SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [*Fee Required*] for the fiscal year ended October 31, 2003 or

☐ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [*No Fee Required*] for the transition period from _________ to _________.

Commission File No. 0-9143

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

Indiana	**35-1150732**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
One Technology Way **Indianapolis, Indiana**	**46268**
(Address of principal executive offices)	(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, No Par Value
(Title of Class)

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 at least the past 90 days. Yes X No __

Indicate by check mark if disclosure of delinquent filers pursuant to Rule 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes __ No X

The aggregate market value of the Registrant's voting stock held by non-affiliates as of April 30, 2003 (the last day of our most recently completed second quarter) was $8,430,569.

The number of shares of the Registrant's common stock outstanding as of January 2, 2004 was 5,609,360.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Registrant's Proxy Statement for its 2004 Annual Meeting of Shareholders (Part III).

Disclosure Concerning Forward-looking Statements

Certain statements made in this annual report on form 10-K may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. 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 machine tools and related computer control systems, software products, and replacement parts, changes in manufacturing markets, adverse currency movements, innovations by competitors, performance of our contract manufacturers, governmental actions and initiatives, including import and export restrictions and tariffs, and developments in the relations among the U.S., China and Taiwan.

PART I

Item 1. BUSINESS

General

Hurco Companies, Inc. is an industrial technology company. We design and produce interactive, personal computer (PC) based, computer control systems and software and computerized machine tools for sale to the metal working industry through a worldwide sales, service and distribution network. Our proprietary computer control systems and software products are sold primarily as integral components of our computerized machine tool products.

We pioneered the application of microprocessor technology and conversational programming software for application on computer controls for machine tools and, since our founding in 1968, have been a leader in the introduction of interactive computer control systems that automate manufacturing processes and improve productivity in the metal parts manufacturing industry. We have concentrated on designing "user-friendly" computer control systems that can be operated by both skilled and unskilled machine tool operators and yet are capable of instructing a machine to perform complex tasks. The combination of microprocessor technology and patented interactive, conversational programming software in our computer control systems enables operators on the production floor to quickly and easily create a program for machining or forming a particular part from a blueprint or computer-aided design (CAD) and immediately begin production of that part.

Our executive offices and principal design, engineering, and manufacturing management operations are headquartered in Indianapolis, Indiana. Sales, application engineering and service offices are located in Indianapolis, Indiana; High Wycombe, England; Munich, Germany; Paris, France; Milan, Italy; Singapore and Taichung, Taiwan. We also have a representative sales office in Shanghai, China. Distribution facilities are located in Los Angeles, California and Venlo, the Netherlands; a manufacturing facility is located in Taichung, Taiwan.

Our strategy is to design, develop, produce and market a comprehensive line of computerized machine tools for the global metal working market, which incorporates our proprietary interactive computer control technology. This technology is designed to enhance the user's productivity through ease of operation and higher levels of machine performance (speed, accuracy and surface finish quality). We use an open system software architecture that permits our computer control systems and software to be used with standard PC hardware and have emphasized an operator friendly design that employs both interactive conversational and graphical programming software.

Products

During fiscal 2002, we discontinued several under-performing product lines and sold the related assets, to enable us to focus our resources and technology development on our core products. Our core products consist primarily of general purpose computerized machine tools for the metal cutting industry (principally vertical machining centers) into which our proprietary Ultimax® software and computer control systems have been fully integrated. We discontinued and sold the Delta™ series computer control and related Dynapath™ milling machine product line, and related parts and service activities, along with press brake (metal bending machine) product lines and all tooling products related to press brake applications. We continue to produce computer control systems and related software for press brake applications that are sold primarily as retrofit control systems. In addition, we produce and distribute software options, control upgrades, hardware accessories and replacement parts related to our continuing product lines and provide operator training and support services to our customers.

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

Net Sales and Service Fees by Product Category

	Year ended October 31,					
	2003		2002		2001	
Continuing Products and Services						
Computerized Machine Tools	$ 60,977	80.7%	$ 52,056	73.9%	$ 69,631	75.4%
Computer Control Systems and Software *	3,044	4.0%	3,194	4.5%	4,782	5.2%
Service Parts	7,616	10.1%	7,240	10.3%	8,038	8.7%
Service Fees	3,460	4.6%	3,240	4.6%	3,749	4.1%
Total	$75,097	99.4%	$ 65,730	93.3%	$ 86,200	93.4%
Discontinued Products and Services	435	0.6%	4,756	6.7%	6,067	6.6%
Total	$75,532	100.0%	$ 70,486	100.0%	$ 92,267	100.0%

* *Amounts shown do not include computer control systems sold as an integrated component of computerized machine tools.*

Computerized Machine Tool Products

We design, manufacture and market computerized machine tools which are equipped with a fully integrated interactive Ultimax® computer control system. Our Ultimax® twin screen "conversational" computer control system is sold solely as a fully integrated feature of Hurco computerized machine tools. This computer control system enables a machine tool operator to create a complex two-dimensional machining program directly from a blue print or CAD. An operator with little or no programming experience can successfully create a program and begin the machining of a part in a short time with minimal special training. Since the initial introduction of the Ultimax® computer control, we have added enhancements related to operator programming productivity, CAD compatibility, data processing throughput and motion control speed and accuracy. Our current Ultimax® 4 programming stations use a Pentium* processor featuring an operator console with liquid crystal display screens and incorporate personal computer (PC) platform components. This upgradeable computer control product offers enhanced performance while ensuring access to cost effective computing hardware and software.

Our current line of Ultimax® metal cutting machine tools is a complete family of products, which include vertical machining centers with an x-axis travel of 24, 26, 30, 40, 42, 50 and 64 inches. During fiscal 2002 we introduced the first model in our new VM series, the VM1, a vertical machining center with a 26 inch x-axis travel, a substantially smaller footprint and significantly lower price than our previous entry-level vertical machining center. In fiscal 2003, we introduced the VM2, a vertical machining center with a 40 inch x-axis travel. The VM2 has a smaller footprint and lower price than our vertical machining center with an x-axis travel of 42 inches. We also introduced four new higher-performance machine models in our VMX series vertical machining center line. These products provide different levels of performance features for different market applications ranging in price from $36,000 to $165,000.

* Pentium is a registered trademark of the Intel Corporation

Computer Control Systems and Software

The following computer control systems and software products are marketed directly to end-users and or to original equipment manufacturers.

- *Autobend®*

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

- *CAM and Software Products*

In addition to our standard computer control features, we offer software option products for programming two and three-dimensional parts. These products are marketed to users of our computerized machine tools equipped with our Pentium*-based Ultimax® computer control systems. Our Advanced Velocity Control (AVC) and Adaptive Surface Finish (ASF), high performance machining software options enable a customer to increase machine throughput using higher cutting feed rates. The ASF software option facilitates optimized surface finishes on complex parts using faster high resolution part data transfers.

Other products in this line are WinMax®, a Windows** based off-line programming system; DXF, a data file transfer software option; and UltiNet™, a networking software option. The DXF software option eliminates manual data entry of part features by transferring AutoCAD™ drawing files directly into an Ultimax® computer control, or into our off-line programming software, substantially increasing operator productivity. UltiNet™ is a networking software option used by our customers to transfer part design and manufacturing information to computerized machine tools at high speeds and to network computerized machine tools within the customer's manufacturing facility.

We also offer conversational part and tool dimension probing options for Ultimax® based machines. These options permit the computerized dimensional measurement of machined parts and the associated cutting tools. This "on-machine" technique significantly improves the throughput of the measurement process when compared to traditional "off-machine" approaches.

Parts and Service

Our service organization provides installation, warranty, operator training and customer support for our products on a worldwide basis. In the United States, our principal distributors have primary responsibility for machine installation and warranty service and support for new product sales. We also service and support a substantial installed base of existing customers. Our service organization also sells software options, computer controls upgrades, accessories and replacement parts for our products. Our after-sale parts and service business helps strengthen our customer relationships and provides continuous information concerning the evolving requirements of end-users.

Marketing and Distribution

We sell our products through approximately 200 independent agents and distributors in approximately 40 countries throughout North America, Europe and Asia. We also have our own direct sales personnel in England, France, Germany, Italy, Singapore and China, which are among the world's principal

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* Pentium is a registered trademark of the Intel Corporation
** Windows is a registered trademark of the Microsoft Corporation.

machine tool consuming countries. During fiscal 2003, no distributor accounted for more than 5% of our sales and service fees. Approximately 89% of the worldwide demand for computerized machine tools and computer control systems comes from outside the U.S. In fiscal 2003, approximately 70% of our revenues were from overseas customers.

The end-users of our products are precision tool, die and mold manufacturers, independent metal parts manufacturers and specialized production applications or prototype shops within large manufacturing corporations. Industries served include aerospace, defense, medical equipment, energy, transportation and computer equipment.

Our computerized machine tool software options and accessories are sold primarily to end-users. We sell our Autobend® computer control systems to original equipment manufacturers of new machine tools who integrate them with their own products prior to the sale of those products to their own customers, to retrofitters of used machine tools who integrate them with those machines as part of the retrofitting operation and to end-users who have an installed base of machine tools, either with or without related computer control systems. During fiscal 2003, no single end-user of our products accounted for more than 5% of our total sales and service fees.

We believe that advances in industrial technology and the related demand for process improvements drive demand for our products.

Other factors affecting demand include:

- the need to continuously improve productivity and shorten cycle time,
- an aging machine tool installed base that will require replacement with more advanced and efficient technology created by shorter product life cycles,
- the industrial development of emerging countries in Asia and Eastern Europe, and
- the declining supply of skilled machinists.

However, demand for our products is highly dependent upon economic conditions and the general level of business confidence, as well as such factors as production capacity utilization and changes in governmental policies regarding tariffs, corporate taxation and other investment incentives. By marketing and distributing our products on a worldwide basis, we reduce the potential impact on our total sales and service fees by adverse changes in economic conditions in any particular geographic region.

Competition

We compete with many other companies in the United States and international markets. Several of these competitors are larger and have greater financial resources than we do. We strive to compete effectively by incorporating unique, patented software and other proprietary features into our products that offer enhanced productivity, greater technological capabilities and ease of use. We offer our products in a range of prices and capabilities to target a broad potential market. We also believe that our competitiveness is aided by our reputation for reliability and quality, our strong international sales and distribution organization and our extensive customer service organization.

In the United States and European metal cutting markets, major competitors include Haas Automation, Inc., Cincinnati Machine, Deckel, Maho Gildemeister Group (DMG), Bridgeport Machines, Ltd. and Fadal Engineering along with a large number of foreign manufacturers including Okuma Machinery Works Ltd., Mori Seiki Co., Ltd., Masak and Matsuura Machinery Corporation.

Manufacturing

Our manufacturing strategy is based on global sourcing of components and a network of contract suppliers and sub-contractors who manufacture our products in accordance with our proprietary design, quality standards and cost specifications. This has enabled us to lower product costs, lower working capital per sales dollar and increase our worldwide manufacturing capacity without significant incremental investment in capital equipment or increased personnel.

Our computerized metal cutting machine tools are manufactured to our specifications, primarily by our wholly owned subsidiary in Taiwan, Hurco Manufacturing Limited (HML), which we established in fiscal 2000. This subsidiary has increased our overall capacity and reduced or eliminated our dependence on other Taiwan contract manufacturers. In addition, we have a 24% ownership interest in a contract machine manufacturer that produces certain of our models. HML and our affiliated machine manufacturer conduct final assembly operations and are supported by a network of sub-contract suppliers of components and sub-assemblies.

We also have a contract manufacturing agreement for computer control systems with a Taiwanese-based affiliate in which we have a 35% ownership interest. This company is manufacturing our Ultimax® and Autobend® computer control systems to our specifications, and is engaged primarily in the sourcing of industry standard computer components and proprietary parts, final assembly and test operations. We source one of the proprietary Ultimax® computer components (PCB) from a sole domestic supplier with whom we have had a long-term relationship.

We work closely with our manufacturing subsidiary and affiliates to increase their production capacity to meet the demand for our machine tool products and believe that such capacity is sufficient to meet our current and projected demand. We also continue to consider additional contract manufacturing resources that will increase our long-term capacity, and we believe that, except for the sole-sourced PCB, alternative sources for standard and proprietary components are available; however, any prolonged interruption of operations or significant reduction in capacity or performance capability of these principal Taiwan-based manufacturing facilities or the PCB supplier would have a material adverse effect on our operations.

Backlog

Backlog consists of firm orders received from customers and distributors but not shipped. Backlog was $8.2 million, $5.3 million and $9.1 million as of October 31, 2003, 2002, and 2001, respectively.

Intellectual Property

We consider certain features of our products to be proprietary. We own, directly or through a subsidiary, a number of patents that are significant to our business.

In fiscal 2002, we acquired the core technology assets of a software development company for $1.9 million. As part of the acquisition, we obtained ownership of three existing patents and one pending patent related to computer control technology, which we expect to incorporate in our proprietary computer control system.

We own patents for an object-oriented, open architecture methodology for computer control software. We also hold a non-exclusive license covering features of the automatic tool changer offered with certain of our computerized machining centers as well as a patent for a manual tool changing apparatus.

Research and Development

Research and development expenditures for new products and significant product improvements, included as period operating expenses, were $1.8 million, $2.4 million and $3.5 million in fiscal 2003, 2002, and 2001, respectively. In addition, we recorded expenditures of $679,000 in 2003, $534,000 in 2002, and $665,000 in 2001 related to software development projects that were capitalized.

Employees

We had 232 employees at the end of fiscal 2003, none of which are covered by a collective-bargaining agreement or represented by a union. We have experienced no employee-generated work stoppages or disruptions and we consider our employee relations to be satisfactory.

Geographic Areas

Financial information about geographic areas is set forth in Note 15 to the Consolidated Financial Statements.

We are subject to the risks of doing business on a global basis, including foreign currency fluctuation risks, changes in general economic and business conditions in the countries and markets that we serve and government actions and initiatives including import and export restrictions and tariffs.

Availability of Reports and Other Information

Our website is www.hurco.com. We make available on this website, free of charge, access to our annual, quarterly and current reports and other documents filed by us with the Securities and Exchange Commission as soon as reasonably practical after the filing date.

Item 2. PROPERTIES

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

Location	Square Footage	Principal Uses
Indianapolis, Indiana	165,000 [(1)]	Corporate headquarters, design and engineering, product testing, computer control assembly, sales, application engineering and customer service
Los Angeles, California	13,000	Warehouse, distribution, sales, application engineering and customer service
High Wycombe, England	12,000	Sales, application engineering and customer service
Paris, France	4,800	Sales, application engineering and customer service
Munich, Germany	19,600	Sales, application engineering and customer service
Milan, Italy	4,850	Sales, application engineering and customer service
Singapore	3,000	Sales, application engineering and customer service
Shanghai, China	1,100	Sales, application engineering and customer service
Taichung, Taiwan	65,333	Manufacturing

(1) Approximately 45,000 square feet is leased to a third-party under a lease which expires January 30, 2005.

We own the Indianapolis facility and lease all other facilities. The leases have terms expiring at various dates ranging from January 2004 to April 2008. We believe that all of our facilities are well maintained and are adequate for our needs now and in the foreseeable future. We do not believe that we would experience any difficulty in replacing any of the present facilities if any of our leases were not renewed at expiration.

Item 3. LEGAL PROCEEDINGS

We are involved in various claims and lawsuits arising in the normal course of business. We do not expect any of these claims, individually or in the aggregate, to have a material adverse effect on our consolidated financial position or results of operations.

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

None.

Executive Officers of the Registrant

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

The following information sets forth as of December 31, 2003, the name of each executive officer, his age, tenure as an officer, principal occupation and business experience for the last five years:

Name	Age	Position(s) with the Company
Michael Doar	48	Chairman of the Board and Chief Executive Officer
James D. Fabris	52	President and Chief Operating Officer
Roger J. Wolf	63	Senior Vice President, Secretary, Treasurer and Chief Financial Officer
David E. Platts	51	Vice President, Technology
Stephen J. Alesia	37	Corporate Controller, Assistant Secretary

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

James D. Fabris was elected President and Chief Operating Officer on November 14, 2001. Mr. Fabris served as Executive Vice President - Operations from November 1997 until his current appointment and previously served as a Vice President of Hurco since February 1995.

Roger J. Wolf has been Senior Vice President, Secretary, Treasurer and Chief Financial Officer since January 1993.

David E. Platts has been employed by Hurco since 1982, and was elected Vice President, Technology in May 2000. Mr. Platts previously served as Vice President of Research and Development since 1989.

Stephen J. Alesia has been the Corporate Controller since joining Hurco in June 1996 and was elected an executive officer in September 1996. Prior to joining Hurco, Mr. Alesia was employed for seven years by an international public accounting firm.

PART II

Item 5. MARKET FOR THE REGISTRANT'S EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the Nasdaq National Market under the symbol "HURC". The following table sets forth the high and low sales prices of the shares of our common stock for the periods indicated, as reported by the Nasdaq National Market.

	2003		2002	
Fiscal Quarter Ended:	High	Low	High	Low
January 31	$2.030	$1.300	$2.780	$2.050
April 30	1.670	1.400	3.350	2.030
July 31	3.150	1.520	2.950	1.500
October 31	2.740	2.100	2.220	1.450

We do not currently pay dividends on our common stock and intend to continue to retain earnings for working capital, capital expenditures and debt reduction.

There were approximately 294 holders of record of our common stock as of January 2, 2004.

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

The disclosure under the caption "Equity Compensation Plan Information" in Item 12 of this report is incorporated by reference in response to this item.

Item 6. SELECTED FINANCIAL DATA

The Selected Financial Data presented below have been derived from our Consolidated Financial Statements for the years indicated and should be read in conjunction with the Consolidated Financial Statements and related notes set forth elsewhere herein.

	Year Ended October 31				
	2003	2002	2001	2000	1999
Statement of Operations Data:	(In thousands, except per share amounts)				
Sales and service fees [1]	$ 75,532	$ 70,486	$ 92,267	$ 96,204	$ 88,238
Gross profit	20,822	15,246 [2]	23,262	25,377	24,174
Selling, general and administrative expenses	18,749	19,658	24,040	23,538	21,259
Restructuring expense (credit) and other expense, net	(124)	2,755	143	300	(103)
Operating income (loss)	2,197	(7,167)	(921)	1,539	3,018
Interest expense	658	634	790	939	1,293
License fee income and litigation settlement fees, net	--	163	723	5,365	304
Net income (loss)	462	(8,263)	(1,597)	5,035	1,802
Earnings (loss) per common share-diluted	0.08	(1.48)	(.28)	.84	.30
Weighted average common shares outstanding-diluted	5,582	5,583	5,670	6,020	6,061

(1) Sales and service fees for discontinued products were $435, $4,756, $6,067, $10,156, and $7,286, for the years ended 2003 through 1999, respectively.
(2) Includes $1,083 of inventory write-down provision.

	As of October 31				
	2003	2002	2001	2000	1999
Balance Sheet Data:	(Dollars in thousands)				
Current assets	$42,390	$ 41,535	$ 49,510	$ 49,195	$52,856
Current liabilities	20,154	21,185	18,217	23,124	19,580
Working capital	22,236	20,350	31,293	26,071	33,276
Current ratio	2.1	2.0	2.7	2.1	2.7
Total assets	57,958	57,152	66,217	65,024	69,632
Non-current liabilities	9,063	7,950	12,532	3,009	13,904
Total debt	9,222	8,885	12,000	3,736	14,172
Shareholders' equity	28,741	28,017	35,468	38,891	36,148

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

Results of Operations

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

	Percentage of Revenues			Year-to-Year % Change Increase (Decrease)	
	2003	2002	2001	03 vs. 02	02 vs. 01
Sales and service fees	100.0%	100.0%	100.0%	7.2%	(23.6%)
Gross profit	27.6%	21.6%	25.2%	36.6%	(34.5%)
Selling, general and Administrative expenses	24.8%	27.9%	26.1%	(4.6%)	(18.2%)
Restructuring expense and Other expenses, net	(0.2%)	3.9%	0.2%	N/A	N/A
Operating income (loss)	2.9%	(10.2%)	(1.0%)	N/A	N/A
License fee income, net	--	0.2%	0.8%	--	(77.4%)
Interest expense	0.9%	0.9%	0.9%	3.8%	(19.7%)
Net income (loss)	0.6%	(11.7%)	(1.7%)	N/A	N/A

Fiscal 2003 Compared With Fiscal 2002

Net income for fiscal 2003 was $462,000, or $.08 per share, compared to a net loss of $8.3 million in the prior year. We attribute our return to profitability to incremental sales from a new, entry-level machine model (the VM1) introduced in late fiscal 2002, strengthening European currencies in relation to the U.S. Dollar and the implementation of restructuring and cost reduction actions over the past 18 months. Results for fiscal 2002 were adversely impacted by $3.8 million of restructuring expense.

We developed the VM1 to improve our competitiveness in the entry-level machining center market. The VM1 has been successful in both the domestic and international markets. In the United States, we have obtained an approximate 20% market share in the entry-level machining center market. In fiscal 2003, we shipped 285 VM1 units worldwide, which resulted in approximately $11.0 million of incremental machine sales.

Our operating results for fiscal 2003 were also favorably impacted by changes in foreign currency exchange rates, particularly the Euro, in relation to the U.S. Dollar when translating foreign sales and service fees into U.S. Dollars for financial reporting purposes. As noted in the following table, approximately 63.9% of our net sales and service fees in fiscal 2003 were derived from European markets. The weighted average exchange rate for the Euro during fiscal 2003 was $1.10, as compared to $.93 for fiscal 2002, an increase of 18%.

Net Sales and Service Fees by Geographic Region

The following tables set forth net sales by geographic region for the years ended October 31, 2003 and 2002 (in thousands):

	October 31,			
	2003		2002	
Americas	$ 24,313	32.2%	$ 24,148	34.3%
Europe	48,277	63.9%	44,509	63.1%
Asia Pacific	2,942	3.9%	1,829	2.6%
Total	$ 75,532	100.0%	$ 70,486	100.0%

Total sales and service fees on a worldwide basis were $75.5 million in fiscal 2003, compared to $70.5 million in the prior fiscal year, a $5.0 million, or 7%, increase. However, on a constant dollar basis, sales and service fees were $68.7 million, a $1.8 million decrease.

In the Americas, sales and service fees from continuing products and services increased $4.5 million, or 23%, due primarily to the successful introduction of the VM1, in late fiscal 2002. This increase was offset by a decrease of $4.3 million in sales of discontinued products, the liquidation of which was substantially completed in fiscal 2002.

In Europe, sales and service fees increased by $3.8 million as a result of the favorable effect of stronger European currencies. However, when measured at constant exchange rates, sales and service fees in Europe decreased $3.0 million, or 7%, reflecting the continuing weakness in industrial equipment spending and reduced consumption of machine tools by many manufacturing companies, particularly in Germany.

Sales and service fees in Asia Pacific were not significantly affected by currency rates, but reflect improved activity in Asian markets.

In the fourth quarter of fiscal 2003, sales and service fees improved over the first three fiscal quarters, reflecting an improvement in worldwide computerized machine tool demand from the depressed levels of the past three years.

Net Sales and Service Fees by Product Category

The following table sets forth net sales and service fees by product category for years ended October 31, 2003 and 2002 (in thousands):

	October 31,			
	2003		2002	
Continuing Products and Services				
Computerized Machine Tools	$ 60,977	80.7%	$ 52,056	73.9%
Computer Control Systems and Software	3,044	4.0%	3,194	4.5%
Service Parts	7,616	10.1%	7,240	10.3%
Service Fees	3,460	4.6%	3,240	4.6%
Total	$ 75,097	99.4%	$ 65,730	93.3%
Discontinued Products and Services*	435	.6%	4,756	6.7%
Total	$ 75,532	100.0%	$ 70,486	100.0%

* Discontinued product sales were made solely in the United States.

Sales of continuing machine tool products increased $8.9 million, or 17%, of which $6.1 million was attributable to the favorable effects of foreign currency translation. Unit shipments of continuing machine tool models increased 23%, as sales of the VM1 more than offset a decline in the balance of the product line. The average net selling price per unit of continuing machine tool models decreased approximately 5% due to product mix and discounting, the effects of which were partially offset by the favorable effects of currency translation. When measured at constant exchange rates, the average net selling price per continuing unit declined approximately 16%.

New order bookings for fiscal 2003 were $77.9 million, an increase of 16% as compared to $67.0 million recorded in fiscal 2002. When measured at constant exchange rates, new order bookings increased $3.5 million, or 5%. New order bookings for continuing products and services increased $7.8 million, or 12%, when measured at constant exchange rates. The increase in orders for continuing products in constant U.S. Dollars was attributable to orders for the VM1 model, which more than offset the effect of weak order rates in the first nine months of fiscal 2003 related to the balance of the product line. New order bookings increased significantly in the fourth quarter of fiscal 2003 and were $13.9

million, \$20.6 million, \$18.9 million and \$24.5 million for each of the four quarters in fiscal 2003. Backlog was \$8.2 million at October 31, 2003 compared to \$5.3 million at October 31, 2002.
Gross profit margin increased in fiscal 2003 to 27.6% from 21.6% (23.2% excluding a \$1.1 million restructuring charge) in fiscal 2002, due in part to strengthening European currencies as well as previously reported employee cost reductions and fewer sales of discontinued products, which were liquidated at discounted prices.

Selling, general and administrative ("SG&A") expenses for fiscal 2003 of \$18.7 million declined \$900,000, or 5%, from those of the corresponding 2002 period. When measured at constant exchange rates, SG&A expenses decreased \$2.1 million, or 11%, from fiscal 2002, as a result of previously reported employee cost reductions, lower research and development expenses, and reduced sales and marketing expenditures. The decrease was offset, in part, by the effects of a weaker U.S. Dollar when translating expenses incurred outside the United States for financial reporting purposes.

Other expense, net includes \$51,000 related to certain stock options which are subject to variable plan accounting as described in Note 8 to the Consolidated Financial Statements. Expense for this item in future periods will be directly impacted by changes in the price of our common stock until the options are exercised. Other expense, net in fiscal 2003 also includes currency exchange losses on inter-company receivables and payables denominated in foreign currencies, net of gains or losses on related forward contracts, and other non-operating income and expense items.

The provision for income taxes is related to the earnings of two foreign subsidiaries. In the United States and certain other foreign jurisdictions, we have net operating loss carryforwards for which we have a 100% valuation reserve at October 31, 2003. The provision for income tax increased in fiscal 2003 because of increased earnings from our taxable foreign subsidiaries.

<u>Fiscal 2002 Compared With Fiscal 2001</u>

Our net loss for the year ended October 31, 2002, which was more than five times greater than that reported for fiscal 2001, was due primarily to substantially lower sales and service fees as result of a continuing decline in machine tool orders in both the U.S. and Europe. The Association for Manufacturing Technology, the machine tool industry's trade association, reported that in 2002, the U.S. dollar value of orders for machine tools decreased 25%, and there was a corresponding deterioration in our European markets.

Also contributing to the loss for fiscal 2002 were restructuring and other special charges totaling \$3.8 million, which consisted primarily of: (a) non-cash inventory write-downs of \$1.1 million, which were recorded as an increase in the cost of sales, and the write-off of capitalized software development costs of \$1.0 million, which was recorded as a restructuring expense, (b) severance costs of \$1.1 million related to personnel reductions, and (c) a reserve of \$1.1 million (of which \$896,000 was recorded in the fourth fiscal quarter) for potential expenditures that might be required pursuant to a disputed claim regarding a terminated facility lease in the United Kingdom, which is more fully discussed below.

During fiscal 2002, we discontinued several under-performing product lines, and sold the related assets, to enable us to focus our resources and technology development on our core products. These continuing core products, known as milling machines and vertical machining centers, consist primarily of general purpose computerized machine tools for the metal cutting industry into which our proprietary <u>Ultimax</u>® software and computer control systems have been fully integrated. Discontinued and sold were the <u>Delta</u>™ series computer control and related <u>Dynapath</u>™ milling machine product line, and related parts and service activities, along with press brake product lines and all tooling products related to press brake applications. These discontinued product lines were marketed exclusively in the United States.

During fiscal 2002, we also eliminated 53 domestic employee positions, which we expect will result in annual cost reductions of approximately \$3.8 million, of which \$2.1 million was realized in fiscal 2002.

The positions that were eliminated were those related to the discontinued product lines as well as some positions associated with our realigned and consolidated domestic sales and service operations.
We previously occupied a facility located in England under a lease that expired in April 2002. The lease required that, following expiration of the lease, we make certain repairs to the facility resulting from deterioration of the facility during the lease term. The scope and cost of the repairs alleged by the lessor to be required evolved throughout fiscal 2002 and 2003 as investigations and negotiations proceeded. On September 30, 2003, we settled this claim with the lessor for £684,000 (approximately $1.2 million), which we had previously accrued. The settlement payment was due and paid in the first quarter of fiscal 2004.

The following tables set forth net sales by geographic region and product category for the years ended October 31, 2002 and 2001 (in thousands):

Net Sales and Service Fees by Geographic Region

	October 31,			
	2002		2001	
Americas	$ 24,148	34.3%	$ 34,779	37.7%
Europe	44,509	63.1%	54,977	59.6%
Asia Pacific	1,829	2.6%	2,511	2.7%
Total	$ 70,486	100.0%	$ 92,267	100.0%

Net Sales and Service Fees by Product Category

	October 31,			
	2002		2001	
Continuing Products and Services				
Computerized Machine Tools	$ 52,056	73.9%	$ 69,631	75.4%
Computer Control Systems and Software	3,194	4.5%	4,782	5.2%
Service Parts	7,240	10.3%	8,038	8.7%
Service Fees	3,240	4.6%	3,749	4.1%
Total	$ 65,730	93.3%	$ 86,200	93.4%
Discontinued Products and Services	4,756	6.7%	6,067	6.6%
Total	$ 70,486	100.0%	$ 92,267	100.0%

Our total sales and service fees were $70.5 million in fiscal 2002, a $21.8 million, or 24%, decline compared to fiscal 2001. Sales of computerized machine tools (other than discontinued products) declined $17.6 million, or 25%, compared to fiscal 2001, reflecting the continuing global weakness in industrial equipment spending and reduced consumption of machine tools by many manufacturing companies, with the decline comprising $6.8 million, $10.1 million and $671,000 in the United States, Europe and Southeast Asia, respectively. Non-machine tool revenues also declined due to reduced activity levels in our market sectors, with the decline being most pronounced in the U.S.

The following table sets forth machine unit volume and average net selling price for computerized machine tools by continuing and discontinued products:

Computerized Machine Tools - Units Sold	2002		2001	
Continuing Products	697	88.9%	942	92.4%
Discontinued Products	87	11.1%	77	7.6%
Total	784	100.0%	1,019	100.0%

Average Net Selling Price - Per Unit (in thousands)	2002	2001
Continuing Products	$ 74.7	$ 73.9
Discontinued Products	$ 39.6	$ 47.5
Total	$ 70.8	$ 71.9

The average net selling price per machine unit of continuing products increased due to the effect of stronger European currencies when translating foreign sales for financial reporting purposes which more than offset the effect of increased discounting due to weak market conditions.

New order bookings for continuing products in fiscal 2002 were $62.2 million compared to $83.3 million in fiscal 2001, a 25% decline. New orders for computerized machine tools (other than discontinued products) declined 27% in U.S. dollars worldwide. The decline, which was experienced in all of our geographic markets, reflected a sharp decrease in orders for vertical machining centers, our primary product line. Backlog was $5.3 million at October 31, 2002, compared to $9.1 million at October 31, 2001.

Gross margin for fiscal 2002, exclusive of inventory write-downs recorded in cost of sales, declined to 23.2% from 25.2% in fiscal 2001, due to the decline in our sales of vertical machining centers and our sale of approximately $4.8 million in discontinued products at discounted prices. Gross margin did improve in the last three quarters of fiscal 2002 compared to the immediately preceding quarter, although the improvement was due primarily to the cost reductions implemented over the preceding eighteen months.

Selling, general and administrative expenses for fiscal 2002 of $19.7 million were $4.4 million, or 18%, lower than those for fiscal 2001, due to our cost reduction programs. We expect operating expenses to be lower in 2003 as we experience a full year's benefit of cost reductions initiated in fiscal 2002.

Non-operating items consisted of interest expense of $634,000 in fiscal 2002, which was $156,000, or 20%, lower than in fiscal 2001, primarily due to reduced borrowings. License fee income and litigation settlement fees in fiscal 2002 and 2001 consisted of several licenses that were granted during the year. The licensing program that resulted in these fees was effectively completed in the first quarter of fiscal 2002 and we do not expect additional license fee income in the foreseeable future. Earnings from equity investments are from our two affiliates which are accounted for using the equity method. Other expense in fiscal 2002 was not significant and in fiscal 2001, consisted primarily of the costs of typhoon-related flood damage at our manufacturing facility in Taiwan.

The provision for income taxes is related to the earnings of two foreign subsidiaries.

Liquidity and Capital Resources

At October 31, 2003, we had cash and cash equivalents of $5.3 million, exclusive of $622,000 restricted cash related to derivative instruments, compared to $4.4 million at October 31, 2002. Cash generated from operations totaled $2.3 and $6.2 million at October 31, 2003 and 2002, respectively.

The weakening of the U.S. dollar in relation to European currencies subsequent to October 31, 2003, will result in a temporary increase in restricted cash related to derivative instruments, pending the liquidation of forward contracts in the normal course during fiscal 2004. Anticipated cash losses on these forward contracts will be funded by the increased U.S. dollar value of the related inter-company sales which are being hedged and; as a result, we do not expect cash flow from operations to be adversely affected.

Working capital, excluding short-term debt, was $21.6 million at October 31, 2003, approximately the same as at October 31, 2002. Cash flow from operations benefited $1.3 million in fiscal 2003 from accelerated collections of accounts receivable and $1.5 million from planned reductions of finished machines in inventory. These amounts were substantially offset by reductions in accounts payable and accrued expenses due principally to timing of payments related to prior year foreign taxes and other operating items. We expect our operating working capital requirements to increase in fiscal 2004, commensurate with any increase in sales and service fees. Any such increase will be funded by cash flow from operation and borrowings under our bank credit facilities.

Capital investments during the year consisted of normal expenditures for software development projects and purchases of equipment. We funded these expenditures with cash flow from operations. On October 24, 2002, we issued a secured promissory note for $1.3 million to the seller of certain patent rights as partial payment for the purchase of those rights. The note had an interest rate of 2.75% per annum and was payable in four quarterly installments of $337,500, the last of which was paid on December 31, 2003.

Effective December 1, 2003, we amended and restated our credit agreement with our domestic bank, which extended the maturity date to December 1, 2006 and increased the maximum amount of the facility from $7.0 million to $8.0 million. The credit agreement provides the lender with a security interest in substantially all domestic assets, exclusive of the assets subject to the first mortgage, and 66% of the common stock of our U.S. holding companies, which own our foreign subsidiaries. Borrowings may be made in U.S. Dollars, Euros or Pounds Sterling. Interest on all outstanding borrowings is payable at LIBOR for the respective currency plus an applicable margin, or, at our option, prime rate plus a specified margin based on funded debt to EBITDA (earnings before interest, taxes, depreciation and amortization) ratio, as follows:

Total Funded Debt/EBITDA ratio	LIBOR Margin	Prime Margin
Greater than 3.0	2.75%	0%
Greater than 2.5 and less than or equal to 3.0	2.0%	(.25%)
Greater than 2.0 and less than or equal to 2.5	1.5%	(.50%)
Less than or equal to 2.0	1.0%	(.75%)

Prior to March 1, 2004, the applicable margin is determined based on the total funded debt/EBITDA ratio being greater than 2.5 and less than or equal to 3.0. Thereafter, the applicable margin will be adjusted on the first day of the month following the month after each quarter end.

Availability under the facility is limited to the greater of the commitment or a borrowing base, as defined in the agreement, which measured as of October 31, 2003, aggregated $7.5 million. The agreement requires that we maintain Consolidated Net Worth of $32.0 million plus an amount equal to 75% of positive consolidated net income for the fiscal year ended October 31, 2004, and for each fiscal year thereafter. Consolidated Net Worth is defined as total Shareholders' Equity excluding Accumulated Other Comprehensive Income. Our consolidated total debt as compared to consolidated total debt plus Consolidated Net Worth ratio cannot be greater than 0.35 to 1.0 and our fixed charge coverage ratio cannot be less than 1.10 to 1.0. The fixed charge coverage ratio is the ratio of consolidated EBITDA minus taxes, unfunded capital expenditures and redemptions of capital stock to principal payments of indebtedness plus consolidated interest expense.

Effective January 15, 2004, we entered into an agreement with our principal domestic bank which provides our U.K. subsidiary with a revolving credit and overdraft facility. The facility includes a maximum commitment aggregating £1.0 million (approximately $1.7 million) and matures January 31, 2007. Borrowings will be secured by liens on substantially all of the assets of our U.K. subsidiary. Interest on outstanding borrowings will be based on LIBOR for fixed rate loans and a base rate for overdrafts, in each case, plus a margin based on consolidated funded debt to EBITDA equivalent to that of our domestic bank facility.

We have a 3.0 million Euro credit facility with a European bank. On December 1, 2003, the maturity date of the facility was extended until November 30, 2004. Interest on the facility is payable at 7.16% per annum or, at our option, 1.75% above EURIBOR for fixed rate borrowings. Although the facility is uncollateralized, the bank reserves the right to require collateral in the event of increased risk evaluation. Borrowings outstanding under this facility at October 31, 2003 were $1.3 million.

During the fourth quarter of fiscal 2003, we settled a disputed claim in the United Kingdom regarding a terminated facility lease for $1.2 million, which had been previously accrued. The settlement payment was due in two equal installments, which where paid in the first quarter of fiscal 2004. The settlement payments were funded through cash flow from operations and borrowings available from bank credit facilities.

Total debt at October 31, 2003 was $9.2 million representing 24% of total capitalization, compared to $8.9 million, or 24% of total capitalization, at October 31, 2002. We were in compliance with all loan covenants and had unused credit availability of $6.4 million at October 31, 2003. We believe that cash flow from operations and borrowings available to us under our credit facilities will be sufficient to meet our anticipated cash requirements in fiscal 2004.

Contractual Obligations and Commitments

The following is a table of contractual obligations and commitments as of October 31, 2003 (all amounts in thousands):

Payments Due by Period

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-Term Debt	$ 9,222	$ 645	$ 4,703	$ 145	$ 3,729
Operating Leases	2,770	1,185	1,371	199	15
Deferred Credits and Other	486	--	--	--	486
Total	$12,478	$ 1,830	$ 6,074	$ 344	$4,230

In addition to the contractual obligations and commitments disclosed above, we also have a variety of other contractual agreements related to the procurement of materials and services and other commitments. With respect to these agreements, we are not subject to any contracts which commit us to material non-cancelable commitments. While some of these contractual agreements are long-term supply agreements, we are not committed under these agreements to accept or pay for requirements which are not needed to meet production needs. We have no material minimum purchase commitments or "take-or-pay" type agreements or arrangements.

With respect to capital expenditures, we expect capital spending in fiscal 2004, exclusive of capitalized software development costs, to approximate $1.5 million, which includes discretionary items.

Off Balance Sheet Arrangements

From time to time, our German subsidiary guarantees third party lease financing residuals in connection with the sale of certain machines in Europe. At October 31, 2003 there were 26 third party guarantees totaling approximately $1.4 million. A retention of title clause allows our Germany subsidiary to obtain the machine if the customer defaults on its lease. We believe that the proceeds obtained from liquidation of the machine would cover any payments required under the guarantee.

Critical Accounting Policies

Our accounting policies, including those described below, require management to make significant estimates and assumptions using information available at the time the estimates are made. Such estimates and assumptions significantly affect various reported amounts of assets, liabilities, revenues and expenses. If our future experience differs materially from these estimates and assumptions, our results of operations and financial condition could be affected.

Revenue Recognition - We recognize product revenue upon delivery to the customer, which is normally at the time of shipment, because ownership and risk of loss passes to the customer at that time and payment terms are fixed. Our computerized machine tools are general-purpose computer controlled machine tools that are typically used in stand-alone operations. Transfer of ownership and risk of loss are not contingent upon contractual customer acceptance. Prior to shipment, we test each machine to ensure the machine's compliance with standard operating specifications as listed in our sales literature.

Depending upon geographic location, the machine installation at the end user may be completed by a distributor, independent contractor or Hurco service technician. In most instances where a machine is sold through a distributor, we have no installation involvement. If sales are direct or through sales agents, we will typically complete the machine installation. The machine installation consists of the reassembly of certain parts that were removed for shipping and the re-testing of the machine to ensure that it is performing with the standard specifications. We consider the machine installation process inconsequential and perfunctory.
Service fees from maintenance contracts are deferred and recognized in earnings on a pro rata basis over the term of the contract. Sales related to software products are recognized when shipped in conformity with American Institute of Certified Public Accountants' Statement of Position 97-2 Software Revenue Recognition.

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

Deferred Tax Asset Valuation – As of October 31, 2003, we have deferred tax assets of $5.6 million for which we have recorded a full valuation allowance, resulting in zero net deferred tax asset on our balance sheet. These future tax benefits relate primarily to net operating loss carryforwards in the United States and certain foreign jurisdictions, as well as Federal business tax credits carried forward in the United States. Some of these carryforward benefits expire at certain dates and utilization of certain others is limited to specific amounts each year. Realization of those benefits is entirely dependent upon generating sufficient future taxable earnings in the specific tax jurisdictions before they expire. Due to the recent losses in the United States and the applicable foreign tax jurisdictions, there is uncertainty whether these tax benefits can be utilized before they expire. Therefore, we have established a full valuation allowance. The need for this allowance is reviewed periodically, and if reduced in future periods, the associated tax benefits will be recorded in future operations as a reduction of income tax expense.

Capitalized Software Development Costs – Costs incurred to develop new computer software products and significant enhancements to software features of existing products are capitalized as required by SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed", and amortized over the estimated product life of the related software. The determination as to when in the product development cycle technological feasibility has been established, and the expected product life, require judgments and estimates by management and can be affected by technological developments, innovations by competitors and changes in market conditions affecting demand. We capitalized $679,000 in fiscal 2003, $534,000 in fiscal 2002, and $665,000 in fiscal 2001 related to software development projects. Also in fiscal 2002, we wrote off $1.0 million of previously capitalized costs related to a discontinued product line. At October 31, 2003 we have an asset of $1.9 million for capitalized software development projects, a significant portion of which relates to projects currently in process and subject to development risk and market acceptance. We periodically review the carrying values of these assets and make judgments as to ultimate realization considering the above mentioned risk factors.

Derivative Financial Instruments – Critical aspects of our accounting policy for derivative financial instruments include conditions which require that critical terms of a hedging instrument are essentially the same as a hedged forecasted transaction. Another important element of the policy demands that formal documentation be maintained as required by the Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." Failure to comply with these conditions would result in a requirement to recognize changes in market value of hedge instruments in earnings. We routinely monitor significant estimates, assumptions, and judgments associated with derivative instruments, and compliance with formal documentation requirements.

Stock Compensation – We apply the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for stock-based compensation; therefore, no compensation expense has been recognized for stock options, except for certain shares subject to variable plan accounting, as options are granted at fair market value. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" provides an alternative method of accounting for stock options based on an option-pricing model, such as Black-Scholes. We have adopted the disclosure requirements of SFAS No. 123. Information and assumptions regarding compensation expense under the alternative method is provided in Note 8 to the Consolidated Financial Statements.

Item 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Interest Rate Risk

Our earnings are affected by changes in interest expense on our outstanding debt, all of which is subject to floating rates, either LIBOR or Prime. If market interest rates on our outstanding variable rate borrowings were to have increased by one percentage point (1%) (or 100 basis points) over the actual rates paid in that year, interest expense would have increased by $62,000 in fiscal 2003 and $90,000 in fiscal 2002. This sensitivity analysis assumes no changes in other factors affecting our financial statements that might result from changes in the economic environment which impact interest rates. Note 4 of the Consolidated Financial Statements has a discussion of the interest rates related to our current credit facilities. At October 31, 2003, outstanding borrowings under our bank credit facilities were $4.1 million and our total indebtedness was $9.2 million.

Foreign Currency Exchange Risk

In fiscal 2003, approximately 70% of our sales and service fees, including export sales, were derived from foreign markets. All of our computerized machine tools and computer control systems, as well as certain proprietary service parts, are sourced by our U.S.-based engineering and manufacturing division and re-invoiced to our foreign sales and service subsidiaries, primarily in their functional currencies.

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

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

Forward contracts for the sale or purchase of foreign currencies as of October 31, 2003 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 Contract Date	October 31, 2003	Maturity Dates
Sale Contracts:					
Euro	14,800,000	$ 1.1057	$16,364,360	$17,047,507	Nov 2003-Oct 2004
Sterling	1,960,000	$ 1.6241	$ 3,183,236	$ 3,278,948	Nov 2003-Sept 2004

Forward contracts for the sale of foreign currencies as of October 31, 2003 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 Contract Date	October 31, 2003	Maturity Dates
Sale Contracts:					
Euro	4,671,837	$ 1.1650	$5,442,690	$5,399,671	Nov 2003-Dec 2003
Singapore Dollar	2,601,353	$ .5733	$ 1,491,356	$1,496,295	Nov 2003 -Jan 2004
Sterling	522,374	$ 1.6723	$873,566	$882,615	Nov 2003-Dec 2003
Purchase Contracts:					
New Taiwan Dollar	36,800,000	33.66*	$ 1,093,286	$1,085,478	Nov 2003-Dec 2003

* NT Dollars per U.S. dollars

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Auditors

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Hurco Companies, Inc. and its subsidiaries at October 31, 2003 and 2002, and the results of their operations and their cash flows for each of the two years in the period ended October 31, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a) (2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. The financial statements and financial statement schedule of Hurco Companies, Inc. for the year ended October 31, 2001 were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated January 15, 2002.

/s/PricewaterhouseCoopers LLP

Indianapolis, Indiana
December 9, 2003

Report of Independent Public Accountants

The following report is a copy of a report previously issued by Arthur Andersen LLP and has not been reissued by Arthur Andersen LLP.

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

We have audited the accompanying consolidated balance sheets of Hurco Companies, Inc. (an Indiana corporation) and subsidiaries as of October 31, 2001* and 2000*, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended October 31, 2001. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hurco Companies, Inc. and subsidiaries as of October 31, 2001 and 2000*, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2001, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in Item 14(a) 2** is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ARTHUR ANDERSEN LLP

Indianapolis, Indiana,
January 15, 2002.

*The 2001 and 2000 consolidated balance sheets are not required to be presented in the 2003 annual report.

** The schedule to which this paragraph refers has not been included in this Form 10-K as these disclosures of 2001 and 2000 information are not required to be presented in the 2003 annual report.

HURCO COMPANIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended October 31		
	2003	2002	2001
	(Dollars in thousands, except per share amounts)		
Sales and service fees	$ 75,532	$ 70,486	$ 92,267
Cost of sales and service	54,710	54,157	69,005
Cost of sales – restructuring	--	1,083	--
Gross profit	20,822	15,246	23,262
Selling, general and administrative expenses	18,749	19,658	24,040
Restructuring expense (credit) and other expense, net (Note 16)	(124)	2,755	143
Operating income (loss)	2,197	(7,167)	(921)
Interest expense	658	634	790
License fee income and litigation settlement fees, net (Note 10 and 13)	--	163	723
Earnings from equity investments	202	25	383
Other expense, net	321	61	215
Income (loss) before income taxes	1,420	(7,674)	(820)
Provision for income taxes (Note 6)	958	589	777
Net income (loss)	$ 462	$ (8,263)	$ (1,597)
Earnings (loss) per common share – basic	$ 0.08	$ (1.48)	$ (.28)
Weighted average common shares outstanding – basic	5,582	5,583	5,670
Earnings (loss) per common share – diluted	$ 0.08	$ (1.48)	$ (.28)
Weighted average common shares outstanding – diluted	5,582	5,583	5,670

The accompanying notes are an integral part of the Consolidated Financial Statements.

HURCO COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS

ASSETS

	As of October 31	
	2003	2002
	(Dollars in thousands, except per share amounts	
Current assets:		
Cash and cash equivalents	$ 5,289	$ 4,358
Cash – restricted	622	--
Accounts receivable, less allowance for doubtful accounts of $630 in 2003 $689 in 2002	12,823	13,425
Inventories	22,247	22,548
Other	1,409	1,204
Total current assets	42,390	41,535
Property and equipment:		
Land	761	761
Building	7,239	7,203
Machinery and equipment	10,568	10,144
Leasehold improvements	544	396
	19,112	18,504
Less accumulated depreciation and amortization	(10,730)	(9,696)
	8,382	8,808
Software development costs, less accumulated amortization	1,922	1,604
Investments and other assets	5,264	5,205
	$ 57,958	$ 57,152

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 9,249	$ 8,752
Accounts payable-related parties	212	1,104
Accrued expenses and other	9,032	9,013
Accrued warranty expenses	1,016	1,003
Current portion of long-term debt	645	1,313
Total current liabilities	20,154	21,185
Non-current liabilities:		
Long-term debt	8,577	7,572
Deferred credits and other	486	378
	9,063	7,950
Commitments and contingencies (Notes 10 and 11)		
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, 5,575,987 and 5,583,158 shares issued and outstanding in 2003 and 2002, respectively	557	558
Additional paid-in capital	44,695	44,717
Accumulated deficit	(9,711)	(10,173)
Accumulated other comprehensive income (loss)	(6,800)	(7,085)
Total shareholders' equity	28,741	28,017
	$ 57,958	$ 57,152

The accompanying notes are an integral part of the Consolidated Financial Statements.

HURCO COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended October 31		
	2003	2002	2001
		(Dollars in thousands)	
Cash flows from operating activities:			
Net income (loss)	$ 462	$ (8,263)	$ (1,597)
Adjustments to reconcile net income (loss) to Net cash provided by (used for) operating activities:			
Provision for doubtful accounts	421	133	547
Equity in income of affiliates	(202)	(25)	(383)
Depreciation and amortization	1,429	1,929	2,196
Restructuring charge (credit)	--	2,250	(195)
Change in assets/liabilities			
(Increase) decrease in accounts receivable	1,348	1,615	3,113
(Increase) decrease in inventories	1,465	7,720	(4,018)
Increase (decrease) in accounts payable	(687)	(141)	(3,521)
Increase (decrease) in accrued expenses	(1,760)	1,228	558
Other	(200)	(245)	(182)
Net cash provided by (used for) operating activities	2,276	6,201	(3,482)
Cash flows from investing activities:			
Proceeds from sale of property and equipment	14	154	38
Purchase of property and equipment	(536)	(1,184)	(1,253)
Software development costs	(679)	(534)	(665)
Purchase of intellectual property	--	(500)	--
Change in restricted cash	(622)	--	--
Other proceeds (investments)	(25)	1,037	(829)
Net cash used for investing activities	(1,848)	(1,027)	(2,709)
Cash flows from financing activities:			
Advances on bank credit facilities	55,731	28,369	44,300
Repayments on bank credit facilities	(54,418)	(37,251)	(34,050)
Repayments of term debt	(1,211)	(200)	(1,986)
Proceeds from first mortgage	--	4,500	--
Repayment of first mortgage	(108)	(39)	--
Proceeds from exercise of common stock options	--	4	35
Purchase of common stock	(23)	--	(1,706)
Net cash provided by (used for) financing activities	(29)	(4,617)	6,593
Effect of exchange rate changes on cash	532	278	(263)
Net increase (decrease) in cash	931	835	139
Cash and cash equivalents at beginning of year	4,358	3,523	3,384
Cash and cash equivalents at end of year	$ 5,289	$ 4,358	$ 3,523
Supplemental disclosures:			
Cash paid for:			
Interest	$ 595	$ 519	$ 682
Income taxes	$ 468	$ 442	$ 501

Supplemental schedule of noncash investing and financial activities:

In fiscal 2002, we purchased patented technology for $1.85 million. In connection therewith we issued a secured promissory note for $1.35 million.

Fair value of asset acquired	$ 1,850
Cash paid	500
Promissory note issued	$ 1,350

The accompanying notes are an integral part of the Consolidated Financial Statements.

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

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	T
	Shares Issued & Outstanding	Amount				
			(Dollars in thousands)			
Balances, October 31, 2000	5,955,359	$ 596	$ 46,347	$ (313)	$ (7,739)	$38
Net loss	--	--	--	(1,597)	--	(1.
Translation of foreign currency financial statements	--	--	--	--	315	
Unrealized loss of derivative instruments	--	--	--	--	(470)	(
Comprehensive loss						(1,
Exercise of common stock options	16,400	1	34	--	--	
Repurchase of common stock	(391,101)	(39)	(1,667)	--	--	(1,
Balances, October 31,2001	5,580,658	$ 558	$ 44,714	$ (1,910)	$ (7,894)	$35,
Net income loss	--	--	--	(8,263)	--	(8,
Translation of foreign currency financial statements	--	--	--	--	981	
Unrealized loss of derivative instruments	--	--	--	--	(172)	(
Comprehensive loss						(7,
Exercise of common stock options	2,500	--	3	--	--	
Balances, October 31, 2002	5,583,158	$ 558	$ 44,717	$ (10,173)	$ (7,085)	$28,
Net income loss	--	--	--	462	--	.
Translation of foreign currency financial statements	--	--	--	--	1,454	1,
Unrealized loss of derivative instruments	--	--	--	--	(1,169)	(1,1
Comprehensive income						7
Repurchase of common stock	(7,171)	(1)	(22)	--	--	(
Balances, October 31, 2003	5,575,987	$ 557	$ 44,695	$ (9,711)	$ (6,800)	$28,

The accompanying notes are an integral part of the Consolidated Financial Statements.

HURCO COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation. The consolidated financial statements include the accounts of Hurco Companies, Inc. (an Indiana corporation) and our wholly owned and controlled subsidiaries. We have a 35% and 24% ownership interest in two affiliates accounted for using the equity method. Our combined investments in affiliates are approximately $1.8 million and are included in Investments and Other Assets on the accompanying Consolidated Balance Sheets. Intercompany accounts and transactions have been eliminated.

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

Restricted Cash. Restricted cash results from hedging arrangements that require cash to be on deposit with an institution based on open positions.

Translation of Foreign Currencies. All balance sheet accounts of non-U.S. subsidiaries are translated at the exchange rate as of the end of the year. Income and expenses are translated at the average exchange rates during the year. Cumulative foreign currency translation adjustments of $5.0 million are included in Accumulated Other Comprehensive Income in shareholders' equity. Foreign currency transaction gains and losses are recorded as income or expense as incurred.

Hedging. On November 1, 2001, we adopted Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). In accordance with the provisions of SFAS No. 133, we recorded a transition adjustment upon the adoption of the standard to recognize the difference between the fair value of the derivative instruments recorded on the balance sheet and the previous carrying amount of those derivatives. The effect of this transition adjustment was insignificant and is reflected in the Other Expense, Net in the Consolidated Statement of Operations. We also recorded a transition adjustment of approximately $129,000 in Accumulated Other Comprehensive Income to recognize previously deferred net losses on derivatives designated as cash flow hedges.

We enter into foreign currency forward exchange contracts periodically to hedge certain forecast inter-company sales and forecast inter-company and third-party purchases of product 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 Consolidated Balance Sheet at fair value in Other Current Assets and Accrued Expenses. 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 cost of sales in the period that the sale of the related hedged item is recognized, thereby providing an offsetting economic impact against the corresponding change in the U.S. dollar value of the inter-company sale or purchase item being hedged.

At October 31, 2003, we had $1,814,000 of losses related to cash flow hedges deferred in Accumulated Other Comprehensive Income. Of this amount, $778,000 represents unrealized losses related to future cash flow hedge instruments that remain subject to currency fluctuation risk. These deferred losses will be recorded as an adjustment to cost of sales in the periods through October 31, 2004, in which the sale of the related hedged item is recognized, as described above. At October 31, 2002, we had $645,000 of losses related to cash flow hedges deferred in Accumulated Other Comprehensive Income. Net losses on cash flow hedge contracts which we reclassified from Other Comprehensive Income to Cost of Sales in the years ended October 31, 2003, 2002 and 2001 were $1,430,000, $617,000, and $261,000, respectively.

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 SFAS 133, "Accounting Standards for Derivative Instruments and Hedging Activities" (SFAS 133), and, as a result, changes in fair value are reported currently as Other Expense, Net in the Consolidated Statement of Operations consistent with the transaction gain or loss on the related foreign denominated receivable or payable. Such net transaction losses were $(154,000), $(209,000) and $(50,000) for the years ended October 31, 2003, 2002 and 2001, respectively.

Inventories. Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out method.

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

	Number of Years
Building	40
Machines	10
Shop and office equipment	5
Leasehold improvements	5

Total depreciation expense for the years ended October 31, 2003, 2002 and 2001 was $1.0 million, $1.1 million and $1.3 million, respectively. Any impairment would be recognized based on an assessment of future operations (including cash flows) to insure that assets are appropriately valued.

Revenue Recognition. We recognize product revenue upon delivery to the customer, which is normally at the time of shipment because ownership and risk of loss passes to the customer at that time and payment terms are fixed. Our computerized machine tools are general-purpose computer controlled machine tools that are typically used in stand-alone operations. Transfer of ownership and risk of loss are not contingent upon contractual customer acceptance. Prior to shipment, we test each machine to ensure the machine's compliance with standard operating specifications as listed in our sales literature.

Depending upon geographic location, the machine installation at the end user may be completed by a distributor, independent contractor or Hurco service technician. In most instances where a machine is sold through a distributor, we have no installation involvement. If sales are direct or through sales agents, we will typically complete the machine installation. The machine installation consists of the reassembly of certain parts that were removed for shipping and the re-testing of the machine to ensure that it is performing with the standard specifications. We consider the machine installation process inconsequential and perfunctory.

Service fees from maintenance contracts are deferred and recognized in earnings on a pro rata basis over the term of the agreement. Sales related to software products are recognized when shipped in conformity with American Institute of Certified Public Accountants' Statement of Position 97-2 Software Revenue Recognition.

License Fee Income, Net. From time to time, our wholly owned subsidiary, IMS Technology, Inc. (IMS) entered into agreements for the licensing of its interactive computer control patents. License fees received under a fully paid-up license, for which there are no future performance requirement or contingency, and litigation settlement fees were recognized in income, net of legal fees and expenses, if any, at the time the related agreement was executed. License fees received in periodic installments that were contingent upon the continuing validity of a licensed patent were recognized in income, net of legal fees and expenses, if any, over the life of the licensed patent, which expired in October 2001. We have no deferred license fee income at October 31, 2003 and do not expect any significant license fee income in the foreseeable future.

Product Warranty. Expected future product warranty expense is recorded when the product is sold.

Research and Development Costs. The costs associated with research and development programs for new products and significant product improvements are expensed as incurred and are included in Selling, General and Administrative expenses. Research and development expenses totaled $1.8 million, $2.4 million, and $3.5 million in fiscal 2003, 2002, and 2001, respectively.

Costs incurred to develop computer software products and significant enhancements to software features of existing products to be sold or otherwise marketed are capitalized, after technological feasibility is established. Software development costs are amortized to Cost of Sales on a straight-line basis over the estimated product life of the related software, which ranges from three to five years. We capitalized $679,000 in 2003, $534,000 in 2002, and $665,000 in 2001 related to software development projects. Amortization expense was $361,000, $719,000, and $925,000, for the years ended October 31, 2003, 2002, and 2001, respectively. Accumulated amortization at October 31, 2003 and 2002 was $8.8 million and $8.4 million, respectively. Any impairment of the carrying value of the capitalized software development costs could be recognized based on an assessment of future operations (including cash flows) to insure that assets are appropriately valued.

Estimated amortization expense for the existing amortizable intangible assets for the years ended October 31, is as follows:

Fiscal Year	Amortization Expense
2004	$372
2005	380
2006	367
2007	367
2008	367

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. The impact of potentially issuable shares for the years ended October 31, 2002 and 2001 was excluded from the computation of diluted earnings per share because their effect would be anti-dilutive.

Income Taxes. We record income taxes under SFAS 109 "Accounting for Income Taxes". SFAS 109 utilizes the liability method for computing deferred income taxes. It also requires that the benefit of certain loss carryforwards be recorded as an asset and that a valuation allowance be established against the asset when it is "more likely than not" the benefit will not be realized

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates.

2. BUSINESS OPERATIONS

Nature of Business. We design and produce computer control systems and software and computerized machine tools for sale through our own distribution system to the worldwide machine tool industry.

The end market for our products consists primarily of precision tool, die and mold manufacturers, independent job shops and specialized short-run production applications within large manufacturing operations. Industries served include: aerospace, defense, medical equipment, energy, transportation and computer industries. Our products are sold through independent agents and distributors in countries throughout North America, Europe and Asia. We also maintain direct sales operations in England, France, Germany, Italy, Singapore and China.

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

Manufacturing Risk. Our computerized machine tools and integrated computer controls are manufactured primarily in Taiwan by our wholly-owned subsidiary and our affiliated contract manufacturers. We also source one of the proprietary Ultimax® computer components from a sole domestic supplier. Any interruption from these sources would restrict the availability of our computerized machine tool systems and would affect operating results adversely.

3. INVENTORIES

Inventories as of October 31, 2003 and 2002 are summarized below (in thousands):

	2003	2002
Purchased parts and sub assemblies	$ 5,729	$ 6,677
Work-in-process	2,029	2,251
Finished goods	14,489	13,620
	$ 22,247	$ 22,548

4. DEBT AGREEMENTS

Long-term debt as of October 31, 2003 and 2002, consisted of (in thousands):

	2003	2002
Domestic bank revolving credit facility	$ 2,850	$ --
European bank credit facility	1,274	2,475
First Mortgage	4,360	4,460
Installment Promissory Note	338	1,350
Economic Development Revenue Bonds, Series 1990	400	600
	9,222	8,885
Less current portion	645	1,313
	$ 8,577	$ 7,572

As of October 31, 2003, long-term debt was payable as follows (in thousands):

Fiscal 2004	645
Fiscal 2005	1,591
Fiscal 2006	126
Fiscal 2007	2,986
Fiscal 2008	145
Thereafter	3,729
	9,222

As of October 31, 2003 and 2002, we had $0 and $1.1 million, respectively, of outstanding letters of credit issued to non-U.S. suppliers for inventory purchase commitments. As of October 31, 2003, we had unutilized credit facilities of $6.4 million available for either direct borrowings or commercial letters of credit. We were in compliance with all loan covenants at October 31, 2003.

Domestic Bank Credit Facility. Interest on the domestic bank credit facility was payable at rates ranging from 5.12% to 6.25% at October 31, 2003 and from 4.28% to 5.25% at October 31, 2002.

Effective December 1, 2003, we amended and restated our bank credit agreement with our domestic bank, which extended the maturity date to December 1, 2006 and increased the maximum amount of the facility from $7.0 million to $8.0 million. The credit agreement provides the lender with a security interest in substantially all domestic assets, exclusive of the assets subject to a first mortgage, and 66% of the common stock of our U.S. holding companies, which own our foreign subsidiaries. Borrowings may be made in U.S. Dollars, Euro or Pounds Sterling. Interest on all outstanding borrowings is payable at LIBOR for the respective currency plus an applicable margin, or, at our option, prime rate plus a specified margin based on funded debt to EBITDA (earnings before interest, taxes, depreciation and amortization) ratio, as follows:

Total Funded Debt/EBITDA ratio	LIBOR Margin	Prime Margin
Greater than 3.0	2.75%	0%
Greater than 2.5 and less than or equal to 3.0	2.0%	(.25%)
Greater than 2.0 and less than or equal to 2.5	1.5%	(.50%)
Less than or equal to 2.0	1.0%	(.75%)

Prior to March 1, 2004, the applicable margin is determined based on the total funded debt/EBITDA ratio being greater than 2.5 and less than or equal to 3.0. Thereafter, the applicable margin will be adjusted on the first day of the month following the month after each quarter end.

Availability under the facility is limited to the greater of the commitment or a borrowing base, as defined in the agreement, which measured as of October 31, 2003 aggregated $7.5 million. The agreement requires that we maintain Consolidated Net Worth of $32.0 million plus an amount equal to 75% of positive consolidated net income for the fiscal year ended October 31, 2004, and for each fiscal year thereafter. Consolidated Net Worth is defined as total Shareholders' Equity excluding Accumulated Other Comprehensive Income. Our consolidated total debt compared to consolidated total debt plus Consolidated Net Worth ratio cannot be greater than 0.35 to 1.0 and our fixed charge coverage ratio cannot be less than 1.10 to 1.0. The fixed charge coverage ratio is the ratio of consolidated EBITDA minus taxes, unfunded capital expenditures and redemptions of capital stock to principal payments of indebtedness plus consolidated interest expense.

Promissory Note. On October 24, 2002, we issued a secured promissory note for $1,350,000 to the seller of patented technology that we purchased. The note bears interest at 2.75% per annum and at October 31, 2003 the balance of the note is $337,500, due at December 31, 2003.

First Mortgage. On April 30, 2002, we obtained a $4.5 million first mortgage loan on our Indianapolis corporate headquarters. The loan bears interest at a rate of 7⅜% and matures in April 2009. We are required to make principal payments over the seven-year term of the loan, 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.

European Bank Credit Facilities. Effective January 15, 2004, we entered into a letter agreement with our principal domestic bank which provides our U.K. subsidiary with a revolving credit and overdraft facility. The facility includes a maximum commitment aggregating £1.0 million (approximately $1.7 million) and matures January 31, 2007. Borrowings will be secured by liens on substantially all of the assets of our U.K. subsidiary. Interest on outstanding borrowings will be based on LIBOR for fixed rate loans and a base rate for overdrafts, in each case, plus a margin based on consolidated funded debt to EBITDA equivalent to that of our domestic bank facility.

We have a 3.0 million Euro credit facility with a European bank. On December 1, 2003, the maturity date of the facility was extended until November 30, 2004. Interest on the facility is payable at 7.16% per annum or, at our option, 1.75% above EURIBOR for fixed rate borrowings. Although the facility is uncollateralized, the bank reserves the right to require collateral in the event of increased risk evaluation. Borrowings outstanding under this facility at October 31, 2003 were $1.3 million.

Economic Development Revenue Bonds. The Economic Development Revenue Bonds are payable in two remaining equal annual installments due on September 1, 2004 and 2005 and are secured by a letter of credit issued by our domestic bank. Interest rates on the bonds adjust weekly and, as of October 31, 2003 and 2002, interest was accruing at a rate of 1.12% and 2.10%, respectively.

5. FINANCIAL INSTRUMENTS

The carrying amounts for trade receivables and payables approximate their fair values. At October 31, 2003, the carrying amounts and fair values of our financial instruments, which include bank revolving credit facilities, senior notes and Economic Development Revenue Bonds, are not materially different. The fair value of long-term debt, including the current portion, is estimated based on quoted market prices for similar issues or on current rates offered to us for debt of the similar terms and maturities.

We also have financial instruments in the form of foreign currency forward exchange contracts as described in Note 1 to the Consolidated Financial Statements. The U.S. Dollar equivalent notional amount of these contracts was $28.4 million at October 31, 2003. The net fair value of these derivative instruments recorded in Accrued Expenses at October 31, 2003 was $758,000. Current market prices were used to estimate the fair value of the foreign currency forward exchange contracts.

The future value of the foreign currency forward exchange contracts and the related currency positions are subject to offsetting market risk resulting from foreign currency exchange rate volatility. The counterparties to these contracts are substantial and creditworthy financial institutions. We do not consider either the risk of counterparty non-performance or the economic consequences of counterparty non-performance as material risks.

6. INCOME TAXES

Deferred income taxes reflect the effect of temporary differences between the tax basis of assets and liabilities and the reported amounts of those assets and liabilities for financial reporting purposes. Deferred income taxes also reflect the value of net operating losses and an offsetting valuation allowance. Our total deferred tax assets and corresponding valuation allowance at October 31, 2003 and 2002, consisted of the following (in thousands):

	October 31	
	2003	2002
Tax effects of future tax deductible items related to:		
Accrued inventory reserves	$ 630	$ 623
Accrued warranty expenses	107	121
Deferred compensation	224	213
Other accrued expenses	389	521
Total deferred tax assets	1,350	1,478
Tax effects of future taxable differences related to:		
Accelerated tax deduction and other tax over book deductions related to property, equipment and software	(990)	(968)
Other	(632)	(698)
Total deferred tax liabilities	(1,622)	(1,666)
Net tax effects of temporary differences	(272)	(188)
Tax effects of carryforward benefits:		
U.S. federal net operating loss carryforwards, expiring 2023	2,868	2,745
Foreign tax benefit carryforwards, expiring 2004-2008	568	326
Foreign tax benefit carryforwards, with no expiration	1,398	1,435
U.S. federal general business tax credits, expiring 2004-2023	1,036	1,017
Tax effects of carryforwards	5,870	5,523
Tax effects of temporary differences and carryforwards, net	5,598	5,335
Less valuation allowance	(5,598)	(5,335)
Net deferred tax asset	$ --	$ --

Except as indicated above, our carryforwards expire at specific future dates and utilization of certain carryforwards is limited to specific amounts each year and further limitations may be imposed if an "ownership change" would occur. Realization is entirely dependent upon generating sufficient future earnings in specific tax jurisdictions prior to the expiration of the loss carryforwards.

Due to the uncertain nature of their ultimate realization based upon past performance and expiration dates, we have established a full valuation allowance against carryforward benefits. While the need for this valuation allowance is subject to periodic review, if the allowance is reduced, the tax benefits of the carryforwards will be recorded in future operations as a reduction of our income tax expense.

Income (loss) before income taxes (in thousands):	Year Ended October 31		
	2003	2002	2001
Domestic	$ (875)	$ (7,238)	$(2,980)
Foreign	2,295	(436)	2,160
	$ 1,420	$ (7,674)	$ (820)

	2003	2002	2001
Differences between the effective tax rate and U.S. federal income tax rate were (in thousands):			
Tax at U.S. statutory rate	$ 497	$ (2,686)	$ (287)
Federal tax	--	(95)	95
Effect of tax rates of international jurisdictions In excess (less than) of U.S. statutory rates	(130)	97	155
State income taxes	--	(6)	--
Effect of losses without current year benefit	591	3,279	1,043
Utilization of net operating loss carryforwards	--	--	(229)
Provision for income taxes	$ 958	$ 589	$ 777

Our provision for income taxes in fiscal 2003, 2002 and 2001 represents taxes currently payable.

We have not provided any U.S. income taxes on the undistributed earnings of our foreign subsidiaries or equity method investments based upon our determination that such earnings will be indefinitely reinvested.

7. EMPLOYEE BENEFITS

We have defined contribution plans that include a majority of our employees, under which our contributions are discretionary. The purpose of these plans is generally to provide additional financial security during retirement by providing employees with an incentive to save throughout their employment. Our contributions to the plans are based on employee contributions or compensation. Our contributions totaled $228,076, $263,640, and $344,811, for the years ended October 31, 2003, 2002 and 2001, respectively.

We also have split-dollar life insurance agreements with our executive officers. In fiscal 2003, the premiums were borrowed from the cash value of the policies and will be repaid from the policies' cash surrender values when the policies are terminated in accordance with the provisions of the agreements. In fiscal years prior to 2003, the premiums were paid by the Company.

8. STOCK OPTIONS

In March 1997, we adopted the 1997 Stock Option and Incentive Plan (the 1997 Plan) which allows us to grant awards of options to purchase shares of our common stock, stock appreciation rights, restricted shares and performance shares. Under the provision of the 1997 Plan, 750,000 shares of common stock may be issued and the maximum number of shares of common stock that may be granted to any individual is 200,000 shares. Options granted under the 1997 Plan are exercisable for a period up to ten years after date of grant and vest in equal annual installments as specified by the Compensation Committee of our Board of Directors at the time of grant. The option price of options intended to qualify as incentive stock options may not be less than 100% of the fair market value of a share of common stock on the date of grant. As of October 31, 2003, options to purchase 657,000 shares had been granted and remained outstanding under the 1997 Plan.

In 1990, we adopted the 1990 Stock Option Plan (the 1990 Plan), which allowed us to grant options to purchase shares of our common stock and related stock appreciation rights and limited rights to officers and our key employees. Under the provisions of the 1990 Plan, the maximum number of shares of common stock, which could be issued under options and related rights, was 500,000. There was no annual limit on the number of such shares with respect to which options and rights could be granted. Options granted under the 1990 Plan are exercisable for a period up to ten years after date of grant and vested in equal installments over a period of three to five years from the date of grant. The option price could not be less than 100% of the fair market value of a share of common stock on the date of grant and no options or rights could be granted under the 1990 Plan after April 30, 2000.

A summary of the status of the options under the 1990 and 1997 Plans as of October 31, 2003, 2002 and 2001 and the related activity for the year is as follows:

	Shares Under Option	Weighted Average Exercise Price Per Share
Balance October 31, 2000	826,660	$4.77
Granted	57,000	3.67
Cancelled	(82,000)	5.23
Expired	(20,000)	7.15
Exercised	(16,400)	2.14
Balance October 31, 2001	765,260	$4.63
Granted	342,000	2.14
Cancelled	(266,900)	4.18
Expired	(7,700)	2.13
Exercised	(2,500)	2.13
Balance October 31, 2002	830,160	$3.78
Granted	--	--
Cancelled	(8,000)	4.14
Expired	(33,500)	5.85
Exercised	--	--
Balance October 31, 2003	788,660	$3.69

Stock options outstanding and exercisable on October 31, 2003 are as follows:

Range of Exercise Prices Per Share	Shares Under Option	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life in Years
Outstanding			
$ 2.125 - 5.125	580,160	$2.84	5.9
5.813 - 8.250	208,500	6.05	5.0
$ 2.125 - 8.250	788,660	$3.69	5.5
Exercisable			
$ 2.125 - 5.125	414,787	$3.04	--
5.813 - 8.250	170,800	6.10	--
$ 2.125 - 8.250	585,587	$3.93	--

We apply Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB No. 25), and related interpretations in accounting for the plans, and, except for certain shares subject to variable plan accounting, no compensation expense has been recognized for stock options issued under the plans. For companies electing to continue the use of APB No. 25, SFAS No. 123 "Accounting for Stock-Based Compensation", requires pro forma disclosures determined through the use of an option-pricing model as if the provisions of SFAS No. 123 had been adopted.

On November 11, 2001, our former CEO was granted 110,000 options at $2.11 and all of his previous option grants were cancelled. These options are subject to variable plan accounting, which resulted in a charge to expense in fiscal 2003 of $51,000 for the amount of the benefit that could have been realized based on the stock price at October 31, 2003.

The weighted average fair value at date of grant for options granted during fiscal 2002 and 2001, was $1.43 and $2.07, per share, respectively. No options were granted in 2003. The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

	2003	2002	2001
Expected dividend yield	NA	0.00%	0.00%
Expected volatility	NA	53.71%	56.00%
Risk-free interest rate	NA	4.99%	5.18%
Expected term in years	NA	9.05	10

If we had adopted the provisions of SFAS No. 123, net income (loss) and earnings (loss) per share would have been as follows:

	2003	2002	2001
Net income (loss) (in thousands)	$ 265	$ (8,628)	$ (1,928)
Earnings (loss) per share:			
Basic	$ 0.05	$ (1.55)	$ (.34)
Diluted	$ 0.05	$ (1.55)	$ (.34)

As of October 31, 2003, there were outstanding non-qualified options that had been granted outside of the 1990 and 1997 plans to current and former outside members of the Board of Directors to purchase 50,000 and 75,000 shares at $5.13 and $5.81 per share, respectively. These shares are exercisable as of October 31, 2003. The options expire at various dates between 2002 and 2008.

9. RELATED PARTY TRANSACTIONS

We own approximately 24% of one of our Taiwanese-based contract manufacturers. This investment of $565,000 is accounted for using the equity method and is included in Investments and Other Assets on the Consolidated Balance Sheet. Purchases of product from this contract manufacturer totaled $3.7 million, $5.9 million, and $12.2 million for the years ended October 31, 2003, 2002 and 2001, respectively. Trade payables to this contract manufacturer were $111,000 at October 31, 2003, and $1.0 million at October 31, 2002. Trade receivables were $108,000 at October 31, 2003 and $43,000 at October 31, 2002.

As of October 31, 2003, we owned 35% of Hurco Automation, Ltd. (HAL), a Taiwan based company. HAL's scope of activities includes the design, manufacture, sales and distribution of industrial automation products, software systems and related components, including control systems and components manufactured under contract for sale exclusively to us. We are accounting for this investment using the equity method. The investment of $1.3 million at October 31, 2003 is included in Investments and Other Assets on the Consolidated Balance Sheet. Purchases of product from this supplier amounted to $4.8 million, $4.1 million and $4.1 million in 2003, 2002 and 2001, respectively. Trade payables to HAL were $1.2 million and $879,000 at October 31, 2003 and 2002, respectively. Trade receivables from HAL were $278,000 and $311,000 at October 31, 2003 and 2002, respectively.

Summary financial information for the two affiliates accounted for using the equity method of accounting are as follows:

(000's)	2003	2002	2001
Net Sales	$ 26,284	$ 25,013	$ 42,691
Gross Profit	4,409	4,173	7,305
Operating Income	564	127	2,047
Net Income	261	425	1,609
Current Assets	$ 17,162	$ 12,842	$ 14,345
Non-current Assets	2,015	1,756	1,535
Current Liabilities	13,549	9,460	11,335

10. CONTINGENCIES AND LITIGATION

We previously occupied a facility located in England under a lease that expired in April 2002. The lease required that, following expiration of the lease, we make certain repairs to the facility resulting from deterioration of the facility during the lease term. The scope and cost of the repairs alleged by the lessor to be required evolved throughout fiscal 2002 and 2003 as investigations and negotiations proceeded. On September 30, 2003, we settled this claim with the lessor for £684,000 (approximately $1.2 million), which we had previously accrued. The settlement payment is due in two equal installments in November 2003 and January 2004.

We are involved in various claims and lawsuits arising in the normal course of business. We do not expect any of these claims, individually or in the aggregate, to have a material adverse effect on our consolidated financial position or results of operations.

11. GUARANTEES

During fiscal 2003, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and

Rescission of FASB Interpretation No. 34." FIN 45 clarifies the requirements of FASB Statement No. 5, Accounting for Contingencies, relating to the guarantor's accounting for, and disclosures of, the issuance of certain types of guarantees.

From time to time, our German subsidiary guarantees third party lease financing residuals in connection with the sale of certain machines in Europe. At October 31, 2003 there were 26 third party guarantees totaling approximately $1.4 million. A retention of title clause allows our Germany subsidiary to obtain the machine if the customer defaults on its lease. We believe that the proceeds obtained from liquidation of the machine would cover any payments required under the guarantee.

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

	Warranty Reserve
Balance at October 31, 2002	$ 1,003
Provision for warranties during the period	1,058
Charges to the accrual	(1,135)
Impact of foreign currency translation	90
Balance at October 31, 2003	$ 1,016

12. OPERATING LEASES

We lease facilities, certain equipment and vehicles under operating leases that expire at various dates through 2008. Future payments required under operating leases as of October 31, 2003, are summarized as follows (in thousands):

2004	1,185
2005	750
2006	337
2007	284
2008	199
Thereafter	15
Total	2,770

Lease expense for the years ended October 31, 2003, 2002, and 2001 was $1.5 million, $1.8 million, and $1.6 million, respectively.

We recorded $118,000 of lease income from subletting 45,000 square feet of our Indianapolis facility. The sublease expires on January 31, 2005.

13. LICENSE FEE INCOME AND LITIGATION SETTLEMENT FEES, NET

License fee income and litigation settlement fees, net for fiscal 2002 and 2001 were attributable to agreements entered into by our wholly owned subsidiary, IMS Technology, pursuant to which IMS granted fully paid-up licenses of its interactive patents in exchange for cash and other consideration. License fee payments received that were contingent upon the continued validity of the patent were deferred and recognized over the life of the patent, which expired in October 2001. We have no deferred license fee income at October 31, 2003 and do not expect any significant license fee income in the foreseeable future.

HURCO COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

14. QUARTERLY HIGHLIGHTS (Unaudited)

2003 (In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales and service fees	$ 15,953	$ 17,453	$ 18,354	$ 23,772
Gross profit	3,994	5,128	5,074	6,626
Gross profit margin	25.0%	29.4%	27.6%	27.9%
Restructuring expense (credit) and other expense, net (Note 16)	--	--	--	(124)
Selling, general and administrative expenses	4,428	4,563	4,332	5,426 [(b)]
Operating income (loss)	(434)	565	742	1,324
Net income (loss)	(582)	139	331	574
Loss per common share – basic	$ (.10)	$ .02	$ .06	$ .10
Loss per common share – diluted	$ (.10)	$ .02	$ .06	$ .10

2002 (In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales and service fees	$ 18,520	$ 14,995	$ 18,204	$ 18,767
Gross profit	4,003	1,883 [(a)]	4,381	4,979
Gross profit margin	21.6%	12.6% [(a)]	24.1%	26.5%
Restructuring expense and other expense, net (Note 16)	356	1,395	--	1,004
Selling, general and administrative expenses	5,214	4,535	4,672	5,237
Operating loss	(1,567)	(4,047)	(291)	(1,262)
Net loss	(1,614)	(4,211)	(651)	(1,760)
Loss per common share – basic	$ (.29)	$ (.75)	$ (.12)	$ (.32)
Loss per common share – diluted	$ (.29)	$ (.75)	$ (.12)	$ (.32)

a. Includes $1.1 million restructuring charge for inventory write-downs related to under-performing product lines that were discontinued. Gross profit margin exclusive of the inventory charge was 19.1%.

b. Includes $400,000 of incentive compensation expense.

15. SEGMENT INFORMATION

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

Our computerized metal cutting machine tools are manufactured to our specifications by manufacturing contractors in Taiwan including our wholly owned subsidiary, Hurco Manufacturing Limited (HML). Our executive offices and principal design, engineering, and manufacturing management operations are headquartered in Indianapolis, Indiana. We sell our products through approximately 200 independent agents and distributors in approximately 40 countries throughout North America, Europe and Asia. We also have our own direct sales and service organizations in England, France, Germany, Italy, Singapore and China. During fiscal 2003, no customer accounted for more than 5% of our sales and service fees.

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

Net Sales and Service Fees by Product Category	Year ended October 31,		
	2003	2002	2001
Computerized Machine Tools	$ 61,385	$ 55,503	$ 73,286
Computer Control Systems and Software *	3,044	3,632	5,716
Service Parts	7,643	8,111	9,516
Service Fees	3,460	3,240	3,749
Total	$ 75,532	$ 70,486	$ 92,267

*Amounts shown do not include CNC systems sold as an integrated component of computerized machine systems.

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

Revenues by Geographic Area	Year Ended October 31		
	2003	2002	2001
United States	$ 22,829	$ 22,782	$ 32,935
Germany	22,111	22,863	28,452
United Kingdom	8,381	7,387	8,814
Other Europe	17,735	14,142	17,847
Total Europe	48,227	44,392	55,113
Asia and Other	4,476	3,312	4,219
Total Foreign	52,703	47,704	59,332
	$ 75,532	$ 70,486	$ 92,267

Long-lived assets by geographic area were (in thousands):

	October 31	
	2003	2002
United States	$ 13,847	$ 13,824
Foreign countries	1,721	1,793
	$ 15,568	$ 15,617

16. RESTRUCTURING EXPENSE AND OTHER EXPENSE, NET

In fiscal 2001, a provision of $471,000 was recorded for severance costs related to a domestic cost reduction program in which 59 positions were eliminated. Fiscal 2001 also included a reversal of a $328,000 previously established reserve.

During fiscal 2002, we discontinued several under-performing product lines, sold the related assets and discontinued a software development project to enable us to focus our resources and technology development on our core products, which consist primarily of general purpose computerized machine tools for the metal cutting industry (vertical machining centers) into which our proprietary Ultimax® software and computer control systems have been fully integrated. As a result of these actions, we recorded restructuring charges totaling $3.1 million consisting primarily of: (a) non-cash write downs of inventories of $1.1 million recorded in cost of sales and capitalized software development costs of $1.0 million recorded as restructuring expense, and (b) severance costs of $934,000, related to personnel reductions.

Also included in restructuring expense and other expense, net in fiscal 2002 is a $1.1 million provision for potential expenditures related to a disputed claim in the United Kingdom, regarding a terminated facility lease (Note 10) and a $277,000 credit due to a refund of software development fees resulting from the termination of a software development agreement during the second fiscal quarter (Note 18).

The severance accrual of $264,000 at October 31, 2002 represented costs related to employees to be paid in future periods. The severance provision represented 53 positions that have been eliminated or were to be eliminated in fiscal 2003. At October 31, 2002, 38 employees had been paid the full amount of their severance while the remaining 15 employees were paid at various times through the second quarter of fiscal 2003.

In fiscal 2003, we paid the remaining severance and adjusted the foreign lease liability balance to the actual settlement amount.

Description	Balance 10/31/00	Provision (Credit)	Charges to Accrual	Balance 10/31/01
Excess building capacity	$ 286	$ (286)	$ --	$ --
Equipment leases	54	(42)	(12)	--
Severance costs	300	471	(638)	133
	$ 640	$ 143	$ (650)	$ 133

Description	Balance 10/31/01	Provision (Credit)	Charges to Accrual	Balance 10/31/02
Cost of sales – restructuring:				
Inventory write-down	$ --	$ 1,083	$ 1,083	$ --
Restructuring expense:				
Capitalized software development cost write-off	--	1,036	1,036	--
Severance costs	133	$ 934	803	264
Other expense (credit):				
Foreign lease termination liability (Note10)	51	1,062	--	1,113
Termination of software development agreement (Note 18)	--	(277)	(277)	
Total restructuring and other expense, net	184	2,755	1,562	1,377
Total	$ 184	$ 3,838	$ 2,645	$ 1,377

Description	Balance 10/31/02	Provision (Credit)	Charges to Accrual	Balance 10/31/03
Severance costs	264	(43)	221	--
Foreign lease termination liability	1,113	(81)	(157)	1,189
	$ 1,377	$ (124)	$ 64	$ 1,189

17. STOCK REPURCHASES

Pursuant to our odd-lot tender offer in fiscal 2003, we repurchased 7,171 shares of common stock for approximately $23,000. The repurchases of shares is reflected as a reduction in common stock.

In fiscal 2001, we repurchased 391,101 shares of our common stock for approximately $1.7 million of which 278,001 were purchased from a related party for $1.2 million. The repurchase of shares is reflected as a reduction in common stock.

18. SOFTWARE DEVELOPMENT AGREEMENTS AND LOAN AGREEMENT

During fiscal 2001, we entered into agreements with a private software company to fund development costs related to the integration of patented, open architecture technology into our computer control products. We agreed to fund an aggregate of $405,000, over a fifteen-month period ending in July 2002 of which $180,000 was paid and recorded as a research and development expense in fiscal 2001. We also agreed to fund a secured term loan payable in installments through February 2002, of $1.0 million which is due April 1, 2003. In addition, the company granted us warrants to purchase an equity interest, which were exercisable on or before December 31, 2002, and 2003.

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

We had an agreement with another private software company to fund $683,000 of development costs, which was recorded as a research and development expense in fiscal 2002 and fiscal 2001. In October 2002, we exercised an option to purchase the core technology owned by the software company for $1.9 million which is recorded in Investments and Other Assets at October 31, 2003. The core technology consists of patented software-based computer control technology that will be incorporated in our proprietary computer control system.

19. NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB 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 ceased and the goodwill carrying values are tested periodically for impairment. We adopted 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 were subject immediately to the goodwill non-amortization and intangible provisions of this statement. The adoption of this standard did not have a material effect on the Consolidated Financial Statements.

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), which was effective for the fiscal year beginning November 1, 2002. SFAS 144 established a single model to account for impairment of assets to be held or disposed of, incorporating guidelines for accounting and disclosure of discontinued operations. The adoption of this standard did not have a material effect on the Consolidated Financial Statements.

In July 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This Standard, which was effective for disposal activities initiated after December 31, 2002, addressed significant issues regarding the recognition, measurement and reporting of costs associated with exit and disposal activities. The adoption of this standard did not have a material impact on the Consolidated Financial Statements.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock Based Compensation – Transition and Disclosure – An Amendment to FASB Statement No. 123" (SFAS 148) for fiscal years ending after December 15, 2002. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The adoption of this standard did not have a material effect on the Consolidated Financial Statements.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46) Consolidation of Variable Interest Entities. This Interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved and is effective for the first fiscal year or interim period beginning after June 15, 2003 for variable interest entities in which an enterprise holds a variable interest that it acquired before

February 1, 2003. We do not expect that the adoption of this standard will have a material effect on the Consolidated Financial Statements.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS 150). This Standard is effective for financial instruments entered into or modified after May 31, 2003, and for all other instruments for interim periods beginning after June 15, 2003. SFAS 150 requires certain liabilities previously classified as equity to be reclassified to a liability. The adoption of this standard did not have a material effect on the Consolidated Financial Statements.

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

Not Applicable.

Item 9A. CONTROLS AND PROCEDURES

We carried out an evaluation under the supervision and with participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of October 31, 2003 pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the evaluation date.

There have been no changes in our internal controls over financial reporting that occurred during the year ended October 31, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS AND DIRECTORS OF THE REGISTRANT

The information required by this item is hereby incorporated by reference from our definitive proxy statement for our 2004 annual meeting of shareholders except that the information required by Item 10 regarding Executive Officers is included herein under a separate caption at the end of Part I.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is hereby incorporated by reference from the definitive proxy statement for our 2004 annual meeting of shareholders.

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

Except for the information concerning equity compensation plans, the information required by this item is hereby incorporated by reference from the definitive proxy statement for our 2004 annual meeting of shareholders.

Equity Compensation Plan Information

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of October 31, 2003, including the 1997 Stock Option and Incentive Plan and the 1990 Stock Option Plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) (#)	Weighted-average exercise price of outstanding options, warrants and rights (b) ($)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) (#)
Equity compensation plans approved by security holders	788,660	$3.69	89,500
Equity compensation plans not approved by security holders[1]	125,000	5.54	--
Total	913,660	$3.90	89,500

[1]Represents non-qualified options granted to the Board of Directors in 1996 and 1998.

As of October 31, 2003, there were outstanding non-qualified options that had been granted outside of the 1990 and 1997 plans to current and former outside members of the Board of Directors to purchase 50,000 and 75,000 shares at $5.13 and $5.81 per share, respectively. These shares are exercisable as of October 31, 2003. The options expire at various dates between 2002 and 2008.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is hereby incorporated by reference from the definitive proxy statement for our 2004 annual meeting of shareholders.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is hereby incorporated by reference from the definitive proxy statement for our 2004 annual meeting of shareholders.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

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

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

(b) Reports on Form 8-K

Report furnished on August 20, 2003 under Item 12, Results of Operation and Financial Condition.

(c) Exhibits

Exhibits are filed with this Form 10-K or incorporated herein by reference as listed on pages 50 and 51.

Schedule II - Valuation and Qualifying Accounts and Reserves for the years ended October 31, 2003, 2002, and 2001

(Dollars in thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged To Other Accounts	Deductions	Balance At End Of Period
Allowance for doubtful Accounts for the year ended:					
October 31, 2003	$ 689	$ 421	$ --	$ 480 [1]	$ 630
October 31, 2002	$ 907	$ 133	$ --	$ 351 [2]	$ 689
October 31, 2001	$ 741	$ 547	$ --	$ 381 [3]	$ 907
Accrued warranty expenses For the year ended:					
October 31, 2003	$ 1,003	$ 1,148	$ --	$ 1,135	$ 1,016
October 31, 2002	$ 792	$ 1,089	$ --	$ 878	$ 1,003
October 31, 2001	$ 831	$ 661	$ --	$ 700	$ 792

(1) Receivable write-offs of $493,000, net of cash recoveries on accounts previously written off of $12,000.

(2) Receivable write-offs of $359,000, net of cash recoveries on accounts previously written off of $9,000.

(3) Receivable write-offs of $384,000, net of cash recoveries on accounts previously written off of $4,000.

EXHIBITS INDEX

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

10.1	Third Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement dated as of December 1, 2003 between the Registrant and Bank One, NA.
10.2	Revolving Credit Facility and Overdraft Facility between Hurco Europe Limited and Bank One, NA dated January 15, 2004.
11	Statement re: computation of per share earnings.
21	Subsidiaries of the Registrant.
23.2	Consent of PricewaterhouseCoopers LLP.
31.1	Certification by the Chief Executive Officer, pursuant to Rule 13a-15(b) under the Securities and Exchange Act of 1934, as amended.
31.2	Certification by the Chief Financial Officer, pursuant to Rule 13a-15(b) under the Securities and Exchange Act of 1934, as amended.
32.1	Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

3.1	Amended and Restated Articles of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 to the Registrant's Report on Form 10-Q for the quarter ended July 31, 2000.
3.2	Amended and Restated By-Laws of the Registrant dated November 14, 2001, incorporated by reference to Exhibit 3.2 to the Registrant's Report on Form 10-K for the year ended October 31, 2001.
10.3*	Non-qualified Stock Option Agreement between the Registrant and O. Curtis Noel effective, March 3, 1993, incorporated by reference to Exhibit 10.44 to the Registrant's Report on Form 10-K for the year ended October 31, 1993.
10.4*	Employment Agreement between the Registrant and Roger J. Wolf dated January 8, 1993, incorporated by reference to Exhibit 10.45 to the Registrant's Report on Form 10-K for the year ended October 31, 1993.
10.5*	Form of Director Non-qualified Stock Option Agreement between the Registrant and Richard T. Niner, O. Curtis Noel and Charles E. Mitchell Rentschler, incorporated by reference as Exhibit 10.4 to the Registrant's Form 10-K for the year ended October 31, 1999.
10.6*	Non-qualified Stock Option Agreement between the Registrant and Richard T. Niner, effective July 8, 1996 incorporated by reference to Exhibit 10.49 to the Registrant's Report on Form 10-K for the year ended October 31, 1996.
10.7*	Non-qualified Stock Option Agreement between the Registrant and O. Curtis Noel, effective July 8, 1996 incorporated by reference to Exhibit 10.50 to the Registrant's Report on Form 10-K for the year ended October 31, 1996.
10.8*	Non-qualified Stock Option Agreement between the Registrant and Charles E. Mitchell Rentschler, effective July 8, 1996 incorporated by reference to Exhibit 10.51 to the Registrant's Report on Form 10-K for the year ended October 31, 1996.
10.9*	Amended 1997 Stock Option and Incentive Plan, incorporated by reference as Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended July 31, 2000.

10.10* Employment Agreement between the Registrant and James D. Fabris dated November 18, 1997, incorporated by reference as Exhibit 10.15 to the Registrant's Report on Form 10-Q for the quarter ended January 31, 1998.

10.11 Mortgage dated April 30, 2002 between the Registrant and American Equity Investment Life Insurance Company incorporated by reference as Exhibit 10.2 to the Registrant's Report on Form 10-Q for the quarter ended April 30, 2002.

10.12* Employment Agreement between the Registrant and Michael Doar dated November 13, 2001 incorporated by reference as Exhibit 10.2 to the Registrant's Report on Form 10-Q dated January 31, 2002

10.13 Promissory Note dated October 24, 2002 between the Registrant and CIMplus, Inc. (incorporated by reference to Exhibit 10.2 to the Registrants Report on Form 10-K for the year ended October 31, 2002.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, this 23rd day of January 23, 2004.

HURCO COMPANIES, INC.

By: /s/ Roger J. Wolf
Roger J. Wolf
Senior Vice-President,
Secretary, Treasurer and
Chief Financial Officer

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

Signature and Title(s)	Date
/s/ Michael Doar Michael Doar, Chairman of the Board, Chief Executive Officer and Director of Hurco Companies, Inc. (Principal Executive Officer)	January 23, 2004
/s/ Roger J. Wolf Roger J. Wolf Senior Vice-President, Secretary, Treasurer and Chief Financial Officer of Hurco Companies, Inc. (Principal Financial Officer)	January 23, 2004
/s/ Stephen J. Alesia Stephen J. Alesia Corporate Controller of Hurco Companies, Inc. (Principal Accounting Officer)	January 23, 2004

/s/ Robert W. Cruickshank Robert W. Cruickshank, Director	January 23, 2004
/s/ Richard T. Niner Richard T. Niner, Director	January 23, 2004
/s/ O. Curtis Noel O. Curtis Noel, Director	January 23, 2004
/s/ Charles E. M. Rentschler Charles E. M. Rentschler, Director	January 23, 2004
/s/ Gerald V. Roch Gerald V. Roch, Director	January 23, 2004

Exhibit 11

COMPUTATION OF PER SHARE EARNINGS

Exhibit 11
Statement Re: Computation of Per Share Earnings

(in thousands, except per share amount)	Three Months Ended October 31,				Twelve Months Ended October 31,			
	2003		2002		2003		2002	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net loss	$ 574	$ 574	$ (1,760)	$(1,760)	$ 462	$ 462	$ (8,263)	$ (8,263)
Weighted average shares outstanding	5,578	5,578	5,583	5,583	5,582	5,582	5,583	5,583
Assumed issuances under stock options plans	--	34	--	--	--	--	--	--
	5,578	5,612	5,583	5,583	5,582	5,582	5,583	5,583
Loss per common share	$ 0.10	$ 0.10	$ (0.32)	$ (0.32)	$ 0.08	$ 0.08	$ (1.48)	$ (1.48)

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

Exhibit 21

SUBSIDIARIES OF HURCO COMPANIES, INC.

Name	Jurisdiction of Incorporation
Hurco B.V.	the Netherlands
Hurco Europe Limited	United Kingdom
Hurco GmbH	Federal Republic of Germany
Hurco Manufacturing Ltd.	Taiwan R.O.C.
Hurco S.a.r.l.	France
Hurco S.r.l.	Italy
Hurco (S.E. Asia) Pte Ltd.	Singapore

. Exhibit 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS
PricewaterhouseCoopers LLP

Exhibit 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-48204) of Hurco Companies, Inc. of our report dated December 9, 2003, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/PricewaterhouseCoopers LLP

Indianapolis, Indiana
January 23, 2004

Exhibit 31.1

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

I, Michael Doar, certify that:

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

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

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

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

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

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

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

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

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

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

/s/ Michael Doar
Michael Doar,
Chairman of the Board & Chief Executive Officer
January 16, 2004

Exhibit 31.2

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

I, Roger J. Wolf, certify that:

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

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

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

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

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

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

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

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

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

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

/s/ Roger J. Wolf
Roger J. Wolf
Senior Vice President & Chief Financial Officer
January 16, 2004

Exhibit 32.1

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

In connection with the Annual Report of Hurco Companies, Inc. (the "Company") on Form 10-K for the period ending October 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Michael Doar
Michael Doar
Chairman of the Board & Chief Executive Officer
January 16, 2004

Exhibit 32.2

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

In connection with the Annual Report of Hurco Companies, Inc. (the "Company") on Form 10-K for the period ending October 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Roger J. Wolf
Roger J. Wolf
Senior Vice President & Chief Financial Officer
January 16, 2004