

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): January 10, 2014

Hurco Companies, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Indiana

(State or Other Jurisdiction of Incorporation)

0-9143

(Commission File Number)

35-1150732

(IRS Employer Identification No.)

One Technology Way
Indianapolis, Indiana

(Address of Principal Executive Offices)

46268

(Zip Code)

(317) 293-5309

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Certain Officer; Compensatory Arrangements of Certain Officers.

The following information is provided pursuant to Sub-item (e) of Item 5.02:

Short-Term Incentive Compensation Plan

On January 10, 2014, the Compensation Committee (the "Committee") of the Board of Directors of Hurco Companies, Inc. (the "Company") adopted a short-term incentive compensation plan for its named executive officers for the Company's 2014 fiscal year that will pay cash compensation to the participants if performance goals set by the Committee for fiscal 2014 are attained. The performance goals relate to the Company's fiscal 2014 operating income margin and certain strategic objectives for the named executive officers, and payouts will be based on the relative weightings set forth below:

Name	Performance Metric	Weighting
Michael Doar	Operating Income Margin	70%
	Strategic Objectives	30%
John G. Oblazney	Operating Income Margin	70%
	Strategic Objectives	30%
John P. Donlon	Operating Income Margin	50%
	Strategic Objectives	50%
Sonja K. McClelland	Operating Income Margin	70%
	Strategic Objectives	30%
Gregory S. Volovic	Operating Income Margin	70%
	Strategic Objectives	30%

Following the end of fiscal 2014, the Committee will determine the degree to which the operating income margin goals and the strategic objectives were attained, and the resulting payout level relative to the target amount for each metric. Participants will have the ability to earn between 50% of a target amount for achieving threshold performance and 200% of the target amount for achieving maximum performance for each metric. If fiscal 2014 operating income margin is zero or negative, then no amounts will be paid under the 2014 short-term incentive plan, even if all or a portion of the performance goals under the strategic objectives component were attained. The weighted-average percentage payout level applicable to each officer will be multiplied by his or her target amount, which shall be determined by multiplying the base salary of the applicable officer paid during fiscal 2014 by the target amount set forth below:

Name	Target Amount of 2014 Base Salary
Michael Doar	85%
John G. Oblazney	55%
John P. Donlon	40%
Sonja K. McClelland	55%
Gregory S. Volovic	75%

The Committee retains the discretion to adjust downward, but not upward, the amount of compensation that would otherwise be payable under the 2014 short-term incentive compensation plan.

A copy of the 2014 short-term incentive compensation plan is filed as Exhibit 10.1 to this report, and the foregoing summary is qualified in its entirety by reference to the 2014 short-term incentive compensation plan filed herewith.

Long-Term Incentive Compensation

On January 10, 2014, the Committee approved a long-term incentive compensation arrangement for the named executive officers in the form of restricted shares and performance shares awarded under the Company's shareholder-approved 2008 Equity Incentive Plan (the "Plan"). The awards were weighted as 25% time-based vesting (in thirds over three years) and 75% performance-based vesting (at the end of a three year period, to the extent performance metrics are satisfied). The three-year performance period will be fiscal 2014 through fiscal 2016. The Committee granted the awards of restricted shares and a target number of performance shares to the named executive officers effective as of January 10, 2014 as follows:

	Restricted Shares	Target # of Performance Shares - TSR	Target # of Performance Shares - ROIC
Michael Doar	5,206	7,243	7,289
John G. Oblazney	1,978	2,752	2,770
John P. Donlon	989	1,376	1,385
Sonja K. McClelland	885	1,231	1,239
Gregory S. Volovic	3,124	4,346	4,373

The performance shares designated as "Target # of Performance Shares-TSR" in the above table were weighted as 40% of the overall long-term incentive compensation arrangement and will vest and be paid based on the Company's total shareholder return over the three-year period, relative to the total shareholder return over that period of the companies in the Company's peer group. The performance shares designated as "Target # of Performance Shares-ROIC" in the above table were weighted as 35% of the overall long-term incentive compensation arrangement and will vest and be paid based on the achievement of pre-established goals related to the Company's average return on invested capital over the three-year period. Participants will have the ability to earn between 50% of the target number of shares for achieving threshold performance and 200% of the target number of shares for achieving maximum performance under each metric.

The Committee has adopted forms of award agreements to be used for the awards of restricted shares and performance shares as described above. Copies of the form of Restricted Share Award Agreement (Employee) and the form of Performance Share Award Agreement (Employee) are filed as Exhibit 10.2 and Exhibit 10.3, respectively, to this report, and the foregoing summary is qualified in its entirety by reference to the forms of award agreements filed herewith.

Item 9.01 Financial Statements and Exhibits

- 10.1*** 2014 Short-Term Incentive Compensation Plan
- 10.2*** Form of Restricted Share Award Agreement (Employee)
- 10.3*** Form of Performance Share Award Agreement (Employee)

*Represents a management contract or compensatory plan or arrangement.

SIGNATURES

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

Dated: January 14, 2014

HURCO COMPANIES, INC.

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

EXHIBIT INDEX

- 10.1*** 2014 Short-Term Incentive Compensation Plan
- 10.2*** Form of Restricted Share Award Agreement (Employee)
- 10.3*** Form of Performance Share Award Agreement (Employee)

*Represents a management contract or compensatory plan or arrangement.

Hurco Companies, Inc.
Fiscal 2014 Short-Term Incentive Compensation Plan

A. General

The Fiscal 2014 Short-Term Incentive Compensation Plan (the “Plan”) of Hurco Companies, Inc. (the “Company”) is administered by the Compensation Committee of the Board of Directors of the Company. The Compensation Committee has the authority to interpret and administer all provisions and to make any rules and regulations or take any action it deems necessary with respect to the Plan.

Any payment of short-term incentive compensation for fiscal 2014 to a participant will be paid in cash, less applicable tax withholding, as determined by the Compensation Committee no later than January 14, 2015.

B. Participation

The executive officers of the Company listed in the table below have been granted an award under the Plan. Any participant whose employment terminates during fiscal 2014 for any reason other than death, disability or retirement will have forfeited all rights and interests in and to any short-term compensation that may have accrued or been earned while the participant was actively employed. If a participant’s employment with the Company terminates during fiscal 2014 due to death, disability or retirement, the Compensation Committee may, in its sole discretion, approve the payment of a pro-rated portion of the amount payable under the Plan to such participant. For purposes of the Plan, the term “disability” means the total and permanent disability of the participant as determined by the Compensation Committee pursuant to section 22(e)(3) of the Internal Revenue Code of 1986, as amended, and the term “retirement” means termination of the participant’s employment with the Company after the participant’s 65th birthday or such other age as set forth in the Company’s retirement policy as in effect from time to time.

C. Performance Metrics and Percentage Payout Levels

Compensation under the Plan will be based upon the achievement of the performance metrics and relative weightings set forth below:

Name	Performance Metric	Weighting
Michael Doar	Operating Income Margin	70%
	Strategic Objectives	30%
Gregory S. Volovic	Operating Income Margin	70%
	Strategic Objectives	30%
John G. Oblazney	Operating Income Margin	70%
	Strategic Objectives	30%
John P. Donlon	Operating Income Margin	50%
	Strategic Objectives	50%
Sonja K. McClelland	Operating Income Margin	70%
	Strategic Objectives	30%

“Operating Income Margin” is defined as the operating income of the Company on a consolidated basis divided by the sales and service fees of the Company on a consolidated basis, each as reported in the Company’s audited financial statements for the fiscal year ending October 31, 2014. The Compensation Committee will establish the performance goals related to Operating Income Margin and the percentage payout levels (the “Percentage Payout Levels”) that will be associated with the attainment of those performance goals. The Percentage Payout Levels for Operating Income Margin will range from 50% (threshold) to 100% (Target Amount (as defined below)) to 200% (maximum), with amounts interpolated between the stated performance levels. The performance goals and Percentage Payout Levels related to Operating Income Margin will be established by the Compensation Committee and communicated to the participants at a time when the outcome with respect to the relevant performance under those performance goals is substantially uncertain.

The Compensation Committee will establish and communicate to each of the participants his or her Strategic Objective(s) and the associated Percentage Payout Level(s) at a time when the outcome with respect to the achievement of the Strategic Objectives is substantially uncertain. The aggregate Percentage Payout Level for the 2014 Strategic Objectives for each participant may range from 50% to 200% of the Target Amount.

D. Determination of Attainment

Following the end of fiscal year 2014, the Compensation Committee will determine the degree to which the Operating Income Margin goals were attained and the overall achievement by each participant of the applicable 2014 Strategic Objectives, and the resulting Percentage Payout Level relative to the Target Amount for each metric.

The weightings applicable to each of the Operating Income Margin and the 2014 Strategic Objectives set forth above shall be applied to the Percentage Payout Level for each metric by participant as determined by the Compensation Committee, resulting in a weighted-average Percentage Payout Level (“Weighted-Average Percentage Payout Level”) relative to the Target Amount for each officer. If Operating Income Margin is zero or a negative number, then no amounts will be paid under the Plan, even if all or a portion of the performance goals under the 2014 Strategic Objectives were attained.

E. Target Amount

The Weighted-Average Percentage Payout Level applicable to each participant will be multiplied by his or her “Target Amount,” which shall be determined by multiplying the base salary of the applicable participant paid during fiscal 2014 by the target percentage set forth below:

<u>Name</u>	<u>Target Percentage of 2014 Base Salary</u>
Michael Doar	85%
Gregory S. Volovic	75%
John G. Oblazney	55%
John P. Donlon	40%
Sonja K. McClelland	55%

The Committee retains the discretion to adjust downward, but not upward, the amount of compensation that would otherwise be payable under the Plan.

RESTRICTED SHARE AWARD AGREEMENT (EMPLOYEE)

This Restricted Share Award Agreement ("Agreement") has been entered into as of the ____ day of _____, _____, between Hurco Companies, Inc., an Indiana corporation (the "Company") and _____ ("Participant"), an employee of the Company or one of the Company's subsidiaries pursuant to the Company's 2008 Equity Incentive Plan (the "Plan").

WHEREAS, the committee of the Board of Directors of the Company appointed to administer the Plan (the "Committee"), has made an award of Restricted Shares (as defined in the Plan; capitalized terms used in this Agreement and not defined herein shall have the meanings given to them in the Plan) to Participant pursuant to the terms and conditions as provided in the Plan and this Agreement; and

WHEREAS, the Company and Participant desire to set forth the terms and conditions of the award;

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained in this Agreement, the Company and Participant agree as follows:

1. Grant of Award. Subject to the terms and conditions stated in the Plan and this Agreement, the Committee hereby grants to Participant an award of ____ Restricted Shares. The date of this grant (the "Restricted Share Award Date") is _____, _____.
2. Representations of Participant. Participant hereby (a) accepts the award of Restricted Shares described in paragraph 1, (b) agrees that the Restricted Shares will be held by him or her and his or her successors subject to (and will not be disposed of except in accordance with) all of the restrictions, terms and conditions contained in this Agreement and the Plan, and (c) agrees that certificates, if any, evidencing the Restricted Shares shall bear the following legend or such other legend as the Company, from time to time, deems appropriate:

"The transferability of this certificate and the shares represented hereby are subject to the terms and conditions (including forfeiture) contained in the Hurco Companies, Inc. 2008 Equity Incentive Plan, and an Award Agreement entered into between the registered owner and Hurco Companies, Inc. Copies of the Plan and Award Agreement are on file in the office of the Secretary of Hurco Companies, Inc."

3. Vesting. Subject to the terms of the Plan, the Restricted Shares held by Participant shall become fully vested and nonforfeitable if he or she still is, and since the date of this Agreement has continuously been, employed by the Company or one of its subsidiaries [three years from the Restricted Share Award Date] [as to _____ [insert fraction, such as 1/3] of the Restricted Shares on a cumulative basis, on each of the [insert anniversary dates, such as first, second and third] anniversaries of the Restricted Share Award Date].
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4. Restricted Period. Except as otherwise provided in this Agreement or the Plan, Participant may not sell, assign, transfer, pledge or otherwise dispose of or encumber any of the Restricted Shares, or any interest therein, until his or her rights in such shares have vested in accordance with this Agreement (the "Restricted Period"). Any purported sale, assignment, transfer, pledge or other disposition or encumbrance in violation of this Agreement or the Plan will be void and of no effect. Participant may, at any time during the Restricted Period, waive all rights with respect to the Restricted Shares by delivering to the Company a written notice of such waiver.

5. Rights as Shareholder. During the Restricted Period, and except as otherwise provided in the Plan, Participant shall have all the rights of a shareholder with respect to the Restricted Shares, including, but not limited to, the right to receive all cash dividends paid on the Restricted Shares and the right to vote the Restricted Shares. Stock dividends and shares issued as a result of any stock-split, if any, issued with respect to the Restricted Shares shall be treated as additional Restricted Shares and shall be subject to the same restrictions and other terms and conditions that apply with respect to, and shall vest or be forfeited at the same time as, the Restricted Shares with respect to which such stock dividends or shares are issued.

6. Forfeiture. Except as provided in the Plan or determined by the Committee, in its sole discretion, upon termination of employment with the Company or one of its subsidiaries for any reason other than death or Disability, Participant shall forfeit all unvested Restricted Shares, and shall not receive any compensation for such forfeited Restricted Shares. Participant shall have no further rights as a shareholder of the Company with respect to the forfeiture, including, without limitation, any right to receive any distribution payable to shareholders of record on or after the date of such forfeiture. Except as provided in the Plan, if Participant's employment with the Company or one of its subsidiaries is terminated by reason of death or Disability before any Restricted Period has expired, the Restricted Shares will become fully vested.

7. Certificates or Book Entry. As soon as practicable after the Restricted Share Award Date, the Company shall issue stock certificates or establish book entries evidencing the Restricted Shares which will be registered in Participant's name, and shall bear whatever legend the Committee shall determine, including, but not limited to, the legend set forth in paragraph 2. Any certificates issued shall be held by the Company pending vesting. To the extent the Restricted Shares become vested, the Company shall promptly provide Participant (or in the case of his death, his designated beneficiary) the certificates or book entries for the appropriate number of Shares.

8. Withholding. In connection with the delivery of Shares as a result of the vesting of Restricted Shares, Participant shall be required to satisfy all applicable tax withholding requirements by having the Company withhold otherwise deliverable Shares.

9. Qualification of Rights. Neither this Agreement nor the existence of the award shall be construed as giving Participant any right to be retained as an employee of the Company or any of its subsidiaries.

10. Plan Controlling and Committee Determinations. The terms and conditions set forth in the Agreement are subject in all respects to the terms and conditions of the Plan, which are controlling. The Committee has full and complete authority, subject only to the express provisions of the Plan, to interpret the Plan and make all determinations deemed necessary or advisable for the administration of the Plan. All determinations and interpretations of the Committee shall be binding and conclusive upon Participant and his or her legal representatives.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Indiana.

12. Notices. All notices and other communications required or permitted under this Agreement shall be written and shall be delivered personally or sent by registered or certified first-class mail, postage prepaid and return receipt required, addressed as follows: if to the Company, to the Company's executive offices in Indianapolis, Indiana, and if to Participant or his or her successor, to the address last furnished by Participant to the Company. Each notice and communication shall be deemed to have been given when received by the Company or Participant.

13. No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

IN WITNESS WHEREOF, the Company and Participant have executed this Agreement as of the date first written above.

HURCO COMPANIES, INC.

By: _____
Michael Doar, Chairman and Chief Executive Officer

[Participant]

PERFORMANCE SHARE AWARD AGREEMENT (EMPLOYEE)

This Performance Share Award Agreement (“Agreement”) has been entered into as of the ____ day of _____, _____, between Hurco Companies, Inc., an Indiana corporation (the “Company”) and _____ (“Participant”), an employee of the Company or one of the Company’s subsidiaries pursuant to the Company’s 2008 Equity Incentive Plan (the “Plan”).

WHEREAS, the committee of the Board of Directors of the Company appointed to administer the Plan (the “Committee”), has made an award of Performance Shares (as defined in the Plan; capitalized terms used in this Agreement and not defined herein shall have the meanings given to them in the Plan) to Participant pursuant to the terms and conditions as provided in the Plan and this Agreement; and

WHEREAS, the Company and Participant desire to set forth the terms and conditions of the award;

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained in this Agreement, the Company and Participant agree as follows:

1. **Grant of Award.** Subject to the terms and conditions stated in the Plan and this Agreement, the Committee hereby grants to Participant a target award of ____ Performance Shares, with the actual number of Performance Shares to be received under this award to depend on the attainment of performance goals set forth herein. Each Performance Share is a book-keeping entry that represents an unfunded, unsecured right to receive one Share, subject to the terms and conditions stated in the Plan and this Agreement, including without limitation the attainment of the performance goals set forth herein. The date of this grant (the “Performance Share Award Date”) is _____, ____.
 2. **Representations of Participant.** Participant hereby (a) accepts the award of Performance Shares described in paragraph 1, and (b) agrees that the Performance Shares will be held by him or her and his or her successors subject to (and will not be disposed of except in accordance with) all of the restrictions, terms and conditions contained in this Agreement and the Plan.
 3. **Performance Goals and Performance Cycle.** Subject to the terms of the Plan, the Performance Shares held by Participant shall vest and be paid in shares of Common Stock only to the extent the Performance Goals established as specified in Attachment A to this Agreement are satisfied within the period of time set forth in Attachment A as the Performance Cycle.
 4. **Payment.** If and to the extent that the Committee certifies in writing that the Performance Goals have been attained or otherwise satisfied with respect to the Performance Cycle, the applicable number of Shares, as determined in accordance with Attachment A, will be issued and delivered to Participant as soon as administratively practicable following such certification, and in any event no later than the 15th day of the third month following the end of the calendar year in which the Performance Cycle ends.
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5. Restrictions. Except as otherwise provided in this Agreement or the Plan, Participant may not sell, assign, transfer, pledge or otherwise dispose of or encumber any of the Performance Shares, or any interest therein, until his or her rights in such shares have vested in accordance with this Agreement. Any purported sale, assignment, transfer, pledge or other disposition or encumbrance in violation of this Agreement or the Plan will be void and of no effect. Participant may, at any time prior to the vesting of the Performance Shares, waive all rights with respect to the Performance Shares by delivering to the Company a written notice of such waiver.

6. Rights of Shareholder. Participant will not have any rights of a holder of Shares (including any voting rights or rights with respect to cash dividends paid by the Company) until the Performance Shares vest. Stock dividends and shares issued as a result of any stock-split, if any, issued with respect to the Performance Shares shall be treated as additional Performance Shares and shall be subject to the same restrictions and other terms and conditions that apply with respect to, and shall vest or be forfeited at the same time as, the Performance Shares with respect to which such stock dividends or shares are issued.

7. Forfeiture. Except as provided in the Plan or determined by the Committee, in its sole discretion, upon termination of employment with the Company or one of its subsidiaries prior to the end of the Performance Cycle for any reason other than Disability (as defined in the Plan) or death, Participant shall forfeit all unvested Performance Shares, and shall not receive any compensation for such forfeited Performance Shares. Except as provided in the Plan, if Participant's employment with the Company or one of its subsidiaries is terminated by reason of death or Disability before the end of the Performance Cycle and if Participant has been continuously employed by the Company or one of its subsidiaries for one year or more from the Performance Share Award Date, then following completion of the Performance Cycle, Participant will be entitled to a prorated payment with respect to any Performance Shares that were earned during the Performance Cycle. Further, any Performance Shares that do not vest as a result of the applicable Performance Goals not being attained shall be forfeited. Participant shall have no rights as a holder of Shares with respect to any forfeited Performance Shares.

8. Certificates or Book Entry. No certificates evidencing Shares shall be issued prior to the vesting of the Performance Shares and the delivery of Shares, if any. To the extent the Performance Shares vest, the Company shall provide Participant (or in the case of his death, his designated beneficiary) the appropriate number of Shares in certificated or book entry form.

9. Withholding. In connection with the delivery of Shares as a result of the vesting of Performance Shares, Participant shall be required to satisfy all applicable tax withholding requirements by having the Company withhold otherwise deliverable Shares.

10. Qualification of Rights. Neither this Agreement nor the existence of the award shall be construed as giving Participant any right to be retained as an employee of the Company or any of its subsidiaries.

11. Plan Controlling and Committee Determinations. The terms and conditions set forth in the Agreement are subject in all respects to the terms and conditions of the Plan, which are controlling. The Committee has full and complete authority, subject only to the express provisions of the Plan, to interpret the Plan and make all determinations deemed necessary or advisable for the administration of the Plan. All determinations and interpretations of the Committee shall be binding and conclusive upon Participant and his or her legal representatives.

12. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Indiana.

13. Notices. All notices and other communications required or permitted under this Agreement shall be written and shall be delivered personally or sent by registered or certified first-class mail, postage prepaid and return receipt required, addressed as follows: if to the Company, to the Company's executive offices in Indianapolis, Indiana, and if to Participant or his or her successor, to the address last furnished by Participant to the Company. Each notice and communication shall be deemed to have been given when received by the Company or Participant.

14. No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

15. Recoupment. Any benefits Participant may receive hereunder shall be subject to repayment or forfeiture pursuant to the Company's policy on recoupment or recovery of incentive compensation, as in effect from time to time, and all laws and listing standards related to the recoupment or recovery of incentive compensation, all to the extent determined by the Company in its discretion to be applicable to Participant. This Section 15 shall not be the Company's exclusive remedy with respect to such matters.

IN WITNESS WHEREOF, the Company and Participant have executed this Agreement as of the date first written above.

HURCO COMPANIES, INC.

By: _____
Michael Doar, Chairman and Chief Executive Officer

[Participant]

**ATTACHMENT A
TO
PERFORMANCE SHARE AWARD AGREEMENT**

The Performance Cycle shall commence on November 1, 2013 and end on October 31, 2016. The Performance Shares shall vest and be paid in Shares as follows:

- (a) 53% of the target number of Performance Shares as set forth in paragraph 1 of the Agreement shall be “Target TSR Performance Shares.” The actual number of Shares to be paid (the “TSR Performance Shares Payout”) with respect to this metric shall be determined in accordance with the following formula: $\text{TSR Performance Shares Payout} = \text{TSR Payout Factor} \times \text{Target TSR Performance Shares}$. The “TSR Payout Factor” is based on the Company’s Total Shareholder Return (defined and measured as described below, the “TSR”) for the Performance Cycle relative to the TSR for each company in the Peer Group (as defined below), determined in accordance with the following table:

<u>If the Company’s TSR rank against the Peer Group is</u>	<u>TSR Payout Factor (% of Target TSR Performance Shares)</u>
at the 30 th percentile (Threshold)	50%
at the 55 th percentile (Target)	100%
at the 90 th percentile or more (Maximum)	200%

The TSR Payout Factor shall be interpolated on a straight-line basis between the percentile levels in the above table, but no amounts will be payable if the Company’s TSR rank against the Peer Group is below the Threshold level.

In the event that the Company’s TSR for the Performance Cycle is a negative number, then the TSR Payout Factor shall not exceed 100%, even if the Company’s TSR rank against the Peer Group is greater than the 55th percentile.

The term “Total Shareholder Return” for a particular Performance Cycle means the rate of return (expressed as a percentage) achieved with respect to the Shares and the common stock of each company in the Peer Group for such Performance Cycle. Total Shareholder Return” over the Performance Cycle shall be calculated in accordance with the following formula:

$$((\text{Final Price} + \text{all cash dividends paid during the Performance Cycle}) / \text{Initial Price}) - 1$$

(1) “Final Price” shall mean the average of the closing prices of the Company’s common stock for the final thirty trading days of the Performance Cycle.

- (2) “Initial Price” shall mean the average of the closing prices of the Company’s common stock for the last thirty trading days preceding the beginning of the Performance Cycle.

If the Company or a member of the Peer Group splits its stock or pays a stock dividend, such company’s TSR will be adjusted for the stock split or stock dividend.

The term “Peer Group” means the companies listed on Attachment B, subject to the following adjustments:

(i) If a member of the Peer Group is acquired by another company, the acquired Peer Group company will be removed from the Peer Group for the entire Performance Period.

(ii) If a member of the Peer Group sells, spins-off, or disposes of a portion of its business, then such Peer Group company will remain in the Peer Group for the Performance Period unless such sale, spin-off or disposition results in the disposition of more than 50% of such company’s total assets during the Performance Period.

(iii) If a member of the Peer Group acquires another company, the acquiring Peer Group company will remain in the Peer Group for the Performance Period.

(iv) If a member of the Peer Group is delisted on all major stock exchanges, such delisted company will be removed from the Peer Group for the entire Performance Period.

(v) Members of the Peer Group that file for bankruptcy, liquidation or similar reorganization during the Performance Cycle will remain in the Peer Group, positioned below the lowest performing non-bankrupt member of the Peer Group.

In addition, the Compensation Committee shall have the authority to make other appropriate adjustments in response to a change in circumstances that results in a member of the Peer Group no longer satisfying the criteria for which such member was originally selected.

- (b) 47% of the target number of Performance Shares as set forth in paragraph 1 of the Agreement shall be “Target ROIC Performance Shares.” The number of Shares to be paid (the “ROIC Performance Shares Payout”) with respect to this metric shall be determined in accordance with the following formula: $\text{ROIC Performance Shares Payout} = \text{ROIC Payout Factor} \times \text{Target ROIC Performance Shares}$.

The “ROIC Payout Factor” is based on the Company’s Average Return on Invested Capital (“Average ROIC”) (defined and measured as described below) and shall be determined in accordance with the following table:

<u>Average ROIC</u>	<u>ROIC Payout Factor (% of Target ROIC Performance Shares)</u>
(Threshold)	50%
(Target)	100%
(Maximum)	200%

The ROIC Payout Factor shall be interpolated on a straight-line basis between the Average ROIC levels in the above table, but no amounts will be payable if the Average ROIC is below the Threshold level.

The term “Average ROIC” for a particular Performance Cycle shall mean the average of the ROIC in each of the fiscal years in the Performance Cycle, and ROIC means the percentage calculated as net operating profit after tax divided by invested capital. Invested capital is calculated as the average shareholders’ equity for the year plus long-term debt.

“ROIC” and “Average ROIC” may be hereafter adjusted by the Committee to exclude the effects of unanticipated material transactions or events such as acquisitions, divestitures, accounting changes, restructurings and special charges or gains (determined according to objective criteria established by the Committee), but only to the extent permitted by Code Section 162(m).

**ATTACHMENT B
TO
PERFORMANCE SHARE AWARD AGREEMENT**

Ampco-Pittsburgh Corporation

The Eastern Company

Electro Scientific Industries, Inc.

FARO Technologies, Inc.

Flow International Corporation

GSI Group Inc.

Hardinge Inc.

Kadant Inc.

Key Tronic Corporation

The L.S. Starrett Company

NN, Inc.

PDF Solutions, Inc.

Proto Labs, Inc.

QAD Inc.

Transcat, Inc.

Zygo Corporation