SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

X 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, 2002 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 (I.R.S. Employer Identification Number)
incorporation or organization)

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 whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the 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, 2002 (the last day of our most recently completed second quarter) was $16,526,148 and as of January 14, 2003 was $8,765,558.

The number of shares of the Registrant's common stock outstanding as of January 2, 2003 was 5,583,158.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Registrant's Proxy Statement for its 2003 Annual Meeting of Shareholders (Part III).

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.

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 and Singapore. In June 2002, we opened 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 interactive computer controls, software and computerized machine tools using our proprietary technology 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 systems 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(R) software and computer control systems have been fully integrated. Discontinued and sold were the Delta(TM) series computer control and related Dynapath(TM) 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,					
	2002		2001		2000	
Continuing Products and Services						
Computerized Machine Tools	$ 52,056	73.9%	$ 69,631	75.4%	$ 65,505	68.1%
Computer Control Systems and Software *	3,194	4.5%	4,782	5.2%	7,791	8.1%
Service Parts	7,240	10.3%	8,038	8.7%	8,701	9.0%
Service Fees	3,240	4.6%	3,749	4.1%	4,051	4.2%
Total	$ 65,730	93.3%	$ 86,200	93.4%	$ 86,048	89.4%
Discontinued Products and Services	4,756	6.7%	6,067	6.6%	10,156	10.6%
Total	$ 70,486	100.0%	$ 92,267	100.0%	$ 96,204	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 and market computerized machine tools which are equipped with a fully integrated interactive Ultimax(R) computer control system. Our Ultimax(R) 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 operator to create complex two-dimensional part programs directly from blue prints or CAD. Machine operators with little or no programming experience can successfully program parts and begin machining operations in a short time with minimal special training. Since the initial introduction of the Ultimax(R) 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(R) 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(R) metal cutting machine tools is a complete family of products including milling machines with an x-axis travel of 30 and 40 inches and vertical machining centers with an x-axis travel of 24, 26, 30, 42, 50 and 64 inches. During 2002 we introduced the first model in our new VM series, the VM1, a vertical machining center with a substantially smaller footprint and significantly lower price than our previous entry-level vertical machining center. We also introduced four new machine models in our high performance 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.

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.

o   Autobend(R)

Autobend(R) 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(R) product line since 1968. We currently market two models of our Autobend(R) 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.

o   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(R) computer control systems. In fiscal 2002, we introduced Advanced Velocity Control (AVC) and Adaptive Surface Finish (ASF), high performance machining software options. The AVC software option enables a customer to increase machine throughput with advanced motion control software. The ASF software option facilitates optimized surface finishes on complex parts.

Other products in this line are WinMax(R), a Windows** based off-line programming system; DXF, a data file transfer software option; and UltiNet(TM), a networking software option. The DXF software option eliminates manual data entry of part features by transferring AutoCAD(TM) drawing files directly into an Ultimax(R) computer control, or into our off-line programming software, substantially increasing operator productivity. UltiNet(TM) 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(R) 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 346 independent agents and distributors in 35 countries throughout North America, Europe and Asia. We also have our own direct sales personnel in the United States, China, England, France, Germany, Italy and Singapore, which are among the world's principal machine tool consuming countries. During fiscal 2002, no distributor accounted for more than 5% of our sales and service fees. Approximately 80% of the worldwide demand for computerized machine tools and computer control systems comes from outside the U.S. In fiscal 2002, approximately 68% 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 tools along with software options and accessories are sold primarily to end-users. We sell our Autobend(R) 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 2002, 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 by manufacturing contractors in Taiwan and our wholly owned subsidiary, 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. We have a 24% ownership interest in our primary contract machine manufacturer. 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(R) and Autobend(R) 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 work closely with our contract manufacturers 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 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 manufacturing contractors 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 $5.3 million, $9.1 million and $10.2 million as of October 31, 2002, 2001, and 2000, 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 $1.8 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.

Beginning in 1995, our subsidiary, IMS Technology, Inc. (IMS) actively pursued a program to stop infringement and license the use of certain interactive machining patents. These patents expired in October, 2001. During the past five fiscal years, IMS entered into agreements with approximately 40 computer control users under which IMS granted non-exclusive licenses of its interactive machining patents. We recorded license fee income of $163,000, $723,000, and $5.4 million, net of legal fees and expenses, in fiscal 2002, 2001, and 2000 respectively. In addition, IMS has received a royalty-free non-exclusive license under six patents owned by two of the licensees. We do not anticipate future license fee income from these expired patents.

Research and Development

Research and development expenditures for new products and significant product improvements, included as period operating expenses, were $2.4 million, $3.5 million and $3.2 million in fiscal 2002, 2001, and 2000, respectively. In addition, we recorded expenditures of $534,000 in 2002, $665,000 in 2001 and $706,000 in 2000 related to software development projects that were capitalized.

Employees

We had approximately 240 employees at the end of fiscal 2002, 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 14 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
Long Beach, California	1,100(2)	Warehouse and distribution
High Wycombe, England	12,000	Sales, application engineering and customer service
Paris, France	2,800	Sales, application engineering and customer service
Munich, Germany	17,100	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	26,600	Manufacturing

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(1) Approximately 45,000 square feet is leased to a third-party under a lease which expires January 30, 2005.
(2) The lease expired on November 30, 2002. We entered into a lease with an effective date of December 1, 2002 for a new 13,000 square foot facility located in Los Angeles that also includes sales and service facilities.

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 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 as investigations and negotiations proceeded, and currently approximate $2.0 million. We do not agree with the amount of the lessor's claim and are vigorously contesting that claim. Our liability could be reduced by statutory limitations or by a negotiated settlement. Based upon facts presently available to us and the current status of our negotiations with the lessor, our best estimate of our ultimate liability is $1.1 million and we have established a reserve in that amount.

We are involved in various other claims and lawsuits arising in the normal course of business. We believe that it is remote that any of these claims will 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 the executive officers of the Company or between any of them and any of the members of the Board of Directors.

The following information sets forth as of December 31, 2002, 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	47	Chairman of the Board and Chief Executive Officer
James D. Fabris	51	President and Chief Operating Officer
Roger J. Wolf	62	Senior Vice President, Secretary, Treasurer and Chief Financial Officer
David E. Platts	50	Vice President, Technology
Stephen J. Alesia	36	Corporate Controller, Assistant Secretary

Michael Doar was appointed 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 appointed 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.

	2002		2001	
Fiscal Quarter Ended:	High	Low	High	Low
January 31.............	$2.780	$2.050	$3.875	$3.250
April 30...............	3.350	2.030	4.188	3.150
July 31................	2.950	1.500	3.660	2.150
October 31.............	2.220	1.450	2.990	2.080

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 408 holders of record of our common stock as of January 2, 2003.

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.

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,				
	2002	2001	2000	1999	1998
Statement of Operations Data:	(In thousands, except per share amounts)				
Sales and service fees (1)...........	$ 70,486	$ 92,267	$ 96,204	$ 88,238	$ 93,422
Gross profit.........................	$ 15,246	$ 23,262	$ 25,377	$ 24,174	$ 27,939
Selling, general and administrative expenses...................	$ 19,658	$ 24,040	$ 23,538	$ 21,259	$ 21,786
Restructuring expense and other expense, net.............	$ 2,755	$ 143	$ 300	$ (103)	$ 1,162
Operating income (loss)..............	$ (7,167)	$ (921)	$ 1,539	$ 3,018	$ 4,991
Interest expense.....................	$ 634	$ 790	$ 939	$ 1,293	$ 876
License fee income and litigation settlement fees, net...............	$ 163	$ 723	$ 5,365	$ 304	$ 6,974
Net income (loss)....................	$ (8,263)	$ (1,597)	$ 5,035	$ 1,802	$ 9,254
Earnings (loss) per common share-diluted...........	$ (1.48)	$ (.28)	$ .84	$ .30	$ 1.39
Weighted average common shares outstanding-diluted..........	5,583	5,670	6,020	6,061	6,670

(1) Sales and service fees for discontinued products were $4,756, $6,067, $10,156, $7,286, and $8,152 for the years ended 2002 through 1998, respectively.

	As of October 31,				
	2002	2001	2000	1999	1998
Balance Sheet Data:	(Dollars in thousands)				
Current assets.......................	$ 41,535	$ 49,510	$49,195	$ 52,856	$ 55,143
Current liabilities..................	$ 21,185	$ 18,217	$ 23,124	$ 19,580	$ 25,794
Working capital	$ 20,350	$ 31,293	$ 26,071	$ 33,276	$ 29,439
Current ratio........................	2.0	2.7	2.1	2.7	2.1
Total assets.........................	$ 57,152	$ 66,217	$ 65,024	$ 69,632	$ 71,696
Long-term obligations................	$ 7,950	$ 12,532	$ 3,009	$ 13,904	$ 8,162
Total debt...........................	$ 8,885	$ 12,000	$ 3,736	$ 14,172	$ 8,358
Shareholders' equity.................	$ 28,017	$ 35,468	$ 38,891	$ 36,148	$ 37,740

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

The following discussion should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements and Notes thereto appearing elsewhere herein. Certain statements made in this report 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, quality and delivery performance by our contract manufacturers and governmental actions and initiatives including import and export restrictions and tariffs.

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)	
	2002	2001	2000	02 vs. 01	01 vs. 00
Sales and service fees................	100.0%	100.0%	100.0%	(23.6%)	(4.1%)
Gross profit..........................	21.6%	25.2%	26.4%	(34.5%)	(8.3%)
Selling, general and administrative expenses............	27.9%	26.1%	24.5%	(18.2%)	2.1%
Restructuring expense and other expenses, net.................	3.9%	0.2%	0.3%	1,826%	(52.3%)
Operating loss........................	(10.2%)	(1.0%)	1.6%	NA	NA
License fee income, net..............	0.2%	0.8%	5.6%	(77.4%)	(86.5%)
Interest expense......................	0.9%	0.9%	0.9%	(19.7%)	(15.9%)
Net income (loss)................	(11.7%)	(1.7%)	5.2%	NA	NA

Fiscal 2002 Compared With Fiscal 2001

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 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 Ultimax(R) software and computer control systems have been fully integrated. Discontinued and sold were the Delta(TM) series computer control and related Dynapath(TM) 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 as investigations and negotiations proceeded, and currently approximate $2.0 million. We do not agree with the amount of the lessor's claim and are vigorously contesting that claim. Our liability could be reduced by statutory limitations or by a negotiated settlement. Based upon facts presently available to us and the current status of our negotiations with the lessor, our best estimate of our ultimate liability is $1.1 million, and we have established a reserve in that amount, of which $896,000 was recorded in the fourth quarter of fiscal 2002.

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 units 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.

Fiscal 2001 Compared With Fiscal 2000

Net loss for the fiscal year ended October 31, 2001 was $1.6 million, or $.28 per share, on a diluted basis, compared to net income of $5.0 million, or $.84 per share, reported for the preceding year. The change in our year-to-year results was due primarily to a significant decline in license fee income in fiscal 2001 from that reported in fiscal 2000, and to a lesser extent, to a decrease in sales.

The following tables set forth net sales by geographic region and product category for the years ended October 31, 2001 and 2000 (in thousands):

Net Sales and Service Fees by Geographic Region

	October 31,			
	2001		2000	
Americas	$ 34,779	37.7%	$ 44,607	46.4%
Europe	54,977	59.6%	46,129	47.9%
Asia Pacific	2,511	2.7%	5,468	5.7%
Total	$ 92,267	100.0%	$ 96,204	100.0%

Net Sales and Service Fees by Product Category

	October 31,			
	2001		2000	
Computerized Machine Tools	$ 73,286	79.4%	$ 71,708	74.5%
Computer Control Systems and Software	5,716	6.2%	9,605	10.0%
Service Parts	9,516	10.3%	10,649	11.1%
Service Fees	3,749	4.1%	4,242	4.4%

Total	$ 92,267	100.0%	$ 96,204	100.0%

Sales and service fees were $92.3 million, for fiscal 2001, a decrease of 4.1% from the $96.2 million reported for fiscal 2000. The decline in sales was due in major part to the adverse effects of a stronger U.S. dollar when translating foreign sales for financial reporting purposes, and by a decrease in domestic sales. When measured at constant exchange rates, sales for fiscal 2001 would have been essentially the same as 2000. Domestic sales in fiscal 2001 declined by $9.8 million, or 22.0%, as a result of a slowing economy in most industrial sectors that began near the end of the first fiscal quarter, while sales in Europe increased $8.8 million in spite of the strong dollar. Sales in Southeast Asia declined by $3.0 million, or 54.1%, due to weak economic conditions in that area during fiscal 2001.

Net sales of computerized machine tools increased in fiscal 2001 by $4.8 million compared to the prior year when measured in constant dollars but was offset by a $3.5 million decline in sales of stand-alone control systems. Net sales of computerized machine tools in the U.S. declined 17% for the full fiscal year 2001. In contrast, sales of computerized machine tools in Europe, measured in constant dollars, increased 30% for the full year. Parts and service fee revenues declined by $1.6 million, or 10.9%. The decrease was exclusively in the United States and further reflects the weakening economic environment.

International sales, including export sales from the United States, approximated 64.3% of consolidated sales and service fees for fiscal 2001 compared to 57.5% for fiscal 2000.

New order bookings for fiscal 2001 were $89.4 million, compared to $100.7 million for the prior year period, a decrease of 11.3%. Orders were $28.1 million in the first quarter of fiscal 2001 but declined to $21.1 million, $19.2 and $21.0 million during the second, third and fourth quarter, respectively. The decline in orders from the first quarter was the result of weak economic conditions in most industrial market sectors in the U.S. along with a softening in the German economy. The decline in orders was most pronounced in the United States where computerized machine tool orders declined 30.4% in dollars. This was partially offset by a 19% increase in computerized machine tool orders in Europe, measured in constant dollars. We experienced a further decline in orders in the first quarter of fiscal 2002 reflecting the recessionary environment in our primary markets. Backlog was $9.1 million at October 31, 2001, compared to $10.2 million at October 31, 2000.

Gross profit margin declined in fiscal 2001 to 25.2% from 26.4% in fiscal 2000, due primarily to the unfavorable effects of the stronger U.S. dollar.

Operating expenses increased 2.1% to $24.0 million in fiscal 2001 from $23.5 million in fiscal 2000, due primarily to increased costs for enhanced product development activities associated with our next generation computer control technology. The increased operating expense for the full fiscal year combined with reduced sales and gross profit margins, resulted in an operating loss of $921,000 for fiscal 2001 as compared to an operating profit of $1.5 million in the prior year.

Restructuring expense of $143,000 in fiscal 2001 included a reversal of $328,000 primarily related to sub-letting space in a leased facility for which a reserve was provided as part of a previous restructuring plan. In addition, a restructuring charge of $471,000 was recorded for severance costs related to reductions in our domestic operations. In fiscal 2000, we recorded a restructuring charge of $300,000 for severance costs related to the termination of employees at our Farmington Hills facility in connection with the consolidation of this operation into our North American sales and service business.

License fee income and litigation settlement fees in fiscal 2001 consisted of several licenses that were granted during the year, while the substantial license fees reported in fiscal 2000 were primarily the result of the settlement of a long-standing patent infringement claim. The licensing program that resulted in the license and litigation settlement fees has effectively been completed and we do not expect significant license fees in fiscal 2002.

Other expense in fiscal 2001 was $215,000 compared to $395,000 in fiscal 2000 and consisted primarily of typhoon-related flood damage at our manufacturing facility in Taiwan of which our insurers have denied coverage. Fiscal 2000 other expense consisted primarily of realized and unrealized currency losses associated with accounts receivable denominated in foreign currencies, primarily those linked to the Euro, which for the most part, were not hedged during fiscal 2000. In fiscal 2001, these accounts receivable were fully hedged.

The provision for foreign income tax in both fiscal 2001 and fiscal 2000 consists mostly of income tax expense related to the earnings of our foreign subsidiaries.

Foreign Currency Risk Management

We manage our foreign currency exposure through the use of foreign currency forward exchange contracts (see the discussion following Item 7a). We enter into foreign currency forward exchange contracts periodically to hedge certain forecasted inter-company sales and forecasted inter-company and third party purchases denominated in foreign currencies (primarily the Pound Sterling, Euro 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. We also moderate our currency risk related to significant purchase commitments with certain foreign vendors through price adjustment agreements that provide for a sharing of, or otherwise limit, the risk of currency fluctuations on the costs of purchased products.

Liquidity and Capital Resources

At October 31, 2002, we had cash and cash equivalents of $4.4 million compared to $3.5 million at October 31, 2001. Cash generated from operations totaled $6.2 million in fiscal 2002, compared to cash used by operations of $3.5 million in fiscal 2001.

Working capital, excluding short-term debt, was $21.7 million at October 31, 2002, compared to $31.5 million at October 31, 2001. The decrease in working capital is attributable to a decrease in inventory of $7.7 million and a decrease in accounts receivable of $1.6 million. The decrease in inventory related primarily to a planned reduction in vertical machining center units along with the reduction of discontinued models that were sold off at discounted prices. Accounts receivable decreased due to the reduction in sales combined with improved collections.

Capital investments during the year consisted of normal expenditures for software development projects and purchases of equipment. In addition, during the fourth quarter of fiscal 2002, we purchased patented technology for $1.8 million that will be incorporated in our proprietary computer control system. Cash used for investments was reduced by a $1.0 million resulting from repayment of an investment as a result of the termination of certain agreements. We funded these expenditures with cash flow from operations except for the acquisition of the patented technology, which was financed by the seller. On October 24, 2002, we issued a secured promissory note for $1,350,000 to the seller of the patented technology as partial payment for the purchase. The note bears interest at 2.75% per annum and is due in four equal installments of $337,500 on March 31, 2003, June 30, 2003, July 31, 2003 and December 31, 2003.

As of October 31, 2002, we amended our domestic bank credit agreement, extending the maturity date to December 15, 2003, reducing the bank's commitment to $7.0 million and revising some of the financial covenants. We must maintain a tangible net worth, exclusive of Accumulated Other Comprehensive Income (as set forth in our consolidated balance sheet), of not less than $32.3 million at October 31, 2002, $30.0 million at January 31, 2003, April 30, 2003 and July 31, 2003 and $30.5 million at October 31, 2003. Our adjusted EBITDA, as defined, for the twelve consecutive months then ending cannot be less than negative $2.15 million on October 31, 2002, negative $1.75 million on January 31, 2003, negative $600,000 on April 30, 2003, positive $280,000 on July 31, 2003 and positive $1.8 million on October 31, 2003. Other financial covenants were extended unchanged to December 15, 2003. A facility fee of $50,000 previously payable March 31, 2003 has been reduced to $35,000, payable June 30, 2003, unless we have obtained a replacement financing arrangement by then. There were no borrowings outstanding under this facility at October 31, 2002 and outstanding letters of credit were $1.1 million.

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 7?%

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 were used to repay bank debt.

On January 8, 2002 we entered into a 3.0 million Euro credit facility with a European bank, which matures November 30, 2003. Interest on the facility is payable at 7.16% per annum or, at the Company's option, 1.75% above EURIBOR for fixed rate borrowings. Although the facility is uncollaterlized, the bank reserves the right to require collateral in the event of increased risk evaluation. Borrowings outstanding under this facility at October 31, 2002 were $2.5 million.

Total debt at October 31, 2002 was $8.9 million representing 24% of total capitalization, compared to $12.0 million, or 25% of total capitalization, at October 31, 2001. We were in compliance with all loan covenants and had unused credit availability of $6.5 million at October 31, 2002.

Based on our business plan and financial projections for fiscal 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 2003. Although we believe that the assumptions underlying our 2003 business plan are reasonable and achievable, there are risks related to further declines in market demand and reduced sales in the U.S. and Europe and adverse currency movements that could cause our actual results to differ from our business plan. We are also currently in discussions with lenders to replace our existing credit facility (expires December 2003) with a long-term credit facility in conjunction with assessing our liquidity needs for fiscal 2004 and beyond. While we believe we will be able to obtain a replacement facility under acceptable terms, no such assurance can be given.

Contractual Obligations and Commitments

The following is a table of contractual obligations and commitments as of October 31, 2002 (all amounts in thousands):

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-Term Debt	$8,885	$ 1,313	$ 3,437	$ 262	$3,873
Operating Leases	2,664	964	1,136	512	52
Letters of Credit	1,100	1,100	-	-	-
Total	$12,649	$ 3,377	$ 4,573	$ 774	$3,925

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 2003 to approximate $1.5 million.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" (SFAS 141) and Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method of accounting. Under SFAS 142, amortization of goodwill will cease and the goodwill carrying values will be tested periodically for impairment. We are required to adopt SFAS 142, effective November 1, 2002 for goodwill and intangible assets acquired prior to July 1, 2001. Goodwill and intangible assets acquired after June 30, 2001 were subject immediately to the goodwill non-amortization and intangible provisions of this statement. We do not expect that the adoption of this standard will have a material effect on the Consolidated Financial Statements.

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

In July 2002, the Financial Accounting Standards Board issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This Standard, which is effective for disposal activities initiated after December 31, 2002, addresses significant issues regarding the recognition, measurement and reporting of costs associated with exit and disposal activities. We will comply with the provisions of the Standard with respect to exit and disposal activities initiated after the effective date, but do not expect adoption to have any material impact on the Consolidated Financial Statements.

In November 2002, the Financial Accounting Standards Board ("FASB" or the "Board") issued 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 disclosure of, the issuance of certain types of guarantees. The disclosure provisions of FIN 45 are effective for financial statements of interim or annual periods that end after December 15, 2002. However, the provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002, irrespective of a guarantor's year-end. We do not expect the impact of adopting the interpretation to have a material effect on the Consolidated Financial Statements.

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 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, 2002, we have deferred tax assets of $5.3 million for which we have recorded a valuation allowance of 100% 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 substantial 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 $534,000 in fiscal 2002, $665,000 in fiscal 2001 and $706,000 in fiscal 2000 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, 2002 we have an asset of $1.6 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 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 $90,000 in fiscal 2002 and $110,000 in fiscal 2001. 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. Refer to

Note 4 of the Consolidated Financial Statements for a discussion of the interest rates related to our current credit facilities. At October 31, 2002, outstanding borrowings under our bank credit facilities were $2.5 million and our total indebtedness was $8.9 million.

Foreign Currency Exchange Risk

In fiscal 2002, approximately 68% 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. 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, 2002 which are designated as cash flow hedges under SFAS No. 133 were as follows:

Forward Contracts	Notional Amount in Foreign Currency	Weighted Avg. Forward Rate	Contract Amount at Forward Rates in U.S. Dollars: Contract Date	Contract Amount at Forward Rates in U.S. Dollars: Ocotber 31, 2002	Maturity Dates
Sale Contracts:					
Euro	5,700,000	$ .9830	$5,603,100	$5,621,043	Nov 2002-March 2003
Sterling	600,000	$1.5421	$925,260	$935,697	Nov 2002-Feb 2003
Purchase Contracts:					
New Taiwan Dollar	175,000,000	33.95*	$5,154,639	$5,058,159	Nov 2002-Apr 2003

Forward contracts for the sale of foreign currencies as of October 31, 2002 which were entered into to protect against the effects of foreign currency fluctuations on receivables and payables denominated in foreign currencies were as follows:

Forward Contracts	Notional Amount in Foreign Currency	Weighted Avg. Forward Rate	Contract Amount at Forward Rates in U.S. Dollars: Contract Date	Contract Amount at Forward Rates in U.S. Dollars: October 31, 2002	Maturity Dates
Sale Contracts:					
Euro	1,938,989	$ .9805	$1,901,179	$1,913,155	Nov 2002-Jan 2003
Singapore Dollar	1,525,337	$ .5644	$860,900	$862,494	Nov 2002 -Jan 2003
Sterling	742,830	$1.5491	$1,150,718	$1,158,640	Nov 2002-Jan2003
Purchase Contracts:					
New Taiwan Dollar	50,000,000	34.63*	$1,443,835	$1,442,658	Nov 2002

* NT Dollars per U.S. dollars

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Accountants

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) on page 47 present fairly, in all material respects, the financial position of Hurco Companies, Inc. and its subsidiaries at October 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for the year ended October 31, 2002 listed in the index appearing under Item 15(a)(2) on page 47 presents 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 schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit 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 audit provides a reasonable basis for our opinion. The financial statements and financial statement schedule of Hurco Companies, Inc. as of October 31, 2001, and for each of the two years in the period 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 and financial statement schedule in their report dated January 15, 2002.

PricewaterhouseCoopers LLP
Indianapolis, Indiana
January 15, 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.

ARTHUR ANDERSEN LLP

Indianapolis, Indiana,
January 15, 2002.

*The 2000 consolidated balance sheet is not required to be presented in the 2002 annual report.

** The schedule is listed in Item 15(a) 2 in the 2002 annual report.

HURCO COMPANIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended October 31,		
	2002	2001	2000
	(Dollars in thousands, except per share amounts)		
Sales and service fees	$ 70,486	$92,267	$96,204
Cost of sales and service	54,157	69,005	70,827
Cost of sales - restructuring	1,083	--	--
Gross profit	15,246	23,262	25,377
Selling, general and administrative expenses	19,658	24,040	23,538
Restructuring expense and other expense, net (Note 15)	2,755	143	300
Operating income (loss)	(7,167)	(921)	1,539
Interest expense	634	790	939
License fee income and litigation settlement fees, net (Note 10 and 12)	163	723	5,365
Earnings from equity investments	25	383	36
Other expense, net	61	215	395
Income (loss) before income taxes	(7,674)	(820)	5,606
Provision for income taxes (Note 6)	589	777	571
Net income (loss)	$ (8,263)	$ (1,597)	$ 5,035
Earnings (loss) per common share - basic	$ (1.48)	$ (.28)	$ .85
Weighted average common shares outstanding - basic	5,583	5,670	5,952
Earnings (loss) per common share - diluted	$ (1.48)	$ (.28)	$ .84
Weighted average common shares outstanding - diluted	5,583	5,670	6,020

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

HURCO COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS
ASSETS

	As of October 31,	
	2002	2001
Current assets:	(Dollars in thousands, except per share amounts)	
Cash and cash equivalents	$ 4,358	$ 3,523
Accounts receivable, less allowance for doubtful accounts of $689 in 2002 and $907 in 2001	13,425	14,436
Inventories	22,548	30,319
Other	1,204	1,232
Total current assets	41,535	49,510

Property and equipment:		
Land	761	761
Building	7,203	7,187
Machinery and equipment	10,144	11,410
Leasehold improvements	396	1,059
	18,504	20,417
Less accumulated depreciation and amortization	(9,696)	(11,653)
	8,808	8,764
Software development costs, less accumulated amortization	1,604	3,066
Investments and other assets	5,205	4,877
	$ 57,152	$ 66,217
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,752	$ 7,601
Accounts payable-related parties	1,104	2,335
Accrued expenses and other	9,430	7,289
Accrued warranty expenses	586	792
Current portion of long-term debt	1,313	200
Total current liabilities	21,185	18,217
Non-current liabilities:		
Long-term debt	7,572	11,800
Deferred credits and other	378	732
	7,950	12,532
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; 5,583,158 and 5,580,658 shares issued and outstanding in 2002 and 2001, respectively	558	558
Additional paid-in capital	44,717	44,714
Accumulated deficit	(10,173)	(1,910)
Accumulated other comprehensive income (loss)	(7,085)	(7,894)
Total shareholders' equity	28,017	35,468
	$ 57,152	$ 66,217

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

HURCO COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended October 31,	2002	2001	2000
Cash flows from operating activities:		(Dollars in thousands)	
Net income (loss)	$ (8,263)	$(1,597)	$5,035
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Provision for doubtful accounts	133	547	185
Equity in income of affiliates	(25)	(383)	(36)
Depreciation and amortization	1,929	2,196	2,519
Restructuring charge (credit)	2,250	(195)	300
Change in assets/liabilities			
(Increase) decrease in accounts receivable	1,615	3,113	(2,286)
(Increase) decrease in inventories	7,720	(4,018)	2,717
Increase (decrease) in accounts payable	(141)	(3,521)	2,917
Increase (decrease) in accrued expenses	1,228	558	1,023
Other	(245)	(182)	476
Net cash provided by (used for) operating activities	6,201	(3,482)	12,850
Cash flows from investing activities:			
Proceeds from sale of property and equipment	154	38	36
Purchase of property and equipment	(1,184)	(1,253)	(1,193)
Software development costs	(534)	(665)	(706)
Purchase of intellectual property	(500)	--	--
Other proceeds (investments)	1,037	(829)	(138)
Net cash (used for) investing activities	(1,027)	(2,709)	(2,001)
Cash flows from financing activities:			
Advances on bank credit facilities	28,369	44,300	28,500
Repayments of bank credit facilities	(37,251)	(34,050)	(37,150)
Repayments of term debt	(200)	(1,986)	(1,786)
Proceeds from first mortgage	4,500	--	--
Repayment of first mortgage	(39)	--	--
Proceeds from exercise of common stock options	4	35	8
Purchase of common stock	--	(1,706)	--
Net cash provided by (used for) financing activities	(4,617)	6,593	(10,428)
Effect of exchange rate changes on cash	278	(263)	(532)
Net increase (decrease) in cash	835	139	(111)
Cash and cash equivalents at beginning of year	3,523	3,384	3,495
Cash and cash equivalents at end of year	$4,358	$3,523	$ 3,384

Supplemental disclosures:

Cash paid for:				
Interest..	$ 519	$ 682	$ 834
Income taxes..	$ 442	$ 501	$ 739

Supplemental schedule of noncash investing and financial activities:
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 Shares Issued & Outstanding	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
			(Dollars in thousands)			
Balances, October 31, 1999..........................	5,951,859	$ 595	$46,340	$(5,348)	$(5,439)	$36,148
Net income..	--	--	--	5,035	--	5,035
Translation of foreign currency financial statements.......................................	--	--	--	--	(2,300)	(2,300)
Comprehensive Income................................						2,735
Exercise of common stock options....................	3,500	1	7	--	--	8
Balances, October 31, 2000..........................	5,955,359	$ 596	$ 46,347	$(313)	$(7,739)	$38,891
Net loss..	--	--	--	(1,597)	--	(1,597)
Translation of foreign currency financial statements.......................................	--	--	--	--	315	315
Unrealized loss of derivative instruments...........	--	--	--	--	(470)	(470)
Comprehensive loss..................................						(1,752)
Exercise of common stock options....................	16,400	1	34	--	--	35
Repurchase of common stock..........................	(391,101)	(39)	(1,667)	--	--	(1,706)
Balances, October 31, 2001............................	5,580,658	$558	$44,714	$(1,910)	$(7,894)	$35,468
Net income loss.....................................	--	--	--	(8,263)	--	(8,263)
Translation of foreign currency financial statements.......................................	--	--	--	--	981	981
Unrealized loss of derivative instruments...........	--	--	--	--	(172)	(172)
Comprehensive loss..................................						(7,454)
Exercise of common stock options..........	2,500	--	3	--	--	3
Balances, October 31, 2002............................	5,583,158	$ 558	$ 44,717	$(10,173)	$(7,085)	$28,017

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 are approximately $1.6 million and are included in 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.

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 $6.4 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 (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." 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 Income (Expense) in the Condensed 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 forecasted inter-company sales and forecasted inter-company and third party purchases denominated in foreign currencies (primarily the Pound Sterling, Euro and New Taiwan Dollar). The purpose of these instruments is to mitigate the risk that the U.S. Dollar net cash inflows and outflows resulting from sales and purchases denominated in foreign currencies will be adversely affected by changes in exchange rates. These forward contracts have been designated as cash flow hedge instruments, and are recorded in the Consolidated Balance Sheet at fair value in Other Current Assets and Accrued Liabilities and Other. Gains and losses resulting from changes in the fair value of these hedge contracts are deferred in Accumulated Other Comprehensive Income and recognized as an adjustment to the related sale or purchase transaction in the period that the transaction occurs. Net losses on cash flow hedge contracts which we reclassified from Other Comprehensive Income to Cost of Sales in the fiscal years ended October 31, 2002 and 2001 were $617,000, and $261,000, respectively.

At October 31, 2002 we had $645,000 of realized and unrealized losses related to cash flow hedges deferred in Other Comprehensive Income, which we expect to recognize in Cost of Sales within the next twelve months. Cash flow hedge contracts mature at various dates through April 2003.

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 and as a result, changes in fair value are reported currently as Other Income (Expense) in the Consolidated Statement of Operations consistent with the transaction gain or (loss) on the related foreign denominated receivable or payable. Such net

transaction gains and (losses) were $(209,000), ($50,000) and ($638,000) for the years ended October 31, 2002, 2001, and 2000, 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 year ended October 31, 2002, was $1.1 million. 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 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) enters into agreements for the licensing of its interactive computer control patents. License fees received or receivable under a fully paid-up license, for which there are no future performance requirements or contingencies, and litigation settlement fees are recognized in income, net of legal fees and expenses, if any, at the time the related agreement is executed. License fees received in periodic installments that are 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. As a result, we have no deferred license fee income at October 31, 2002 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 $2.4 million, $3.5 million and $3.2 million in fiscal 2002, 2001, and 2000, 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 $534,000 in 2002, $665,000 in 2001 and $706,000 in 2000 related to software development projects. Amortization expense was $719,000, $925,000, and $1.3 million for the years ended October 31, 2002, 2001, and 2000, respectively. Any impairment could be recognized based on an assessment of future operations (including cash flows) to insure that assets are appropriately valued.

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 12,000 potentially issuable shares for the year ended October 31, 2002 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 and requires that the benefit of certain loss carryforwards be recorded as an asset and that a valuation allowance be established against the asset to the extent it is "more likely than not" that 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 the United States, England, France, Germany, Italy and Singapore.

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. We contract with manufacturing contractors located in Taiwan for the manufacture and assembly of computerized machine tool systems, based on our designs and/or specifications. 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, 2002 and 2001 are summarized below (in thousands):

	2002	2001
Purchased parts and sub-assemblies....	$ 6,677	$ 7,853
Work-in-process......................	2,251	1,256
Finished goods.......................	13,620	21,210
	$ 22,548	$ 30,319

4. DEBT AGREEMENTS

Long-term debt as of October 31, 2002 and 2001, consisted of (in thousands):

	2002	2001
Domestic bank revolving credit facility....................................	$ --	$ 11,200
European bank credit facility..	2,475	--
First Mortgage...	4,460	--
Installment Promissory Note..	1,350	--
Economic Development Revenue Bonds, Series 1990............................	600	800
	8,885	12,000
Less current portion...	1,313	200
	$ 7,572	$ 11,800

As of October 31, 2002, long-term debt was payable as follows (in thousands):

Fiscal 2003....................................	$ 1,313
Fiscal 2004....................................	3,120
Fiscal 2005....................................	317
Fiscal 2006....................................	126
Fiscal 2007	136
Thereafter....................................	3,873

$ 8,885

Domestic Bank Credit Facility. As of October 31, 2002 and 2001, we had $1.1 million and $2.1 million, respectively, of outstanding letters of credit issued to non-U.S. suppliers for inventory purchase commitments. As of October 31, 2002, we had unutilized credit facilities of $6.5 million available for either direct borrowings or commercial letters of credit.

Interest on the bank credit facility was payable at rates ranging from 4.28% to 5.25% at October 31, 2002 and from 3.5% to 5.5% at October 21, 2001.

As of October 31, 2002, our domestic bank credit agreement was amended, extending the maturity date to December 15, 2003 and reducing the bank's commitment to $7.0 million. Interest on all outstanding borrowings is payable at Libor, plus an applicable Eurodollar rate margin, or at our option, prime rate plus a specified margin, as follows:

	Libor margin	Prime margin
November 1, 2002 - June 30, 2003	3.5%	1.5%
June 30, 2003 - December 15, 2003	4.0%	2.0%

Our domestic credit agreement requires that we maintain a tangible net worth, exclusive of Accumulated Other Comprehensive Income (as set forth in our consolidated balance sheet), of not less than $32.3 million at October 31, 2002, $30.0 million at January 31, 2003, April 30, 2003 and July 31, 2003 and $30.5 million at October 31, 2003. Our adjusted EBITDA , as defined, for the twelve consecutive months then ending cannot be less than negative $2.15 million on October 31, 2002, negative $1.75 million on January 31, 2003, negative $600,000 on April 30, 2003, positive $280,000 on July 31, 2003 and positive $1.8 million on October 31, 2003. Other financial covenants were extended unchanged to December 15, 2003. A facility fee of $50,000 previously payable March 31, 2003 has been reduced to $35,000, payable June 30, 2003, unless we have obtained a replacement financing arrangement by then. The credit agreement provides the lender with a security interest in substantially all domestic assets and 67% of the common stock of our U.S. holding companies, which own our foreign subsidiaries. At October 31, 2002, our ability to repurchase shares of our common stock and pay cash dividends were restricted under the bank credit agreement. We were in compliance with all loan covenants at October 31, 2002. We are currently in discussion with other lenders for a long-term domestic credit facility, and while we believe that we will be able to obtain a replacement facility in fiscal 2003 under acceptable terms, no such assurance can be given.

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 is due in four equal installments of $337,500 on March 31, 2003, June 30, 2003, July 31, 2003 and 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 7?% 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 Facility. On January 8, 2002 we entered into a 3.0 million Euro credit facility with a European bank, which currently matures November 30, 2003. Interest on the facility is payable at 7.16% per annum or, at the Company's option, 1.75% above EURIBOR for fixed rate borrowings. Although the facility is uncollateralized, the bank reserves the right to require collateralin the event of increased risk evaluation. Borrowings outstanding under this facility at October 31, 2002 were $2.5 million.

Economic Development Revenue Bonds. The Economic Development Revenue Bonds are payable in three remaining equal annual installments due on September 1, 2003 thru 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, 2002 and 2001, interest was accruing at a rate of 2.10% and 2.40%, respectively.

5. FINANCIAL INSTRUMENTS

The carrying amounts for trade receivables and payables approximate their fair values. At October 31, 2002, 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 $17.0 million at October 31, 2002. The net fair value of these derivative instruments recorded in accrued expenses at October 31, 2002 was $147,000. 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, 2002 and 2001, consisted of the following (in thousands):

	October 31, 2002	October 31, 2001
Tax effects of future tax deductible items related to:		
Accrued inventory reserves	$ 623	$ 758
Accrued warranty expenses	121	211
Deferred compensation	213	359
Other accrued expenses	521	669
Total deferred tax assets	1,478	1,997
Tax effects of future taxable differences related to:		
Accelerated tax deduction and other tax over book deductions related to property, equipment and software	(968)	(1,422)
Other	(698)	(669)
Total deferred tax liabilities	(1,666)	(2,091)
Net tax effects of temporary differences	(188)	(94)
Tax effects of carryforward benefits:		
U.S. federal net operating loss carryforwards, expiring 2022	2,745	1,182
Foreign tax benefit carryforwards, expiring 2003-2007	326	296
Foreign tax benefit carryforwards, with no expiration	1,435	852
U.S. federal general business tax credits, expiring 2004-2012	1,017	828
U.S. Alternative Minimum Tax Credit with no expiration	--	426
Tax effects of carryforwards	5,523	3,584
Tax effects of temporary differences and carryforwards, net	5,335	3,490
Less valuation allowance	(5,335)	(3,064)
Net deferred tax asset	$ --	$ 426

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. Alternative minimum tax credits may be carried forward indefinitely and as a result, are not provided with a valuation allowance. 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,		
	2002	2001	2000
Domestic	$ (7,238)	$ (2,980)	$ 5,459
Foreign	(436)	2,160	147
	$ (7,674)	$ (820)	$ 5,606

	2002	2001	2000
Differences between the effective tax rate and U.S. federal income tax rate were (in thousands):			
Tax at U.S. statutory rate	$ (2,686)	$ (287)	$ 1,962
Federal tax	(95)	95	--
Foreign withholding taxes	--	--	19
German tax settlement (Note 10)	--	--	275
Effect of tax rates of international jurisdictions in excess of U.S. statutory rates	97	155	39
State income taxes	(6)	--	46
Effect of losses without current year benefit	3,279	1,043	--
Utilization of net operating loss carryforwards	--	(229)	(1,770)
Provision for income taxes	$ 589	$ 777	$ 571

Foreign withholding taxes are the result of foreign dividends received during 2000. Our provision for income taxes in fiscal 2002, 2001 and 2000 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 worldwide, 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 $263,640, $344,811, and $321,422 for the years ended October 31, 2002, 2001 and 2000, respectively.

We also have split-dollar life insurance agreements with our executive officers. Under the terms of the agreements, we pay all of the premiums on behalf of the officers. We will be repaid the premiums from the policies' cash surrender values when the policies are terminated in accordance with the provisions of the agreements.

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. The 1997 Plan was amended in fiscal 2000 to increase the number of shares of common stock that may be issued from 500,000 to 750,000 and to increase the maximum number of shares of common stock that may be granted to any individual during the term of the 1997 Plan from 100,000 to 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, 2002, options to purchase 663,000 shares had been granted 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, 2002, 2001 and 2000 and the related activity for the year is as follows:

	Shares under	Weighted average exercise
Balance October 31, 1999	671,680	$5.07
Granted	180,600	3.76
Cancelled	(22,120)	6.15
Expired	-	-
Exercised	(3,500)	2.13
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

Stock options outstanding and exercisable on October 31, 2002 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	596,660	$2.84	7.0
5.813-8.250	233,500	6.16	5.4
$2.125-8.250	830,160	$3.78	6.2
Exercisable			
$2.125-5.125	331,567	$3.15	-
5.813-8.250	155,100	6.29	-
$2.125-8.250	486,667	$4.15	-

We apply Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB25), and related interpretations in accounting for the plans, and, therefore, no compensation expense has been recognized for stock options issued under the plans. For companies electing to continue the use of APB25, 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.

The weighted average fair value at date of grant for options granted during fiscal 2002, 2001, and 2000 was $1.43, $2.07, and $2.72 per share, respectively. 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:

	2002	2001	2000
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	53.71%	56.00%	56.33%
Risk-free interest rate	4.99%	5.18%	6.20%
Expected term in years	9.05	10	10

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

	2002	2001	2000
Net income (loss) (in thousands)	($8,628)	($1,928)	$4,726
Earnings (loss) per share:			
Basic	($1.55)	($.34)	$.79
Diluted	($1.55)	($.34)	$.79

As of October 31, 2002, 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, 2002. 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 $504,054 is accounted for using the equity method and is included in Other Assets on the Consolidated Balance Sheet. Purchases of product from this contract manufacturer totaled $5.9 million, $12.2 million and $8.6 million for the years ended October 31, 2002, 2001 and 2000, respectively.

Trade payables to this contract manufacturer were $1.0 million at October 31, 2002, and $2.2 million at October 31, 2001. Trade receivables were $43,000 at October 31, 2002.

As of October 31, 2002, 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 $1.1 million at October 31, 2002 is included in Other Assets on the Consolidated Balance Sheet. Purchases of product from this supplier amounted to $4.1 million, $4.1 million and $4.2 million in 2002, 2001 and 2000, respectively. Trade payables to HAL were $145,000 and $200,000 at October 31, 2002 and 2001, respectively. Trade receivables from HAL were $311,000 and $173,000 at October 31, 2002 and 2001, respectively.

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

(000's)	2002	2001	2000
Net Sales	$25,751	$42,691	$33,850
Gross Profit	4,296	7,305	6,303
Operating Income	130	2,047	2,179

Net Income	438	1,609	1,005
Current Assets	$12,915	$14,345	$16,025
Non-current Assets	1,766	1,535	1,490
Current Liabilities	9,514	11,335	14,249

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 as investigations and negotiations proceeded, and currently approximate $2.0 million. We do not agree with the amount of the lessor's claim and are vigorously contesting that claim. Our liability could be reduced by statutory limitations or by a negotiated settlement. Based upon facts presently available to us and the current status of our negotiations with the lessor, our best estimate of our ultimate liability is $1.1 million and we have established a reserve in that amount.

Hurco and its subsidiary IMS Technology, Inc. (IMS) have been parties to a number of legal proceedings, which involved alleged infringement of a United States interactive machining patent (the Patent) owned by IMS. All actions have been settled through licensing arrangements or litigation settlements. On August 8, 2000, Hurco and IMS agreed to a settlement of the last major claim resulting in a one-time payment to IMS. We reported license fee income and litigation settlement fees, net of expenses, of approximately $5.4 million in the fourth quarter of fiscal 2000 primarily resulting from this settlement.

In the fourth quarter of fiscal 2000, we paid approximately $275,000, to settle a contested tax liability of our German subsidiary.

We are involved in various other claims and lawsuits arising in the normal course of business. We believe it is remote that any of these claims will have a material adverse effect on our consolidated financial position or results of operations.

11. OPERATING LEASES

We lease facilities, certain equipment and vehicles under operating leases that expire at various dates through 2007. Future payments required under operating leases as of October 31, 2002, are summarized as follows (in thousands):

2003	$ 964
2004	701
2005	435
2006	256
2007	256
Thereafter	52
Total	$ 2,664

Rent expense for the years ended October 31, 2002, 2001, and 2000 was $1.8 million, $1.6 million and $1.7 million, respectively.

12. LICENSE FEE INCOME AND LITIGATION SETTLEMENT FEES, NET

License fee income and litigation settlement fees, net for fiscal 2002, 2001 and 2000 were attributable to agreements entered into by IMS, 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. As a result, we have no deferred license fee income at October 31, 2002 and do not expect any significant license fee income in the foreseeable future.

13. QUARTERLY HIGHLIGHTS (Unaudited)

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 percentage......................	21.6%	12.6%(a)	24.1%	26.5%
Restructuring expense and other expense, net (Note 15)	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)

2001 (In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales and service fees..............................$	25,933	$ 23,432	$ 21,678	$ 21,224
Gross profit..	6,615	5,972	5,287	5,388
Gross profit margin percentage......................	25.5%	25.5%	24.4%	25.4%
Restructuring expense and other expense, net (Note 15)	--	(328)	395	76
Selling, general and administrative expenses.........	6,086	5,959	5,896	6,099(b)
Operating income (loss).............................	529	341	(1,004)	(787)
Net income	567	323	(1,329)	(1,158)
Earnings per common share - basic...................$	.10	$ .06	$ (.24)	$ (.21)
Earnings per common share - diluted.................$	.10	$ .06	$ (.24)	$ (.21)

a. Includes $1.1 million restructuring charge to inventory write-downs related to under-performing product lines that were discontinued.

b. Includes $550,000 of fourth quarter adjustments related to write down of product development assets no longer being used, increased provisions for uncollectable accounts, reserves for termination of a European sales agent, vacating a leased facility and a health insurance claim.

14. 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 346 independent agents and distributors in 35 countries throughout North America, Europe and Asia. We also have our own direct sales and service organizations in the United States, England, France, Germany, Italy and Singapore. During fiscal 2002, 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,		
	2002	2001	2000

Computerized Machine Tools	$ 55,503	$ 73,286	$ 71,708
Computer Control Systems and Software *	3,632	5,716	9,605
Service Parts	8,111	9,516	10,649
Service Fees	3,240	3,749	4,242
Total	$ 70,486	$ 92,267	$ 96,204

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

Revenues by geographic area, based on customer location, for each of the past three fiscal years were (in thousands):

	Year Ended October 31,		
	2002	2001	2000
United States	$22,782	$32,935	$40,920
Germany	22,863	28,452	23,654
United Kingdom	7,387	8,814	10,128
Other Europe	14,142	17,847	12,932
Total Europe	44,392	55,113	46,714
Asia and Other	3,312	4,219	8,570
Total Foreign	47,704	59,332	55,284
	$70,486	$92,267	$96,204

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

	October 31, 2002	2001
United States	$ 13,824	$ 14,725
Foreign countries	1,793	1,556
.	$ 15,617	$ 16,281

15. RESTRUCTURING EXPENSE AND OTHER EXPENSE, NET

In the fourth quarter of fiscal 2000, we recorded a charge of $300,000 for severance costs related to the termination of employees. Fourteen employees received notice on October 31, 2000 that their positions were being eliminated in fiscal 2001. All employee severance related to the October 31, 2000 reserve has been paid.

Restructuring expense in fiscal 2001 included a reversal of a of $328,000 reserve for sub-letting the final year of the excess building space of a subsidiary and finding alternative uses for a previously reserved asset. Also, 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. All employee severance related to the October 31, 2001 reserve has been paid.

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(R) 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 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 17).

The severance accrual of $264,000 at October 31, 2002 represents costs related to employees that will be paid in future periods. The severance provision represents 53 positions that have been eliminated or will 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 will be paid at various times through the second quarter of fiscal 2003.

Description	Balance 10/31/99	Provision (Credit)	Charges to Accrual	Balance 10/31/00
Excess Building Capacity	$ 286	$ --	$ --	$ 286
Equipment Leases	77	--	(23)	54
Severance Costs	--	300	--	300
	$ 363	$ 300	($ 23)	$ 640

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	(637)	133
	$ 640	$143	($ 649)	$ 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 17)	--	(277)	(277)	--
Total restructuring and other expense, net	184	2,755	1,562	1,377
Total	$184	$3,838	$2,645	$1,377

16. STOCK REPURCHASE

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.

17. 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.

As of October 31, 2001, our combined investment in the secured loan and warrants was $672,000, and is reflected in Investments and Other Assets in the accompanying consolidated balance sheet.

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. 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 $1.8 million which is recorded in Investments and Other Assets at October 31, 2002. The core technology consists of patented software-based computer control technology that will be incorporated in our proprietary computer control system.

18. NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" (SFAS 141) and Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method of accounting. Under SFAS 142, amortization of goodwill will cease and the goodwill carrying values will be tested periodically for impairment. We are required to adopt SFAS 142, effective November 1, 2002 for goodwill and intangible assets acquired prior to July 1, 2001. Goodwill and intangible assets acquired after June 30, 2001 were subject immediately to the goodwill non-amortization and intangible provisions of this statement. We do not expect that the adoption of this standard will have a material effect on the Consolidated Financial Statements.

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

In July 2002, the Financial Accounting Standards Board issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This Standard, which is effective for disposal activities initiated after December 31, 2002, addresses significant issues regarding the recognition, measurement and reporting of costs associated with exit and disposal activities. We will comply with the provisions of the Standard with respect to exit and disposal activities initiated after the effective date, but do not expect adoption to have any material impact on the Consolidated Financial Statements.

In November 2002, the Financial Accounting Standards Board ("FASB" or the "Board") issued 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 disclosure of, the issuance of certain types of guarantees. The disclosure provisions of FIN 45 are effective for financial statements of interim or annual periods that end after December 15, 2002. However, the provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002, irrespective of a guarantor's year-end.

We do not expect the impact of adopting the interpretation to have a material effect on the Consolidated Financial Statements.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

Not Applicable.

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 2003 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 2003 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 2003 annual meeting of shareholders.

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, 2002, 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	830,160	$3.78	83,500
Equity compensation plans not approved by security holders 1	125,000	5.54	--
Total	955,160	$4.01	83,500

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

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 2003 annual meeting of shareholders.

Item 14. CONTROLS AND PROCEDURES

Within 90 days prior to the date of this report, 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 pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the evaluation date. There were no significant changes in the internal controls or in other factors that could significantly affect these controls subsequent to the evaluation date.

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

No reports on Form 8-K were filed during the three months ended October 31, 2002.

(c) Exhibits

Exhibits are filed with this Form 10-K or incorporated herein by reference as listed on pages 49 and 50.

Item 16. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is hereby incorporated by reference from the definitive proxy statement for our 2003 annual meeting of shareholders.

Schedule II - Valuation and Qualifying Accounts and Reserves
for the years ended October 31, 2002, 2001, and 2000
(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, 2002	$ 907	$ 133	$ --	$ 350 1	$ 689
October 31, 2001	$ 741	$ 547	$ --	$ 381 2	$ 907
October 31, 2000	$ 687	$ 185	$ --	$ 131 3	$ 741
Accrued warranty expenses for the year ended:					
October 31, 2002	$ 792	$ 672	$ --	$ 878	$ 586
October 31, 2001	$ 831	$ 661	$ --	$ 700	$ 792
October 31, 2000	$ 968	$ 430	$ --	$ 567	$ 831

1 Receivable write-offs of $359,000, net of cash recoveries on accounts previously written off of $9,000. 2 Receivable write-offs of $384,000, net of cash recoveries on accounts previously written off of $4,000. 3 Receivable write-offs of $140,000, net of cash recoveries on accounts previously written off of $9,000.

EXHIBITS INDEX

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

10.1 The Fourth Amendment to the Second Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement dated October 31, 2002 between the Registrant and Bank One, Indiana, N.A.

10.2 Promissory Note dated October 24, 2002 between the Registrant and CIMplus, Inc.

11 Statement re: computation of per share earnings

21 Subsidiaries of the Registrant

23 Consent of Arthur Andersen LLP (omitted pursuant to Rule 437a of the Securities Act of 1933)

23.2 Consent of PricewaterhouseCoopers LLP

99.1 Certification pursuant to 18 U.S.C. Section 1350 by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification pursuant to 18 U.S.C. Section 1350 by the Chief Financial Officer, as adopted 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 Second Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement dated October 31, 2001 between the Registrant and Bank One, Indiana, N.A. (incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 10-K for the year ended October 31, 2001).

10.4 Fourth Amendment to European Facility dated October 31, 2001 between the Registrant and Bank One, N.A. (incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 10-K for the year ended October 31, 2001).

10.5 Second Amendment to the Second Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement dated April 30, 2002 between the Registrant and Bank One (incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended April 30, 2002).

10.6* 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.

10.7* 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.

10.8* 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.

10.9* 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.

10.10* 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.

10.11* 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.

10.12* 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.

10.13* 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.

10.14 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.

10.15* 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

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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 16th day of January 2003.

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, Director, Chief Executive Officer of Hurco Companies, Inc. (Principal Executive Officer)	January 16, 2003
/s/ Roger J. Wolf	January 16, 2003

Roger J. Wolf
Senior Vice-President,
Secretary, Treasurer and
Chief Financial Officer
of Hurco Companies, Inc.
(Principal Financial Officer)

/s/ Stephen J. Alesia January 16, 2003

Stephen J. Alesia
Corporate Controller
of Hurco Companies, Inc.
(Principal Accounting Officer)

/s/ Robert W. Cruickshank January 16, 2003

Robert W. Cruickshank, Director

/s/ Richard T. Niner January 16, 2003

Richard T. Niner, Director

/s/ O. Curtis Noel January 16, 2003

O. Curtis Noel, Director

/s/ Charles E. M. Rentschler January 16, 2003

Charles E. M. Rentschler, Director

/s/ Gerald V. Roch January 16, 2003

Gerald V. Roch, Director

CERTIFICATIONS

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 annual 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 annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a. Designed such disclosure controls and procedures 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 annual report is being prepared;

b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a. All significant deficiencies in the design or operations of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Michael Doar
Michael Doar
Chairman & Chief Executive Officer
January 15, 2003

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 annual 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 annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a. Designed such disclosure controls and procedures 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 annual report is being prepared;

b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

d. All significant deficiencies in the design or operations of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

e. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Roger J. Wolf
Roger J. Wolf
Senior Vice President & Chief Financial Officer
January 15, 2003

Exhibit 11

COMPUTATION OF PER SHARE EARNINGS

Exhibit 11
Statement Re: Computation of Per Share Earnings

	Three Months Ended October 31,				Twelve Months Ended October 31,			
	2002		2001		2002		2001	
(in thousands, except per share amount)	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net loss	$(1,760)	$(1,760)	$ (1,158)	$ (1,158)	$ (8,263)	$ (8,263)	$ (1,597)	$(1,597)
Weighted average shares outstanding	5,583	5,583	5,581	5,581	5,583	5,583	5,670	5,670
Assumed issuances under stock options plans	--	--	--	--	--	--	--	--
	5,583	5,583	5,581	5,581	5,583	5,583	5,670	5,670
Loss per common share	$ (0.32)	$ (0.32)	$(0.21)	$(0.21)	$(1.48)	$(1.48)	$ (0.28)	$ (0.28)

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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 23.2

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS
PricewaterhouseCoopers LLP

Exhibit 23.2

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 January, 15, 2003, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Indianapolis, Indiana
January 16, 2003

exhibit 99.1

Certification pursuant to
18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Hurco Companies, Inc., (the "Company") on Form 10-K for the year ending October 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Doar, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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 & Chief Executive Officer
January 15, 2003

exhibit 99.2

Certification pursuant to
18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Hurco Companies, Inc., (the "Company") on Form 10-K for the year ending October 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Roger J. Wolf, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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 15, 2003

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

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

THIS FOURTH AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT AND AMENDMENT TO REIMBURSEMENT AGREEMENT, dated as of October 31, 2002 (this "Amendment"), between HURCO COMPANIES, INC., an Indiana corporation (the "Company"), and BANK ONE, NA, a national banking association having its main office in Chicago, Illinois, and successor by merger to Bank One, Indiana, NA (the "Bank").

RECITALS

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

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

AGREEMENT

Based upon these recitals, the parties agree as follows:

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

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

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

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

Eurodollar Advances: 1.0%
Floating Rate Advances: 0.0%

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

Date	Eurodollar Advances	Floating Rate Advances
From and including November 1, 2001, through April 30, 2002	2.0% per annum	0% per annum
From and including May 1, 2002, through October 31, 2002	2.5% per annum	0.5% per annum
From and including November 1, 2002, through June 30, 2003	3.5% per annum	1.5% per annum
From and including July 1, 2003, and thereafter	4.0% per annum	2.0% per annum

(b) The definition of "Borrowing Base" is amended by deleting subsection (vi) in its entirety, and renumbering subsection (vii) as subsection (vi).

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

"Commitment" means, the obligation of the Bank to make Loans to, and issue Facility LCs upon the application of, the Borrower in an aggregate amount not exceeding $7,000,000, reduced by the amount as required pursuant to Section 2.5(d) and Section 2.5(e) (other than Sections 2.5(e)(iii) and 2.5 (e)(iv), which have already occurred).

(d) The definitions of "Consolidated EBITDA" and "Consolidated Tangible Net Worth" are amended and restated in their entirety, respectively, to read as follows:

"Consolidated EBITDA" means Consolidated Net Income determined in accordance with Agreement Accounting Principles plus, to the extent deducted in determining Consolidated Net Income, (i) Consolidated Interest Expense, (ii) expense for taxes, (iii) depreciation, (iv) amortization, (v) extraordinary losses incurred other than in the ordinary course of business, (vi) severance costs, (vii) non-cash asset write downs, (viii) non-cash loss on equity interest of Affiliates, (ix) research and development expense to the extent that the cost incurred in exercise of the CIMPlus Option is so expensed, and (x) the UK Lease Liability not to exceed $650,000 minus, to the extent included in Consolidated Net Income, extraordinary gains realized other than in the ordinary course of business (including without limitation non-cash gains on equity interest of Affiliates recorded after July 31, 2001), all calculated for the Borrower and its Subsidiaries on a consolidated basis.

* * *

"Consolidated Tangible Net Worth" means, as of any date, (a) the amount of any Capital Stock, paid-in-capital, and similar equity accounts of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time, plus (or minus in the case of a deficit) the capital surplus and retained earnings of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time and excluding the amount of "Other Comprehensive Income" of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time, plus (b) the amount of any Subordinated Debt of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time, less (c) any treasury stock of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time, less (d) the Intangible Assets of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time plus, without duplication, (e) the amount of the cost incurred in exercise of the CIMPlus Option to the extent expensed for research and development and not capitalized and plus, (f) the UK Lease Liability not to exceed $650,000.

(e) The defined term "Eligible Foreign Finished Goods Inventory" is deleted.

(f) The definition of "Facility Termination Date" is amended and restated, to read as follows:

"Facility Termination Date" means December 15, 2003.

(g) The following definition is added to Section 1.1 of the Credit Agreement in proper alphabetical order:

"UK Lease Liability" means the amount paid or accrued by the Company or an Affiliate of the Company to settle or otherwise satisfy a claim by Land Securities Ltd., against Hurco Europe for repair costs under the terms of a sub-lease of the facility previously occupied by Hurco Europe which terminated in April 2002.

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

(b) Facility Fee. The Borrower agrees to pay to the Bank a facility fee on June 30, 2003, equal to $35,000 provided that, if all Obligations are repaid and the Commitment is terminated on or before June 30, 2003, the facility fee shall be forgiven, and provided further, if a Default occurs, the entire facility fee shall be earned as of the Default occurring and be payable by the Borrower to the Bank on June 30, 2003.

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

6.20. Financial Covenants

6.20.1 Minimum Consolidated EBITDA. The Borrower will not permit Consolidated EBITDA, determined as of the end of the twelve (12) consecutive months then ending, to be less than: (i) on October 31, 2002, negative $2,150,000, (ii) on January 31, 2003, negative $1,750,000, (iii) on April 30, 2003, negative $600,000, (iv) on July 31, 2003, $280,000, and (v) on October 31, 2003, $1,800,000.

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

(j) The European Facility has been terminated, and any and all references to the European Facility in the Credit Agreement are null and void.

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

3. Representations and Warranties. The Company represents and warrants to the Bank that: (a) (i) The execution, delivery and performance of this Amendment and all agreements and documents delivered pursuant hereto by the Company have been duly authorized by all necessary corporate action and do not and will not violate any provision of any law, rule, regulation, order, judgment, injunction, or award presently in effect applying to it, or of its articles of incorporation or bylaws, or result in a breach of or constitute a default under any material agreement, lease or instrument to which the Company is a party or by which it or its properties may be bound or affected; (ii) no authorization, consent, approval, license, exemption or filing of a registration with any court or governmental department, agency or instrumentality is or will be necessary to the valid execution, delivery or performance by the Company of this Amendment and all agreements and documents delivered pursuant hereto; and (iii) this Amendment and all agreements and documents delivered pursuant hereto by the Company are the legal, valid and binding obligations of the Company, enforceable against it in accordance with the terms thereof.

(b) After giving effect to the amendments contained herein, the representations and warranties contained in Article V of the Credit Agreement (with the exception of Section 5.5) are true and correct on and as of the effective date hereof with the same force and effect as if made on and as of the effective date. Since September 30, 2002, there has been no change in the business, Property, prospects, condition (financial or otherwise) or results of operations of the Company and its Subsidiaries which could reasonably be expected to have a Material Adverse Effect.

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

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

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

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

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

(d) The Company has paid the Bank on or prior to the Amendment Effective Date an amendment fee in the amount of $7,000.

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

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

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

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

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

HURCO COMPANIES, INC.	BANK ONE, NA (Main office Chicago, Illinois)
By: /s/ Roger J. Wolf	By: /s/ Joanna Anderson
Its: Sr. Vice President and CFO	Its: Assistant Vice President

PROMISSORY NOTE

$1,350,000.00 October 24, 2002

FOR VALUE RECEIVED, HURCO COMPANIES, INC., an Indiana corporation ("Hurco"), promises to pay to the order of CIMPLUS, INC., a New York corporation ("CIMplus," which term shall include any holder hereof) at 636 Broadway, Suite 714, New York, NY 10012, or at such other place as CIMplus may designate by written notice to Hurco, the sum of One Million Three Hundred Fifty Thousand Dollars ($1,350,000.00) (the "Principal"), together with interest as hereinafter provided and payable at the time and in the manner hereinafter provided.

This Promissory Note (this "Note") shall mature on that date (the "Maturity Date") which is the earlier of: (i) December 31, 2003; or (ii) that date on which CIMplus accelerates payment of this Note. On the Maturity Date, the balance of the Principal outstanding on such date, together with all accrued, unpaid interest thereon, shall be due and payable in full.

The balance of the Principal outstanding from time to time from and after the date of this Note (the "Closing Date") shall bear interest (computed on the basis of a 365-day year and actual days elapsed) as follows: (i) from and after the Closing Date until the Maturity Date, at a rate equal to two and three-quarters percent (2.75%) per annum; and (ii) after the Maturity Date, until paid in full, at a rate equal to ten percent (10%) per annum. Interest which accrues after the Maturity Date shall be due and payable as it accrues without demand.

The Principal shall be due and payable in four (4) consecutive quarterly installments each in the amount of Three Hundred Thirty Seven Thousand Five Hundred Dollars ($337,500.00), plus all interest accrued to the date of the payment (referred to collectively as the "Installments," and individually as an "Installment"), with such Installments to commence and be due and payable on March 31, 2003, June 30, 2003, September 30, 2003, and December 31, 2003.

All amounts payable under this Note shall be payable without relief from valuation and appraisement laws, and with all collection costs and reasonable attorneys' fees. The Principal may be prepaid in whole or in part at any time and from time to time without penalty or premium.

This Note is secured by a Security Agreement, dated the date hereof, executed by Hurco in favor of CIMplus (the "Security Agreement").

Each of the following events shall constitute an "Event of Default" for purposes of this Note and each such Event of Default shall be deemed to exist and continue so long as, but only so long as, it shall not have been remedied:

(a) Hurco shall default in the payment when due of any amount payable under this Note or the Security Agreement, and all renewals and extensions thereof, and such default shall continue unremedied for a period of five (5) days or more.

(b) A decree or order for relief by a court having jurisdiction in the premises in respect of Hurco shall be entered in an involuntary case under the United States Bankruptcy Code, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of Hurco or for all or substantially all the property of Hurco or ordering the winding up or liquidation of the affairs of Hurco and the continuance of any such decree or order unstayed and in effect for a period of sixty (60) consecutive days.

(c) A voluntary case shall be commenced by Hurco under the United States Bankruptcy Code, as now constituted or hereafter amended, or any other applicable Federal or state bankruptcy, insolvency or other similar law, or Hurco shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of Hurco or for all or substantially all the property of Hurco.

(d) There shall be an Event of Default under the Security Agreement.

In the Event of Default, the entire unpaid balance of

Principal of this Note shall become due and payable immediately, without notice or demand, at the election of the holder of this Note.

Hurco, and any endorser or surety, hereby waives presentment, notice of dishonor, protest, notice of protest, and diligence in bringing suit against any party hereto and consents that without discharging any of them, the time of payment of this Note may be extended an unlimited number of times before or after maturity without notice to Hurco. Hurco agrees that CIMplus, without notice to or further consent from Hurco, may release any collateral, security, document or other guaranties now held or hereafter acquired, or substitute other guaranties, and no such action will release, discharge or modify the duties of Hurco hereunder or under the Security Agreement.

The indebtedness evidenced by this Note is subject to set off and reduction, as provided in the Purchase Agreement, of even date, among Hurco, CIMplus and certain other persons.

The obligations evidenced by this Note may, from time to time, be evidenced by another note or notes given in substitution, renewal or extension hereof. Any security interest which secures the obligations evidenced hereby shall remain in full force and effect notwithstanding any such substitution, renewal, or extension.

Executed and delivered this 24 day of October 2002.

HURCO COMPANIES, INC.

By: /s/ Roger J. Wolf

Printed: Roger J. Wolf

Title: Sr. Vice President, CFO & Secretary Treasurer