.1. Defaults. The term "Default," as used herein, shall mean the occurrence of any one or more of the following events:

(a) Defaults in Loan Documents. A default or event of default as such terms are defined in the Note or any of the other Loan Documents.

(b) Payment. The failure of Mortgagor to pay the Secured Indebtedness, or any part thereof, within five (5) days after the date it becomes due in accordance with the terms of the Note or any other Loan Documents or when accelerated pursuant to any power to accelerate contained in this Mortgage or any of the other Loan Documents.

(c) Covenants. The failure of Mortgagor or any Obligated Party to perform punctually and properly any covenant, agreement, obligation, or condition contained in any of the Loan Documents to which such Person is a party and the continuation of such failure for a period of fifteen (15) days after written notice thereof from Mortgagee to Mortgagor.

(d) Representations and Warranties. Any statement, representation, or warranty in any of the Loan Documents is false, misleading, or erroneous in any material respect.

(e) Condemnation or Eminent Domain. Condemnation or taking by eminent domain of all or any material part (as determined by Mortgagee in its sole discretion) of the Mortgaged Property.

(f) Voluntary Bankruptcy. Mortgagor or any Obligated Party shall (i) apply for or consent to the appointment of a receiver, trustee, custodian, intervenor or liquidator of such Person or of all or a substantial part of such Person's assets, (ii) file a voluntary petition in bankruptcy, admit in writing that such Person is unable to pay such Person's debts as they become due or generally not pay such Person's debts as they become due, (iii) make a general assignment for the benefit of creditors, (iv) file a petition or answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy or insolvency laws, (v) file an answer admitting the material allegations of, or consent to, or default in answering, a petition filed against such Person in any bankruptcy, reorganization or insolvency proceeding, or (vi) take any action for the purpose of effecting any of the foregoing.

(g) Involuntary Bankruptcy. An involuntary petition or complaint shall be filed against Mortgagor or any Obligated Party seeking bankruptcy or reorganization of such Person or the appointment of a receiver, custodian, trustee, intervenor or liquidator of such Person, or of all or substantially all of such Person's assets, and such petition or complaint shall not have been dismissed within forty-five (45) days of the filing thereof; or an order, order for relief, judgment or decree shall be entered by any court of competent jurisdiction or other competent authority approving a petition or complaint seeking reorganization of such Person or appointing a receiver, custodian, trustee, intervenor or liquidator of such Person, or of all or substantially all of such Person's assets.

(h) Payment of Judgments. The failure of Mortgagor or any Obligated Party to pay any uninsured money judgment(s) against such Person at least thirty (30) days after such judgment becomes final and is no longer appealable.

(i) Attachment. The failure to have discharged within a period of thirty (30) days after the commencement thereof any attachment,

sequestration, or similar proceedings against any of Mortgagor's or any Obligated Party's assets.

(j) Priority of Liens. Mortgagee's Liens created hereby should become unenforceable, or cease to be first priority Liens, subject to Permitted Exceptions.

Section 6.2. Remedies. Upon the occurrence of a Default, Mortgagee may, at Mortgagee's option, do any one or more of the following:

(a) Acceleration. Mortgagee may, without notice, demand, presentment, notice of intention to accelerate or acceleration, protest or notice of protest, all of which are hereby waived by Mortgagor and all Obligated Parties, declare the entire unpaid balance of the Secured Indebtedness immediately due and payable, and upon such declaration the entire unpaid balance of the Secured Indebtedness shall be immediately due and payable.

(b) Legal Proceedings. Mortgagee may proceed by suit or suits, at law or in equity, to enforce the payment and performance of the Secured Indebtedness in accordance with the terms hereof or of the other Loan Documents, to foreclose or otherwise enforce the assignments, liens, and security interests created or evidenced by the other Loan Documents, or this Mortgage as against all, or any part of, the Mortgaged Property, and to have all or any part of the Mortgaged Property sold under the judgment or decree of a court of competent jurisdiction.

(c) Appointment of Receiver. To the extent permitted by law, Mortgagee shall be entitled to the appointment of a receiver or receivers of the Mortgaged Property, or any part thereof, and of the income, rents, issues, and profits thereof, and Mortgagor hereby expressly consents to any such appointment.

(d) Possession. To the extent permitted by law, Mortgagee may enter upon the Land, take possession of the Mortgaged Property and remove the Personal Property or any part thereof, with or without judicial process, and, in connection therewith, without any responsibility or liability, including, without limitation, liability for consequential damages of any kind on the part of Mortgagee, and Mortgagee may take possession of any property located on or in the Real Estate which is not a part of the Mortgaged Property and hold or store such property at Mortgagor's expense.

(e) Performance of Covenants. If Mortgagor has failed to keep or perform any covenant whatsoever contained in the Loan Documents or in the Leases, Mortgagee may, but shall not be obligated to, perform or attempt to perform said covenant, and any payment made or expense incurred in the performance or attempted performance of any such covenant shall be a part of the Secured Indebtedness, and Mortgagor promises, upon demand, to pay to Mortgagee all sums so advanced by Mortgagee, with interest at the default rate set forth in the Note from the date when paid by Mortgagee. No such payment by Mortgagee shall constitute a waiver of any Default. In addition to the liens and security interests hereof, Mortgagee shall be subrogated to all Liens securing the payment of any debt, claim, tax, or assessment which Mortgagee may pay.

(f) Right to Make Repairs, Improvements. Should any part of the Mortgaged Property come into the possession of Mortgagee, whether before or after Default, Mortgagee may use, operate, and/or make repairs, alterations, additions and improvements to the Mortgaged Property for the purpose of preserving it or its value. Mortgagor covenants to promptly reimburse and pay to Mortgagee, at the place where the Note is payable, or at such other place as may be designated by Mortgagee in writing, the amount of all reasonable expenses (including the cost of any insurance, taxes, or other charges) incurred by Mortgagee in connection with its custody, preservation, use or operation of the Mortgaged Property, together with interest thereon from the date incurred by Mortgagee at the then current rate of interest applicable to the principal balance of the Note, and all such expenses, cost, taxes, interest, and other charges shall be a part of the Secured Indebtedness. It is agreed, however, that the risk of accidental loss or damage to the Mortgaged Property is undertaken by Mortgagor, and, except for Mortgagee's willful misconduct or gross

negligence, Mortgagee shall have no liability whatsoever for decline in value of the Mortgaged Property, for failure to obtain or maintain insurance, or for failure to determine whether any insurance ever in force is adequate as to amount or as to the risks insured.

(g) Surrender of Insurance. Mortgagee may surrender the insurance policies maintained pursuant to the terms hereof, or any part thereof, and receive and apply the unearned premiums as a credit on the Secured Indebtedness, and, in connection therewith, Mortgagor hereby appoints Mortgagee (or any officer of Mortgagee), as the true and lawful agent and attorney-in-fact for Mortgagor (with full powers of substitution), which power of attorney shall be deemed to be a power coupled with an interest and therefore irrevocable, to collect such premiums.

(h) Sale of Personalty. After notification, if any, hereafter provided in this Subsection, Mortgagee may sell, lease, or otherwise dispose of (herein a "Sale") all or any part of the Personal Property in conjunction with or separately from any sale of the Real Estate. The Personal Property may be sold in its then condition, or following any commercially reasonable preparation or processing, and each Sale may be as a unit or in parcels, by public or private proceedings, and by way of one or more contracts, and, at any Sale, it shall not be necessary to exhibit the Personal Property being sold. In order to dispose of the Personal Property Mortgagee may advertise the Personal Property for sale under any and all trade names or service names attached to, fixed upon or made part of, any of the Personal Property. The Sale of any part of the Personal Property shall not exhaust Mortgagee's power of Sale, but Sales may be made, from time to time, until the Secured Indebtedness is paid and performed in full. Reasonable notification of the time and place of any public Sale pursuant to this Subsection, or reasonable notification of the time after which any private Sale is to be made pursuant to this Subsection, shall be sent to Mortgagor and to any other person entitled to notice under the Code; provided, that if the Personal Property being sold is perishable, or threatens to decline speedily in value, or is of a type customarily sold on a recognized market, Mortgagee may sell, lease, or otherwise dispose of such Personal Property without notification, advertisement or other notice of any kind. It is agreed that notice sent or given not less than ten (10) calendar days prior to the taking of the action to which the notice relates, is reasonable notice for the purposes of this Subsection.

(i) Assemble Personal Property. Mortgagee may require Mortgagor to assemble the Personal Property, or any part thereof, and make it available to Mortgagee at a place to be designated by Mortgagee which is reasonably convenient to Mortgagee.

(j) Retention of Personalty. Mortgagee may at its option retain the Personal Property in satisfaction of the Secured Indebtedness whenever the circumstances are such that Mortgagee is entitled to do so under the Code.

(k) Collection of Personal Property. Mortgagee may, in its own name or the name of Mortgagor, notify any or all parties obligated on any of the Personal Property to make all payments due or to become due thereon directly to Mortgagee, whereupon the power and authority of Mortgagor to collect the same in the ordinary course of its business shall be deemed to be immediately revoked and terminated. With or without such general notification, Mortgagee may take or bring in Mortgagor's name or that of Mortgagee all steps, actions, suits or proceedings deemed by Mortgagee necessary or desirable to effect possession or collection of the Personal Property, including sums due or paid thereon, may complete any contract or agreement of Mortgagor in any way related to any of the Personal Property, may make allowances or adjustments related to the Personal Property, may compromise any claims related to the Personal Property, may issue credit in its own name or the name of Mortgagor, may remove from Mortgagor's premises all documents, instruments, records, files or other items relating to the Personal Property, and Mortgagee may, without cost or expense to Mortgagee, use Mortgagor's personnel, supplies and space to take possession of, administer, collect and dispose of the Personal Property. Regardless of any provision hereof, however, Mortgagee shall never be liable for its failure to collect or for its failure to exercise diligence in the collection, possession, or any transaction

concerning, all or part of the Personal Property or sums due or paid thereon, nor shall it be under any obligation whatsoever to anyone by virtue of this Mortgage, except to account for the funds that it shall actually receive hereunder.

(l) Issuance of Receipts; Endorsements; Power of Attorney. Issuance by Mortgagee of a receipt to any person, firm, corporation or other entity obligated to pay any amounts to Mortgagor shall be a full and complete release, discharge and acquittance to such person, firm, corporation or other entity to the extent of any amount so paid to Mortgagee. Mortgagee is hereby authorized and empowered on behalf of Mortgagor to endorse the name of Mortgagor upon any check, draft, instrument, receipt, instruction or other document or items, including, but not limited to, all items evidencing payment upon any indebtedness of any person, firm, corporation or other entity to Mortgagor coming into Mortgagee's possession, and to receive and apply the proceeds therefrom in accordance with the terms hereof. Mortgagee is hereby granted an irrevocable power of attorney, which is coupled with an interest, to execute all checks, drafts, receipts, instruments, instructions or other documents, agreements or items on behalf of Mortgagor, after Default, as shall be deemed by Mortgagee to be necessary or advisable, in the sole discretion of Mortgagee, to protect its security interest in the Personal Property or the repayment of the Secured Indebtedness, and Mortgagee shall not incur any liability in connection with or arising from its exercise of such power of attorney.

(m) Purchase of Personal Property By Mortgagee. Mortgagee may buy the Personal Property, or any part thereof, at any public sale or judicial sale and, if the Personal Property being sold is of a type customarily sold in a recognized market or a type which is the subject of widely distributed standard price quotations, Mortgagee may also buy the Personal Property, or any part thereof, at any private sale.

(n) Foreclosure of Personal Property with Real Property. Notwithstanding anything contained herein to the contrary, pursuant to applicable provisions of Article 9.1 of the Code dealing with default procedures when a security agreement covers both real and personal property, Mortgagee may proceed under the Code as to all personal property covered hereby or, at Mortgagee's election, Mortgagee may proceed as to both the real and personal property covered hereby in accordance with Mortgagee's rights and remedies in respect of real property, in which case the provisions of the Code (and Subsection 6.2(h) hereof) shall not apply.

(o) Other Rights. Mortgagee shall have and may exercise the rights of a secured party under the Code and any and all other rights and remedies which Mortgagee may have at law or in equity.

(p) Collect Rents. Mortgagee may terminate the license granted to Mortgagor in Section 7.1 hereof to collect the Rents, and, without taking possession, in Mortgagee's own name, Mortgagee may demand, collect, receive, sue for, attach and levy the Rents, and give proper receipts, releases and acquittances therefor.

(q) Manage Leases. From and after the occurrence of a Default, Mortgagee may make, modify, enforce, cancel or accept the surrender of any Lease, remove or evict any Lessee, increase or reduce rents, decorate, clean and make repairs, and otherwise do any act or incur any costs or expenses that Mortgagee shall deem proper to protect the security hereof, as fully and to the same extent as Mortgagor could do if in possession of the Mortgaged Property.

Section 6.3. Effect of Foreclosure on Leases; Possession; Tenant at Sufferance. Following foreclosure, any lease of the Mortgaged Property or a portion thereof shall remain in effect, the purchaser thereby being subrogated to the lessor's interest therein, unless the purchaser elects to treat such lease as terminated by virtue of the sale under Mortgagee's prior lien. If the assignments, liens, or security interests hereof shall be foreclosed by any judicial or non-judicial action, then the purchaser at any such sale shall receive, as an incident to his ownership, immediate possession of that portion of the Mortgaged Property purchased, and if Mortgagor or Mortgagor's Successors or Lessees shall hold possession of any of said portion of the Mortgaged Property subsequent to such foreclosure, Mortgagor and Mortgagor's Successors or Lessees in possession shall be considered as tenants at sufferance of the purchaser at such foreclosure sale, and anyone occupying the Mortgaged Property

(or any part thereof) after demand made for possession thereof shall be guilty of forcible detainer and shall be subject to eviction and removal, with or without process of law, and all damages by reason thereof are hereby expressly waived.

Section 6.4. Application of Proceeds. Except as may be otherwise required by law, all amounts received by Mortgagee hereunder shall be applied as follows: FIRST, to the payment of all expenses arising out of or in connection with the Mortgaged Property, the foreclosure thereof, and the collection of the Secured Indebtedness including, without limitation, the commissions, reasonable fees and expenses of Mortgagee's attorneys, accountants, real estate brokers, property managers and receivers; SECOND, to accrued or unpaid interest on the Secured Indebtedness; THIRD, to principal on the matured portion of the Secured Indebtedness; FOURTH, to prepayment of the unmatured portion, if any, of the Secured Indebtedness applied to installments of principal in inverse order of maturity; and FIFTH, the balance, if any, remaining after the full and final payment and performance of the Secured Indebtedness, to Mortgagor or to such other party entitled thereto.

ARTICLE VII

ASSIGNMENT OF LEASES AND RENTS

Section 7.1. Assignment. Mortgagor does hereby grant, transfer and assign unto Mortgagee (i) the Leases; (ii) any and all guaranties of payment or performance of the obligations of any Lessee; and (iii) the Rents; provided, however, that Mortgagee hereby grants to Mortgagor a license to collect and receive all Rents. Such license shall be revocable by notice from Mortgagee to Mortgagor at any time after the occurrence and during the continuation of a Default.

Section 7.2. No Liability on Mortgagee. Mortgagee shall not be liable for any loss sustained by Mortgagor resulting from Mortgagee's failure to let the Mortgaged Property, or any part thereof, after Default or from any other act or omission of Mortgagee in managing the Mortgaged Property, or any part thereof. Mortgagee shall not be obligated to perform or discharge, any obligation, duty or liability under the Leases or under or by reason of this Mortgage, and Mortgagor shall indemnify Mortgagee for, and hold Mortgagee harmless from, any and all liability, loss or damage which may or might be incurred under the Leases or under or by reason of this Mortgage, and from any and all claims and demands whatsoever which may be asserted against Mortgagee by reason of any alleged obligations or undertakings on its part to perform or discharge any of the terms, covenants or agreements contained in the Leases. Should Mortgagee incur any such liability under the Leases or under or by reason of this Mortgage or in defense of any such claims or demands, the amount thereof, including costs, expenses and reasonable attorneys' fees shall be secured hereby and Mortgagor shall reimburse Mortgagee therefor immediately upon demand, and upon the failure of Mortgagor to do so Mortgagee may, at its option, declare the Secured Indebtedness immediately due and payable. It is further understood that this Mortgage shall not operate to place responsibility for the control, care, management or repair of the Mortgaged Property upon Mortgagee, or for the carrying out of any of the terms and conditions of the Leases; nor shall it operate to make Mortgagee responsible or liable for any waste committed on the Mortgaged Property by the Lessees or any other parties, or for any dangerous or defective condition of the Mortgaged Property, or for any negligence in the management, upkeep, repair or control of the Mortgaged Property, resulting in loss, injury or death to any Lessee, licensee, employee or stranger.

ARTICLE VIII

SECURITY AGREEMENT

Section 8.1. Grant of Security Interest. Mortgagor hereby transfers, assigns, delivers and grants to Mortgagee a security interest in and right of set-off against the Personal Property as security for payment of the Secured Indebtedness.

Section 8.2. Assignment of Non-Code Personal Property. To the extent that any of the Personal Property is not subject to the Code, Mortgagor hereby assigns to Mortgagee all of Mortgagor's right, title, and interest in and to the Personal Property to secure the Secured Indebtedness, together with the right of set-off with regard to such Personal Property (or any part hereof). Release of the lien of this Mortgage shall automatically terminate this assignment.

ARTICLE IX

MISCELLANEOUS

Section 9.1. Release of this Mortgage. If the Secured Indebtedness is paid and performed in full in accordance with the terms of the instruments evidencing the Secured Indebtedness, and if Mortgagor shall well and truly perform all of Mortgagor's covenants contained herein, then this conveyance shall become null and void and be released at Mortgagor's request, and, to the extent permitted by law, at Mortgagor's expense; otherwise, it shall remain in full force and effect, provided that no release hereof shall impair Mortgagor's warranties and indemnities contained herein.

Section 9.2. Successors. If Mortgagor, or any of Mortgagor's Successors, conveys its interest in any of the Mortgaged Property to any other party, then Mortgagee may, without notice to Mortgagor, or its successors and assigns, deal with any owner of any part of the Mortgaged Property with reference to this Mortgage and the Secured Indebtedness, either by way of forbearance on the part of Mortgagee, or extension of time of payment of the Secured Indebtedness, or release of all or any part of the Mortgaged Property, or any other property securing payment of the Secured Indebtedness, without in any way modifying or affecting Mortgagee's Rights and Liens hereunder or the liability of Mortgagor, or any other party liable for payment of the Secured Indebtedness, in whole or in part. This Subsection shall not be interpreted as giving any rights to Mortgagor or Mortgagor's Successors to convey the Mortgaged Property.

Section 9.3. Marshaling. Mortgagor hereby waives all Rights of marshaling in the event of any foreclosure of the Liens hereby created.

Section 9.4. Reserve for Taxes, Insurance and Other Expenses. Mortgagor shall pay to Mortgagee, together with and in addition to the monthly payments of principal and interest payable under the terms of the Note secured hereby, on the date set forth therein for the making of monthly payments, until the Note is fully paid, a sum as estimated by Mortgagee, equal to all ground rentals, insurance premiums, taxes and assessments next due against the Mortgaged Property, less all sums already paid therefor, divided by the number of months to elapse before two (2) months prior to the date when each such ground rental, insurance premium, tax and assessment will become due. Such sums shall be held by Mortgagee to pay said ground rentals, insurance premiums, taxes and assessments. Such payments received by Mortgagee from Mortgagor are to be held without any allowance of interest or dividend to Mortgagor and need not be kept separate and apart from other funds of Mortgagee. Mortgagor shall initially fund the reserve on the date of the execution of this Mortgage by depositing such sums as are necessary, as reasonably determined by Mortgagee, so that the amount of the initial funding, plus the additional monthly payments contemplated herein, will be sufficient to pay all ground rentals, insurance premiums, taxes and assessments sixty (60) days prior to their respective due dates. For purposes of this Subsection, if taxes and assessments are payable in installments with a six-month interval between due dates, then the due date for such taxes and assessments is that date upon which each installment would first become delinquent and a penalty and/or interest would be assessed if such installment of taxes or assessments were not paid. After the occurrence and during the continuation of a Default, Mortgagee may, in its sole discretion, apply such sums to the payment of such expenses or to the Secured Indebtedness. Any excess reserve shall, at the discretion of Mortgagee, be credited by Mortgagee on subsequent payments to be made on the Secured Indebtedness by Mortgagor, and any deficiency shall be paid by Mortgagor to Mortgagee on or before the date when such ground rentals, premiums, taxes, and assessments, shall have become due. Mortgagee may, from time to time, require an increase in the monthly payments to be made under this Subsection, so that such payments in the aggregate will be sufficient in amount for the payment of all ground rentals, premiums, taxes and assessments sixty (60) days before they are due.

Section 9.5. Condemnation and Eminent Domain. Mortgagee shall be entitled to receive any and all sums which may be awarded or become payable to Mortgagor for the condemnation of, or taking upon exercise of the right of Eminent Domain with respect to, any of the Mortgaged Property for public or quasi-public use, or by virtue of private sale in lieu thereof, and any sums which may be awarded or become payable to Mortgagor for damages caused by public works or construction on or near the Mortgaged Property. Mortgagor shall give immediate written notice to Mortgagee of any such proceedings affecting the Mortgaged Property, and shall afford Mortgagee an opportunity to participate in any proceeding or settlement of awards with respect thereto. All such sums are hereby assigned to Mortgagee, and Mortgagor shall, upon request of Mortgagee, make, execute, acknowledge, and deliver any and all additional assignments and

documents as may be necessary from time to time to enable Mortgagee to collect and receipt for any such sums. Mortgagee shall not be, under any circumstances, liable or responsible for failure to collect, or exercise diligence in the collection of, any of such sums. Any sums so collected shall be applied by Mortgagee, first, to the expenses, if any, of collection, in accordance with Section 6.4 hereof. Notwithstanding the foregoing, if, after such proceedings or private sale in lieu thereof, Mortgagee determines in its reasonable judgment that the remainder of the Mortgaged Property can be restored in such a manner as to preserve substantially the economic value thereof and Mortgagor is not then otherwise in Default, upon request of Mortgagor such sums so held by Mortgagee shall be made available for such restoration and disbursed by Mortgagee during the course of such restoration under safeguards reasonably satisfactory to

Mortgagee. Any sums remaining after completion of restoration shall be applied in accordance with Section 6.4. In the event of any partial taking of the Mortgaged Property under this Subsection, Mortgagee may, at its sole discretion, apply the funds received first to the expenses, if any, of collection; second, to any unpaid interest which is due and delinquent and, third, to principal of the Secured Indebtedness, in lieu of applying Section 6.4.

Section 9.6. Insurance Proceeds. Mortgagee is authorized and empowered to collect and receive the proceeds of any and all insurance that may become payable with respect to any of the Mortgaged Property. So long as no Default has occurred and is continuing, such proceeds (together with any other amounts deposited by Mortgagor with Mortgagee) are sufficient to rebuild and restore the Improvements, such rebuilding and restoration can be completed within six months and prior to the maturity of the Note, and the value of the Mortgaged Property after restoration will be the same as or greater than the value of the Mortgaged Property on the date hereof, Mortgagee shall make such proceeds available to rebuild or restore the Improvements in accordance with disbursement procedures established by Mortgagee or, if such conditions are not met, Mortgagee may apply the same to the Secured Indebtedness in the order and manner set forth in Section 6.4 hereof, whether then matured or to mature in the future, or at Mortgagee's option, first to unpaid interest which is due and delinquent, and second, to principal of the Secured Indebtedness, and prior to such application, may deduct therefrom any expenses incurred in connection with the collection or handling of such proceeds, it being understood that Mortgagee shall not be, under any circumstances, liable, or responsible for failure to collect, or exercise diligence in the collection of, any of such proceeds.

Section 9.7. Subrogation. It is understood and agreed that the proceeds of the Note, to the extent that the same are utilized to pay or renew or extend any indebtedness of Mortgagor, or any other indebtedness, or take up or release any outstanding Liens against the Mortgaged Property, or any portion thereof, have been advanced by Mortgagee at Mortgagor's request and at the request of the obligors thereof and upon their representation that such amounts are due and payable. Mortgagee shall be subrogated to any and all Rights and Liens owned or claimed by any owner or mortgagee of said outstanding Rights and Liens, however remote, regardless of whether said Rights and Liens are acquired by assignment or are released by the beneficiary thereof upon payment.

Section 9.8. Illegality. If any provision of this Mortgage is held to be illegal, invalid, or unenforceable under present or future laws effective during the term of this Mortgage, the legality, validity, and enforceability of the remaining provisions of this Mortgage shall not be affected thereby, and in lieu of each such illegal, invalid or unenforceable provision there shall be added automatically as a part of this Mortgage a provision as similar in terms to such illegal, invalid, or unenforceable provision as may be possible and be legal, valid, and enforceable. If the Rights and Liens created by this Mortgage shall be invalid or unenforceable as to any part of the Secured Indebtedness, then the unsecured portion of the Secured Indebtedness shall be completely paid prior to the payment of the remaining and secured portion of the Secured Indebtedness, and all payments made on the Secured Indebtedness shall be considered to have been paid on and applied first to the complete payment of the unsecured portion of the Secured Indebtedness.

Section 9.9. Maximum Interest Rate. Notwithstanding anything contained in this Mortgage or in any of the Loan Documents to the contrary, Mortgagee shall never be deemed to have contracted for or be entitled to receive, collect or apply as interest on the Secured Indebtedness, any amount in excess of the amount permitted and calculated at the highest lawful nonusurious rate, and, in the event Mortgagee ever receives, collects or applies as interest any amount in excess of the amount permitted and calculated at the highest lawful nonusurious rate, such amount which would be excessive interest shall be applied to the reduction of the unpaid principal balance of the Secured Indebtedness, and, if the principal balance of the Secured Indebtedness is paid in full, any remaining

To Mortgagee: American Equity Investment Life Insurance Company
Mailing address: P. O. Box 71216
Des Moines, IA 50325
Attention: Mortgage Loan Department

Delivery address: 5000 Westown Parkway, Suite 440
West Des Moines, IA 50266
Attention: Mortgage Loan Department

Unless otherwise specified, notices shall be deemed given as follows: (i) if delivered personally, when delivered; (ii) if delivered by nationally recognized overnight courier delivery service, on the next business day following the day such material is sent, and (iii) if by certified mail, three (3) days after such material is deposited in the United States Mail.

Section 9.19. Governing Laws. The substantive laws of the State of Indiana shall govern the validity, construction, enforcement, and interpretation of this Mortgage, and the other Loan Documents, unless otherwise specified therein.

Section 9.20. Time of Essence. Time is of the essence of this Mortgage.

Section 9.21. Fixture Filing. This Mortgage shall also constitute a security agreement with respect to the Personal Property and a "fixture filing" for purposes of the Code. Portions of the Personal Property are or may become fixtures. Information concerning the security interests herein granted may be obtained at the addresses stated in the preamble hereof.

Section 9.22. Financing Statement. Mortgagee shall have the right at any time to file this Mortgage as a financing statement, or one or more Uniform Commercial Code financing statements, but the failure to do so shall not impair the validity and enforceability of this Mortgage in any respect whatsoever. A carbon, photographic, or other reproduction of this Mortgage, or any financing statement relating to this Mortgage, shall be sufficient as a financing statement.

Section 9.23. Entire Agreements; Amendments. This Mortgage, the Note and the other documents executed in connection herewith represent the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties. This Mortgage cannot be amended except by agreement in writing by the party against whom enforcement of the amendment is sought.

Section 9.24. Remedies Cumulative and Non-Waiver. No remedy or right of the Mortgagee hereunder or under the Note, or any of the Loan Documents, or otherwise, or available under applicable law, shall be exclusive of any other right or remedy, but each such remedy or right shall be in addition to every other remedy or right now or hereafter existing under any such document or under applicable law. No delay in the exercise of, or omission to exercise, any remedy or right accruing on any Default shall impair any such remedy or right or be construed to be a waiver of any such Default or an acquiescence therein, nor shall it affect any subsequent Default of the same or a different nature, nor shall it extend or affect any grace period. Every such remedy or right may be exercised concurrently or independently, when and as often as may be deemed expedient by the Mortgagee. All obligations of the Mortgagor and all rights, powers, and remedies of the Mortgagee expressed herein shall be in addition to, and not in limitation of, those provided by law or in the Note or any of the Loan Documents or any other written agreement or instrument relating to any of the Secured Indebtedness or any security therefor.

Section 9.25. No Right of Setoff. No setoff or claim that Mortgagor may now or in the future have against Mortgagee shall relieve or excuse Mortgagor from paying the installments under the Note or performing any other obligation secured hereby when the same is due.

Section 9.26. Right to Modify. Without affecting the obligation of Mortgagor to pay and perform as herein required, without affecting the personal liability of any person for payment of the Secured Indebtedness, and without affecting the lien or priority of the lien hereof on the Mortgaged Property, Mortgagee may, at its option, extend the time for payment of the Secured Indebtedness or any portion thereof, reduce the payments thereon, release any person liable on any portion of the Secured Indebtedness, accept a renewal note or notes therefor, modify the terms of the Secured Indebtedness, release or

reconvey any part of the Mortgaged Property, take or release other or additional security, consent to the making of any map or plat thereof, join in granting any easement thereon, or join in any extension agreement or agreement subordinating the lien hereof. Any such action by Mortgagee may be taken without Mortgagor's consent and without the consent of any subordinate lienholder, and shall not affect the priority of this Mortgage over any subordinate lien.

Section 9.27. Additional Security. The taking or acceptance of this Mortgage by Mortgagee shall in no event be considered as a waiver of, or in any way affecting or impairing any other security which Mortgagee may have or acquire simultaneously herewith or may hereafter acquire for the payment of the Secured Indebtedness, nor shall the taking at any time by Mortgagee of any such additional security be construed as a waiver of, or in any way affecting or impairing the security of this Mortgage; and Mortgagee may resort, for the payment of the Secured Indebtedness, to any security therefor in such order and manner as it may deem fit.

Section 9.28. Expenses of Recording. Mortgagor agrees to pay all mortgage recording taxes, revenue stamps, charges and filing, registration and recording fees imposed upon this Mortgage, the recording or filing thereof, or upon the Mortgagee by reason of its ownership of this Mortgage, or its enforcement thereof, or imposed upon any security instrument with respect to any fixture or personal property owned by Mortgagor at the Mortgaged Property, or imposed upon any instrument of further assurance.

MORTGAGOR:
HURCO COMPANIES, INC.,
an Indiana corporation

By:/S/ Roger J. Wolf

Roger J. Wolf, Senior Vice President
and Chief Financial Officer

STATE OF INDIANA, COUNTY OF MARION, ss:

On this 29th day of April, 2002, before me, the undersigned, a Notary Public in and for said county and state, personally appeared Roger J. Wolf, to me personally known, who being by me duly sworn or affirmed did say that he is the Senior Vice President and Chief Financial Officer of Hurco Companies, Inc.; that said instrument was signed on behalf of said corporation by authority of its Board of Directors; and that the said Roger J. Wolf, as such officer, acknowledged the execution of said instrument to be the voluntary act and deed of said corporation, by it and by said officer voluntarily executed.

/s/Sharon M. Korn

Notary Public in and for said county
and state Printed Name:
Sharon M. Korn I am a
resident of Morgan County,
Indiana My commission expires:
11-24-2008

Exhibit A - Description of Land
Exhibit B - Permitted Exceptions to Title

Prepared by and when recorded, return to:
William L. Fairbank
Whitfield & Eddy, P.L.C.
317 Sixth Avenue, Suite 1200
Des Moines, IA 50309-4195

EXHIBIT "A"

Legal Description

A part of the Southwest Quarter and part of the Southeast Quarter of Section 25, Township 17 North, Range 2 East in Marion County, Indiana, more particularly described as follows:

Commencing at the Southeast corner of said Southwest Quarter of Section; thence South 88 degrees 18 minutes 08 seconds West, along the South line of said Quarter Section, 76.45 feet; thence North 01 degree 41 minutes 52 seconds West, 700.49 feet to the Point of Beginning; thence North 01 degree 29 minutes 20 seconds West, 506.20 feet; thence South 89 degrees 53 minutes 46 seconds East, 825.20 feet; thence South 00 degrees 06 minutes 14 seconds West, 477.67 feet, to a point on a tangent curve to the right having a chord bearing and distance of South 03 degrees 06 minutes 57 seconds West, 28.37 feet; thence along said curve a distance of 28.39 feet; thence along a line non-tangent to said curve, North 89 degrees 53 minutes 46 seconds West, 809.64 feet to the Point of Beginning.

Also, non-exclusive easements for ingress and egress as set out in declarations recorded November 15, 1988 as Instrument No. 88-116201 and September 27, 1990 as Instrument Nos. 90-110745 and 90-110748 in the Office of the Recorder of Marion County, Indiana.

EXHIBIT "B"

Permitted Exceptions

Those exceptions contained in Schedule B of the Policy of Title Insurance issued by Chicago Title Insurance Company in favor of American Equity Investment Life Insurance Company covering the Mortgaged Property.

The following loan schedules or exhibits are omitted from this filing but are available as supplemental information to the Commission upon request.

- o Assignment of Leases and Rents
- o Affidavit of Borrower
- o Environmental Compliance Indemnification Agreement
- o UCC Financing Statement